# 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)

| Contact Person | Company Telephone Number |
|---|---|
| Honeylin C. Castolo | (632) 8656-365 |

| Fiscal Year | FORM TYPE | Annual Meeting |
|---|---|---|
| Month: 9 Day: 30 | SEC Form 17-Q | Any day in Oct (Month Date) |

Secondary License Type, If Applicable

| Dept. Requiring this Doc. | Amended Article Number/Section |
|---|---|
| C F D | |

Total Amount of Borrowings

| Total No. of Stockholders | Domestic | Foreign |
|---|---|---|
| | | |

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To be accomplished by SEC Personnel concerned

File Number

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SECURITIES AND EXCHANGE COMMISSION

# SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2010**

2. Commission identification number **0000160968** 3. BIR Tax Identification No **000-168-541**

4. Exact name of issuer as specified in its charter: **PEPSI-COLA PRODUCTS PHILIPPINES, INC.**

5. Province, country or other jurisdiction of incorporation or organization: **Philippines**

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office and Postal Code:
**Km. 29 National Road, Tunasan, Muntinlupa City 1773**

8. Issuer's telephone number, including area code: **(632) 8656-365**

9. Former name, former address and former fiscal year, if changed since last report: **not applicable**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding as of September 30, 2010 |
|---|---|
| **Common Shares of Stock** | **3,693,772,279** |

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

Yes [X] No [ ]

Stock Exchange: **Philippine Stock Exchange**
Securities Listed: **Common Shares of Stock**

12. Indicate by check mark whether the registrant:

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

Yes [X] No [ ]

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

Yes [X] No [ ]

Part 1 – Financial Information

**Item 1. Financial Statements.**

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

| | *Note* | September 30 2010 (Unaudited) | June 30 2010 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 9 | **P633,967** | P643,613 |
| Receivables - net | 9 | **948,591** | 1,075,420 |
| Inventories | | **945,248** | 825,467 |
| Due from related parties | 7, 9 | **187,628** | 165,085 |
| Prepaid expenses and other current assets | 9 | **42,568** | 48,560 |
| **Total Current Assets** | | **2,758,002** | 2,758,145 |
| **Noncurrent Assets** | | | |
| Investments in associates | | **530,236** | 529,988 |
| Bottles and cases - net | | **2,270,530** | 2,325,289 |
| Property, plant and equipment - net | 6 | **3,222,757** | 3,243,647 |
| Other noncurrent assets - net | | **125,396** | 108,800 |
| **Total Noncurrent Assets** | | **6,148,919** | 6,207,724 |
| | | **P8,906,921** | P8,965,869 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued expenses | 9 | **P2,242,554** | P2,412,870 |
| Dividends payable | 9 | **326,439** | - |
| Income tax payable | | **126,020** | 58,840 |
| **Total Current Liabilities** | | **2,695,013** | 2,471,710 |
| **Noncurrent Liabilities** | | | |
| Deferred tax liabilities - net | | **371,231** | 391,887 |
| Other noncurrent liabilities | | **201,534** | 207,790 |
| **Total Noncurrent Liabilities** | | **572,765** | 599,677 |
| **Total Liabilities** | | **3,267,778** | 3,071,387 |

*Forward*

| | September 30<br>2010<br>(Unaudited) | June 30<br>2010<br>(Audited) |
|---|---|---|
| **Equity** | | |
| Capital stock | **P554,066** | P554,066 |
| Additional paid-in capital | **1,197,369** | 1,197,369 |
| Retained earnings | **3,887,708** | 4,143,047 |
| **Total Equity** | **5,639,143** | 5.894,482 |
| | **P8,906,921** | P8,965,869 |

