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S.E.C. Registration Number

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

(Company's Full Name)

**Km. 29 National Road, Tunasan, Muntinlupa City**

(Business Address: No. Street City/Town/Province)

**Ma. Rosario C.Z. Nava**

Contact Person

**750-9687**

Company Telephone Number

0 6

Month  
Fiscal Year

3 0

Day

**SEC Form 20-IS  
(Preliminary)**

FORM TYPE

**Any day in October**

Month Date  
Annual Meeting

Secondary License Type, If Applicable

**C F D**

Dept. Requiring this Doc.

Amended Article Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

Remarks - pls. Use black ink for scanning purposes



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

Km. 29 National Road, Tunasan, Muntinlupa City 1773 Philippines

Tel. No.: (632) 850-7901 Fax No.: (632) 850-7928

Website : www.pepsiphilippines.com

**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

**TO ALL STOCKHOLDERS:**

**NOTICE IS HEREBY GIVEN** that the Annual Stockholders' Meeting of **PEPSI-COLA PRODUCTS PHILIPPINES, INC.** will be held on:

Date : **20 October 2010 (Wednesday)**  
Time : **2:00 p.m.**  
Venue : **The Palms Country Club  
Alabang, Muntinlupa City**

The agenda of the meeting will be as follows:

1. Call to Order
2. Certification of Notice and of Quorum
3. Approval of the Minutes of the Previous Annual Stockholders' Meeting held on 21 October 2009
4. President's Report for Fiscal Year ending 30 June 2010
5. Approval of Audited Financial Statements for Fiscal Year ending 30 June 2010
6. Ratification of Acts of the Board of Directors and Management for the period 1 July 2009 to 30 June 2010
7. Election of Directors
8. Appointment of External Auditors
9. Adjournment

The Board of Directors has fixed the close of business on 24 September 2010 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Stockholders' Meeting.

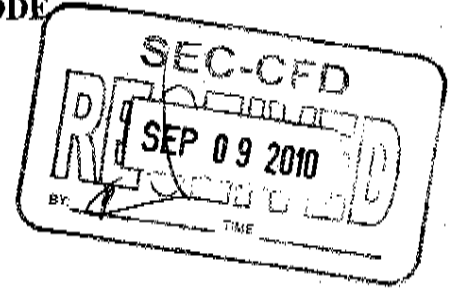
For your convenience in registering your attendance, please bring any form of identification, such as passport or driver's license, as well as proof of your stockholdings.

9 September 2010, Makati City.

**MA. ROSARIO C.Z. NAVA**  
*Corporate Secretary*



**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:  
 Preliminary Information Statement  
 Definitive Information Statement
  
2. Name of Registrant as specified in its charter:  
**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**
  
3. Province, country or other jurisdiction of incorporation or organization: **Philippines**
  
4. SEC Identification Number: **0000160968**
  
5. BIR Tax Identification Code: **000-168-541**
  
6. Address of principal office: Postal Code:  
**Km. 29 National Road, Tunasan, Muntinlupa City** **1773**
  
7. Registrant's telephone number, including area code: **(632) 850-7901 to 20**
  
8. Date, time and place of the meeting of security holders: **20 October 2010, 2:00 p.m., The Palms Country Club, Alabang, Muntinlupa City**
  
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **29 September 2010**
  
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

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

11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes  No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**Philippine Stock Exchange - Common Shares of Stock**

**WE ARE NOT ASKING YOU FOR A PROXY  
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

**A. GENERAL INFORMATION**

**Item 1. Date, time and place of meeting of security holders.**

The Annual Stockholders' Meeting of Pepsi-Cola Products Philippines, Inc. (the "Corporation") will be held on Wednesday, 20 October 2010, 2:00 p.m., at The Palms Country Club, Alabang, Muntinlupa City.

Notices of the meeting and copies of this Information Statement will be first sent or given to the stockholders of record of the Corporation on or about 29 September 2010. Replies and queries must be sent to the following address:

**MR. PARTHA CHAKRABARTI**  
*Corporate Information Officer*  
Pepsi-Cola Products Philippines, Inc.  
Km. 29 National Road, Tunasan,  
Muntinlupa City 1773 Philippines

**Item 2. Dissenters' Right of Appraisal**

The matters to be acted upon at this Annual Stockholders' Meeting are not matters with respect to which a dissenting stockholder may exercise his appraisal right under Section 81 of the Corporation Code.

Under Section 81 of the Corporation Code, the following are the instances when a stockholder may exercise his appraisal right:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets of the Corporation; and
3. In case of merger or consolidation.

In order that a dissenting stockholder may exercise his appraisal right, such dissenting stockholder must have voted against the proposed corporate action at the annual meeting. Within thirty (30) days after the date of the annual meeting at which meeting such stockholder voted against the corporate action, the dissenting stockholder shall make a written demand on the Corporation for the fair value of his shares which shall be agreed upon by the dissenting stockholder and the Corporation. If the proposed corporate action is implemented, the Corporation shall pay the dissenting stockholder upon surrendering the certificates of stock representing his shares, the fair value of said shares on the day prior to the date on which the vote was taken. If the dissenting stockholder and the Corporation cannot agree on the fair value of the shares within sixty (60) days from the date of stockholders' approval of the corporate action, then the determination of the fair value of the shares shall be made by three (3) disinterested persons, one of whom shall be named by the dissenting stockholder, one by the Corporation and the third to be named by the two (2) already chosen. The findings of the majority of the appraisers shall be final and their award shall be paid by the Corporation within thirty

(30) days after such award is made. The procedure to be followed in exercising the appraisal right shall be in accordance with Sections 81 to 86 of the Corporation Code.

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

No director or officer of the Corporation has any substantial interest, direct or indirect, in any of the matters to be acted upon in the Annual Stockholders' Meeting.

No director has informed the Corporation of his opposition to any matter to be acted upon during the Annual Stockholders' Meeting.

**B. CONTROL AND COMPENSATION INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

The total number of shares of the Corporation outstanding and entitled to vote in the Annual Stockholders' Meeting is 3,693,772,279 common shares. The record date for purposes of determining the stockholders entitled to notice of and to vote at the Corporation's Annual Stockholders' Meeting is 24 September 2010. Each stockholder shall be entitled to one (1) vote for each common share of stock held as of the record date.

Holders of the common shares of stock of the Corporation are entitled to vote on all matters to be voted upon by the stockholders. Stockholders entitled to vote are also entitled to cumulative voting in the election of directors. Section 24 of the Corporation Code states: "...In stock corporations, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed in the by-laws, in his own name on the stock books of the corporation, or where the by-laws are silent, at the time of the election; and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit..."

***Security Ownership of Record and Beneficial Owners of at Least Five Percent (5%) of the Corporation's Securities as of 30 June 2010***

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	Number of Shares Held	Percentage
Common shares	PCD Nominee Corporation (Non-Filipino) <sup>1</sup>	Please refer to footnote	Non-Filipino	1,574,666.897	42.6303%

<sup>1</sup> PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. While PCD Nominee Corporation is the registered owner of the shares in the Corporation's books, the beneficial ownership of such shares pertains to PCD participants (brokers) and/or their non-Filipino clients, whether individuals or corporations, in whose names these shares are recorded in their respective books. Under PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, PCD will execute a pro-forma proxy in favor of the participants for the

	37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City Relationship – please refer to footnote				
Common shares	Quaker Global Investments B.V. <sup>2</sup> Zonnebaan 35, 3542 Eb Utrecht The Netherlands Relationship - Stockholder	Same as indicated in column 2	Dutch	1,089,101,358	29.4848%
Common shares	Hong Way Holdings, Inc. <sup>3</sup> 30 <sup>th</sup> Floor, Burgundy Corporate Tower 252 Sen. Gil Puyat Avenue, Makati City Relationship - Stockholder	Same as indicated in column 2	Singaporean	857,788,626	23.2226%
Common shares	PCD Nominee Corporation (Filipino) <sup>4</sup> 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City Relationship – please refer to footnote	Please refer to footnote	Filipino	932,907,916	25.2562%
Common shares	Guoco Assets (Philippines), Inc. <sup>5</sup> 30 <sup>th</sup> Floor, Burgundy Corporate Tower 252 Sen. Gil Puyat Avenue, Makati City Relationship – Stockholder	Same as indicated in column 2	Singaporean	255,594,962	6.9196%

total number of shares in their respective principal securities account, as well as for the total number of shares in their client securities account. For shares held in the principal securities account, the participant is appointed as proxy with full voting rights and powers as registered owner of such shares. For shares held in the client securities account, the participant is appointed as proxy with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by them.

<sup>2</sup> Quaker Global Investments B.V. (“QGI”) is a corporation duly organized and existing under and by virtue of the laws of the Netherlands with principal office at Zonnebaan 35, 3542 EB Utrecht, The Netherlands. QGI, through its Board of Directors, has designated Mr. Sunil D’ Souza to vote its shares of stock in the Corporation.

<sup>3</sup> Hong Way Holdings, Inc. (“HWHI”) is a corporation duly organized and existing under and by virtue of the laws of the Philippines with offices at the 30<sup>th</sup> Floor, Burgundy Corporate Tower, 252 Sen. Gil Puyat Avenue, Makati City. HWHI, through its Board of Directors, usually designates Mr. Micky Yong to vote its shares of stock in the Corporation.

<sup>4</sup> Same as footnote 2 above except that the beneficial ownership of shares registered in the name of PCD Nominee Corporation pertains to PCD participants (brokers) and/or their Filipino clients, whether individuals or corporations, in whose names these shares are recorded in their respective books.

<sup>5</sup> Guoco Assets (Philippines), Inc. (“GAPI”) is a corporation duly organized and existing under and by virtue of the laws of the Philippines with offices at the 30<sup>th</sup> Floor, Burgundy Corporate Tower, 252 Sen. Gil Puyat Avenue, Makati City. GAPI, through its Board of Directors, usually designates Mr. Micky Yong to vote its shares of stock in the Corporation.

*Security Ownership of Management as of 30 June 2010*

<b>Title of Class</b>	<b>Name and Address of Owner</b>	<b>Amount &amp; Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common shares	Micky Yong Chairman of the Board, President and Chief Executive Officer c/o Km. 29 National Road, Tunasan, Muntinlupa City	20,000,001 Direct ownership except for one qualifying share	Singaporean	0.5414%
Common shares	Sunil D'Souza Non-Executive Director c/o 21 <sup>st</sup> Floor, LKG Tower, 6801 Ayala Avenue, Makati City	1*	Indian	Nil
Common shares	James Eng, Jr. Non-Executive Director c/o 50 <sup>th</sup> Floor, The Center, 99 Queen's Road, Central, Hong Kong	1*	American	Nil
Common shares	Tsang Cho Tai (Allan Tsang) Non-Executive Director c/o 50 <sup>th</sup> Floor, The Center, 99 Queen's Road, Central, Hong Kong	1*	British	Nil
Common shares	John L. Sigalos Non-Executive Director c/o 20 <sup>th</sup> Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	American	Nil
Common shares	Umran Beba Non-Executive Director c/o 20 <sup>th</sup> Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	Turkish	Nil
Common shares	Qasim Khan Non-Executive Director c/o 20 <sup>th</sup> Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	Pakistani	Nil
Common shares	Jose M. Periquet, Jr. Non-Executive Director c/o 3 <sup>rd</sup> Floor, Athenaeum Building, 160 L.P. Leviste Street, Salcedo Village, Makati City	1*	Filipino	Nil
Common shares	Rafael M. Alunan III Independent Director c/o 5 <sup>th</sup> Floor, Benpres Building, Exchange Road corner Meralco Avenue, Ortigas Center, Pasig City	1*	Filipino	Nil
Common shares	Oscar S. Reyes Independent Director	1*	Filipino	Nil



	c/o Unit 2504 Corporate Center, 139 Valero Street, Salcedo Village, Makati City			
Common shares	Partha Chakrabarti Executive Vice-President and Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics c/o Km. 29 National Road, Tunasan, Muntinlupa City	0	Indian	0%
Common shares	Felix S. Yu Executive Vice-President and Chief Operating Officer for National Sales Operations c/o Km. 29 National Road, Tunasan, Muntinlupa City	349,998 Direct ownership	Filipino	0.0095%
Common Shares	Akash Shah Senior Vice-President and Chief Financial Officer c/o Km. 29 National Road, Tunasan, Muntinlupa City	0	Canadian	0%
Common shares	Roberto H. Goce Senior Vice-President, Corporate Services Group c/o Km. 29 National Road, Tunasan, Muntinlupa City	0	Filipino	0%
Common shares	Daniel D. Gregorio, Jr. Senior Vice-President, Manufacturing and Logistics c/o Km. 29 National Road, Tunasan, Muntinlupa City	70,000 Direct ownership	Filipino	0.0019%
Common shares	Ma. Rosario C.Z. Nava Corporate Secretary and Compliance Officer c/o 7 <sup>th</sup> Floor The Pearlbank Centre 146 Valero Street, Salcedo Village, Makati City	10,000 Direct ownership	Filipino	0.0003%

\* Each of the directors is the registered owner of at least one qualifying share.

The aggregate shareholdings of directors and key officers of the Corporation as of 30 June 2010 amounted to 20,430,008 shares which is approximately 0.5531% of the Corporation's outstanding capital stock.

#### ***Changes in Control***

The Corporation is not aware of any voting trust agreement or any other similar agreement which may result in a change in control of the Corporation. No change in control of the Corporation has occurred since the beginning of its last fiscal year.

### ***Certain Relationships and Related Transactions***

Please refer to Note 14 to the Audited Financial Statements as of 30 June 2010 for details on related party transactions.

#### **Item 5. Directors and Executive Officers**

##### ***Term of Office***

Directors elected during the annual meeting of stockholders will hold office for one year until their successors are duly elected and qualified, except in case of death, resignation, disqualification or removal from office. Directors who were elected to fill any vacancy hold office only for the unexpired term of their predecessors.

##### ***Directors***

The following are the names, ages, citizenship and years position was assumed of the incumbent directors, including independent directors, of the Corporation:

<b>Name</b>	<b>Age</b>	<b>Citizenship</b>	<b>Year Position was Assumed</b>
Micky Yong	63	Singaporean	1997
Sunil D'Souza	42	Indian	2009
James Eng, Jr.	68	American	2005
Tsang Cho Tai (Allan Tsang)	60	British	2005
John L. Sigalos	43	American	2009
Umran Beba	45	Turkish	2010
Qasim Khan	53	Pakistani	2008
Jose M. Periquet, Jr.	64	Filipino	2007
Rafael M. Alunan III*	62	Filipino	2007
Oscar S. Reyes*	64	Filipino	2007

\*Independent Director

##### ***Executive Officers***

The following are the names, ages, citizenship, positions, and years position was assumed of the incumbent officers of the Corporation:

<b>Name</b>	<b>Age</b>	<b>Citizenship</b>	<b>Position</b>	<b>Year Position was Assumed</b>
Micky Yong	63	Singaporean	Chairman, President and Chief Executive Officer	2002
Partha Chakrabarti	46	Indian	Executive Vice-President and Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics	2010
Felix S. Yu	61	Filipino	Executive Vice-President and Chief Operating Officer for National Sales	2010

			Operations	
Akash Shah	36	Canadian	Senior Vice-President and Chief Financial Officer	2010
Roberto H. Goce	56	Filipino	Senior Vice-President, Corporate Services Group	2006
Daniel D. Gregorio, Jr.	58	Filipino	Senior Vice-President for Manufacturing and Logistics	1998
Ma. Rosario C.Z. Nava	41	Filipino	Corporate Secretary and Compliance Officer	2007

### ***Background Information and Business Experience***

#### **Directors:**

##### **MICKY YONG**

Mr. Yong has held the office of Chief Executive Officer of the Corporation since 2002, but he has been a director of the Corporation since the Guoco Group Limited and its subsidiaries ("Guoco Group") acquired its interest in the Corporation in 1997. Since 1989, Mr. Yong has served as President of Guoco Assets (Philippines), Inc., the Guoco Group's principal investment vehicle in the Philippines. Mr. Yong was the country manager and director of Dao Heng Bank Philippines and a director of First Lepanto Taisho Insurance, Tutuban Properties Inc., Guoco Securities Philippines and several other corporations under the Guoco Group. Mr. Yong holds a Bachelor of Business Administration degree from the University of Singapore.

##### **SUNIL D'SOUZA**

Mr. D'Souza is Country Manager for the Philippines of PepsiCo. He has been with PepsiCo for the past 8 years and held the position of Sales Director for the Philippines prior to his current appointment. He holds a Bachelor of Engineering degree from the Pondicherry Engineering College, Pondicherry (University of Madras) and a management degree from the Indian Institute of Management in Calcutta.

##### **JAMES ENG, JR.**

Mr. Eng was an Executive Director of the Guoco Group Limited from 2001-2009. He was responsible for group staff support functions for the Guoco Group. Before he joined the Guoco Group in 1994, Mr. Eng previously worked with Hiram Walker, a division of Allied-Lyons. Postings included New York, Miami, London, Hong Kong and Windsor Canada. During his time with Brout, Issacs & Co., Certified Public Accountants, in New York City, he was responsible for the Management Services Division and was a Management Consultant in New York for Computer Methods Corporation. He holds a Bachelor of Business Administration degree from the University of North Carolina.

##### **TSANG CHO TAI (ALLAN TSANG)**

Mr. Tsang is the Chief Financial Officer of the Guoco Group Limited. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, as well as an associate member of the Institute of Chartered Accountants in England

and Wales. Mr. Tsang was an associate of an international firm of accountants before joining the Guoco Group in 1989.

#### **JOHN L. SIGALOS**

Mr. Sigalos is currently PepsiCo's Chief Financial Officer for the Asia-Pacific region. He has occupied a variety of positions in PepsiCo for the past 12 years, including being Chief Financial Officer of PepsiCo Thailand and Vice-President for Non-Carbonated Beverages in PepsiCo's China business unit. He holds an MBA from the Wharton School, University of Pennsylvania with dual major in Finance and Strategic Management and a Bachelor of Arts degree in East Asian studies (*Cum laude*) from Yale University.

#### **UMRAN BEBA**

Ms. Beba is currently PepsiCo's President for the Asia Pacific region. She started her journey with PepsiCo in 1994 in the position of Commercial Director of Frito Lay in Istanbul, Turkey. Since then, she has occupied various senior management positions across South Eastern Europe. Ms. Beba holds an MBA and Bachelor of Science in Industrial Engineering both from the Bogazici University in Istanbul, Turkey.

#### **QASIM KHAN**

Mr. Khan has been connected with PepsiCo for the last 21 years and has occupied various executive and managerial roles in different regional offices of PepsiCo. He is currently General Manager of PepsiCo's North Asia Pakistan Philippines Business Unit. Prior to joining PepsiCo, he worked for Procter & Gamble. He holds an MBA and Marketing degrees (with honors) from Michigan State University.

#### **JOSE M. PERIQUET, JR.**

Mr. Periquet is the President and Chief Executive Officer of the Metropolitan Insurance Company, Inc., a position he has held since 1999 up to the present. He has been employed by Metropolitan Insurance since 1985, when he joined as Acting President and Manager. He joined AIG in New York in 1967 and was later assigned to AIU (Philippines), Inc. where he held the position of Senior Vice-President and Director. Mr. Periquet is also a director of MIC Holdings, Inc., Bradstock Insurance Brokers Inc. and the Athenaeum Condominium Corporation. Mr. Periquet holds a Bachelor's degree in Economics from Ateneo de Manila University and a Master's degree in Economics from Fordham University.

#### **RAFAEL M. ALUNAN III**

Mr. Alunan has had extensive experience in the private and public sectors. He is currently the President of Lopez Group Foundation Inc., a member of its Board and Boards of Lopez Group-related foundations. He also sits on the Boards of Sun Life of Canada (Philippines), Inc., Sun Life Financial Plans, Inc. and Sun Life Asset Management Company; and sits on various Board committees. Mr. Alunan is also on the Boards of the Asian Institute of Management and the University of St. La Salle. He is a regular columnist of Business World. Mr. Alunan obtained his double degree in Business Administration and History-Political Science from the De La Salle

University, attended the Master's in Business Administration-Senior Executive Program, of the Ateneo de Manila University; and obtained a Master's degree in Public Administration from Harvard University, John F. Kennedy School of Government.

#### **OSCAR S. REYES**

Mr. Reyes was Country Chairman and President of Pilipinas Shell Petroleum Corporation for many years. He holds a Bachelor of Arts in Economics (cum laude) from Ateneo de Manila University and participated in the Program for Management Development at the Harvard Business School. He is currently the Senior Executive Vice-President, Chief Operating Officer, and Director of the Manila Electric Company. He also serves as a director and a member of board committees in the boards of companies engaged in banking, insurance, telecommunications, water distribution, real estate, shipping and mining.

#### **Executive Officers:**

#### **PARTHA CHAKRABARTI**

Mr. Chakrabarti has been employed by PepsiCo since 1994 and he remains a PepsiCo employee while holding his current position in the Corporation under a formal secondment agreement. He is currently the Corporation's Executive Vice-President and Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics. Mr. Chakrabarti began his career with PepsiCo India, where he held a number of positions before moving to Vietnam as Chief Financial Officer of PepsiCo's business there. Before joining PepsiCo, he worked for ICI India. He holds a Bachelor of Science degree in Commerce from the University of Calcutta and is an Associate of The Institute of Chartered Accountants in India.

#### **FELIX S. YU**

Mr. Yu is the Corporation's Executive Vice-President and Chief Operating Officer for National Sales Operations. He joined the predecessor of the Corporation in 1983 and has served in various roles in sales and plant management. Prior to joining the Corporation, he worked for the CFC-URC Group of Companies and before that, Nestle Philippines. He holds a Bachelor of Science degree in Business Administration from De La Salle University.

#### **AKASH SHAH**

Mr. Shah is currently the Corporation's Senior Vice-President and Chief Financial Officer under a secondment agreement from PepsiCo of which he remains an employee. He has been with PepsiCo since 2003 and has held various Finance positions in the Asia-Pacific region, including China, Thailand, and across South East Asia. Prior to joining PepsiCo, he worked for A.T. Kearney, Inc. in North America. He holds an MBA from INSEAD and a Bachelor of Commerce degree from Queen's University in Canada.

**ROBERTO H. GOCE**

Mr. Goce's background is in sales and logistics. Prior to joining the Corporation in 1997, he worked for San Miguel Corporation and before that, he held various positions in grains and fertilizer industries. His experience encompasses business planning, management and organization audits, and training and development. He holds a Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a founding member of the Distribution Management Association of the Philippines.

**DANIEL D. GREGORIO, JR.**

Mr. Gregorio began his career as a systems analyst for Coca-Cola Bottling Philippines, Inc. and rose to the position of Chief Accountant. In 1987, he moved to Indonesia as Country General Manager for Coca-Cola Amatil, the owner of the local Coca-Cola bottler. He holds a Bachelor of Science degree in Industrial Engineering.