*See Notes to the Condensed Interim Financial Information.*

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

| | | For The Three Months Ended September 30 | |
|---|---|---|---|
| | *Note* | **2010** | 2009 |
| | | (Unaudited) | |
| **NET SALES** | | **P4,081,962** | P3,624,715 |
| **COST OF GOODS SOLD** | | **3,150,084** | 2,568,489 |
| **GROSS PROFIT** | | **931,878** | 1,056,226 |
| **OPERATING EXPENSES** | | **781,635** | 780,976 |
| **INCOME FROM OPERATIONS** | | **150,243** | 275,250 |
| **NET FINANCE AND OTHER INCOME** | | **12,554** | 12,083 |
| **INCOME BEFORE INCOME TAX** | | **162,797** | 287,333 |
| **INCOME TAX EXPENSE** | | **48,759** | 86,053 |
| **NET INCOME/TOTAL COMPREHENSIVE INCOME** | | **P114,038** | P201,280 |
| **Basic/Diluted Earnings Per Share** | *5* | **P0.03** | P0.05 |

*See Notes to the Condensed Interim Financial Information.*

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

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**

(Amounts in Thousands, Except Per Share Data)

| | | For The Three Months Ended September 30 | |
|---|---|---|---|
| | *Note* | **2010** (Unaudited) | 2009 |
| **CAPITAL STOCK** | | | |
| Common stock - P0.15 par value per share | | | |
| Authorized - 5,000,000,000 | | | |
| Issued and outstanding - 3,693,772,279 | | **P554,066** | P554,066 |
| **ADDITIONAL PAID-IN CAPITAL** | | **1,197,369** | 1,197,369 |
| **RETAINED EARNINGS** | | | |
| Balance at beginning of period | | **4,143,047** | 3,958,437 |
| Net income for the period | | **114,038** | 201,280 |
| Dividends declared | *9* | **(369,377)** | (554,066) |
| Balance at end of period | | **3,887,708** | 3,605,651 |
| | | **P5,639,143** | P5,357,086 |

*See Notes to the Condensed Interim Financial Information.*

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

| | *Note* | For The Three Months Ended September 30 2010 (Unaudited) | 2009 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | | **P162,797** | P287,333 |
| Adjustments for: | | | |
| Depreciation and amortization | 6 | **303,505** | 286,792 |
| Retirement cost | | **14,281** | 13,365 |
| Allowance for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others - net | | **12,157** | 91,228 |
| Interest income | | **(4,390)** | (3,989) |
| Gain on sale of property and equipment | | **(262)** | (445) |
| Equity in net earnings of associates | | **(248)** | (736) |
| Interest expense | | **-** | 204 |
| Operating income before working capital changes | | **487,840** | 673,752 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | | **101,837** | 28,398 |
| Inventories | | **(119,052)** | (183,151) |
| Due from related parties | 7 | **(22,543)** | (31,939) |
| Prepaid expenses and other current assets | | **5,992** | 5,082 |
| Increase (decrease) in accounts payable and accrued expenses | | **(236,272)** | 41,003 |
| Cash generated from operations | | **217,802** | 533,145 |
| Interest received | | **16,810** | 3,440 |
| Income taxes paid | | **-** | (5,000) |
| Contribution to plan assets | | **-** | (597) |
| Interest paid | | **-** | (204) |
| Net cash provided by operating activities | | **234,612** | 530,784 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from disposals of property and equipment | | **3,430** | 1,298 |
| Net additions to: | | | |
| Property, plant and equipment | 6 | **(135,053)** | (140,216) |
| Bottles and cases | | **(96,039)** | (94,629) |
| Decrease (increase) in other assets | | **(16,596)** | 6,685 |
| Net cash used in investing activities | | **(244,258)** | (226,862) |

*Forward*

| | For The Three Months Ended September 30 | |
|---|---|---|
| | **2010** | 2009 |
| | (Unaudited) | |
| **CASH FLOW FROM A FINANCING ACTIVITY** | | |
| Net repayments of notes payable | **P -** | (P50,000) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(9,646)** | 253,922 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **643,613** | 413,088 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **P633,967** | P667,010 |

*See Notes to the Condensed Interim Financial Information.*

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

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

## 1. Reporting Entity

Pepsi-Cola Products Philippines, Inc. (the "Company") was registered with the Philippine Securities and Exchange Commission (SEC) on March 8, 1989 primarily to engage in manufacturing, sales and distribution of carbonated soft-drinks (CSD) and non-carbonated beverages (NCB) to retail, wholesale, restaurants and bar trades. The Company's registered office and principal place of business is at Km. 29, National Road, Tunasan, Muntinlupa City.