**MA. ROSARIO C.Z. NAVA**

Ms. Nava is a practicing lawyer and a member of the Integrated Bar of the Philippines since 1995. She has been a director and the Corporate Secretary of Solectron Philippines Inc. since 2005 and has been the Corporate Secretary of CPAC Monier Philippines, Inc. since 2004 and is also currently a Director thereof. She was also a Director of Hewlett-Packard Philippines Corp. from 2001 to 2002, and re-elected in 2004 up to 2007, and was its Corporate Secretary from 2006 to 2007. She holds a Bachelor of Science degree in Management, Major in Legal Management (with honors) from the Ateneo de Manila University and a *Juris Doctor* degree from the Ateneo de Manila Law School.

No Director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Annual Stockholders' Meeting due to disagreement with the Corporation on any matter relating to the Corporation's operations, policies or practices.

No single person is expected to make a significant contribution to the business since the Corporation considers the collective efforts of all its employees as instrumental to the overall success of the Corporation's business. The Corporation is not aware of any family relationship between or among the aforementioned Directors or Executive Officers up to the fourth civil degree.

Except for the payment of annual directors' fee and per diem allowances, the Corporation has not had any transaction during the last two (2) years in which any Director or Executive Officer had a direct or indirect interest.

None of the aforementioned Directors or Executive Officers is or has been involved in any criminal or bankruptcy proceeding, or is or has been subject to any judgment of a competent court barring or otherwise limiting his involvement in any type of business, or has been found to have violated any securities laws during the past five (5) years and up to the latest date.

***Nomination for Election as Members of the Board of Directors***

The following have been nominated for re-election as members of the Board of Directors for the ensuing year (2010-2011):

Micky Yong  
Sunil D'Souza  
James Eng, Jr.  
Tsang Cho Tai (Allan Tsang)  
John L. Sigalos  
Umran Beba  
Qasim Khan  
Jose M. Periquet, Jr.  
Rafael M. Alunan III (Independent Director)  
Oscar S. Reyes (Independent Director)

All of the above nominees are incumbent Directors. Messrs. Micky Yong and James Eng, Jr. have been formally nominated by Guoco Assets (Philippines), Inc. Messrs. Sunil D' Souza, John L. Sigalos, Umran Beba and Qasim Khan have been formally nominated by Quaker Global Investments B.V. Messrs. Tsang Cho Tai (Allan Tsang) and Jose M. Periquet, Jr. have been formally nominated by Hong Way Holdings, Inc. Guoco Assets (Philippines), Inc. and Hong Way Holdings, Inc. together comprise the Guoco Group and with Quaker Global Investments B.V. are stockholders of the Corporation.

The Corporation has complied with the guidelines on the nomination and election of independent directors set forth in Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code. The independent directors, Messrs. Rafael M. Alunan III and Oscar S. Reyes have been nominated by Veronica G. de Jesus and Roberto S. Franco, respectively, registered stockholders of the Corporation who are not directors, officers or substantial stockholders of the Corporation and who are not related to any of Mr. Alunan and Mr. Reyes. Attached are the updated Certificates of Qualification for 2010 of the nominated independent directors Messrs. Alunan and Reyes.

Mr. Reyes is the incumbent Chairman of the Audit Committee of the Corporation. The incumbent members of the Audit Committee are as follows: Messrs. John L. Sigalos, Tsang Cho Tai (Allan Tsang), and Rafael M. Alunan III.

Mr. Alunan, on the other hand, is an incumbent member of the Nomination and Compensation and Remuneration Committees of the Corporation.

The incumbent Chairman and members of the Nomination Committee are as follows: Messrs. Micky Yong (Chairman), James Eng, Jr., John L. Sigalos and Rafael M. Alunan III.

The incumbent Chairman and members of the Compensation and Remuneration Committee are as follows: Messrs. James Eng Jr. (Chairman), Micky Yong, John L. Sigalos and Rafael M. Alunan III.

In 2007, the Corporation amended its By-Laws providing for the procedure for nominating members of the Corporation's Board of Directors. The By-Laws provide that the Nomination Committee shall pre-screen and shortlist all candidates nominated to become a member of the Board of Directors in accordance with the qualifications and disqualifications provided for in the Articles of Incorporation, By-Laws, the Manual of Corporate Governance, applicable laws, regulations and resolutions and rules passed by it, the stockholders and the Board of Directors. Accordingly, on 15 September 2010, the Nomination Committee approved the final list of candidates for the Board of Directors which included all of the abovenamed individuals.

Item 6. **Compensation of Directors and Executive Officers**

The aggregate compensation paid in 2007, 2008, 2009 and 2010, to the Executive Officers of the Corporation is set out below:

Name	Position	Year	Salary	Bonus	Others
Micky Yong	Chairman, President and Chief Executive Officer				
Felix S. Yu	Executive Vice-President and Chief Operating Officer for National Sales Operations				
Partha Chakrabarti	Executive Vice-President and Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics				
Akash Shah	Senior Vice-President and Chief Financial Officer				
Daniel D. Gregorio, Jr.	Senior Vice-President, Manufacturing and Logistics				
Roberto H. Goce	Senior Vice-President, Corporate Services Group				-
Aggregate for above-named officers		2007	₱42,300,000	₱19,300,000	
		2008	43,708,000	22,066,000	
		2009	40,716,000	11,618,000	
		2010	43,739,000	20,444,000	
All other directors and officers as a group unnamed		2007	-	-	-
		2008	-	-	₱1,336,765*
		2009	-	-	3,352,941*
		2010	-	-	2,535,000*

*\*This relates to per diem allowances and annual directors' fee paid to the directors.*

There are no special employment contracts between the Corporation and the above Executive Officers.

Non-executive Directors are entitled to a per diem allowance of US\$1,000 for each attendance in the Corporation's Board meetings and committee meetings, except for Audit Committee meetings where the per diem allowance is US\$2,000. In addition, each Director is entitled to receive an annual directors' fee in the amount of Five Hundred Thousand Pesos (₱500,000.00). Seven (7) Directors



representing the Guoco Group and Quaker Global Investments B.V. have waived the per diem allowance as well as the annual directors' fee.

There are no outstanding warrants or options held by the above Executive Officers and all such officers and Directors as a group.

**Item 7. Independent Public Accountants**

The auditing firm of Manabat Sanagustin & Co. is being recommended for election as external auditor for the ensuing year (2010-2011).

Representatives of said firm are expected to be present at the Annual Stockholders' Meeting and will have the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

Aggregate fees billed by the Corporation's external auditor for professional services in relation to (i) the audit of the Corporation's annual financial statements and services in connection with (a) statutory and regulatory filings and (b) the initial public offering of the Corporation's shares; and (ii) tax accounting, compliance, advice, planning and any other form of tax services are summarized as follows:

	FY 2010	FY 2009	FY 2008
Statutory audit fees	₱ 3.68 Million	₱ 3.50 Million	₱3.40 Million
IPO-related audit fees	-	-	₱15.70 Million
Tax advice fees	-	₱0.33 Million	₱0.25 Million
Total	₱ 3.68 Million	₱3.83 Million	₱19.35 Million

The Audit Committee of the Corporation reviews and approves the audit plan and scope of work for the above services and ensures that the rates are competitive as compared to the fees charged by other equally competent external auditors performing similar services.

During the Corporation's two most recent fiscal years or any subsequent interim periods, there was no instance where the Corporation's public accountants resigned or indicated that they decline to stand for re-election or were dismissed nor was there any instance where the Corporation had any disagreement with its public accountants on any accounting or financial disclosure issue.

In compliance with Rule 68 (3) (b) (iv) of the Securities Regulation Code, the Corporation has engaged Ms. Emerald Anne C. Bagnes, partner of KPMG Manabat Sanagustin & Co., to sign the Corporation's audited financial statements as of 30 June 2010. Ms. Bagnes has been signing the audited financial statements of the Corporation since 2006. The Corporation became publicly listed with the Philippine Stock Exchange only on 1 February 2008.

**Item 8. Compensation Plans**

There is no action or matter to be taken up with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

**C. ISSUANCE AND EXCHANGE OF SECURITIES**

**Item 9. Authorization or Issuance of Securities Other than for Exchange**

There is no action or matter to be taken up with respect to the authorization or issuance of any securities.

**Item 10. Modification or Exchange of Securities**

There is no action or matter to be taken up with respect to the modification of any class of securities of the Corporation, or the issuance or authorization for issuance of one class of securities of the Corporation in exchange for outstanding securities of another class.

**Item 11. Financial and Other Information**

The Corporation has incorporated by reference the following as contained in the Management Report in accordance with Rule 68 of the Amended Rules and Regulations of the Securities Regulation Code:

1. Audited financial statements as of 30 June 2010 and 2009;
2. Management's discussion and analysis or plan of operation; and
3. Information on business overview, properties, legal proceedings, market price of securities, dividends paid and corporate governance.

**Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

There is no action or matter to be taken up with respect to mergers, consolidations, acquisitions and similar matters.

**Item 13. Acquisition or Disposition of Property**

There is no action or matter to be taken up with respect to the acquisition or disposition of any property.

**Item 14. Restatement of Accounts**

There is no action or matter to be taken up with respect to the restatement of any asset, capital, or surplus account of the Corporation.

**D. OTHER MATTERS**

**Item 15. Action with Respect to Reports**

The following reports/minutes of meeting will be submitted for approval by the stockholders:

1. Minutes of the Annual Stockholders' Meeting (ASM) held on 21 October 2009 which includes items on (i) Approval of the Minutes of the Previous ASM held on 28 October 2008; (ii) President's Report for Fiscal Year ending 30 June 2009; (iii) Approval of Audited Financial Statements for Fiscal Year ending 30 June 2009; (iv) Ratification of Acts of the Board of Directors and Management for the period 1 July 2008 to 30 June 2009; (v) Election of Directors, including Independent Directors; and (vi) Appointment of External Auditors; and
2. Audited Financial Statements for the Fiscal Year ending 30 June 2010.

**Item 16. Matters Not Required to be Submitted**

All actions or matters to be taken up during the Annual Stockholders' Meeting will require the vote of the security holders.

**Item 17. Amendment of Charter, By-Laws or Other Documents**

There is no action or matter to be taken up with respect to any amendment of the Corporation's Articles of Incorporation, By-Laws or other documents.

**Item 18. Other Proposed Actions**

1. Ratification of all acts and resolutions of the Board of Directors and Management for the period 1 July 2009 to 30 June 2010 which include resolutions on the election of officers and Board committee members; placement of additional funds in a trust account to supplement the existing retirement fund; and other resolutions issued in the normal course of the business operations of the Corporation such as updating of authorized signatories for various banks and other transactions and applications for various credit facilities, among others;
2. Election of the members of the Board of Directors, including the Independent Directors, for the ensuing calendar year; and
3. Appointment of External Auditors.

**Item 19. Voting Procedures**

***Manner of voting***

In all items for approval, except in the election of directors, each share of stock entitles its registered owner to one vote.

For the purpose of electing directors, a stockholder may vote such number of his/her shares for as many persons as there are directors to be elected or he/she may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his/her shares shall equal, or he/she may distribute them in the same principle among as many candidates as he/she shall see fit.

As required by the Corporation's By-laws, voting will be done by ballot.

***Voting requirements***

- (a) With respect to the election of directors, candidates who received the highest number of votes shall be declared elected.
- (b) With respect to the adoption of the Audited Financial Statements for the year ended 30 June 2010, as well as the approval or ratification of the other actions set forth under the heading "Other Proposed Actions" above, the vote of a majority of the outstanding capital stock entitled to vote and represented in the meeting is required to approve such matters.

***Method of counting votes***

The Corporate Secretary, assisted by her staff and the stock transfer agent, will be responsible for counting and tabulating the votes based on the number of shares entitled to vote owned by the stockholders who are present or represented by proxies at the Annual Stockholders' Meeting.

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SAID STOCKHOLDER A COPY OF SEC FORM 17-A FREE OF CHARGE, EXCEPT FOR EXHIBITS ATTACHED THERETO WHICH SHALL BE CHARGED AT COST. ANY WRITTEN REQUEST FOR A COPY OF SEC FORM 17-A SHALL BE ADDRESSED AS FOLLOWS:**

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
Km. 29 National Road  
Tunasan, Muntinlupa City 1773 Philippines**

**Attention: Mr. Partha Chakrabarti**

**SIGNATURE PAGE**

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 hereunto duly authorized.

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

9 September 2010

**MICKY YONG**

*Chairman, President and Chief Executive Officer*

A handwritten signature in black ink, appearing to read 'P. Chakrabarti', written in a cursive style.

**PARTHA CHAKRABARTI**

*Executive Vice-President and Chief Operating Officer*

**MANAGEMENT REPORT****I. GENERAL NATURE AND SCOPE OF THE BUSINESS*****Overview***

The Corporation was registered with the Philippine Securities and Exchange Commission on 8 March 1989 primarily to engage in manufacturing, sales and distribution of carbonated soft-drinks and non-carbonated beverages to retail, wholesale, restaurants and bar trades. The registered office address and principal place of business of the Corporation is Km. 29, National Road, Tunasan, Muntinlupa City.

The Corporation is a licensed bottler of PepsiCo and Pepsi Lipton beverages in the Philippines. It manufactures a range of carbonated soft drinks and non-carbonated beverages that includes well-known brands Pepsi-Cola, 7Up, Mountain Dew, Mirinda, Gatorade, Tropicana/Twister, Lipton, Sting and Propel.

***Philippine Beverage Industry***

The beverage market in the Philippines is highly competitive. Competition is primarily through advertising and marketing programs that create brand awareness, price and price promotions, new product development, distribution and availability, packaging and customer goodwill.

Competitors in the carbonated soft drinks (CSD) market are The Coca-Cola Company, Asiawide Refreshments Corporation, and Asia Brewery Incorporated. The substantial investment in multiple plants, distribution infrastructure and systems and the float of returnable glass bottles (RGBs) and plastic shells required to operate a nationwide beverage business using RGBs represent a significant barrier to potential competitors in widening their reach.

The market for non-carbonated beverages (NCB) is more fragmented. Major competitors in this market are The Coca-Cola Company, San Miguel Corporation, Universal Robina Corporation, Zesto Corporation, among others. In recent years, the market has been relatively fluid, with frequent product launches and shifting consumer preferences. These trends are expected to continue.

***Customers/Distribution Methods of the Products***

The Corporation has a broad customer base nationwide. Its customers include supermarkets, convenience stores, bars, sari-sari stores and carinderias.

The Corporation's sales volumes depend on the reach of its distribution network. It increases the reach of distribution system by adding routes and increasing penetration by adding outlets on existing routes that currently do not stock its products. It relies on a number of channels to reach retail outlets, including direct sales, distributors and wholesalers.

The backbone of the distribution system is what is referred to as "Entrepreneurial Distribution System," which consists of independent contractors who service one or more sales "routes," usually by truck, selling directly to retail outlets and collecting empty RGBs.

It also employs its own sales force, which principally sells to what is referred to as the "modern trade" channel, consisting largely of supermarkets and restaurant and convenience store chains. Most of

these sales are credit sales that are fulfilled by third party distributors. In addition, it sells products to third party wholesalers and distributors, which sell them to retail outlets.

An important aspect of the distribution system is the infrastructure-intensive process of selling and delivering RGB products to many thousands of small retailers, including sari-sari stores and carinderias. The efforts to increase the reach of our distribution network require significant investments in distribution infrastructure such as additional trucks, refrigeration equipment, warehouse space and a larger "float" of glass bottles and plastic shells, as well as higher costs for additional sales and distribution staff.

### ***Principal Suppliers***

Over half of total costs comprise purchases of raw materials. Largest purchases are of sugar and beverage concentrates. The Corporation purchases all sugar requirements domestically because of import restrictions imposed by the Philippine government. It purchases beverage concentrates from PepsiCo, Inc. and Pepsi Lipton International Limited at prices that are fixed as a percentage of the wholesale prices charged for the finished products, subject to a floor price in U.S. dollars.

Another substantial cost is packaging. The major components of this expense are purchases of PET pre-forms, which are converted into PET bottles at the plants, non-reusable glass bottles, aluminum cans and closures. It also makes regular purchases of RGBs to maintain float at appropriate levels. Purchases of each of these materials are from suppliers based in the Philippines and in other parts of Asia, usually under short term, fixed price contracts.

### ***Legal Proceedings***

From time to time, the Corporation becomes a party to litigation in the ordinary course of its business. The majority of the cases in which the Corporation is a party are cases it files to recover debts in relation to unpaid receivables by its trade partners or in relation to cash or route shortages, private criminal prosecutions that it brings (generally for low value offenses such as theft of product or distribution equipment, fraud, and bouncing checks), labor cases for alleged illegal dismissal (which are usually accompanied by demands for reinstatement in the Corporation without loss of seniority rights, and payment of backwages), and consumer cases brought against it involving allegations of defective products.

As a result of a promotion in 1992, civil cases were filed against the Corporation in which thousands of individuals claimed to hold numbered bottle crowns that entitled them to a cash prize. The Philippine Supreme Court has consistently held in at least 7 final and executory decisions in the last 5 years that the Corporation is not liable to pay the amounts claimed. In the most recent of these decisions, the Supreme Court dismissed a similar claim, reiterating that it is bound by its pronouncement in a number of cases involving this promotion. By virtue of the precedential effect of the decided cases, the Corporation expects the remaining cases to be dismissed in due course.

The Corporation does not believe that the litigation in which it is currently involved or which is presently pending or threatened against it is material to it, either individually or in the aggregate. The Corporation has not been involved in any bankruptcy, receivership or other similar proceedings.

## **II. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

### ***Market Information***

The common shares were listed with the Philippine Stock Exchange ("PSE") on 1 February 2008. The high and low sales prices of such shares for 2010 and 2009 are set out below.

Period	High	Low
July to Sept 2008	P2.46	P1.96
Oct to December 2008	P2.00	P0.64
Jan to March 2009	P0.99	P0.84
April to June 2009	P1.50	P0.90
July to Sept 2009	P2.46	P1.32
Oct to December 2009	P2.50	P2.00
Jan to March 2010	P2.70	P2.02
April to June 2010	P3.05	P2.46

The closing share price as of September 1, 2010 was P2.77

### Stockholders

The Corporation has approximately 657 holders of common shares [with the PCD Nominee Corporation (Filipino) and (Non-Filipino) considered as two holders] as of 30 June 2010 based on the number of accounts registered with the Corporation's stock transfer agent, Stock Transfer Service Inc. ("STSI").

The following are the Corporation's top 20 holders of common shares based on the report furnished by STSI as of 30 June 2010:

NO.	Name	Number of Shares Held	Percentage of Ownership
1	PCD NOMINEE CORP (NON-FILIPINO)	1,574,666,897	42.63%
2	QUAKER GLOBAL INVESTMENTS B.V.	1,089,101,358	29.48%
3	PCD NOMINEE CORP. (FILIPINO)	932,907,916	25.26%
4	ORION LAND INC.	70,000,000	1.90%
5	YONG MICKY	20,000,001	0.54%
6	BORROMEO, JOSEPH MARTIN H.	450,000	0.01%
7	M. J. SORIANO TRADING INC.	450,000	0.01%
8	YAN, LUCIO W.	300,000	0.01%
9	MADARANG, WINEFREDA O.	250,000	0.01%
12	LUGTI, VALERIANO A.	220,000	0.01%
10	DABAO, LUIS G.	200,000	0.01%
11	BLANCAVER, RENE B.	182,000	0.00%
13	YU, FELIX S.	149,998	0.00%
14	MERCHAN BERNARDO	140,000	0.00%
15	SORIANO, VICTOR MARTIN J.	130,000	0.00%
16	IGNACIO, JUANITO R.	100,000	0.00%
17	NARCISO, MA CELESTE S	100,000	0.00%
18	PINEDA, MA. CORAZON V.	100,000	0.00%
19	UMALI, JOSE I.	100,000	0.00%
20	PINEDA, YZRAEL EDWIN DE VERA	89,000	0.00%

### Cash Dividends

The Board of Directors ("Board") approved several declarations of cash dividends amounting to P554 million in fiscal year 2010, P369 million in fiscal year 2009 and P400 million in fiscal year 2007. There were no cash dividend declarations in fiscal year 2008. Details of the declarations are as follows:



<b>Date of Declaration</b>	<b>Dividend Per Share</b>	<b>Payable to Stockholders of Record as of</b>	<b>Date of Payment</b>
21 June 21 2007	P0.12	21 June 2007	20 August 2007
30 September 2008	0.10	15 October 2008	7 November 2008
30 September 2009	0.15	15 October 2009	29 October 2009

### ***Dividend Policy***

The Corporation has a dividend policy to declare dividends to stockholders of record, which are paid from unrestricted retained earnings. Any future dividends it pays will be at the discretion of the Board after taking into account the earnings, cash flow, financial condition, capital and operating progress, and other factors as the Board may consider relevant. Subject to the foregoing, the present policy is to pay cash dividends up to 50% of its annual net income. This policy may be subject to future revision.

Cash dividends are subject to approval by the Board without need for stockholders' approval. Stock dividends require the further approval of the stockholders representing no less than 2/3 of the Corporation's outstanding capital stock.

### ***Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction***

There has been no recent sale of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

### **III. FINANCIAL STATEMENTS**

Please refer to the Audited Financial Statements of the Corporation as of 30 June 2010 which is attached hereto as Exhibit 1.

### **IV. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There has been no change in the independent auditing firm or handling partner or disagreements with the independent CPA on matters relating to the application and interpretation of accounting principles or practices, tax laws and regulations, financial statement disclosures or audit scope and procedures during the three (3) most recent fiscal years.

### **V. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

#### ***Results of Operations – for the fiscal 2010 versus 2009***

The Corporation delivered a strong milestone year in terms of topline sales. It continued its focus on driving the growing NCB market and maintaining its CSD share by continuing its strategic agenda to drive affordability and availability across the Philippines. Net sales increased by 13.3% from 2009 and have nearly doubled from five years ago, an impressive feat given the aggressive competition and marketplace challenges.

The sales surge was led by NCBs posting an impressive 28% in revenue growth. With this development, NCB share revenue mix grew from 26% to 29%, which is in line with the strategy to fully embrace the health and wellness trend. CSDs also presented a strong 8% in revenue growth surpassing the last 7 years growth in this market. The strong CSD sales were buoyed by the national elections and the hot weather.

The impressive sales numbers however were tempered by rising sugar prices, which increased by 22%. In 2009, sugar prices rose to a 35-year high as rain damaged crops in Brazil, the largest producer, and dry weather curbed output in India, the second largest supplier. As supply slowed and demand continued to rise, the inventory reserves of many countries, including the Philippines, became depleted resulting to higher sugar prices and significantly affecting sugar-dependent food and beverage industries.

Despite this acute development, gross profit remained steady at P4.21 billion compared to last year's gross profit of P4.19 billion, while operating income slipped slightly to P996 million compared to last year's figure of P1.1 billion. EBITDA likewise remained steady at P2.2 billion versus year ago figure of P2.2 billion, while EBIT slightly dropped to P1.04 billion versus year ago figure of P1.2 billion, weighed down by higher depreciation and amortization resulting from recent expansion programs.

Management was able to mitigate the rise in sugar prices in part by continuing to successfully control and reduce operating expenses from 24% and 21% of sales in 2008 and 2009, respectively, to 20% in 2010. Notable reductions are in the area of selling and distribution expenses (from 13% of sales in 2009 to 12% in 2010) where Management's rationalization and re-engineering programs have managed to deliver superior service at much lower cost.

Marketing expenses as a percentage of sales were likewise lower (from 4% of sales in 2009 to 3% of sales in 2010). Focused marketing anchored on strategically targeted programs resulting in sales increases amid modest marketing spending. General administrative expenses remained steady at 4% of sales in 2010 and 2009, showing a firm-wide effort to manage the controllable variables in the Corporation's income statement. The Corporation's continued efforts to drive topline growth while maintaining tight cost control will be the sustaining force in the years to come.

#### ***Results of Operations - for the fiscal 2009 versus 2008***

Fiscal year 2009 registered a healthy 5% growth in net income and 19% growth in operating income over year ago level. It maintained profitability, with EBITDA margin of 16%, EBIT margin of 8%, and Net Income margin of 6%. The corresponding numbers for fiscal year 2008 are 15%, 8% and 6%, respectively.

Net sales growth of 9.6% is driven mainly by growth in NCB brands such as Sting, Tropicana and Gatorade as well as CSD growth in flavors.

In line with its strategy of aggressively tapping the healthy growth prospects for NCBs with health and wellness as its platform and growing the business by targeting the broad CD mass market that still constitutes the majority of the Philippine population, the Corporation continues to expand its offering of beverage products to make NCB available to more Filipinos at affordable prices and convenient packaging. The Corporation has since completed the expansion projects in Cebu, San Fernando and Iloilo which made it possible to offer its NCB products in 8oz RGBs all over the country.

The Corporation launched new product innovations such as Tropicana Summer Blends and Gatorade Tiger and came out with high impact new packaging formats such as Pepsi Max black long neck 500 ml. PET, among other things, in order to create buzz and bring excitement to the consumers, as well

as use packaging to communicate and have a dialogue with consumers. It also launched the highly successful Mountain Dew 750 ml RB to leverage the brand's strong pull in trade.

The intensified competition from a crowded CSD market along with the challenge posed by low-priced brands compelled the Corporation to drop its prices. To counteract the adverse effect of low price, commoditized cola segment on its profitability, the Corporation continues to maintain a healthy revenue mix resulting to a 3% higher average LRB prices.

The weak economy, high inflation and stiff competition caused undue pressure on revenues and costs. Gross profit margin slightly dropped from 31.6% in 2008 to 29.4% in 2009 due to increased cost of inputs such as sugar, CO<sub>2</sub>, packaging materials, fuel, and others during the 1<sup>st</sup> half of the fiscal year, as well as depressed CSD pricing brought about by intense competition. In spite of lower gross profit margin and higher manufacturing depreciation, gross profit grew by 1.9% due to volume growth.

On the other hand, operating income grew by 18.8% and operating income margin registered an improvement from 7.4% in 2008 to 8.0% in 2009 due to effective cost management. However, an increase in effective tax rate from 24.0% in 2008 to 32.3% in 2009 caused the net income margin to slightly drop from 5.9% to 5.6%.

Operating expenses as a ratio to net sales decreased from 24.2% to 21.4% mainly due to decrease in marketing expenses by 21.7%. The decrease in marketing expenses as a percentage of net sales dropped from 5.1% to 3.7% and is due to targeted and prudent marketing spending program initiated by Management in 2009.

As a percentage of net sales, selling and distribution (S&D) expenses decreased from 14.1% to 13.4%. In terms of absolute amount, S&D expenses increased by 4% as compared to year ago level. The increase can be attributed mainly to volume growth, as well as the Corporation's continued investment in its distribution infrastructure such as RGBs, plastic cases and in-store refrigeration equipment. These increases in S&D cost were offset by the savings on personnel, rental and utilities as a result of the rationalization of the number of its sales offices, as well as the effect of change in the estimated useful life of its marketing equipment from 5 years to 7 years.

### ***Financial Condition and Liquidity***

For the fiscal year 2010, the Corporation had strong operating cash flows, i.e., net cash provided by operating activities are substantially more than the net cash used in investing activities.

The Corporation's operations are cash intensive. This capability to generate cash is one of its greatest strengths. With its liquidity, the Corporation has substantial financial flexibility in varying operating policy in response to market demands, in meeting capital expenditures through internally-generated funds, and in providing the Corporation with a strong financial condition that gives it ready access to financing alternatives (refer to Note 4 of the Audited Financial Statements for a detailed discussion on the Corporation's revolving credit facilities as of 30 June 2010).

Credit sales over the past three years have changed from 62% of total sales in 2008 and 68% in 2009 to 64% in 2010. This reflects a shift from a direct distribution mode to a more efficient model of fostering partnership with distributors and multi-route Entrepreneurial Distribution System contractors, as well as increase in Modern Trade business. Liquidity has remained healthy. Collection periods have improved from 30 days in 2008 and 27 days in 2009 to just 26 days in 2010. Inventory days have decreased from 12 days in 2008 and 10 days in 2009 to just 8 days in 2010, reflecting a more efficient inventory and production management. Trade payable days have remained at manageable levels.

Increase in current assets from ₱2,293 million as of June 2009 to ₱2,758 million as of June 2010 was due to increase in cash and cash equivalents by ₱231 million, inventory by ₱122 million, receivables

by ₱87 million, and due to related parties by ₱49 million. The increase in cash is due to improved working capital management while the increases in receivables and inventories were in line with increase in sales volume.

Non-current assets decreased from ₱6,269 million as of June 2009 to ₱6,208 million as of June 2010 due to the decreased amount of bottles and cases (net of amortization) by ₱116 million, as well as decrease in other non-current assets by ₱35 million. These decreases were partially offset by the increase in plant, property and equipment by ₱88 million, as well as by the increase in investments in associates by ₱2 million. The increase in plant, property and equipment, on the other hand, is largely due to the continued expansion of plant capacity.

Increase in current liabilities from ₱2,275 million as of June 2009 to ₱2,472 million as of June 2010 is mainly due to increase in accounts payable and accrued expenses by ₱344 million. The increase in accounts payable and accrued expenses is partially offset by the decreased amounts from income tax payable by ₱98 million and notes payable by ₱50 million.

Non-current liabilities increased from ₱577 million as of June 2009 to ₱599 million as of June 2010 due to the increase in deferred tax liabilities by ₱16 million and increase in other non-current liabilities by ₱6 million.

Total assets increased from ₱8,562 million as of June 2009 to ₱8,966 million as of June 2010 mainly due to the significant increase in current assets described above. Total liabilities increased from ₱2,852 million as of June 2009 to ₱3,071 million as of June 2010 mainly due to similar factors stated in increase in current liabilities. Total equity increased from ₱5,710 million to ₱5,894 million on account of net income of ₱738 million for the year less dividends of ₱554 million paid during the year.

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

Historically, the Corporation has sourced funding for capital expenditures essential to product innovation initiatives and maintaining operational capabilities through internally-generated funds and long-term borrowings. In recent years, it has met these requirements substantially out of operating cash flow, and has incurred only short-term debt to assist with temporary liquidity requirements. In January 2008, it had embarked on an IPO, with net proceeds of approximately ₱1.2 billion, to fund the expansion of NCB business. As of June 2010, the IPO proceeds were fully utilized. The Corporation has completed the expansion projects of Cebu, San Fernando and Iloilo. Capital expenditure for fiscal year 2010 amounted to ₱1.127 billion.

#### ***Factors that may Impact the Corporation's Operations / Seasonality Aspects***

Sales and profitability are affected by the overall performance of the Philippine economy, the natural seasonality of sales, the competitive environment of the beverage market in the Philippines, as well as changes in cost structures, among other factors.

Sales volumes are also affected by the weather, generally being higher in the hot, dry months from March through June and lower during the wetter monsoon months of July through October. In addition, the Philippines is exposed to risk of typhoons during the monsoon period. Typhoons usually result in substantially reduced sales in the affected area, and have, in the past, interrupted production at the plants in affected areas. While these factors lead to a natural seasonality in sales, unseasonable weather could also significantly affect sales and profitability compared to previous comparable periods. Sales during the Christmas/New Year holiday period in late December tend to be higher as well.

The CSD and NCB markets are both highly competitive. The actions of competitors, as well as the Corporation's own continuous efforts on pricing, marketing, promotions, and new product

development, affect sales. Some of the smaller competitors have lower cost bases than the Corporation and price their products lower than ours. Thus, in addition to the cost of producing and distributing our beverages, sales prices are greatly affected by the availability and price of competing brands in the market.

All of the Corporation's sales are denominated in Philippine pesos. However, some of the significant costs, such as purchases of packaging materials are denominated in United States dollars. Some other costs, which are incurred in Philippine pesos, can also be affected by fluctuations in the exchange rate between the Philippine peso and United States dollar. As a result, movements in the exchange rate between the Philippine peso and other currencies can have a significant effect on the results of operations.

The business requires a significant supply of raw materials and energy. The cost and supply of these materials could be adversely affected by changes in the world market prices on sugar, crude oil, aluminum, tin, PET resins, among others. Although direct purchases of fuel are relatively small as a proportion of total costs, the Corporation is exposed to fluctuations in the price of oil through the dependence on freight and delivery services. Changes in materials prices generally affect the competitors as well.

Margins differ between beverage products and package types and sizes. Excluding packaging, production costs are similar across the range of carbonated beverages, but vary between non-carbonated beverages. Packaging costs vary, with RGBs being less expensive than PET, aluminum cans or non-returnable glass. The incremental cost of producing larger-sized serves in the same package type is proportionately lower than the increased volume, creating opportunities to achieve higher margins where customers perceive value in terms of volume.

As a result of the factors discussed above, the margins the Corporation earns on the products can be substantially different, and the margins can change in both absolute and relative terms from period to period. While the Corporation attempts to adjust its product and package mix to maximize profitability, changes in consumer demand and the competitive landscape can have a significant impact on mix and therefore profitability.

The Corporation is also subject to credit risk, liquidity risk and various market risks, including risks from changes in commodity prices, interest rates and currency exchange rates (refer to Notes 4 and 23 of the 2010 Audited Financial Statements for discussion on Financial Risk Management).

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

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

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

There was no income or loss arising from discontinued operations.

## **VI. CORPORATE GOVERNANCE**

The Corporation's Manual on Corporate Governance ("Manual"), which was adopted on 21 June 2007 and revised on 14 April 2010, details the standards by which it conducts sound corporate governance that is coherent and consistent with relevant laws and regulatory rules, and constantly strives to create value for its stockholders.

Compliance with the Manual's standards is monitored by the Corporation's Compliance Officer. Ultimate responsibility rests with its Board of Directors, which also maintains three (3) standing committees apart from the Executive Committee, each charged with oversight into specific areas of its business activities.

#### ***Executive Committee***

The Executive Committee of the Board is responsible for developing and monitoring the Corporation's risk management policies. This Committee, which meets regularly, reviews the detailed financial and operating performance of the Corporation every month and reviews progress against the relevant Annual Operating Plan and Operating Targets, monitors the Corporation's progress against key initiatives, pricing strategies and plans, sales and marketing plans, capital expenditure planning and key decisions on organization structure and people.

Based on the Manual, the Executive Committee shall be composed of at least five members, namely, the President-Chief Executive Officer, the Chief Operating Officer/s, the Chief Financial Officer, and such other directors.

The incumbent Chairman and members of the Executive Committee are as follows: Messrs. Micky Yong (Chairman), Partha Chakrabarti (Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics), Felix S. Yu (Chief Operating Officer for National Sales Operations), Akash Shah (CFO), Sunil D'Souza, James Eng Jr., Tsang Cho Tai (Allan Tsang) and Qasim Khan.

#### ***Audit Committee***

The Audit Committee assists the Board in its fiduciary responsibilities as it provides an independent and objective assurance to the Management and shareholders of the Corporation that business operations are carried out according to approved standards and objectives, and the Corporation's resources are preserved and productive.

Based on the Manual, the Audit Committee shall be composed of at least three directors, preferably with accounting and finance/audit background. Two of the members must be independent directors, including the Chairman of the committee. The Audit Committee reports to the Board and is required to meet at least once every three months.

The incumbent Chairman and members of the Audit Committee are as follows: Messrs. Oscar S. Reyes (Chairman), John L. Sigalos, Tsang Cho Tai (Allan Tsang), and Rafael M. Alunan III.

#### ***Compensation and Remuneration Committee***

The Compensation and Remuneration Committee, based on objective and impartial studies, utilizes a formal and transparent framework in determining the remuneration of the members of the Board and the Corporation's key executives. This committee's decisions on compensation issues are consistent with the requirements of objectivity, fairness and relevance.

Based on the Manual, the Compensation and Remuneration Committee shall be composed of at least three members, including one independent director. The Compensation and Remuneration Committee reports to the Board and is required to meet at least once each year.

The incumbent Chairman and members of the Compensation and Remuneration Committee are as follows: Messrs. James Eng Jr. (Chairman), Micky Yong, John L. Sigalos and Rafael M. Alunan III.

### *Nomination Committee*

The Nomination Committee ensures that the Corporation's Board of Directors is made up of visionary, ethical and competent business leaders who can contribute to the vast range of ideas and reach decisions that will protect and grow the business. This committee also makes sure that the designated Board members address the higher purposes of the Corporation as a responsible enterprise which has a positive value on the communities where it operates.

Based on the Manual, the Nomination Committee shall be composed of at least three members, including one independent director. The Nomination Committee reports to the Board and is required to meet at least once each year.

The incumbent Chairman and members of the Nomination Committee are as follows: Messrs. Micky Yong (Chairman), James Eng Jr., John L. Sigalos and Rafael M. Alunan III.

For purposes of evaluating compliance with the Manual, the Corporation has adopted the self-rating form prescribed by the Securities and Exchange Commission ("SEC"). The Corporation has complied with its Manual through the election of two (2) independent directors to the Corporation's Board; the constitution of the Audit, Compensation and Remuneration, and Nomination Committees pursuant to its By-laws and the election of the Chairman and members of such committees, which include the independent directors; the conduct of regular meetings of the Board of Directors and the various committees of the Board abovestated; adherence to the written Code of Conduct prepared by the Corporation's Human Resources Department; and adherence to applicable accounting standards and disclosure requirements.

The Corporation adheres to a business plan, budget and marketing plan. Management prepares and submits to the Executive Committee of the Board and to the Board, on a regular basis, financial and operational reports which enable the Board and Management to assess the effectiveness and efficiency of the Corporation.

While the Corporation has fulfilled its corporate governance obligations and there has been no deviation from the Manual as of date, it continues to evaluate and review its Manual to ensure that best practices on corporate governance are being adopted.

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## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
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Industry Classification  
Company Type Stock Corporation

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P H I L I P P I N E S , I N C .

(Company's Full Name)

K m . 2 9 , N a t i o n a l R o a d

T u n a s a n , M u n t i n i u p a C i t y

(Business Address : No. Street Company / Town / Province)

Honeylin C. Castolo

Contact Person

807-9905

Company Telephone Number

0 6

Month

3 0

Day

A A F S

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

File Number

LCU

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

**FINANCIAL STATEMENTS**  
**June 30, 2010, 2009 and 2008**



**Manabat Sanagustin & Co., CPAs**  
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Branches: Subic · Cebu · Bacolod · Iloilo

PRC-BOA Registration No. 0003  
SEC Accreditation No. 0004-FR-2  
BSP Accredited

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of Pepsi-Cola Products Philippines, Inc., which comprise the statements of financial position as at June 30, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended June 30, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pepsi-Cola Products Philippines, Inc. as of June 30, 2010 and 2009, and its financial performance and its cash flows for each of the three years in the period ended June 30, 2010, in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

EMERALD ANNE C. BAGNES

Partner

CPA License No. 0083761

SEC Accreditation No. 0312-AR-1

Tax Identification No. 102-082-332

BIR Accreditation No. 08-001987-12-2010

Issued June 30, 2010; Valid until June 29, 2013

PTR No. 2092690MB

Issued January 7, 2010 at Makati City

September 9, 2010

Makati City, Metro Manila



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Branches · Subic · Cebu · Bacolod · Iloilo

PRC-BOA Registration No. 0003  
SEC Accreditation No. 0004-FR-2  
BSP Accredited

## REPORT OF INDEPENDENT AUDITORS

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pepsi-Cola Products Philippines, Inc. as of and for the year ended June 30, 2010, included in this Form 17-A and have issued our report thereon dated September 9, 2010.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This schedule is presented for purposes of complying with the Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008, *Guidelines on the Determination of Retained Earnings Available of Dividend Declaration*, and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects, the financial statements data required to be set forth therein in relation to the basic financial statements taken as a whole.

**MANABAT SANAGUSTIN & CO., CPAs**



EMERALD ANNE C. BAGNES

Partner

CPA License No. 0083761

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BIR Accreditation No. 08-001987-12-2010

Issued June 30, 2010; Valid until June 29, 2013

PTR No. 2092690MB

Issued January 7, 2010 at Makati City

September 9, 2010  
Makati City, Metro Manila



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

Km. 29 National Road, Tunasan, Muntinlupa City 1773 Philippines  
 Tel. No.: (632) 850-7901 Fax No.: (632) 850-7928  
 Website: www.pepsiphilippines.com

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
 FOR FINANCIAL STATEMENTS**

The management of PEPSI-COLA PRODUCTS PHILIPPINES, INC. is responsible for all information and representations contained in the accompanying financial statements, which comprise the statements of financial position as at June 30, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended June 30, 2010. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the Stockholders of the Company.

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

**MICKY YONG**  
 Chairman, President and CEO

**PARTHA CHAKRABARTI**  
 EVP and Chief Operating Officer

**AKASH SHAH**  
 SVP and Chief Financial Officer




REPUBLIC OF THE PHILIPPINES)  
MUNTINLUPA CITY ) S.S.

SUBSCRIBED AND SWORN TO before me in the City of MUNTINLUPA CITY this  
\_\_th day of SEP 09 2010 by:

<u>Name</u>	<u>Competent Evidence of Identity</u>	<u>Date/Place Issued</u>
Micky Yong	Passport No. E1376652C	Sept. 1, 2009 / Singapore
Partha Chakrabarti	Passport No. Z1751780	Feb. 26, 2008 / Manila
Akash Shah	Passport No. BA647570	Oct. 22, 2009 / Bangkok

who have satisfactorily proven their identity to me through the above identification, that they are the same person who personally signed the foregoing instrument before me and acknowledged that they executed the same.

  
ATTY. CELERINO T. GRECIA III  
Notary Public

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Page No. 62  
Book No. 11  
Series of 2010.

Until December 31, 2011, NC 10-030  
Attorney's Roll No. 31466  
IBP LRN. 04683, 05-12-21 03, Iloilo  
PTR No. 0532246 01-25-2010; Muntinlupa City

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

**STATEMENTS OF FINANCIAL POSITION**

(Amounts in Thousands)

		June 30	
	<i>Note</i>	2010	2009
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	P643,613	P413,088
Receivables - net	6	1,075,420	987,965
Inventories	7, 11	825,467	703,963
Due from related parties	14	165,085	116,454
Prepaid expenses and other current assets		48,560	71,928
<b>Total Current Assets</b>		<b>2,758,145</b>	<b>2,293,398</b>
<b>Noncurrent Assets</b>			
Investments in associates	8	529,988	527,723
Bottles and cases - net	9, 10, 11	2,325,289	2,441,198
Property, plant and equipment - net	10, 11	3,243,647	3,156,001
Other noncurrent assets - net		108,800	143,941
<b>Total Noncurrent Assets</b>		<b>6,207,724</b>	<b>6,268,863</b>
		<b>P8,965,869</b>	<b>P8,562,261</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	7, 12, 14, 24, 27	P2,412,870	P2,068,906
Income tax payable		58,840	156,456
Notes payable	7, 9, 10, 11	-	50,000
<b>Total Current Liabilities</b>		<b>2,471,710</b>	<b>2,275,362</b>
<b>Noncurrent Liabilities</b>			
Deferred tax liabilities - net	13	391,887	375,723
Other noncurrent liabilities	24, 27	207,790	201,304
<b>Total Noncurrent Liabilities</b>		<b>599,677</b>	<b>577,027</b>
<b>Total Liabilities</b>		<b>3,071,387</b>	<b>2,852,389</b>
<b>Equity</b>			
Capital stock	25	554,066	554,066
Additional paid-in capital	25	1,197,369	1,197,369
Retained earnings	26	4,143,047	3,958,437
<b>Total Equity</b>		<b>5,894,482</b>	<b>5,709,872</b>
		<b>P8,965,869</b>	<b>P8,562,261</b>

*See Notes to the Financial Statements.*



**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands, Except Per Share Data)

		Years Ended June 30		
		2010	2009	2008
	Note			
<b>NET SALES</b>	15, 22	<b>P16,128,845</b>	P14,232,045	P12,980,886
<b>COST OF GOODS SOLD</b>	14, 16, 19, 20, 24, 27	<b>11,917,903</b>	10,042,738	8,874,106
<b>GROSS PROFIT</b>		<b>4,210,942</b>	4,189,307	4,106,780
<b>OPERATING EXPENSES</b>				
Selling and distribution	14, 17, 19, 20, 24, 27	2,004,950	1,902,574	1,830,309
General and administrative	14, 18, 19, 20, 24, 27	708,092	620,850	648,080
Marketing expenses	14	501,774	520,916	664,935
		<b>3,214,816</b>	3,044,340	3,143,324
<b>INCOME FROM OPERATIONS</b>		<b>996,126</b>	1,144,967	963,456
<b>FINANCE AND OTHER INCOME (EXPENSE)</b>				
Interest income	5, 14	12,947	17,234	22,581
Equity in net earnings of associates	8	2,265	2,221	20,028
Interest expense	11	(2,785)	(21,972)	(35,713)
Other income - net		45,915	38,979	30,567
		<b>58,342</b>	36,462	37,463
<b>INCOME BEFORE INCOME TAX</b>		<b>1,054,468</b>	1,181,429	1,000,919
<b>INCOME TAX EXPENSE</b>	13	<b>315,792</b>	381,739	240,222
<b>NET INCOME/TOTAL COMPREHENSIVE INCOME</b>		<b>P738,676</b>	P799,690	P760,697
<b>Basic/Diluted Earnings Per Share</b>	21	<b>P0.20</b>	P0.22	P0.22