## 2. Basis of Preparation

Statement of Compliance

These condensed interim financial information have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. These condensed interim financial information do not include all of the information required for a complete set of financial statements, and should be read in conjunction with the annual financial statements of the Company as of June 30, 2010.

The condensed interim financial information of the Company as of and for three months ended September 30, 2010 were approved and authorized for issue by the Company's Audit Committee on November 15, 2010.

Use of Judgments and Estimates

The preparation of the condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts reported in the condensed interim financial information. Actual results may differ from these estimates.

The significant judgments and estimates made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the annual financial statements as of and for the year ended June 30, 2010.

During the three months ended September 30, 2010, management reassessed its estimates in respect of the following:

*Estimating Allowance for Impairment Losses on Receivables*

As of September 30 and June 30, 2010, allowance for impairment losses on receivables amounted to P121 million and P108 million, respectively.

*Estimating Net Realizable Value of Inventories*

As of September 30 and June 30, 2010, the carrying amount of inventories was reduced to its net realizable values by P15 million and P22 million, respectively.

## 3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the annual financial statements as of and for the year ended June 30, 2010.

Changes in Accounting Policies

The following are the improvements to standards, amendment to standard and interpretation, which are effective for the three months ended September 30, 2010, and have been applied in preparing these condensed interim financial information:

- *Improvements to Philippine Financial Reporting Standards (PFRS) 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 adoption of these amendments did not have significant impact on the Company's condensed interim financial information.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, 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 did not have significant impact on the Company's condensed interim financial information.

- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments.* 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 did not have significant impact on the Company's condensed interim financial information.

New Standard and Revised Standard Not Yet Adopted

The Company has not applied the following new standard and revised standard, which have been approved but are not yet effective for the three months ended September 30, 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.

## 4. Seasonality of Operations

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

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

Basic EPS is computed as follows:

| | For The Three Months Ended September 30 | |
|---|---|---|
| | **2010** | 2009 |
| | (Unaudited) | |
| Net income (a) | **P114,038** | P201,280 |
| Issued shares at the beginning of the year/weighted average number of shares outstanding (b) | **3,693,772,279** | 3,693,772,279 |
| Basic/Diluted EPS (a/b) | **P0.03** | P0.05 |

As of September 30, 2010 and 2009, the Company had no dilutive debt or equity instruments.

## 6. 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 |
|---|---|---|---|---|---|
| *Measurement basis* | *Cost* | *Cost* | *Cost* | *Cost* | |
| **Gross carrying amount:** | | | | | |
| June 30, 2010 (Audited) | P7,351,028 | P837,948 | P263,887 | P30,602 | P8,483,465 |
| Additions | 77,807 | 1,740 | 54,533 | 973 | 135,053 |
| Disposals | (23,477) | - | - | - | (23,477) |
| Transfer | 14,556 | 75 | (14,568) | (63) | - |
| **September 30, 2010 (Unaudited)** | **7,419,914** | **839,763** | **303,852** | **31,512** | **8,595,041** |
| **Accumulated depreciation and amortization:** | | | | | |
| June 30, 2010 (Audited) | 4,729,470 | 487,441 | - | 22,907 | 5,239,818 |
| Depreciation and amortization | 140,983 | 11,469 | - | 323 | 152,775 |
| Disposals | (20,309) | - | - | - | (20,309) |
| Transfers | 16 | 5 | - | (21) | - |
| **September 30, 2010 (Unaudited)** | **4,850,160** | **498,915** | - | **23,209** | **5,372,284** |
| June 30, 2010 (Audited) | P2,621,558 | P350,507 | P263,887 | P7,695 | P3,243,647 |
| **September 30, 2010 (Unaudited)** | **P2,569,754** | **P340,848** | **P303,852** | **P8,303** | **P3,222,757** |

No impairment indicators exist on the Company's property, plant and equipment as of September 30 and June 30, 2010.