*See Notes to the Financial Statements.*

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

	<i>Note</i>	Years Ended June 30		
		2010	2009	2008
<b>CAPITAL STOCK</b>				
Balance at beginning of year		P554,066	P554,066	P496,948
Issuance during the year	25	-	-	57,118
Balance at end of year		554,066	554,066	554,066
<b>ADDITIONAL PAID-IN CAPITAL</b>				
Balance at beginning of year		1,197,369	1,197,369	59,473
Issuance during the year	25	-	-	1,275,622
Transaction cost on initial public offering	25	-	-	(137,726)
Balance at end of year		1,197,369	1,197,369	1,197,369
<b>RETAINED EARNINGS</b>				
Balance at beginning of year		3,958,437	3,527,951	2,767,254
Net income for the year		738,676	799,690	760,697
Dividends declared	26	(554,066)	(369,204)	-
Balance at end of year		4,143,047	3,958,437	3,527,951
		P5,894,482	P5,709,872	P5,279,386

*See Notes to the Financial Statements.*

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

**STATEMENTS OF CASH FLOWS**

(Amounts in Thousands)

		Years Ended June 30		
	<i>Note</i>	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		P1,054,468	P1,181,429	P1,000,919
Adjustments for:				
Depreciation and amortization	19	1,147,314	1,025,824	969,611
Retirement cost	24	53,460	34,791	67,708
Allowance for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others provisions - net	6, 7, 9	28,602	112,615	21,920
Interest expense		2,785	21,972	35,713
Interest income		(12,947)	(17,234)	(22,581)
Equity in net earnings of associates	8	(2,265)	(2,221)	(20,028)
Gain on disposal of property and equipment		(1,650)	(1,841)	(1,527)
Operating income before working capital changes		2,269,767	2,355,335	2,051,735
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables	6	(71,524)	(159,923)	(82,985)
Inventories	7	(127,192)	(48,959)	(84,718)
Due from related parties		(48,631)	104,075	(130,015)
Prepaid expenses and other current assets		23,368	41,324	(52,207)
Increase (decrease) in accounts payable and accrued expenses	12	156,356	(8,414)	(138,593)
Cash generated from operations		2,202,144	2,283,438	1,563,217
Interest received		12,671	18,061	22,035
Income taxes paid		(240,174)	(139,272)	(181,196)
Contribution to plan assets	24	(56,000)	(48,000)	(54,000)
Interest paid		(2,785)	(22,490)	(39,957)
Net cash provided by operating activities		1,915,856	2,091,737	1,310,099

*Forward*

	Note	Years Ended June 30		
		2010	2009	2008
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from disposal of property and equipment	10	P10,454	P5,370	P17,681
Decrease (increase) in other noncurrent assets		35,141	(5,902)	912
Additions to:				
Property, plant and equipment	10	(679,743)	(833,864)	(1,309,518)
Bottles and cases	9	(447,117)	(968,275)	(671,301)
Net cash used in investing activities		(1,081,265)	(1,802,671)	(1,962,226)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash dividends paid	26	(554,066)	(369,204)	(400,000)
Proceeds from (repayments of):				
Notes payable	11	(50,000)	(97,100)	98,500
Long-term debt		-	-	(283,333)
Proceeds from issuance of shares of stocks		-	-	1,195,014
Net cash provided by (used in) financing activities		(604,066)	(466,304)	610,181
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>230,525</b>	<b>(177,238)</b>	<b>(41,946)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>413,088</b>	<b>590,326</b>	<b>632,272</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	5	<b>P643,613</b>	<b>P413,088</b>	<b>P590,326</b>

See Notes to the Financial Statements.

Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council.

The financial statements of the Company which comprise statements of financial position as at June 30, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended June 30, 2010 were approved and authorized for issue by the Company's Board of Directors (BOD) on September 9, 2010.

Certain accounts in the statement of financial position as of June 30, 2009 and statements of cash flows for the years ended June 30, 2009 and 2008 have been reclassified to conform to the 2010 presentation.

#### Basis of Measurement

The financial statements have been prepared on a historical cost basis.

#### Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency and all values are rounded to the nearest thousands, except per share data and when otherwise indicated.

#### Use of Estimates and Judgments

The preparation of the financial statements in accordance with PFRS requires management to make estimates and judgments that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and judgments used in the accompanying financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results may differ from these estimates.

received operating expenses and decrease current assets. As of June 30, 2010 and 2009, allowance for impairment losses on receivables amounted to P108 million and P150 million, respectively. Receivables, net of allowance for impairment losses, amounted to P1.075 billion and P288 million as of June 30, 2010 and 2009, respectively (see Note 6). No allowance for impairment losses is necessary for the Company's due from related parties as of June 30, 2010 and 2009.

*Estimating Net Realizable Value of Inventories*

In determining the net realizable value 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 reduces the cost of inventories to a realizable value at a level considered adequate to reflect market decline in value of the recorded inventory. 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 net realizable values. The net realizable value of inventories amounted to P825 million and P704 million as of June 30, 2010 and 2009, respectively (see Note 7).

*Estimating Useful Lives of the Excess of Cost of Containers over Deposit Values*

The excess of the acquisition costs of the returnable bottles and cases over their deposit values is deferred and amortized over their estimated useful lives (EUL) principally determined by their historical breakage and trippage. A reduction in the EUL of excess of cost over deposit value would increase the recorded amortization and decrease noncurrent assets. As of June 30, 2010 and 2009, accumulated amortization of excess of cost over deposit values of returnable bottles and cases amounted to P3.735 billion and P3.172 billion, respectively. The carrying amounts of bottles and cases amounted to P2.325 billion and P2.441 billion as of June 30, 2010 and 2009, respectively (see Note 9).

*Estimating Allowance for Unusable Containers*

An allowance for unusable containers is maintained based on specific identification and as determined by management to cover bottles and shells that are no longer considered fit for use in the business, obsolete or in excess of the Company's needs. As of June 30, 2010 and 2009, allowance for unusable containers amounted to P13 million and P17 million, respectively (see Note 9).

*Estimating Useful Lives of Property, Plant and Equipment*

The Company reviews annually 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 EUL are as follows:

	Number of Years
Buildings and leasehold improvements	20 or term of the lease, whichever is shorter
Machinery and other equipment	3 - 10
Furniture and fixtures	10

As of June 30, 2010 and 2009, the carrying amounts of property, plant and equipment amounted to P3.244 billion and P3.156 billion, respectively (see Note 10).

#### *Estimating Allowance for Impairment Losses on Nonfinancial Assets*

The Company assesses at each reporting date whether there is an indication that an item of bottles and cases, property, plant and equipment, investments in associates and other noncurrent assets may be impaired. Determining the value 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 judgment and estimations. 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. As of June 30, 2010 and 2009, none of these impairment indicators exist on the Company's bottles and cases, property, plant and equipment, investments in associates and other noncurrent assets. As of June 30, 2010 and 2009, the carrying amounts of bottles and cases amounted to P2.325 billion and P2.441 billion, respectively (see Note 9). As of June 30, 2010 and 2009, the carrying amounts of property, plant and equipment amounted to P3.244 billion and P3.156 billion, respectively (see Note 10). Investments in associates amounted to P530 million and P528 million as of June 30, 2010 and 2009, respectively (see Note 8).

#### *Estimating Realizability of Deferred Tax Assets*

The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces 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'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 of June 30, 2010 and 2009. As of June 30, 2010 and 2009, the Company has net deferred tax liabilities amounting to P392 million and P376 million, respectively (see Note 13).

#### *Estimating Retirement Benefits Liability*

The determination of the retirement benefits liability and retirement benefits cost is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rate. Actual results that differ from the Company's assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future periods. As of June 30, 2010 and 2009, the Company has unrecognized net actuarial gains amounting to P0.5 million and P7 million, respectively (see Note 24).

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### 3. Significant Accounting Policies

The following explains the significant accounting policies which have been adopted in the preparation of the financial statements:

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the following new standard, revised standard, improvements to standards, amendments to standards and interpretation, which have been applied in preparing these financial statements:

- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*. This PFRS adopts a management approach in reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. It is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for the purposes of issuing any class of instruments in a public market. The requirements of this new standard have been included in the preparation of the Company's financial statements.
- Revised PAS 1, *Presentation of Financial Statements* (2007), introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a statement of comprehensive income. The adoption of this revised PAS 1 resulted in the following: (a) change in the title from balance sheets to statements of financial position; and (b) change in the presentation of changes in equity and of comprehensive income - non-owner changes in equity are now presented in one statement of comprehensive income. In addition, comparative information has been re-presented in conformity with the revised standard.
- Revised PAS 23, *Borrowing Costs*, removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The adoption of this revised standard did not have any significant impact on the Company's financial statements.
- *Improvements to PFRSs 2008* discuss 35 amendments and are divided into two parts: a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and b) Part II includes 11 terminology or editorial amendments that the International Accounting Standards Board (IASB) expects to have either no or only minimal effects on accounting. The adoption of these improvements did not have any significant impact on the Company's financial statements.
- Amendments to PFRS 7, *Improving Disclosures about Financial Instruments*, enhance disclosures over fair value measurements relating to financial instruments, specifically in relation to disclosures over the inputs used in valuations techniques and the uncertainty associated with such valuations. The amendments also improve disclosures over liquidity risk to address current diversity in practice on how such disclosure requirements are being interpreted and applied, proposing quantitative disclosures based on how liquidity risk is managed and strengthening the relationship between quantitative and qualitative liquidity risk disclosures. As allowed by the

amendments, in the first year of application, the Company does not need to provide comparative information. Additional disclosures required in the amendments to PFRS 7 are shown in Note 23 to the financial statements.

- Philippine Interpretation IFRIC 17, *Distributions of Noncash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The adoption of this interpretation did not have any significant impact on the Company's financial statements.

New Standard, Revised Standard, Amendments to Standards, Improvements to Standards and Interpretation Not Yet Adopted

The Company has not applied the following new standard, revised standard, amendments to standards, improvements to standards and interpretation which have been approved but are not yet effective as of and for the year ended June 30, 2010:

- *Improvements to PFRSs 2009* contain 15 amendments to 12 standards. In particular the amendments to PAS 17, *Leases*, may affect the classification of leases of land and buildings, particularly in jurisdictions in which such leases often are for a long period of time. The amendments are generally effective for annual periods beginning on or after January 1, 2010. These improvements and amendments are not expected to have any significant impact on the Company's financial statements upon its adoption on July 1, 2010.
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, which will be effective for annual periods beginning on or after February 1, 2010. The amendment permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is not expected to have any significant impact on the Company's financial statements upon its adoption on July 1, 2010.
- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*, which will be effective for annual periods beginning on or after July 1, 2010. The interpretation addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, paragraph 41. This interpretation is not expected to have any significant impact on the Company's financial statements upon its adoption on July 1, 2010.
- Revised PAS 24, *Related Party Disclosures* (2009), which will be effective for annual periods beginning on or after January 1, 2011. The revised standard amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is not expected to have any significant impact on the Company's financial statements upon its adoption on July 1, 2011.



- PFRS 9, *Financial Instruments*, which will be effective for annual periods beginning on or after January 1, 2013. This standard was issued as part of a wider project to replace PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is not expected to have any significant impact on the Company's financial statements upon its adoption on July 1, 2013.

#### Financial Instruments

*Date of Recognition.* The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets and liabilities on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulations in the market place.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value, which is the fair value of the consideration given or received. The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, FVPL financial assets, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. As of June 30, 2010 and 2009, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS financial assets.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or FVPL financial assets. Loans and receivables are carried at amortized cost, less impairment in value. Amortization is determined using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through amortization process.

The Company's receivables and due from related parties are included in this category.

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

*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.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Included in this category are the Company's notes payable and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other PFRS, such as income tax payable and accrued retirement cost).

*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 transfer of the 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 repay.

A financial liability is derecognized when the obligation under the liability is discharged or 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 modification is treated as a derecognition of the carrying value of the original liability and the recognition of a new liability at fair value, and any resulting difference is recognized in profit or loss.

*Day 1 Profit.* When 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 when use is made of data which are not observable, 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 liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a 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.

#### Capital Stock and Additional Paid-in Capital

Capital stock and additional paid-in capital are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of any tax effect.

#### Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing 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. Net realizable value of inventories, other than spare parts and supplies, is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. For the spare parts and supplies, net realizable value is the estimated selling price less costs to sell.

#### 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. 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 investment includes goodwill 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 reporting 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. It also includes certain pallets acquired under finance lease. These assets are deferred and amortized using the straight-line method over their EUL (5 years for returnable bottles and 7 years for cases and pallets) determined principally by their actual historical breakage and trippage. 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 (which comprises its purchase price and any directly attributable costs in bringing the asset to working condition and location for its intended use) less accumulated depreciation, amortization and impairment losses, if any.

Subsequent costs 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 cost of day-to-day servicing of an asset is recognized as expense in the period in which it is incurred.

Construction in progress represents plant and equipment under construction and is stated at cost. This includes cost 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.

Depreciation commences once the assets become available for use. Depreciation is computed on a straight-line basis over the EUL of the assets. Leasehold improvements are amortized over the EUL of the improvements or the term of the lease, whichever is shorter.

The EUL and depreciation and amortization methods are reviewed at each reporting date to ensure that the period and depreciation and amortization methods are consistent with the expected pattern of economic benefits from those assets.

When an asset 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 is recognized in profit or loss.

#### Impairment

##### *Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually, significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

Reversal of an impairment loss previously recognized is recorded when the decrease can be objectively related to an event occurring after the impairment event. Such reversal is recognized in profit or loss. However, the increased carrying amount is only recognized to the extent it does not exceed what the amortized cost would have been had the impairment loss not been recognized.

##### *Nonfinancial Assets*

The carrying amounts of the Company's nonfinancial assets such as investments in associates, bottles and cases, and property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of a nonfinancial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is the present value of the future cash flows expected to be delivered from an asset or cash-generating unit. 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 cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and discounts. Revenue is recognized when 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. Transfer of risks and rewards of ownership coincide with the delivery of the products to the customers.

#### Cost and Expense Recognition

Costs and expenses are recognized in profit or loss as they are incurred.

#### Advertising and Marketing Costs

Advertising and marketing costs are charged to operations in the year such costs are incurred.

#### Finance Income and Expenses

Finance income comprises of interest income on bank deposits and money market placements, dividend income and foreign currency gains. Interest income is recognized in profit or loss as it accrues, using the effective interest method. Dividend income is recognized on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All finance expenses are recognized in profit or loss as they accrue.

#### Leases

Leases in which a significant portion of the risks and rewards of ownership is transferred to the Company are classified as finance lease. Finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Subsequent to initial recognition, the capitalized asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Leases which do not transfer to the Company substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

#### Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs 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 complete. 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.

#### Provisions and Contingencies

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 pretax 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.

Contingent liabilities are not recognized in the financial statements. These are disclosed 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 when an inflow of economic benefits is probable.

#### Income Taxes

Income tax expense is composed of 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.

#### *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 at the reporting date.

#### *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 the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT). The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying

amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carryforward tax benefits of NOLCO and MCIT can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

#### Retirement Plan

The Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular and full time employees. Retirement costs are actuarially determined using the projected unit credit method which reflect services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses that exceed 10% of the greater of the present value of the Company's defined benefit obligation and the fair value of the plan assets in the prior period are amortized over the expected average working lives of the participating employees.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of the cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions of the plan (the asset ceiling test).

The Company recognizes past service cost as an expense on a straight-line basis over the average vesting period. The Company recognizes past service cost immediately to the extent that the benefits are already vested following the introduction of, or changes to, the plan.

#### Foreign Currency Transactions

The functional and presentation currency of the Company is the Philippine peso. Transactions in foreign currencies are recorded in Philippine peso based on the prevailing exchange rates at the date of the transactions. Foreign currency denominated monetary assets and liabilities are translated 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 credited or charged to current operations.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income 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 net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

#### Dividends on Common Shares

Cash 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.

#### 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 resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

#### Events After the End of the Reporting Period

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.

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## **4. Financial Risk Management**

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. Further quantitative disclosures are included throughout these financial statements, mainly in Note 23 to the financial statements.

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

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The 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. All risks faced by the Company are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Company's operations and forecasted results. 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 Audit Committee performs oversight over financial management and internal control, specifically in the areas of managing credit, liquidity, market and other risks of the Company. The Audit Committee directly interfaces with the internal audit function, which undertakes reviews of risk management controls and procedures and ensures the integrity of internal control activities which affect the financial management system of the Company. The results of procedures performed by Internal Audit are reported to the Audit Committee.

#### 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 trade receivables.

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.

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.

It is the Company's policy to conduct an annual credit review through identification and summarization of under-performing customers and review and validation of credit violation reports. Based on the summary, the Plant Credit Committees may upgrade, downgrade, suspend and cancel credit lines.

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.

Collateral securities are required for credit limit applications that exceed certain thresholds (see Note 23). The Company has policies for acceptable collateral securities that may be presented upon submission of credit applications.

#### Liquidity Risk

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

In addition, the Company has the following credit facilities:

- The total commitment as of June 30, 2010 and 2009 under the line of credit is P2.960 billion and P2.900 billion, respectively, of which the Company had drawn P283 million and P219 million, respectively, under letters of credit and short-term loans. All facilities under the omnibus line bear interest at floating rates consisting of a margin over current Philippine treasury rates; and
- P725 million and P580 million domestic bills purchased line, which were available as of June 30, 2010 and 2009, respectively.

#### 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.

#### *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's most significant commodity exposure is to the Philippine sugar price.

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 P1.330 billion as of June 30, 2010. The EXCOM considered the exposure to commodity price risk to be insignificant.

#### *Interest Rate Risk*

The Company's exposure to the risk for changes in market interest rate relates primarily to its debt obligations with variable interest rates. The Treasury Department, due to its competencies of managing debt obligations, transacts with creditors to ensure the most advantageous terms and to reduce exposure to risk of changes in market interest rate.

#### *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 U.S. dollar and EURO. 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 maintaining short-term cash placements in U.S. dollar and buying foreign currencies at spot rates where necessary to address short-term imbalances. The EXCOM considered the exposure to foreign currency risk to be insignificant. Further, the Company does not hold any investment in foreign securities as of June 30, 2010 and 2009.

### 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 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 defines capital 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 and the Company is not subject to externally-imposed capital requirements.

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### 5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash on hand and in banks	P253,613	P210,308
Short-term investments	390,000	202,780
	<b>P643,613</b>	<b>P413,088</b>

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term investment rates.

The Company's exposures to interest rate risk and sensitivity analyses are disclosed in Note 23.

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### 6. Receivables

Receivables consist of:

	Note	2010	2009
Trade	23	P1,124,733	P1,081,531
Others	23	59,176	56,731
		<b>1,183,909</b>	<b>1,138,262</b>
Less allowance for impairment losses		<b>108,489</b>	<b>150,297</b>
		<b>P1,075,420</b>	<b>P987,965</b>

Trade receivables are noninterest-bearing and are generally on a 30 to 60 days term. Other receivables consist mainly of receivables from employees, freight and insurance claims.

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

	2010		2009	
	Trade	Others	Trade	Others
Balance at beginning of year	P125,512	P24,785	P75,226	P26,856
Impairment losses (recovery on impairment losses) recognized during the year	(10,638)	(5,017)	53,118	304
Write-offs during the year	(23,412)	(2,741)	(2,832)	(2,375)
Balance at end of year	P91,462	P17,027	P125,512	P24,785

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 23.

## 7. Inventories

Inventories consist of:

	Note	2010	2009
Finished goods:	11		
At cost		P387,887	P325,527
At net realizable value		383,579	322,427
Work in process:	11		
At cost		14,482	9,475
At net realizable value		14,482	9,475
Raw and packaging materials:	11		
At cost		337,730	286,956
At net realizable value		325,824	272,242
Spare parts and supplies:			
At cost		106,883	99,935
At net realizable value		101,582	99,819
Total inventories at lower of cost or net realizable value		P825,467	P703,963

Under the terms of agreements covering liabilities under trust receipts, certain inventories have been released to the Company in trust for certain local banks. The Company is accountable to these banks for the trusted inventories (see Note 11).

Write-down of inventories to net realizable value amounted to P6 million and P24 million in 2010 and 2009, respectively, and is included as part of "Cost of Goods Sold" account in the statements of comprehensive income.

The Company's notes payable are secured by mortgage trust indentures on various assets, which include P284 million of inventories as of June 30, 2009.

## 8. Investments in Associates

Investments in associates consist of:

	Percentage (%) of Ownership		2010	2009
	2010	2009		
Acquisition cost:				
Nadeco Realty Corporation (NRC)	40%	40%	P232,508	P232,508
Nadeco Holdings Corporation (NHC)	40%	40%	132	132
			232,640	232,640
Effect of dilution of ownership in NRC			(1,018)	(1,018)
			231,622	231,622
Accumulated equity in net earnings:				
Balance at beginning of year			296,101	293,880
Equity in net earnings for the year			2,265	2,221
Balance at end of year			298,366	296,101
			P529,988	P527,723

The financial reporting date of NRC and NHC is June 30.

As of June 30, 2010 and 2009, the undistributed earnings of the associates included in the Company's retained earnings amounting to P298 million and P296 million, respectively, are not available for distribution to stockholders unless declared by the associates.

Summarized financial information pertaining to the Company's associates:

	As of June 30, 2010				
	Assets	Liabilities	Equity	Revenues	Net Income
NRC	P799,456	P278,256	P521,200	P10,579	P2,131
NHC (consolidated)	799,957	278,164	521,793	10,579	2,477
	As of June 30, 2009				
	Assets	Liabilities	Equity	Revenues	Net Income
NRC	P730,118	P211,048	P519,070	P10,580	P1,994
NHC (consolidated)	730,622	211,305	519,317	10,581	2,377

## 9. Bottles and Cases

Bottles and cases consist of:

	Note	2010	2009
Deposit values of returnable bottles and cases on hand - net of allowance for unusable containers of P13,128 in 2010 and P16,714 in 2009	11	P294,659	P355,658
Excess of cost over deposit values of returnable bottles and cases - net of accumulated amortization*	11	2,014,982	2,078,068
		2,309,641	2,433,726
		15,648	7,472
Bottles and shells in transit		P2,325,289	P2,441,198

\* This includes pallets under finance lease with net book value of P99 million and P85 million as of June 30, 2010 and 2009, respectively.

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

	2010	2009
<b>Gross carrying amount*:</b>		
Balance at beginning of year	P5,250,140	P4,317,702
Additions	499,939	932,438
<b>Balance at the end of year</b>	<b>5,750,079</b>	<b>5,250,140</b>
<b>Accumulated amortization*:</b>		
Balance at beginning of year	3,172,072	2,682,212
Amortization for the year	564,021	494,091
Other movements	(996)	(4,231)
<b>Balance at the end of year</b>	<b>3,735,097</b>	<b>3,172,072</b>
<b>Carrying amount*:</b>		
<b>Balance at end of year</b>	<b>P2,014,982</b>	<b>P2,078,068</b>

\* This includes pallets under finance lease of P119 million and P89 million as of June 30, 2010 and 2009, respectively, with related accumulated amortization amounting to P21 million and P4 million as of June 30, 2010 and 2009, respectively, and net book value of P99 million and P85 million as of June 30, 2010 and 2009, respectively.

A portion of the Company's bottles and cases with a total collateral value of P4.000 billion are mortgaged and placed in trust under two mortgage trust indentures to secure the Company's outstanding notes payable as of June 30, 2009 (see Note 11).

## 10. Property, Plant and Equipment

The movements in this account are as follows:

	Machinery and Other Equipment	Buildings and Leasehold Improvements	Construction in Progress	Furniture and Fixtures	Total
<b>Gross carrying amount:</b>					
July 1, 2008	P6,290,757	P658,272	P212,236	P26,608	P7,187,873
Additions	715,130	116,021	-	2,713	833,864
Disposals/write-offs	(92,842)	(11,126)	-	(162)	(104,130)
Transfers	179,483	(492)	(178,924)	(67)	-
June 30, 2009/July 1, 2009	7,092,528	762,675	33,312	29,092	7,917,607
Additions	372,010	75,343	230,575	1,815	679,743
Disposals/write-offs	(113,510)	(70)	-	(305)	(113,885)
June 30, 2010	7,351,028	837,948	263,887	30,602	P8,483,465
<b>Accumulated depreciation and amortization:</b>					
July 1, 2008	3,893,794	411,598	-	21,022	4,326,414
Depreciation and amortization	498,218	36,497	-	1,078	535,793
Disposals/write-offs	(92,447)	(7,994)	-	(160)	(100,601)
June 30, 2009/July 1, 2009	4,299,565	440,101	-	21,940	4,761,606
Depreciation and amortization	534,646	47,375	-	1,272	583,293
Disposals/write-offs	(104,741)	(35)	-	(305)	(105,081)
June 30, 2010	4,729,470	487,441	-	22,907	5,239,818
<b>Carrying amount:</b>					
June 30, 2009	P2,792,963	P322,574	P33,312	P7,152	P3,156,001
June 30, 2010	P2,621,558	P350,507	P263,887	P7,695	P3,243,647

A substantial portion of the Company's property, plant and equipment and certain parcels of land owned by NRC with a total collateral value of P1.400 billion as of June 30, 2009 is mortgaged and placed in trust under two mortgage trust indentures to secure the Company's outstanding notes payable as of June 30, 2009 (see Notes 11 and 14).

### *Change in EUL of Marketing Equipment*

During the fiscal year 2009, the Company reassessed the EUL of its marketing equipment. The said equipment, which is included as part of property, plant and equipment under "Machinery and Other Equipment" account, with previous EUL of five years is estimated to remain in operations for seven years from the date of purchase. The effect of change in depreciation expense is as follows:

	2009	2010	2011	2012	Beyond 2012
Increase (decrease) in depreciation expense	(P91,548)	(P70,604)	(P48,103)	(P19,312)	P229,567

The Company has ongoing definite 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 shells amounting to P1.127 billion in 2010, P1.802 billion in 2009 and P1.981 billion in 2008, doubling the capital expenditures in previous years. To this date, the Company continues to invest in major capital expenditures in order to complete the remaining expansion projects lined up.

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## 11. Notes Payable

This account represents short-term loans from various local banks which are payable in lump sum on their respective maturity dates up to November 14, 2009. Interest rates on the said loans are repriced monthly based on negotiated rates or prevailing market rates. The short-term loans are secured by mortgage trust indentures on inventories, bottles and cases, and real estate, which include certain restrictions and requirements. In fiscal year 2010, the said loans were fully settled.

Interest rates range from 6.00% to 6.50% for 2009 and 6.00% to 6.25% for 2008. Interest expense on notes payable recognized in profit or loss amounted to P3 million, P22 million and P36 million for 2010, 2009 and 2008, respectively.

Information about the Company's exposures to interest rate risk and liquidity risk is disclosed in Note 23.

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## 12. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2010	2009
Trade payables	7, 14	P1,468,984	P1,228,174
Accrued advertising and marketing		186,420	147,319
Accrued retirement cost - current	24	87,875	82,324
Non-trade payables		77,840	104,505
Other accrued expenses	27	591,751	506,584
		<b>P2,412,870</b>	<b>P2,068,906</b>

The Company's other accrued expenses consist mainly of accruals for salaries and wages, other employee benefits, utilities and other operating expenses, and current portion of obligations under finance lease.

The Company's exposure to liquidity risk related to trade and other payables is disclosed in Note 23.

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## 13. Income Taxes

The components of the income tax expense are as follows:

	2010	2009	2008
Current tax expense and final taxes on interest income:			
Current period	P299,628	P324,832	P81,302
Prior period	-	-	(171,236)
Deferred tax expense from origination and reversal of temporary differences and others	16,164	56,907	330,156
	<b>P315,792</b>	<b>P381,739</b>	<b>P240,222</b>



Deferred tax liabilities - net are attributable to the following:

	2010	2009
Allowance for probable losses in values of bottles and cases, impairment losses, inventory obsolescence and other provisions	P93,480	P80,712
Accrual for retirement costs	63,484	64,246
Past service cost	35,270	34,079
	<b>192,234</b>	<b>179,037</b>
Bottles and cases	(414,853)	(396,075)
Marketing equipment	(169,268)	(158,685)
	<b>(584,121)</b>	<b>(554,760)</b>
	<b>(P391,887)</b>	<b>(P375,723)</b>

In 2009, the Company applied the MCIT (incurred in 2008) amounting to P29 million as tax credit against its RCIT.

In 2008, the Company received a ruling from the Bureau of Internal Revenue (BIR) which allowed acceleration of deductions on marketing equipment and bottles and cases.

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

	2010	2009	2008
Income before income tax	P1,054,468	P1,181,429	P1,000,919
Tax rate at 30% in 2010, 32.5% in 2009 and 35% in 2008	P316,340	P383,964	P350,322
Additions to (reductions in) income tax resulting from the tax effects of:			
Nondeductible expenses	2,840	1,704	2,757
Interest income subjected to final tax	(2,708)	(4,358)	(6,565)
Equity in net earnings of associates	(680)	(722)	(7,010)
Change in tax rate	-	1,192	(51,607)
Transaction cost charged to equity	-	-	(48,204)
Others	-	(41)	529
	<b>P315,792</b>	<b>P381,739</b>	<b>P240,222</b>

On May 24, 2005, Republic Act No. 9337 entitled "An Act Amending the National Internal Revenue Code, as Amended, with Salient Features" (Act), was passed into a law effective November 1, 2005. The Act includes the following significant revisions to the rules of taxation, among others:

- a. Reduction in the corporate income tax rate from 35% to 30% starting January 1, 2009 and onwards; and
- b. Reduction in the allowable deduction of interest expense from 42% to 33% of interest income subject to final tax beginning January 1, 2009.

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#### 14. 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.

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

- a. The Company has Exclusive Bottling Agreements with PepsiCo, Inc. ("PepsiCo"), stockholder, which has 29.49% beneficial interest in the Company, up to year 2017 and Pepsi Lipton International Limited ("Pepsi Lipton"), a joint venture of PepsiCo and Unilever N.V., up to year 2012. Under the agreements, the Company is authorized to bottle, sell and distribute Pepsi and 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 appointment 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. Total net purchases from PepsiCo, amounted to P2.944 billion, P2.578 billion and P2.416 billion for the years ended June 30, 2010, 2009 and 2008, respectively. Total purchases from Pepsi Lipton for the years ended June 30, 2010, 2009 and 2008 amounted to P99 million, P81 million and P94 million, respectively.

The Company has a cooperative advertising and marketing program with PepsiCo and Pepsi Lipton 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 reimbursement from PepsiCo. For the years ended June 30, 2010, 2009 and 2008, the Company incurred marketing expenses amounting to P502 million, P521 million and P665 million, respectively. The Company's outstanding receivable from PepsiCo included under "Due from related parties" account in the statements of financial position, which are unsecured, noninterest-bearing and payable on demand amounted to P5 million and P27 million as of June 30, 2010 and 2009, respectively.

- b. 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.

- c. Certain parcels of land properties of NRC, an associate, were mortgaged to secure a portion of the Company's notes payable. The Company leases these parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P10 million, P10 million and P11 million for the years ended June 30, 2010, 2009 and 2008, respectively. The Company has advances to NRC amounting to P38 million which bear interest at a fixed rate of 10% per annum and which are unsecured and payable on demand. The Company also has outstanding net receivables from NRC, amounting to P119 million and P50 million as of June 30, 2010 and 2009, respectively, which are unsecured, noninterest-bearing and payable on demand. The advances and receivables are included under "Due from related parties" account in the statements of financial position.
- d. The Company has outstanding working capital advances to NHC, an associate, amounting to P3 million and P2 million as of June 30, 2010 and 2009, respectively, and which are unsecured, noninterest-bearing and payable on demand. The advances are included under "Due from related parties" account in the statements of financial position.

In addition to their salaries, the Company also provides noncash benefits to key management personnel and contributes to a defined benefit retirement plan on their behalf.

The compensation and benefits of key management personnel are as follows:

	2010	2009	2008
Short-term employee benefits	P87,114	P70,721	P78,304
Post-employment benefits	3,159	3,754	3,721
	<b>P90,273</b>	<b>P74,475</b>	<b>P82,025</b>

#### 15. Net Sales

Net sales consist of:

	2010	2009	2008
Gross sales	P18,789,186	P16,600,329	P15,283,095
Less sales returns and discounts	2,660,341	2,368,284	2,302,209
	<b>P16,128,845</b>	<b>P14,232,045</b>	<b>P12,980,886</b>

#### 16. Cost of Goods Sold

Cost of goods sold consists of:

	Note	2010	2009	2008
Materials and supplies used	14	P9,073,587	P7,547,548	P6,617,972
Delivery and freight		862,493	769,511	713,597
Depreciation and amortization	19	841,738	754,666	654,400
Rental and utilities	14, 27	295,250	268,318	261,934
Personnel expenses	20, 24	289,491	249,359	258,737
Others		555,344	453,336	367,466
		<b>P11,917,903</b>	<b>P10,042,738</b>	<b>P8,874,106</b>

### 17. Selling and Distribution Expenses

Selling and distribution expenses consist of:

	<i>Note</i>	2010	2009	2008
Distribution		P502,806	P470,626	P438,582
Personnel expenses	20, 24	415,835	408,061	434,600
Delivery and freight		286,638	230,101	193,776
Depreciation	19	271,359	233,383	269,348
Rental and utilities	14, 27	124,876	122,723	131,703
Others		403,436	437,680	362,300
		<b>P2,004,950</b>	<b>P1,902,574</b>	<b>P1,830,309</b>

### 18. General and Administrative Expenses

General and administrative expenses consist of:

	<i>Note</i>	2010	2009	2008
Personnel expenses	20, 24	P333,132	P291,069	P344,817
Outside services		118,026	106,881	73,883
Rental and utilities	14, 27	100,790	90,154	88,838
Others	19	156,144	132,746	140,542
		<b>P708,092</b>	<b>P620,850</b>	<b>P648,080</b>

### 19. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	<i>Note</i>	2010	2009	2008
Cost of goods sold	16	P841,738	P754,666	P654,400
Selling and distribution	17	271,359	233,383	269,348
General and administrative	18	34,217	37,775	45,863
		<b>P1,147,314</b>	<b>P1,025,824</b>	<b>P969,611</b>

### 20. Personnel Expenses

	<i>Note</i>	2010	2009	2008
Salaries and wages		P984,998	P913,698	P970,446
Retirement cost	24	53,460	34,791	67,708
		<b>P1,038,458</b>	<b>P948,489</b>	<b>P1,038,154</b>

The above amounts are distributed as follows:

	Note	2010	2009	2008
Cost of goods sold	16	P289,491	P249,359	P258,737
Selling and distribution	17	415,835	408,061	434,600
General and administrative	18	333,132	291,069	344,817
		P1,038,458	P948,489	P1,038,154

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

Basic EPS is computed as follows:

	2010	2009	2008
Net income (a)	P738,676	P799,690	P760,697
Issued shares at beginning of the year	3,693,772,279	3,693,772,279	3,312,989,386
Effect of shares issued during the year	-	-	158,659,539
Weighted average number of shares outstanding (b)	3,693,772,279	3,693,772,279	3,471,648,925
Basic/Diluted EPS (a/b)	P0.20	P0.22	P0.22

As of June 30, 2010, 2009 and 2008, the Company has no dilutive equity instruments.

## 22. Segment Information

As discussed in Note 1, the Company is engaged in the manufacture, sales and distribution of CSD and NCB. The Company's main products under its CSD category include brands Pepsi-Cola, 7Up, Mountain Dew and Mirinda. The NCB brand category includes Gatorade, Tropicana/Twister, Lipton and the recently introduced Sting energy drink and Propel fitness water.

The Company operates under two (2) reportable operating segments, the CSD and NCB categories.

Analysis of financial information by operating segment is as follows:

(In 000,000's)	Carbonated Soft Drinks			Noncarbonated Beverages			Combined		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
<b>Net Sales</b>									
External sales	P13,560	P12,547	P12,390	P5,229	P4,053	P2,893	P18,789	P16,600	P15,283
Sales discounts and returns	(2,091)	(1,953)	(1,985)	(569)	(415)	(317)	(2,660)	(2,368)	(2,302)
Net sales	P11,469	P10,594	P10,405	P4,660	P3,638	P2,576	P16,129	P14,232	P12,981
<b>Result</b>									
Segment result*	P2,994	P3,118	P3,292	P1,217	P1,071	P815	P4,211	P4,189	P4,107
Unallocated expenses							(3,215)	(3,044)	(3,143)
Interest and financing expenses							(2)	(22)	(36)
Equity in net earnings of associates							2	2	20
Interest income							13	17	23
Other income - net							46	40	30
Income tax expense							(316)	(382)	(240)
Net income							P739	P800	P761

Forward

- 27 -

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.

## 23. Financial Instruments

### Credit Risk

The carrying amounts of the financial assets represent the Company's maximum credit exposure. The maximum exposure to credit risk as at June 30 is as follows:

	2010	2009
Receivables - net	P1,075,420	P987,965
Cash in banks and cash equivalents	471,606	273,673
Due from related parties	165,085	116,454
	P1,712,111	P1,378,092

The aging of trade receivables is as follows:

	June 30, 2010		June 30, 2009	
	Gross Amount	Impairment	Gross Amount	Impairment
Current	P695,028	P -	P649,654	P -
Past due 1-30 days	271,680	-	229,850	-
Past due 31-60 days	43,540	-	51,808	-
More than 60 days	114,485	91,462	150,219	125,512
	P1,124,733	P91,462	P1,081,531	P125,512

- 28 -

Various collateral securities such as bank guarantees, time deposits, surety bonds, real estate and/or chattel mortgages are held by the Company for trade receivables exceeding certain amounts. The aggregate fair market value of these collateral securities amounted to P149 million as of June 30, 2010 and 2009.

As of June 30, 2010 and 2009, the Company assessed that the amounts due from related parties are not impaired and are collectible in full. In addition, other receivables are not impaired and are collectible, except for P17 million and P25 million for which an allowance was provided as of June 30, 2010 and 2009, respectively.

There are no significant concentrations of credit risk within the Company. Cash in banks and cash equivalents are of high grade quality. Of the total receivables and due from related parties as of June 30, 2010 and 2009 which are neither past due nor impaired, 99.2% is of high grade quality and the balance is of standard quality.

The credit qualities of financial assets are determined as follows:

- Cash in banks and cash equivalents 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 quality financial assets are those assessed as having minimal credit risk, otherwise they are of standard quality.

#### Liquidity Risk

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

	As of June 30, 2010			
	Carrying amount	Contractual cash flow	One year or less	More than one year to five years
<b>Financial assets:</b>				
Cash and cash equivalents	P643,613	P643,613	P643,613	P -
Receivables - net	1,075,420	1,075,420	1,075,420	-
Due from related parties	165,085	165,085	165,085	-
	<b>P1,884,118</b>	<b>P1,884,118</b>	<b>P1,884,118</b>	<b>P -</b>
<b>Financial liabilities:</b>				
Accounts payable and accrued expenses	P2,240,450	P2,240,450	P2,240,450	P -
Other noncurrent liabilities	69,284	84,558	-	84,558
	<b>P2,309,734</b>	<b>P2,325,008</b>	<b>P2,240,450</b>	<b>P84,558</b>

As of June 30, 2009				
	Carrying amount	Contractual cash flow	One year or less	More than one year to five years
<b>Financial assets:</b>				
Cash and cash equivalents	P413,088	P413,088	P413,088	P -
Receivables - net	987,965	987,965	987,965	-
Due from related parties	116,454	116,454	116,454	-
	<b>P1,517,507</b>	<b>P1,517,507</b>	<b>P1,517,507</b>	<b>P -</b>
<b>Financial liabilities:</b>				
Notes payable	P50,000	P50,124	P50,124	P -
Accounts payable and accrued expenses	1,977,426	1,977,426	1,977,426	-
Other noncurrent liabilities	69,474	91,477	-	91,477
	<b>P2,096,900</b>	<b>P2,119,027</b>	<b>P2,027,550</b>	<b>P91,477</b>

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.

#### Interest Rate Risk

The interest rates profile of the Company's interest-bearing financial instruments is as follows:

	2010	2009
Financial assets	<b>P390,000</b>	P222,553
Financial liabilities	-	(50,000)
	<b>P390,000</b>	<b>P172,553</b>

#### *Sensitivity Analysis*

A 2% increase in interest rates would have increased equity and profits for the years ended June 30, 2010, 2009 and 2008 by P6 million, P3 million and P4 million, respectively.

A 2% decrease in interest rates for the years ended June 30, 2010, 2009 and 2008 would have had the equal but opposite effect, on the basis that all other variables remain constant.

The interest rate risk's sensitivity analysis is based on interest rate variance that the Company considered to be reasonably possible at the end of the reporting date.

#### Fair Values

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

## 24. Retirement Plan

The Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular and full time employees. The Company has a Retirement Committee 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 using the projected unit credit method. The Company's latest actuarial valuation date is June 30, 2010. The actuarial valuation is made on an annual basis.

The reconciliation of the assets and liabilities recognized in the statements of financial position is shown below:

	2010	2009
Present value of defined benefit obligation	P425,945	P382,590
Fair value of plan assets	214,844	175,708
Unfunded obligations	211,101	206,882
Unrecognized net actuarial gains	512	7,272
Accrued retirement cost	P211,613	P214,154

The current portion of accrued retirement cost included under "Accounts payable and accrued expense" account in the statements of financial position amounted to P88 million and P82 million as of June 30, 2010 and 2009, respectively, while the noncurrent portion included under "Other noncurrent liabilities" account in the statements of financial position amounted to P139 million and P131 million as of June 30, 2010 and 2009, respectively.

The components of retirement cost recognized in profit or loss are as follows:

	2010	2009	2008
Interest cost	P34,052	P32,742	P33,649
Current service cost	29,022	26,619	35,469
Expected return on plan assets	(9,614)	(20,905)	(15,387)
Past service cost	-	-	13,977
Amortization of unrecognized net actuarial gain	-	(3,665)	-
Net retirement cost	P53,460	P34,791	P67,708
Actual return on plan assets	P2,892	P12,363	P3,725

The Company's retirement cost is allocated between "Cost of Goods Sold" account in the statements of comprehensive income, which amounted to P5 million, P6 million and P14 million in 2010, 2009 and 2008, respectively, and "Operating Expenses" account in the statements of comprehensive income which amounted to P48 million, P28 million and P53 million in 2010, 2009 and 2008, respectively.



The changes in the present value of defined benefit obligation are as follows:

	2010	2009
Balance at beginning of year	P382,590	P333,886
Interest cost	34,052	32,742
Current service cost	29,022	26,619
Actuarial loss	38	65,694
Benefits paid	(19,757)	(76,351)
Balance at end of year	P425,945	P382,590

The movements in the fair value of plan assets are shown below:

	2010	2009
Balance at beginning of year	P175,708	P195,117
Contributions	56,000	48,000
Expected return	9,614	20,905
Net actuarial loss	(6,721)	(11,963)
Benefits paid	(19,757)	(76,351)
Balance at end of year	P214,844	P175,708

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

Annual rates	2010	2009
Discount rate	8.75%	9.25%
Expected rate of return on plan assets	4.50%	4.75%
Rate of future salary increase	5.00%	5.00%

The Company's plan assets consist of 99% investment in fixed income securities and 1% investments in shares of stocks both in 2010 and 2009.

The overall expected return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on the historical returns, without adjustments.

The historical information of the amounts is as follows:

	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	P425,945	P382,590	P333,886	P366,031	P409,055
Fair value of plan assets	214,844	175,708	195,117	148,454	111,472
Deficit in the plan	(211,101)	(206,882)	(138,769)	(217,577)	(297,583)
Experience adjustments on plan liabilities loss (gain)	(20,179)	20,706	(5,603)	(42,167)	-
Experience adjustments on plan assets loss	(11,721)	(11,963)	(11,662)	(19,246)	-

The Company's expected contribution to the plan for the fiscal year 2011 is P88 million. Any future contribution to the plan is determined taking into account the cash flow and financial condition as of the date of intended date of contribution as well as other factors as the Company may consider relevant.

## 25. Capital Stock

This account consists of:

	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized - P0.15 par value	5,000,000,000	P750,000	5,000,000,000	P750,000	5,000,000,000	P750,000
Issued and outstanding:						
Balance at beginning of year	3,693,772,279	P554,066	3,693,772,279	P554,066	3,312,989,386	P496,948
Issuance during the year	-	-	-	-	380,782,893	57,118
Balance at end of year	3,693,772,279	P554,066	3,693,772,279	P554,066	3,693,772,279	P554,066

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 stocks 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 million and additional paid-in capital of P1.2 billion, net of P138 million transaction cost that is accounted for as a reduction in equity.

The Company has approximately 657 and 638 holders of each class of common equity securities with the PCD Nominee Corporation (Filipino) and (Non-Filipino) considered as two holders as of June 30, 2010 and 2009, respectively, based on the number of accounts registered with the Stock Transfer Agent.

## 26. Retained Earnings

The BOD approved several declarations of cash dividends amounting to P554 million in 2010, P369 million in 2009 and P400 million in 2007. There were no cash dividends declarations in 2008. Details of the declarations are as follows:

<b>Date of Declaration</b>	<b>Dividend Per Share</b>	<b>Payable to Stockholders of Record as of</b>	<b>Date of Payment</b>
June 21, 2007	P0.12	June 21, 2007	August 20, 2007
September 30, 2008	0.10	October 15, 2008	November 7, 2008
September 30, 2009	0.15	October 15, 2009	October 29, 2009

The Company has dividend policy to declare dividends to stockholders of record, which are paid from unrestricted retained earnings. Any future dividends it pays will be at the discretion of the BOD after taking into account the Company's earnings, cash flow, financial position, capital and operating progress, and other factors as the BOD may consider relevant. Subject to the foregoing, the policy is to pay up to 50% of the annual net income as dividends. This policy may be subject to future revisions.

## 27. Commitments and Contingencies

### a. Leases

#### ▪ *Operating Leases*

The Company leases, from third parties and NRC, certain parcels of land where its bottling plants and warehouses are located for a period of one to twenty-five years and are renewable for another one to twenty-five years. None of these leases includes contingent rentals. Rent expense pertaining to these leased properties amounted to P69 million in 2010, P73 million in 2009, and P69 million in 2008 (see Notes 14, 16, 17 and 18).

Future minimum lease payments under such noncancelable operating leases are as follows:

	2010	2009	2008
Less than one year	P64,441	P63,803	P74,020
Between one and five years	201,375	204,332	239,534
More than five years	188,186	197,321	227,138
	P454,002	P465,456	P540,692

#### ▪ *Finance Lease*

The Company has lease agreements covering certain pallets and power generation facilities in one of its plants for periods ranging from 5 to 10 years. Future minimum lease payments and their present value are as follows:

	2010		2009		Present value of minimum lease payments
	Future minimum lease payments	Interest	Future minimum lease payments	Interest	
Less than one year	P26,521	P538	P16,156	P877	P15,279
Between one and five years	84,558	15,274	91,477	22,003	69,474
More than five years	136,351	5,760	-	-	-
	P247,430	P21,572	P107,633	P22,880	P84,753

The current portion of the present value of minimum lease obligations which is included under "Accounts payable and accrued expense" account in the statements of financial position amounted to P27 million and P16 million as of June 30, 2010 and 2009, respectively, while the noncurrent portion which is included under "Other noncurrent liabilities" account in the statements of financial position amounted to P69 million and P70 million as of June 30, 2010 and 2009, respectively.

The lease agreement on the power generation facilities has not yet commenced and the Company is expecting to use the said facilities next fiscal year, thus, no assets and liabilities have been recognized as of June 30, 2010.

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 of June 30, 2010 and 2009.

- b. The Company is a party to a number of lawsuits and claims relating to tax, labor and other issues arising out of the normal course of its business. Management and its tax and legal counsels believe that the outcome of these lawsuits and claims will not materially affect the financial position, financial performance or liquidity of the Company.



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Branches - Subic - Cebu - Bacolod - Iloilo

PRC-BOA Registration No. 0003  
SEC Accreditation No. 0004-FR-2  
BSP Accredited

## REPORT OF INDEPENDENT AUDITORS

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying financial statements of Pepsi-Cola Products Philippines, Inc. included in this Form 17-A and have issued our report thereon dated September 9, 2010.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules A to K (collectively referred to as "Schedules"), as listed in the Index to Financial Statements and Supplementary Schedules, are the responsibility of the Company's management. These Schedules are presented for purposes of complying with the Securities Regulation Code Rule 68.1 and are not part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial statements data required to be set forth therein in relation to the basic financial statements taken as a whole.

**MANABAT SANAGUSTIN & CO., CPAs**



EMERALD ANNE C. BAGNES

Partner

CPA License No. 0083761

SEC Accreditation No. 0312-AR-1

Tax Identification No. 102-082-332

BIR Accreditation No. 08-001987-12-2010

Issued June 30, 2010; Valid until June 29, 2013

PTR No. 2092690MB

Issued January 7, 2010 at Makati City

September 9, 2010  
Makati City, Metro Manila

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

Km. 29, National Road  
Tunasan, Muntinlupa City

**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION**

Unappropriated Retained Earnings, <i>as adjusted to</i> <i>available for dividend distribution, beginning</i>	P3,957,234
<b>Add: Net income actually earned/realized during the period</b>	<b>738,676</b>
Net income during the period closed to Retained Earnings	
Less: Non actual/unrealized income net of tax	
Equity in net earnings of associates	(2,265)
Unrealized foreign exchange gain - net	-
Unrealized actuarial gain	-
Fair value adjustment (M2M Gains)	-
Fair value adjustment of investment property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP -gain	-
Other unrealized gains or adjustments to retained earnings as a result of certain transactions accounted for under PFRS	-
<b>Subtotal</b>	<b>4,693,645</b>
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP -loss	-
Loss on fair value adjustment of investment property (after tax)	-
<b>Net income actually earned during the period</b>	<b>4,693,645</b>
Add(less):	
Dividend Declaration during the period	(554,066)
Appropriation of Retained Earnings during the period	-
Reversals of Appropriation	-
Effects of prior period adjustments	-
Treasury shares	-
<b>Total Retained Earnings, End - Available for Dividend</b>	<b><u><u>P4,139,579</u></u></b>

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

**Schedule A. Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)**

Name of Issuing entity and association of each issue (1)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (2)	Valued based on market quotation at balance sheet date (3)	Income received and accrued
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NOT APPLICABLE

PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties).

Name and Designation of debtor (1)	Balance at beginning of period	Additions	Amounts collected (2)	Amounts written off (3)	Current	Not Current	Balance at end of period
PepsiCo Int'l	26,717,280	578,971,149	(600,490,152)		5,198,277		5,198,277
Nadeco Realty Corp.	87,433,098	76,654,022	(7,200,103)		156,887,017		156,887,017
Nadeco Holdings Corp.	2,303,874	778,174	(82,201)		2,999,847		2,999,847
Employees	2,740,846	56,833,359	(55,404,011)		4,170,194		4,170,194
<b>Totals</b>	<b>119,195,098</b>	<b>713,236,704</b>	<b>(663,176,467)</b>		<b>169,255,335</b>		<b>169,255,335</b>



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

**Schedule C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments**

Name of Issuing entity and description of investment (1)	Number of shares (2) or principal amount of bonds and notes	Amount in Pesos	Equity in earnings (losses of investees (3) for the period	Other (4)	Distribution of earnings by investees	Other (5)	Number of shares (2) or principal	Amount in Pesos (7)	Dividends received from
Nadeco Realty Corporation	22,000,000	527,347,911	2,127,345	-	-	-	-	529,475,256	-
Nadeco Holdings	400	375,373	137,725	-	-	-	-	513,098	-
<b>Totals</b>	<b>22,000,400</b>	<b>527,723,284</b>	<b>2,265,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>529,988,354</b>	<b>-</b>

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**Schedule D. Indebtedness of Unconsolidated Subsidiaries and Affiliates**

Name of Affiliates (1)	Balance at beginning of period	Balance at end of period (2)

NOT APPLICABLE

PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule E. Property, Plant and Equipment (1)

Classification (2)	Beginning balance	Additions at cost (3)	Retirements (4)	Transfers - additions (deductions) (5)	Ending balance
Machinery and Other Equipment	7,092,528,181	372,010,409	(113,509,940)		7,351,028,650
Buildings and Leasehold Improvements	782,674,864	75,343,023	(70,340)		837,947,547
Construction in Progress	33,312,464	230,574,981	-		263,887,445
Furniture and Fixtures	29,092,201	1,814,688	(304,586)		30,602,303
<b>Totals</b>	<b>7,917,607,710</b>	<b>679,743,101</b>	<b>(113,884,866)</b>	<b>-</b>	<b>8,483,465,945</b>

PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule F. Accumulated Depreciation

Description (1)	Beginning Balance	Additions charged to costs and expenses	Retirements	Other charges - Add (deduct) describe	Ending balances
Machinery and Other Equipment	4,299,565,356	534,545,966	(104,740,859)		4,729,470,463
Buildings and Leashold Improvements	440,101,332	47,375,227	(35,633)		487,440,926
Furniture and Fixtures	21,939,665	1,272,072	(304,585)		22,907,152
Totals	4,761,606,353	583,293,265	(105,081,077)	-	5,239,818,541

PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule G. Intangible Assets - Other Assets

Description (1)	Beginning balance	Additions at cost (2)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Other Assets						
Ice fixed assets - net	550,062				(4,500)	545,562
Input tax on capital goods	110,984,130				(36,028,122)	74,956,008
Miscellaneous investments and dep	31,605,808				1,081,956	32,687,766
Miscellaneous receivables - long term	331,329				(190,722)	141,107
Miscellaneous assets	469,305				-	469,305
Totals	143,941,134	-	-	-	(35,141,386)	108,799,748

PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule H. Long Term Debt

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
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NOT APPLICABLE

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**Schedule I. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)**

Name of affiliate (1)	Balance at beginning of period	Balance at end of period (2)
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NOT APPLICABLE

PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule J. Guarantees of Securities of Other Issuers(1)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (2)	Amount owned by person for which statement is filed	Nature of guarantee (3)
NOT APPLICABLE				



PEPSI-COLA PRODUCTS PHILIPPINES, INC.  
 Schedule K. Capital Stock (1)

Title of issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common Shares	5,000,000,000	3,693,772,279	-	3,596,189,171	20,430,008	77,153,100
Totals	5,000,000,000	3,693,772,279	-	3,596,189,171	20,430,008	77,153,100

# 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)

**Honeylin C. Castolo**

Contact Person

**865-6365**

Company Telephone Number

0	6
---	---

Month  
Fiscal Year

3	0
---	---

Day

**SEC Form 17-A**

FORM TYPE

Any date in  
**October**

Month Date  
Annual Meeting

--	--	--	--	--

Secondary License Type, If Applicable

C	F	D
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Dept. Requiring this Doc.

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Amended Article Number/Section

Total Amount of Borrowings

--

Total No. of Stockholders

--

Domestic

--

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

\_\_\_\_\_ Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended 30 June 2010
2. SEC 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 principal office: Km. 29 National Road, Tunasan, Muntinlupa City Postal Code: 1773
8. Issuer's telephone number, including area code: (632) 850-7901 to 20
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 SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding as of June 30, 2008
<b>Common Shares of Stock</b>	<b>3,693,772,279</b>

11. Are any or all of these securities listed on a Stock Exchange?  
Yes  No

If yes, state the name of such stock exchange and the classes of securities listed therein:  
**Philippine Stock Exchange - Common Shares of Stock**

12. Check whether the issue:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 that the registrant was required to file such reports);  
Yes  No
- (b) The Registrant has been subject to such filing requirements for the past ninety (90) days.  
Yes  No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

Aggregate market value of the voting stock held by non-affiliates of the registrant - P3,752 million as of August 31, 2010.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

14. The following documents are incorporated in this report:

- (a) 2010 Audited Financial Statements attached as Exhibit I hereof; and
- (b) Statement of Management Responsibility attached as Exhibit II hereof.

## PART I – BUSINESS AND GENERAL INFORMATION

### ITEM 1. BUSINESS

#### (1) Business Development

##### a. Form and Date of Organization

The Company was registered with the Philippine Securities and Exchange Commission on March 8, 1989, primarily to engage in manufacturing, sales and distribution of carbonated soft-drinks and non-carbonated beverages to retail, wholesale, restaurants and bar trades. The registered office address and principal place of business of the Company is Km. 29, National Road, Tunasan, Muntinlupa City.

##### b. Bankruptcy, Receivership or Similar Proceedings

The Company and its associate are not involved in any bankruptcy, receivership or similar proceedings.

##### c. Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years

The Company and its associate have not made any material reclassifications nor entered into a merger, consolidation or purchase or sale of significant amount of assets (not ordinary) in the past three years.

#### (2) Business of Issue

##### a. Principal products

The Company is a licensed bottler of PepsiCo and Pepsi Lipton beverages in the Philippines. It manufactures a range of carbonated soft drinks and non-carbonated beverages that includes well-known brands Pepsi-Cola, 7Up, Mountain Dew, Mirinda, Gatorade, Tropicana/Twister, Lipton, Sting and Propel.

Net Sales	2010	2009	2008
Carbonated soft drinks	₱ 11,469	₱ 10,594	₱ 10,405
Non-carbonated beverages	4,660	3,638	2,576
Total	₱ 16,129	₱ 14,232	₱ 12,981

Segment result*	2010	2009	2008
Carbonated soft drinks	₱ 2,994	₱ 3,118	₱ 3,292
Non-carbonated beverages	1,217	1,071	815
Total	₱ 4,211	₱ 4,189	₱ 4,107

\* Segment result is the difference between net sales and segment expenses. Segment expenses are allocated based on the percentage of each reportable segment's net sales over the total net sales.

##### b. Foreign sales

Foreign sales represent 0.28%, 0.26%, and 0.40% of total net sales in 2010, 2009, and 2008 respectively.

c. Distribution methods of the products

The Company's sales volumes depend on the reach of its distribution network. It increases the reach of distribution system by adding routes and increasing penetration by adding outlets on existing routes that currently do not stock its products. It relies on a number of channels to reach retail outlets, including direct sales, distributors and wholesalers.

The backbone of the distribution system is what is referred to as "Entrepreneurial Distribution System," which consists of independent contractors who service one or more sales "routes," usually by truck, selling directly to retail outlets and collecting empty returnable bottles (RGBs).

It also employs its own sales force, which principally sells to what is referred to as the "modern trade" channel, consisting largely of supermarkets and restaurant and convenience store chains. Most of these sales are credit sales that are fulfilled by third party distributors. In addition, it sells products to third party wholesalers and distributors, which sell them to retail outlets.

An important aspect of the distribution system is the infrastructure-intensive process of selling and delivering RGB products to many thousands of small retailers, including sari-sari stores and carinderias. The efforts to increase the reach of our distribution network require significant investments in distribution infrastructure such as additional trucks, refrigeration equipment, warehouse space and a larger "float" of glass bottles and plastic shells, as well as higher costs for additional sales and distribution staff.

d. Publicly-announced new product

The Company has no publicly-announced new products that are in the planning or prototype stage.

e. Competition

The beverage market in the Philippines is highly competitive. Competition is primarily through advertising and marketing programs that create brand awareness, price and price promotions, new product development, distribution and availability, packaging and customer goodwill.

Competitors in the carbonated soft drinks (CSD) market are The Coca-Cola Company, Asiadew Refreshments Corporation, and Asia Brewery Incorporated. The substantial investment in multiple plants, distribution infrastructure and systems and the float of RGBs and plastic shells required to operate a nationwide beverage business using RGBs represent a significant barrier to potential competitors in widening their reach.

The market for non-carbonated beverages (NCB) is more fragmented. Major competitors in this market are The Coca-Cola Company, San Miguel Corporation, Universal Robina Corporation, Zesto Corporation, among others. In recent years, the market has been relatively fluid, with frequent product launches and shifting consumer preferences. These trends are expected to continue.

f. Sources and availability of raw materials

Over half of total costs comprise purchases of raw materials. Largest purchases are sugar and beverage concentrates. The Company purchases all sugar requirements domestically because of import restrictions imposed by the Philippine government. It purchases beverage concentrates from PepsiCo, Inc. ("PepsiCo") and Pepsi Lipton International Limited ("Pepsi Lipton") at prices that are fixed as a percentage of the wholesale prices charged for the finished products, subject to a price floor in U.S. dollars.

Another substantial cost is packaging. The major components of this expense are purchases of PET pre-forms, which are converted into PET bottles at the plants, non-reusable glass bottles, aluminum cans and closures. It also makes regular purchases of RGBs to maintain float at appropriate levels. Purchases of each of these materials are from suppliers based in the Philippines and in other parts of Asia, usually under short term, fixed price contracts.

g. Customers

The Company has a broad customer base nationwide. Its customers include supermarkets, convenience stores, bars, sari-sari stores and carinderias.

h. Transactions with and/or Dependence on Related Parties

Please refer to Item 13 of this report.

i. Patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements

The Company does not own any intellectual property that is material to the business. Under the Exclusive Bottling Agreements, the Company is authorized to use brands and the associated trademarks owned by PepsiCo, Inc., and, in the case of the Lipton brand and trademarks, Unilever N.V. Trademark licenses are registered with the Philippine Intellectual Property Office. Certificates of Registration filed after January 1998 are effective for a period of 10 years from the registration date unless sooner cancelled, while those filed before January 1998 are effective for 20 years from the registration date. The table below summarizes most of the current Certificates of Registration as well as pending applications for Lipton Iced Tea.

	Filing Date	Expiration
Pepsi Max	February 7, 1994	June 23, 2020
1996 Pepsi Logo in Color	August 26, 1997	April 16, 2021
PCPPI – Pepsi Cola Products Philippines, Inc. and Logo	August 26, 2008	September 17, 2019
Pepsi	October 18, 2004	February 19, 2017
Mirinda	January 23, 1986	May 10, 2019
Mountain Dew	June 5, 2000	January 18, 2014
Mountain Dew Logo	June 5, 2000	October 30, 2014
Diet 7Up Logo in Color	September 22, 2003	August 28, 2015
7Up	February 26, 2007	November 5, 2017
Gatorade	November 27, 1992	June 29, 2015
Gatorade and lightning bolt design	February 9, 2004	August 28, 2015
Propel	August 23, 2002	January 17, 2015
Tropicana Twister	December 6, 1990	August 18, 2013
Tropicana	December 14, 1982	January 14, 2020
Sting	March 10, 2006	June 18, 2017
Lipton	March 28, 2003	June 8, 2016
Lipton Splash design	December 18, 2003	May 28, 2017
Lipton Ice Tea Logo in Color	November 17, 2006	Pending application

The Company produces its products under licenses from PepsiCo and Pepsi Lipton and depends upon them to provide concentrates and access to new products. Thus, if the Exclusive Bottling Agreements are suspended, terminated or not renewed for any reason, it would have a material adverse effect on the business and financial results.

Refer to Item 13 of this report for details on transactions with PepsiCo and Pepsi Lipton.

j. Government approvals of principal products

j. Government approvals of principal products

As a producer of beverages for human consumption, the Company is subject to the regulation by the Bureau of Food and Drugs (BFAD) of the Philippines, which is the policy formulation and monitoring arm of the Department of Health of the Philippines on matters pertaining to food and the formulation of rules, regulations, standards and minimum guidelines on the safety and quality of food and food products as well as the branding and labeling requirements for these products.

It is the Company's policy to register all locally-produced products for local market distribution. Each of the plants has a valid and current License to Operate as a Food Manufacturer of Non-Alcoholic Beverages from BFAD. These licenses are renewed annually in accordance with applicable regulations. Any finding and gaps found during the regulatory audit and inspection are thoroughly discussed with BFAD inspectors and compliance commitments are re-issued. There are no pending findings of gaps that are material or that may materially affect the operation of each plant or all the plants as a whole.

The Company is also registered as a Distributor and Exporter of finished products. It has been recognized by BFAD as a Good Manufacturing Practice Certified Plant.

k. Effect of existing or probable governmental regulations on the business

The Company's production facilities are subject to environmental regulation under a variety of national and local laws and regulations, which, in particular, control the emissions of air pollutants, water, and noise. It is regulated by two major government agencies, namely, the Department of Environment and Natural Resources (DENR) and the Laguna Lake Development Authority (LLDA).

The Company is compliant with environmental laws and regulations, such as the wastewater treatment plants as required by the Department of Environment and Natural Resources and Laguna Lake Development Authority.

While the foregoing agencies actively monitor the Company's compliance with environmental regulations as well as investigate complaints brought by the public, it is required to police its own compliance and prevent any incident that could expose the Company to fines, civil or even criminal sanctions, considerable capital and other costs and expense for refurbishing or upgrading environmental compliance system and resources, third party liability such as clean-ups, injury to communities and individuals, including, loss of life.

l. Research and development

The research and development costs amounted to ₱317,460, ₱233,293, and ₱177,500 in fiscal years 2010, 2009, and 2008, respectively.

m. Costs and effects of compliance with environmental laws

Compliance with all applicable environmental laws and regulations, such as the Environmental Impact Statement System, the Pollution Control Law, the Laguna Lake Development Authority Act of 1966, the Clean Air Act, and the Solid Waste Management Act has not had, and in the Company's opinion, is not expected to have a material effect on the capital expenditures, earnings or competitive position. Annually, it invests about ₱39 million and ₱33 million in wastewater treatment and air pollution abatement, respectively, in its facilities.



n. Employees

As of June 30, 2010, the Company employs approximately 2,560 people. In addition, it generally deploys between 1,500 and 1,950 casual employees working in the business at any time. It contracts with DOLE accredited third party manpower and services firms for the supply of casual staff. The number of casual employees it requires varies seasonally, with generally higher numbers during peak months of March through June. As of June 30, 2010, it had 1,936 casual employees.

All of the permanent production employees at the bottling plants and sales offices are represented by a union. The Company is a party to 14 collective bargaining agreements, with separate agreements for the sales and the non-sales forces in some cases. The collective bargaining agreements contain economic and non-economic provisions (such as salary increase and performance incentive, sale commission, laundry allowance, per diem, bereavement assistance, union leave, calamity loan, and assistance to employees' cooperative), which generally have a term of three years and remain binding on the successors-in-interest of the parties, while the representation aspect is valid for five years.

The Company believes that the relationship with both unionized and non-unionized employees is healthy. It has not experienced any work stoppages due to industrial disputes since 1999.

It places significant emphasis on training personnel to increase their skill levels, ensure consistent application of procedures and to instill an appreciation of corporate values. It operates "Pepsi University," a full-time training facility consisting of four classrooms. It has adopted a compensation policy which it believes to be competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new employees. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives.

The Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular and full time employees. The Company has a Retirement Committee 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 using the projected unit credit method.

o. Major Risks

Sales and profitability are affected by the overall performance of the Philippine economy, the natural seasonality of sales, the competitive environment of the beverage market in the Philippines, as well as changes in cost structures, among other factors.

Sales volume are also affected by the weather, generally being higher in the hot, dry months from March through June and lower during the wetter monsoon months of July through October. In addition, the Philippines is exposed to risk of typhoons during the monsoon period. Typhoons usually result in substantially reduced sales in the affected area, and have, in the past, interrupted production at the plants in affected areas. While these factors lead to a natural seasonality in sales, unseasonable weather could also significantly affect sales and profitability compared to previous comparable periods. Sales during the Christmas/New Year holiday period in late December tend to be higher as well.

The CSD and NCB markets are both highly competitive. The actions of competitors as well as the Company's own continuous efforts on pricing, marketing, promotions, and new product development affect sales. Some of the smaller competitors have lower cost bases than the Corporation and price their products lower than ours. Thus, in addition to the cost of producing and distributing our beverages, sales prices are greatly affected by the availability and price of competing brands in the market.

All of the Company's sales are denominated in Philippine pesos. However, some of the significant costs, such as purchases of packaging materials, are denominated in United States dollars. Some of the other costs, which are incurred in Philippine pesos, can also be affected by fluctuations in the exchange rate between the Philippine peso and United States dollars. As a result, movements in the exchange rate between Philippine pesos and other currencies can have a significant effect on the results of operations.

The business requires a significant supply of raw materials and energy. The cost and supply of these materials could be adversely affected by changes in the world market prices on sugar, crude oil, aluminum, tin, PET resins, among others. Although direct purchases of fuel are relatively small as a proportion of total costs, the Company is exposed to fluctuations in the price of oil through the dependence on freight and delivery services. Changes in materials prices generally affect the competitors as well.

Margins differ between beverage products and package types and sizes. Excluding packaging, production costs are similar across the range of carbonated beverages, but vary between non-carbonated beverages. Packaging costs vary, with RGBs being less expensive than PET, aluminum cans or non-returnable glass. The incremental cost of producing larger-sized serves in the same package type is proportionately lower than the increased volume, creating opportunities to achieve higher margins where customers perceive value in terms of volume.

As a result of the factors discussed above, the margins the Company earns on the products can be substantially different, and the margins can change in both absolute and relative terms from period to period. While the Company attempts to adjust its product and package mix to maximize profitability, changes in consumer demand and the competitive landscape can have a significant impact on mix and therefore profitability.

The Company is also subject to credit risk, liquidity risk and various market risks, including risks from changes in commodity prices, interest rates and currency exchange rates (refer to Notes 4 and 23 of the 2010 Audited Financial Statements for discussion on Financial Risk Management).

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. 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.

## **ITEM 2. PROPERTIES**

As a foreign-owned company, the Company is not permitted to own land in the Philippines and has no intention to acquire real estate property. Hence, it leases the land on which the bottling plants, warehouses and sales offices are located.

The Company leases certain parcels of land where its bottling plants and warehouses are located from third parties and Nadeco Realty Corporation for a period of one to 25 years and are renewable for another one to 25 years (refer to Note 27 of the 2010 Audited Financial Statements for further information on the leases).

Other than the buildings, leasehold improvements, machinery and equipment, fixtures and appurtenances disclosed in Note 10 to the 2010 Audited Financial Statements, and the investments in shares of stocks disclosed in Note 8 to the 2010 Audited Financial Statements, the Company does not hold significant properties.

Refer to Notes 7 (Inventories), 9 (Bottles and Cases), 10 (Property, Plant and Equipment), and 11 (Notes Payables) to the 2010 Audited Financial Statements for details on mortgage, lien or encumbrances over the properties of the Company and its associate.

### ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company becomes a party to litigation in the ordinary course of its business. The majority of the cases in which the Company is a party are cases it files to recover debts in relation to unpaid receivables by trade partners or in relation to cash or route shortages, private criminal prosecutions that it brings (generally for low value offenses such as theft of product or distribution equipment, fraud, and bouncing checks), labor cases for alleged illegal dismissal (which are usually accompanied by demands for reinstatement in the Company without loss of seniority rights, and payment of back wages), and consumer cases brought against the Company involving allegations of defective products.

As a result of a promotion in 1992, civil cases were filed against the Company in which thousands of individuals claimed to hold numbered bottle crowns that entitled them to a cash prize. The Philippine Supreme Court has consistently held in at least 7 final and executory decisions in the last 5 years that the Company is not liable to pay the amounts claimed. In the most recent of these decisions, the Supreme Court dismissed a similar claim, reiterating that it is bound by its pronouncement in a number of cases involving this promotion. By virtue of the precedential effect of the decided cases, the Company expects the remaining cases to be dismissed in due course.

The Company does not believe that the litigation in which the Company is currently involved or which is presently pending or threatened is material, either individually or in the aggregate. The Company has not been involved in any bankruptcy, receivership or other similar proceedings.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no matter submitted during the 4<sup>th</sup> quarter of the fiscal year covered by this report to a vote of security holders, through solicitation of proxies or otherwise.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Market Information

The common shares were listed with the Philippine Stock Exchange ("PSE") on February 1, 2008. The high and low sales prices of such shares for 2010 and 2009 are set out below.

Period	High	Low
July to Sept 2008	P2.46	P1.96
Oct to December 2008	P2.00	P0.64
Jan to March 2009	P0.99	P0.84
April to June 2009	P1.50	P0.90
July to Sept 2009	P2.46	P1.32
Oct to December 2009	P2.50	P2.00
Jan to March 2010	P2.70	P2.02
April to June 2010	P3.05	P2.46

The closing share price as of September 1, 2010 was P2.77

### Stockholders

The Company has approximately 657 holders of common shares [with the PCD Nominee Corporation (Filipino) and (Non-Filipino) considered as two holders] as of June 30, 2010 based on the number of accounts registered with the Stock Transfer Agent.

The following are the top 20 holders of common shares based on the report furnished by the Stock Transfer Agent as of June 30, 2010.

NO.	Name	Number of Shares Held	Percentage of Ownership
1	PCD NOMINEE CORP (NON-FILIPINO)	1,574,666,897	42.63%
2	QUAKER GLOBAL INVESTMENTS B.V.	1,089,101,358	29.48%
3	PCD NOMINEE CORP. (FILIPINO)	932,907,916	25.26%
4	ORION LAND INC.	70,000,000	1.90%
5	YONG MICKY	20,000,001	0.54%
6	BORROMEO, JOSEPH MARTIN H.	450,000	0.01%
7	M. J. SORIANO TRADING INC.	450,000	0.01%
8	YAN, LUCIO W.	300,000	0.01%
9	MADARANG, WINEFREDA O.	250,000	0.01%
12	LUGTI, VALERIANO A.	220,000	0.01%
10	DABAO, LUIS G.	200,000	0.01%
11	BLANCAVER, RENE B.	182,000	0.00%
13	YU, FELIX S.	149,998	0.00%
14	MERCHAN BERNARDO	140,000	0.00%
15	SORIANO, VICTOR MARTIN J.	130,000	0.00%
16	IGNACIO, JUANITO R.	100,000	0.00%
17	NARCISO, MA CELESTE S	100,000	0.00%
18	PINEDA, MA. CORAZON V.	100,000	0.00%
19	UMALI, JOSE I.	100,000	0.00%
20	PINEDA, YZRAEL EDWIN DE VERA	89,000	0.00%

### Cash Dividends

The Board of Directors (BOD) approved several declarations of cash dividends amounting to ₱554 million in fiscal year 2010, ₱369 million in fiscal year 2009 and ₱400 million in fiscal year 2007. There were no cash dividends declarations in fiscal year 2008. Details of the declarations are as follows:

Date of Declaration	Dividend Per Share	Payable to Stockholders of Record as of	Date of Payment
June 21, 2007	₱0.12	June 21, 2007	August 20, 2007
September 30, 2008	0.10	October 15, 2008	November 7, 2008
September 30, 2009	0.15	October 15, 2009	October 29, 2009

### Dividend Policy

The Company has a dividend policy to declare dividends to stockholders of record, which are paid from the unrestricted retained earnings. Any future dividends it pays will be at the discretion of the BOD after taking into account the earnings, cash flow, financial position, capital and operating progress, and other factors as the BOD may consider relevant. Subject to the foregoing, the present policy is to pay cash dividends up to 50% of annual net income. This policy may be subject to future revisions.

Cash dividends are subject to approval by the BOD without need for stockholders' approval. Stock dividends require the further approval of the stockholders representing no less than 2/3 of our outstanding capital stock.

**Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction**

There has been no recent sale of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

**PART III – FINANCIAL INFORMATION**

**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

**RESULTS OF OPERATIONS - fiscal 2010 versus 2009**

The Company delivered a strong, milestone year in terms of top-line sales. It continued its focus on driving the growing NCB market and maintaining CSD share through continuing the strategic agenda to drive affordability and availability across the Philippines. Net sales increased by 13.3% from 2009 and have nearly doubled from five years ago, an impressive feat given the aggressive competition and marketplace challenges.

The sales surge was led by NCBs, posting an impressive 28% in revenue growth. With this development, NCB share in the revenue mix grew from 26% to 29%, which is in line with the strategy to fully embrace the health and wellness trend. CSDs also presented a strong 8% in revenue growth, surpassing the last 7 years growth in this market. The strong CSD sales were buoyed by the national elections and the hot weather.

The impressive sales numbers however were tempered by rising sugar prices, which increased by 22%. In 2009, sugar prices rose to a 35-year high as rain damaged crops in Brazil, the largest producer, and dry weather curbed output in India, the second-largest supplier. As supply slowed and demand continued to rise, the inventory reserves of many countries, including the Philippines, became depleted resulting to higher sugar prices and significantly affecting sugar-dependent food and beverage industries.

Despite this acute development, gross profit remained steady at P4.21 billion compared to last year's gross profit of P4.19 billion, while operating income slipped to P996 million compared to last year's figure of P1.1 billion. EBITDA likewise remained steady at P2.2 billion versus year ago figure of P2.2 billion, while EBIT dropped to P1.04 billion versus year ago figure of P1.2 billion, weighed down by higher depreciation and amortization resulting from recent expansion programs.

Management was able to mitigate the rise in sugar prices in part by continuing to successfully control and reduce operating expenses from 24% and 21% of sales in 2008 and 2009, respectively, to 20% in 2010. Notable reductions are in the area of selling and distribution expenses (from 13% of sales in 2009 to 12% in 2010) where management's rationalization and re-engineering programs have managed to deliver superior service at much lower cost.

Marketing expenses as a percentage of sales were likewise lower (from 4% of sales in 2009 to 3% of sales in 2010). Focused marketing anchored on strategically targeted programs resulted in sales increases amidst modest marketing spending. General administrative expenses remained steady at 4% of sales in 2010 and 2009, showing a firm-wide effort to manage the controllable variables in the income statement. The Company's continued efforts to drive top-line growth, while maintaining tight cost control will be the sustaining force in the years to come.

## RESULTS OF OPERATIONS – fiscal 2009 versus 2008

Fiscal year 2009 registered a healthy 5% growth in net income and 19% growth in operating income over year ago level. It maintained profitability, with EBITDA margin of 16%, EBIT margin of 8%, and Net Income margin of 6%. The corresponding numbers for fiscal year 2008 are 15%, 8% and 6%, respectively.

Net sales growth of 9.6% is driven mainly by growth in NCB brands such as Sting, Tropicana and Gatorade as well as CSD growth in flavors.

In line with its strategy of aggressively tapping the healthy growth prospects for NCB, with health and wellness as its platform and growing the business by targeting the broad CD mass market that still constitutes the majority of the Philippine population, the Company continues to expand its offering of beverage products to make NCB available to more Filipinos at affordable prices and convenient packaging. The Company has since completed the expansion projects in Cebu, San Fernando and Iloilo which made it possible to offer its NCB products in 8oz returnable glass bottles (RGB) all over the country.

The Company launched new product innovations such as Tropicana Summer Blends and Gatorade Tiger and came out with high impact new packaging formats such as Pepsi Max black long neck 500 ml PET, among other things in order to create buzz and bring excitement to the consumers as well as use packaging to communicate and have a dialogue with consumers. It also launched the highly successful Mountain Dew 750 ml RB to leverage the brand's strong pull in the trade.

The intensified competition from a crowded CSD market along with the challenge posed by low-priced brand compelled the Company to drop its prices. To counteract the adverse effect of a low price, commoditized cola segment on its profitability, the Company continues to maintain a healthy revenue mix resulting to a 3% higher average LRB prices.

The weak economy, high inflation and stiff competition caused undue pressure on revenues and costs. Gross profit margin dropped from 31.6% in 2008 to 29.4% in 2009 due to increased cost of inputs such as sugar, CO<sub>2</sub>, packaging materials, fuel, etc during the 1<sup>st</sup> half of the fiscal year as well as depressed CSD pricing brought about by intense competition. In spite of lower gross profit margin and higher manufacturing depreciation, gross profit grew by 1.9% due to volume growth.

On the other hand, operating income grew by 18.8% and operating income margin registered an improvement from 7.4% in 2008 to 8.0% in 2009 due to effective cost management. However, an increase in effective tax rate from 24.0% in 2008 to 32.3% in 2009 caused the net income margin to drop from 5.9% to 5.6%.

Operating expenses as a ratio to net sales decreased from 24.2% to 21.4% mainly due to decrease in marketing expenses by 21.7%. The decrease in marketing expenses as a percentage of net sales dropped from 5.1% to 3.7% and is due to targeted and prudent marketing spending program initiated by management in 2009.

As a percentage of net sales, selling and distribution (S&D) expenses decreased from 14.1% to 13.4%. In terms of absolute amount, S&D expenses increased by 4% as compared to a year ago level. The increase can be attributed mainly to volume growth as well as the Company's continued investment in its distribution infrastructure such as RGBs, plastic cases and in-store refrigeration equipment. These increases in S&D cost were offset by the savings on personnel, rental and utilities as a result of the rationalization of the number of its sales office as well as the effect of change in the estimated useful life of its marketing equipment from 5 years to 7 years.

General & administrative expenses decreased by 6% vs. year ago level. General and administrative expenses decreased from 5.0% to 4.3% of net sales. Significant cost savings were realized due to prudent cost management.

## FINANCIAL CONDITION AND LIQUIDITY

For the fiscal year 2010, the Company has strong operating cash flows, i.e. net cash provided by operating activities are substantially more than the net cash used in investing activities.

The Company's operations are cash intensive. This capability to generate cash is one of its greatest strengths. With its liquidity, the Company has substantial financial flexibility in varying operating policy in response to market demands, in meeting capital expenditures through internally generated funds and in providing the Company with a strong financial condition that gives it ready access to financing alternatives (refer to Note 4 to the 2010 Audited Financial Statements for a detailed discussion on the Company's revolving credit facilities as of June 30, 2010).

Credit sales over the past three years have changed from 62% of total sales in 2008 and 68% in 2009 to 64% in 2010. This reflects a shift from a direct distribution mode to a more efficient model of fostering partnership with distributors and multi-route Entrepreneurial Distribution System contractors as well as increase in Modern Trade business. Liquidity has remained healthy. Collection period improved from 30 days in 2008 and 27 days in 2009 to just 26 days in 2010. Inventory days have decreased from 12 days in 2008 and 10 days in 2009 to just 8 days in 2010, reflecting a more efficient inventory and production management. Trade payable days have remained at manageable levels.

Increase in current assets from P2,293 million as of June 2009 to P2,758 million as of June 2010 were due to the increase in cash and cash equivalents by P231 million, inventory by P122 million, receivables by P87 million, and due to related parties by P49 million. The increase in cash is due to the improved working capital management while the increases in receivables and inventories were in line with increase in sales volume.

Non-current assets decreased from P6,269 million as of June 2009 to P6,208 million as of June 2010 due to the decreased amount of Bottles and Cases (net of amortization) by P116 million as well as decrease in Other Non-Current assets by P35 million. These decreases were partially offset by the increase in Plant, Property & Equipment by P88 million as well as by the increase in Investments in Associates by P2 million. The increase in Plant, Property & Equipment, on the other hand, is largely due to the continued expansion of plant capacity.

Increase in current liabilities from P2,275 million as of June 2009 to P2,472 million as of June 2010 is mainly due to increase in Accounts Payable & Accrued Expenses by P344 million. The increase in Accounts Payable & Accrued Expenses is partially offset by the decreased amounts from Income Tax Payable by P98 million and Notes Payable by P50 million.

Non-Current Liabilities increased from P577 million as of June 2009 to P599 million as of June 2010 due to the increase in Deferred Tax Liabilities by P16 million and increase in Other Non-Current Liabilities by P6 million.

Total assets increased from P8,562 million as of June 2009 to P8,966 million as of June 2010 mainly due to the significant increase in current assets described above. Total liabilities increased from P2,852 million as of June 2009 to P3,071 million as of June 2010 mainly due to similar factors stated in increase in current liabilities. Total equity increased from P5,710 million to P5,894 million on account of net income of P738 million for the year less dividends of P554 million paid during the year.

## MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

Historically, the Company has sourced funding for capital expenditures essential to product innovation initiatives and maintaining operational capabilities through internally-generated funds and long-term borrowings. In recent years, it has met these requirements substantially out of operating cash flow, and has incurred only short-term debt to assist with temporary liquidity requirements. In January 2008, it had embarked on an IPO, with net proceeds of approximately P1.2 billion, to fund the expansion of NCB

business. As of June 2010, the IPO proceeds were fully utilized. The Company has completed the expansion projects of Cebu, San Fernando and Iloilo. Capital expenditure for fiscal year 2010 amounted to P1.127 billion.

**FACTORS THAT MAY IMPACT COMPANY'S OPERATIONS / SEASONALITY ASPECTS**

Refer to Item 1 (2) (o) on discussion of Major Risks.

**SIGNIFICANT ELEMENTS OF INCOME OR LOSS THAT DID NOT ARISE FROM CONTINUING OPERATIONS**

There was no income or losses arising from discontinued operations.

**ITEM 7. FINANCIAL STATEMENTS**

Please see Exhibit I hereof for the 2010 Audited Financial Statements.

**ITEM 8. INFORMATION ON INDEPENDENT ACCOUNTANT**

The Company has engaged the services of an independent Certified Public Accountant (CPA) to conduct an audit and provide objective assurance on the reasonableness of the financial statements and relevant disclosures. The independent CPA is responsible solely to the Board of Directors.

The appointment of the independent CPA is submitted to the Audit Committee, the Board of Directors and shareholders for approval. The representatives of the independent CPA are expected to be present during the Annual Stockholders' Meeting and have the opportunity to make a statement on the Company's financial statements and results of operations, as required or appropriate. They are also available to reply to queries during the said meeting. Upon request, the independent CPA can also be asked to attend meetings of the Audit Committee and the Board, to make presentations and reply to inquiries on matters relating to the Company's financial statements.

The Company has appointed Manabat Sanagustin & Co. as its independent CPA for the fiscal year 2010. Aside from audit services, it has also engaged Manabat Sanagustin & Co. to perform tax assurance services and render opinion on projects relating to the interpretation of tax laws, regulations and rulings.

Aggregate fees billed by the independent CPA for professional services in relation to: (i) the audit of the annual financial statements and services in connection with (a) statutory and regulatory filings, and (b) the initial public offering of the Company's shares; and (ii) tax accounting, compliance, advice, planning and any other form of tax services are summarized as follows:

	FY 2010	FY 2009	FY 2008
Statutory audit fees	₱ 3.68 million	₱ 3.50 million	₱ 3.40 million
IPO-related audit fees	-	-	15.70 million
Tax advice fees	-	0.33 million	0.25 million
<b>Total</b>	<b>₱ 3.68 million</b>	<b>₱ 3.83 million</b>	<b>₱ 19.35 million</b>

The Audit Committee of the Company reviews and approves the audit plan and scope of work for the above services and ensures that the rates are competitive as compared to the fees charged by other equally competent external auditors performing similar services.



**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There has been no change in the independent auditing firm or handling partner or disagreements with the independent CPA on matters relating to the application and interpretations of accounting principles or practices, tax laws and regulations, financial statement disclosures or audit scope and procedures during the three (3) most recent fiscal years.

**PART III – CONTROL AND COMPENSATION INFORMATION**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS**

**Term of office**

Directors elected during the annual meeting of the stockholders will hold office for one year until their successors are duly elected and qualified, except in case of death, resignation, disqualification or removal from office. Directors who were elected to fill any vacancy hold office only for the unexpired term of their predecessors.

**Directors**

The following are the names, ages, citizenship and year position was assumed, of our incumbent directors, including independent directors:

Name	Age	Citizenship	Year Position was Assumed
Micky Yong	63	Singaporean	1997
Sunil D'Souza	42	Indian	2009
James Eng, Jr.	68	American	2005
Tsang Cho Tai (Allan Tsang)	60	British	2005
John L. Sigalos	43	American	2009
Umrhan Beba	45	Turkish	2010
Qasim Khan	53	Pakistani	2008
Jose M. Periquet, Jr.	64	Filipino	2007
Rafael M. Alunan III*	62	Filipino	2007
Oscar S. Reyes*	64	Filipino	2007

\*Independent Director

### Executive Officers

The following are the names, ages, positions, citizenship and year position was assumed, of our incumbent executive officers:

Name	Age	Citizenship	Position	Year Position was Assumed
Micky Yong	63	Singaporean	Chairman, President and Chief Executive Officer	2002
Partha Chakrabarti	46	Indian	Executive Vice-President and Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing, and Logistics	2010
Felix S. Yu	61	Filipino	Executive Vice-President/ Chief Operating Officer for National Sales Operations	2010
Akash Shah	36	Canadian	Senior Vice-President and Chief Financial Officer	2010
Roberto H. Goce	56	Filipino	Senior Vice-President, Corporate Services Group	2008
Daniel D. Gregorio, Jr.	58	Filipino	Senior Vice-President for Manufacturing and Logistics	1998
Ma. Rosario C.Z. Nava	41	Filipino	Corporate Secretary and Compliance Officer	2007

### Background Information and Business Experience

#### Directors:

#### MICKY YONG

Mr. Yong has held the office of Chief Executive Officer of the Corporation since 2002, but he has been a director of the Corporation since the Guoco Group Limited and its subsidiaries ("Guoco Group") acquired its interest in the Corporation in 1997. Since 1989, Mr. Yong has served as President of Guoco Assets (Philippines), Inc., the Guoco Group's principal investment vehicle in the Philippines. Mr. Yong was the country manager and director of Dao Heng Bank Philippines and a director of First Lepanto-Taisho Insurance, Tutuban Properties Inc., Guoco Securities Philippines and several other corporations under the Guoco Group. Mr. Yong holds a Bachelor of Business Administration degree from the University of Singapore.

#### SUNIL D' SOUZA

Mr. D'Souza is Country Manager for the Philippines of PepsiCo. He has been with PepsiCo for the past 8 years and held the position of Sales Director for the Philippines prior to his current appointment. He holds a Bachelor of Engineering degree from the Pondicherry Engineering College, Pondicherry (University of Madras) and a management degree from the Indian Institute of Management in Calcutta.

#### JAMES ENG, JR.

Mr. Eng has been an Executive Director of the Guoco Group Limited since 2001. He is responsible for group staff support functions for the Guoco Group. Before he joined the Guoco Group in 1994, Mr. Eng previously worked with Hiram Walker, a division of Allied-Lyons. Postings included New York, Miami, London, Hong Kong and Windsor Canada. During his time with Brout, Issacs & Co., Certified Public Accountants, in New York City, he was responsible for the Management Services Division and was a Management Consultant in New York for Computer Methods Corporation. He holds a Bachelor of Business Administration degree from the University of North Carolina.

**TSANG CHO TAI (ALLAN TSANG)**

Mr. Tsang is the Chief Financial Officer of the Guoco Group Limited. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, as well as an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Tsang was an associate of an international firm of accountants before joining the Guoco Group in 1989.

**JOHN L. SIGALOS**

Mr. Sigalos is currently PepsiCo's Chief Financial Officer for the Asia-Pacific region. He has occupied a variety of positions in PepsiCo for the past 12 years, including being Chief Financial Officer of PepsiCo Thailand and Vice-President for Non-Carbonated Beverages in PepsiCo's China business unit. He holds an MBA from the Wharton School, University of Pennsylvania with dual major in Finance and Strategic Management and a Bachelor of Arts degree in East Asian studies (*Cum laude*) from Yale University.

**UMRAN BEBA**

Ms. Beba is currently PepsiCo's President for the Asia-Pacific region. She started her journey with PepsiCo in 1994 in the position of Commercial Director of Frito Lay in Istanbul, Turkey. Since then, she has occupied various senior management positions across South Eastern Europe. Ms. Beba holds an MBA and Bachelor of Science in Industrial Engineering both from the Bogazici University in Istanbul, Turkey.

**QASIM KHAN**

Mr. Khan has been connected with PepsiCo for the last 21 years and has occupied various executive and managerial roles in different regional offices of PepsiCo. He is currently the General Manager of PepsiCo's North Asia Pakistan Philippines Business Unit. Prior to joining PepsiCo, he worked for Procter & Gamble. He holds an MBA and Marketing degrees (with honors) from Michigan State University.

**JOSE M. PERIQUET, JR.**

Mr. Periquet is the President and the Chief Executive Officer of the Metropolitan Insurance Company, Inc., a position he has held since 1999 up to the present. He has been employed by Metropolitan Insurance since 1985, when he joined as Acting President and Manager. He joined AIG in New York in 1967 and was later assigned to AIU (Philippines), Inc. where he held the position of Senior Vice-President and Director. Mr. Periquet is also a director of MIC Holdings, Inc., Bradstock Insurance Brokers Inc. and the Athenaeum Condominium Corporation. Mr. Periquet holds a Bachelor's degree in Economics from Ateneo de Manila University and a Master's degree in Economics from Fordham University.

**RAFAEL M. ALUNAN III**

Mr. Alunan has had extensive experience in the private and public sectors. He is currently the President of Lopez Group Foundation Inc., a member of its Board and Boards of Lopez Group-related foundations. He also sits on the Boards of Sun Life of Canada (Philippines), Inc., Sun Life Financial Plans, Inc. and Sun Life Asset Management Company; and sits on various Board committees. Mr. Alunan is also on the Boards of the Asian Institute of Management and the University of St. La Salle. He is a regular columnist of Business World. Mr. Alunan obtained his double degree in Business Administration and History-Political Science from the De La Salle University, attended the Master's in Business Administration-Senior Executive Program, of the Ateneo de Manila University; and obtained a Master's degree in Public Administration from Harvard University, John F. Kennedy School of Government.

**OSCAR S. REYES**

Mr. Reyes was Country Chairman and President of Pilipinas Shell Petroleum Corporation for many years. He holds a Bachelor of Arts in Economics (*cum laude*) from Ateneo de Manila University and participated in the Program for Management Development at the Harvard Business School. He is currently the Senior Executive Vice President, Chief Operating Officer, and Director of the Manila Electric Company. He also serves as a director and a member of board committees in the boards of companies engaged in banking, insurance, telecommunications, water distribution, real estate, shipping and mining.

### **Executive Officers:**

#### **PARTHA CHAKRABARTI**

Mr. Chakrabarti has been employed by PepsiCo since 1994 and he remains a PepsiCo employee while holding his current position in PCPPI under a formal secondment agreement. He is currently PCPPI's Executive Vice-President/Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing, and Logistics. Mr. Chakrabarti began his career with PepsiCo India, where he held a number of positions before moving to Vietnam as Chief Financial Officer of PepsiCo's business there. Before joining PepsiCo, he worked for ICI India. He holds a Bachelor of Science degree in Commerce from the University of Calcutta and an associate of the Institute of Chartered Accountant of India.

#### **FELIX S. YU**

Mr. Yu is the Executive Vice-President/Chief Operating Officer for National Sales Operations of PCPPI. He joined the predecessor of PCPPI in 1983 and has served in various roles in sales and plant management. Prior to joining PCPPI, he worked for the CFC-URC Group of Companies and before that, Nestle Philippines. He holds a Bachelor of Science degree in Business Administration from De La Salle University.

#### **AKASH SHAH**

Mr. Shah is currently the Senior Vice-President and Chief Financial Officer of PCPPI under a secondment agreement from PepsiCo of which he remains an employee. He has been with PepsiCo since 2003 and has held various Finance positions in the Asia-Pacific Region, including China, Thailand, and across South East Asia. Prior to joining PepsiCo, he worked for A.T. Kearney, Inc in North America. He holds an MBA from INSEAD and a Bachelor of Commerce degree from Queen's University in Canada.

#### **ROBERTO H. GOCE**

Mr. Goce's background is in sales and logistics. Prior to joining PCPPI in 1997, he worked for San Miguel Corporation and before that, he held various positions in grains and fertilizer industries. His experience encompasses business planning, management and organization audits, and training and development. He holds a Bachelor of Science degree in Business Management from Ateneo de Manila University and is a founding member of the Distribution Management Association of the Philippines.

#### **DANIEL D. GREGORIO, JR.**

Mr. Gregorio began his career as a systems analyst for Coca-Cola Bottling Philippines, Inc. and rose to the position of Chief Accountant. In 1987, he moved to Indonesia as Country General Manager for Coca-Cola Amatil, the owner of the local Coca-Cola bottler. He holds a Bachelor of Science degree in Industrial Engineering.

#### **MA. ROSARIO C.Z. NAVA**

Ms. Nava is a practicing lawyer and a member of the Integrated Bar of the Philippines since 1995. She has been a director and the Corporate Secretary of Solectron Philippines, Inc. since 2005 and has been the Corporate Secretary of CPAC Monier Philippines, Inc. since 2004 and is also currently a director thereof. She was also a Director of Hewlett-Packard Philippines Corp. from 2001 to 2002, and re-elected in 2004 up to 2007, and was its Corporate Secretary from 2006 to 2007. She holds a Bachelor of Science degree in Legal Management with honors from Ateneo de Manila University and a Juris Doctor degree from the Ateneo de Manila Law School.

### **Resignation of Directors**

No Director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Annual Stockholders' Meeting due to any disagreement on any matter relating to our operations, policies or practices.

### Significant Employees and Family Relationships

No single person is expected to make a significant contribution to the business since the Company considers the collective efforts of all the employees as instrumental to the overall success of the business. The Company is not aware of any family relationship between or among the aforementioned Directors or Executive Officers up to the fourth civil degree.

Except for the payment of annual directors' fee and per diem allowance, the Company has not had any transaction during the last two (2) years in which any Director or Executive Officer had a direct or indirect interest.

### Involvement in Certain Legal Proceedings

None of the aforementioned Directors or Executive Officers is or has been involved in any criminal or bankruptcy proceeding, or is or has been subject to any judgment of a competent court barring or otherwise limiting his involvement in any type of business, or has been found to have violated any securities laws during the past 5 years and up to the latest date.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation of Directors and Executive Officers

The aggregate compensation paid in the fiscal years 2010, 2009, 2008, and 2007 to the following Executive Officers is set out in the table below:

1. Micky Yong – Chairman, President & Chief Executive Officer
2. Felix S. Yu – Executive Vice-President & Chief Operating Officer for National Sales Operations
3. Partha Chakrabarti – Executive Vice-President & Chief Operating Officer for Finance, Treasury, Human Resources/EIRC/Legal, Manufacturing and Logistics
4. Akash Shah – Senior Vice-President & Chief Financial Officer
5. Daniel D. Gregorio, Jr. – Senior Vice-President for Manufacturing & Logistics
6. Roberto H. Goce – Senior Vice-President, Corporate Services Group

Name	Position	Year	Basic compensation	Bonus	Others
Aggregate for above-named officers		2007	₱42,300,000	₱19,300,000	-
		2008	43,708,000	22,066,000	-
		2009	40,716,000	11,618,000	-
		2010	43,739,000	20,444,000	-
All other directors and officers as a group unnamed		2007	-	-	-
		2008	-	-	₱ 1,336,765*
		2009	-	-	3,352,941*
		2010	-	-	2,535,000*

\* This relates to per diem allowances and annual directors fee paid to the directors.

There are no special employment contracts between the Company and the above Executive Officers. Non-executive Directors are entitled to a per diem allowance of US\$1,000 for each attendance in the Corporation's Board meetings and committee meetings, except for Audit Committee meetings where the per diem allowance is US\$2,000. In addition, each Director are entitled to receive an annual directors' fee in the amount of ₱500,000. Seven of the Directors representing the Guoco Group and Quaker Global Investments B. V. have waived the per diem allowance as well as the annual directors' fee.

There are no outstanding warrants or options held by the above Executive Officers and all such officers and Directors as a group.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**  
**Security Ownership of Record and Beneficial Owners of at Least 5% of Our Securities as of June 30, 2010.**

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	Number of Shares Held	Percentage
Common shares	PCD Nominee Corporation (Non-Filipino) 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City Relationship – please refer to footnote	Please refer to footnote	Non-Filipino	1,574,666,897	42.6303%
Common shares	Quaker Global Investments B.V. <sup>4</sup> Zonnebaan 35, 3542 Eb Utrecht The Netherlands Relationship – stockholder	Same as indicated in column 2	Dutch	1,089,101,358	29.4848%
Common shares	Hong Way Holdings, Inc. <sup>3</sup> 30 <sup>th</sup> Floor, Burgundy Corporate Tower 252 Sen. Gil Puyat Avenue, Makati City Relationship Stockholder	Same as indicated in column 2	Singaporean	857,788,826	23.2226%
Common shares	PCD Nominee Corporation (Filipino) <sup>4</sup> 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City Relationship – please refer to footnote	Please refer to footnote	Filipino	932,907,916	25.2562%
Common shares	Guoco Assets (Philippines), Inc. <sup>5</sup> 30 <sup>th</sup> Floor, Burgundy Corporate Tower 252 Sen. Gil Puyat Avenue, Makati City Relationship – Stockholder	Same as indicated in column 2	Singaporean	255,594,962	6.9196%

<sup>1</sup> PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Central Depository, Inc. (PCD), a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. While PCD Nominee Corporation is the registered owner of the shares in the Corporation's books, the beneficial ownership of such shares pertains to PCD participants (brokers) and/or their non-Filipino clients, whether individuals or corporations, in whose names these shares are recorded in their respective books. Under PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, PCD will execute a pro-forma proxy in favor of the participants for the total number of shares in their respective principal securities account, as well as for the total number of shares in their client securities account. For shares held in the principal securities account, the participant is appointed as proxy with full voting rights and powers as registered owner of such shares. For shares held in the client securities account, the participant is appointed as proxy with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by them.

<sup>2</sup> Quaker Global Investments B.V. ("QGI") is a corporation duly organized and existing under and by virtue of the laws of the Netherlands with principal office at Zonnebaan 35, 3542 EB Utrecht, The Netherlands. QGI, through its Board of Directors, will designate Mr. Sunil D'Souza to vote its shares of stock in the Corporation.

<sup>3</sup> Hong Way Holdings, Inc. ("HWHI") is a corporation duly organized and existing under and by virtue of the laws of the Philippines with offices at the 30<sup>th</sup> Floor, Burgundy Corporate Tower, 252 Sen. Gil Puyat Avenue, Makati City. HWHI, through its Board of Directors, usually designates Mr. Micky Yong to vote its shares of stock in the Corporation.

<sup>4</sup> Same as footnote 2 above except that the beneficial ownership of shares registered in the name of PCD Nominee Corporation pertains to PCD participants (brokers) and/or their Filipino clients, whether individuals or corporations, in whose names these shares are recorded in their respective books.

<sup>5</sup> Guoco Assets (Philippines), Inc. ("GAPI") is a corporation duly organized and existing under and by virtue of the laws of the Philippines with principal office at the 30<sup>th</sup> Floor, Burgundy Corporate Tower, 252 Sen. Gil Puyat Avenue, Makati City. GAPI, through its Board of Directors, usually designates Mr. Micky Yong to vote its shares of stock in the Corporation.

**Security Ownership of Management as of June 30, 2010**

Title of Class	Name and Address of Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent of Class
Common shares	Micky Yong Chairman of the Board, President and Chief Executive Officer c/o Km. 29 National Road, Barangay Tunasan, Muntinlupa City	20,000,001- direct ownership except for one qualifying share	Singaporean	0.5415%
Common shares	Sunil D' Souza Non-Executive Director c/o 21 <sup>st</sup> Floor, LKG Tower, 6801 Ayala Avenue, Makati City	1*	Indian	Nil
Common shares	James Eng, Jr. Non-Executive Director c/o 50 <sup>th</sup> Floor, The Center, 99 Queen's Road, Central, Hong Kong	1*	American	Nil
Common shares	Tsang Cho Tai (Allan Tsang) Non-Executive Director c/o 50 <sup>th</sup> Floor, The Center, 99 Queen's Road, Central, Hong Kong	1*	British	Nil
Common shares	John L. Sigalos Non-Executive Director c/o 20 <sup>th</sup> Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	American	Nil
Common shares	Umrn Beba Non-Executive Director c/o 20 <sup>th</sup> Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	Turkish	Nil
Common shares	Qasim Khan Non-Executive Director c/o 20 <sup>th</sup> Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	Pakistani	Nil
Common shares	Jose M. Periquet, Jr. Non-Executive Director c/o 3 <sup>rd</sup> Floor, Athenaeum Building, 160 L.P. Leviste Street, Salcedo Village, Makati City	1*	Filipino	Nil
Common shares	Rafael M. Alunan III Independent Director c/o 5 <sup>th</sup> Floor, Benpres Building, Exchange Road corner Meralco Avenue, Ortigas Center, Pasig City	1*	Filipino	Nil
Common shares	Oscar S. Reyes Independent Director c/o Unit 2504 Corporate Center, 139 Valero Street, Salcedo Village, Makati City	1*	Filipino	Nil
Common shares	Partha Chakrabarti Executive Vice-President and Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics c/o Km. 29 National Road, Barangay Tunasan, Muntinlupa City	0	Indian	0%
Common shares	Felix S. Yu Executive Vice-President and Chief Operating Officer for National Sales Operations c/o Km. 29 National Road, Barangay Tunasan, Muntinlupa City	349,998 - direct ownership	Filipino	0.0095%
Common Shares	Akash Shah Senior Vice-President and Chief Financial Officer c/o Km. 29 National Road, Barangay Tunasan, Muntinlupa City	0	Canadian	0%
Common shares	Roberto H. Goce Senior Vice-President, Corporate Services Group c/o Km. 29 National Road, Barangay Tunasan, Muntinlupa City	0	Filipino	0%
Common shares	Daniel D. Gregorio, Jr. Senior Vice-President for Manufacturing and Logistics c/o Km. 29 National Road, Barangay Tunasan, Muntinlupa City	70,000 - direct ownership	Filipino	0.0019%
Common shares	Ma. Rosario C. Z. Nava Corporate Secretary c/o 7 <sup>th</sup> floor The Pearlbank Centre, 146 Valero Street, Salcedo Village, Makati City	10,000 - direct ownership	Filipino	0.0003%

\* Each of the directors is the registered owner of at least one qualifying share.

The aggregate shareholdings of directors and key officers as of June 30, 2010 are 20,430,008 shares which is approximately 0.5531% of outstanding capital stock.

#### **Changes in Control**

The Company is not aware of any voting trust agreement or any other similar agreement which may result in a change in control. No change in control has occurred since the beginning of its last fiscal year.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Refer to Note 14 to the 2010 Audited Financial Statements for details on related party transactions.

## **PART IV – CORPORATE GOVERNANCE**

The Company's Manual on Corporate Governance, which was adopted on June 21, 2007, and revised on April 14, 2010, details the standards by which it conducts sound corporate governance that is coherent and consistent with relevant laws and regulatory rules, and constantly strives to create value for its stockholders.

Compliance with the Manual's standards is monitored by the Company's Compliance Officer. Ultimate responsibility rests with the Board of Directors, which also maintains three (3) standing committees apart from the Executive Committee, each charged with oversight into specific areas of the business activities:

#### **Executive Committee**

The Executive Committee of the Board is responsible for developing and monitoring the Company's risk management policies. This Committee, which meets regularly, reviews the detailed financial and operating performance of the company every month and reviews progress against the relevant Annual Operating Plan and Operating Targets, monitor the Company's progress against key initiatives, pricing strategies and plans, sales and marketing plans, capital expenditure planning and key decisions on organization structure and people.

Based on the Manual, the Executive Committee shall be composed of at least five members, namely, the President-Chief Executive Officer, the Chief Operating Officer/s, the Chief Financial Officer, and such other directors.

The incumbent Chairman and members of the Executive Committee are as follows: Messrs. Micky Yong (Chairman), Partha Chakrabarti (Chief Operating Officer for Finance, Treasury, Human Resources, Legal, Manufacturing and Logistics), Felix S. Yu (Chief Operating Officer for Sales), Akash Shah (CFO), Sunil D'Souza, James Eng Jr., Tsang Cho Tai (Allan Tsang) and Qasim Khan.

#### **Audit Committee**

The Audit Committee assists the Board in its fiduciary responsibilities, as it provides an independent and objective assurance to management and shareholders that business operations are carried according to approved standards and objectives; and the Company's resources are preserved and productive. This committee meets at least four times a year.

Based on the Manual, the Audit Committee must be comprised of at least three directors, preferably with accounting and financial background. Two of the members must be independent directors, including the Chairman of the committee. The Audit Committee reports to the Board and is required to meet at least once every three months.

The incumbent Chairman and members of the Audit Committee are as follows: Messrs. Oscar S. Reyes (Chairman), John L. Sigalos, Tsang Cho Tai (Allan Tsang), and Rafael M. Alunan III.



### **Compensation and Remuneration Committee**

The Compensation and Remuneration Committee, based on objective and impartial studies, utilizes a formal and transparent framework in determining the remuneration of the members of the Board and the Company's key executives. This committee's decisions on compensation issues are consistent with the requirements of objectivity, fairness and relevance. This committee meets at least once a year.

Based on the Manual, the Compensation and Remuneration Committee must be comprised of at least three members, including one independent director. The Compensation and Remuneration Committee reports to the Board and is required to meet at least once each year.

The incumbent Chairman and members of the Compensation and Remuneration Committee are as follows: Messrs. James Eng Jr. (Chairman), Micky Yong, John L. Sigalos and Rafael M. Alunan III.

### **Nomination Committee**

The Nomination Committee ensures that the PCPPI Board of Directors is made up of visionary, ethical and competent business leaders who can contribute to the vast range of ideas and reach decisions that will protect and grow the business. This committee also makes sure that the designated Board members address the higher purposes of the company as a responsible enterprise which has a positive value on the communities where it operates. The Committee meets at least once a year.

Based on the Manual, the Nomination Committee must be comprised at least three members, including one independent director. The Nomination Committee reports to the Board and is required to meet at least once each year.

The incumbent Chairman and members of the Nomination Committee are as follows: Messrs. Micky Yong (Chairman), James Eng Jr., John L. Sigalos and Rafael M. Alunan III.

For purposes of evaluating compliance with the Manual, the Corporation has adopted the self-rating form prescribed by the Securities and Exchange Commission ("SEC"). The Corporation has complied with its Manual through the election of two (2) independent directors to the Corporation's Board; the constitution of the Audit, Compensation and Remuneration, and Nomination Committees pursuant to its By-laws and the election of the Chairman and members of such committees, which include the independent directors; the conduct of regular meetings of the Board of Directors and the various committees of the Board above stated; adherence to the written Code of Conduct prepared by the Corporation's Human Resources Department; and adherence to applicable accounting standards and disclosure requirements.

The Corporation adheres to a business plan, budget and marketing plan. Management prepares and submits to the Executive Committee of the Board and to the Board, on a regular basis, financial and operational reports which enable the Board and Management to assess the effectiveness and efficiency of the Corporation.

While the Corporation has fulfilled its corporate governance obligations and there has been no deviation from the Manual as of date, it continues to evaluate and review its Manual to ensure that best practices on corporate governance are being adopted.

## PART V – SIGNATORIES

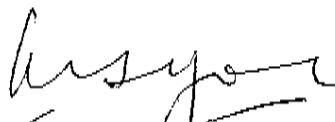
The following are the authorized signatories of the Company:

1. Micky Yong in his capacity as the Chairman of the Board, as well as President and Chief Executive Officer of the Company. Said positions are the Company's equivalent positions for principal executive officer.
2. Partha Chakrabarti in his capacity as the Executive Vice-President and Chief Operating Officer. Said position is the Company's equivalent position for principal operating officer.
3. Akash Shah in his capacity as the Chief Financial Officer. Said position is the Company's equivalent position for principal financial officer.
4. Honeylin C. Castolo in her capacity as AVP for Planning and Reporting of the Company. Said position is the Company's equivalent position for comptroller and principal accounting officer.
5. Ma. Rosario C. Z. Nava in her capacity as the Corporate Secretary of the Company.

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_.

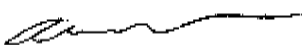
By:



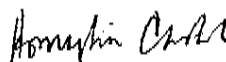
**MICKY YONG**  
Chairman, President and  
Chief Executive Officer



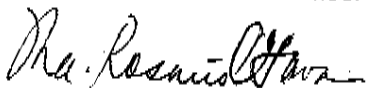
**PARTHA CHAKRABARTI**  
Executive Vice President and  
Chief Operating Officer



**AKASH SHAH**  
SVP and Chief Financial Officer



**HONEYLIN C. CASTOLO**  
AVP-Planning and Reporting



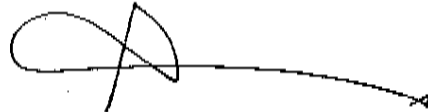
**MA. ROSARIO C.Z. NAVA**  
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)  
MUNTINLUPA CITY ) S.S.

SUBSCRIBED AND SWORN TO before me in the City of MUNTINLUPA CITY this  
   th day of SEP 09 2010 by:

<u>Name</u>	<u>Competent Evidence of Identity</u>	<u>Date/Place Issued</u>
Micky Yong	Passport No.E1376652C	Sept. 1, 2009 / Singapore
Partha Chakrabarti	Passport No. Z1751780	Feb. 26, 2008 / Manila
Akash Shah	Passport No. BA647570	Oct. 22, 2009 / Bangkok
Honeylin C. Castolo	Passport No. 135089605	Oct. 21, 2005 / Manila
Ma. Rosario C. Z. Nava	Passport No. XX1856523	Aug. 23, 2008 / Manila

who have satisfactorily proven their identity to me through the above identification, that they are the same person who personally signed the foregoing instrument before me and acknowledged that they executed the same.



**ATTY. CELERINO T. GRECIA III**  
Notary Public

Until December 31, 2011, NC 10-030

Attorney's Roll No 31466

IBP LRN. 04683. 05-12-2003, Iloilo

PTR No 0532246 01-25-2010; Muntinlupa City

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