The Company has ongoing definite corporate expansion projects or programs approved by the Board of Director (BOD). As result of this expansion program, the Company spent for property, plant and equipment, as well as bottles and shells, amounting to P231 million for the three months ended September 30, 2010 and P1.127 billion for the year ended June 30, 2010, 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.

## 7. 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 P762 million and P691 million for the three months ended September 30, 2010 and 2009, respectively. Total purchases from Pepsi Lipton for the three months ended September 30, 2010 and 2009 amounted to P19 million and P27 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 three months ended September 30, 2010 and 2009, the Company incurred marketing expenses amounting to P86 million, and P90 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 P0.4 million and P5 million as of September 30 and June 30, 2010, 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 Nadeco Realty Corporation (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 P3 million each for the three months ended September 30, 2010 and 2009, respectively. The Company has advances to NRC amounting to P38 million which bear interest at a fixed rate of 10% per annum. The Company also has outstanding net receivables from NRC amounting to P74 million and P119 million as of September 30 and June 30, 2010, respectively, which are unsecured, noninterest-bearing and payable on demand.

d. The Company has outstanding working capital advances to Nadeco Holdings Corporation, an associate, amounting to P4 million and P3 million as of September 30 and June 30, 2010, respectively, and which are unsecured, noninterest-bearing and payable on demand.

## 8. 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, Sting and Propel.

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

Analysis of financial information by business segment is as follows:

| | For the Three Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | Carbonated Soft Drinks | | Noncarbonated Beverages | | Combined | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| (In 000,000's) | (Unaudited) | | (Unaudited) | | (Unaudited) | |
| **Net Sales** | | | | | | |
| External sales | **P3,338** | P3,017 | **P1,384** | P1,179 | **P4,722** | P4,196 |
| Sales discounts and returns | **(490)** | (452) | **(150)** | (119) | **(640)** | (571) |
| **Net sales** | **P2,848** | P2,565 | **P1,234** | P1,060 | **4,082** | P3,625 |
| **Result** | | | | | | |
| Segment result* | **P650** | P747 | **P282** | P309 | **P932** | P1,056 |
| Unallocated expenses | | | | | **(782)** | (781) |
| Interest and financing expenses | | | | | **-** | (2) |
| Interest income | | | | | **4** | 4 |
| Other income (expenses) - net | | | | | **9** | 10 |
| Income tax expense | | | | | **(49)** | (86) |
| **Net income** | | | | | **P114** | P201 |
| **Other Information**** | | | | | | |
| Segment assets | | | | | **P8,252** | P8,240 |
| Investments in and advances to associates | | | | | **530** | 528 |
| Other assets | | | | | **125** | 130 |
| **Combined total assets** | | | | | **P8,907** | P8,898 |
| Segment liabilities | | | | | **P2,445** | P3,198 |
| Dividend payable | | | | | **326** | - |
| Income tax payable | | | | | **126** | - |
| Deferred tax liabilities | | | | | **371** | 343 |
| **Combined total liabilities** | | | | | **P3,268** | P3,541 |
| Capital expenditures | | | | | **P231** | P235 |
| Depreciation and amortization and impairment of property, plant and equipment and bottles and cases | | | | | **304** | 287 |
| Non-cash items other than depreciation and amortization | | | | | **12** | 91 |

* 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.

** Segment assets and liabilities relate to balances as of September 30, 2010 and 2009.

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

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

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

## 9. Financial Instruments and Financial Risk Management

The Company's financial instruments are measured as described below:

*Cash and Cash Equivalents.* Cash includes cash on hands 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.

*Loans and Receivables.* Loans and receivables are nonderivative 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 available for sale financial assets or fair value through profit or loss (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.

*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).

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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, standards and procedures set by management, 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 functions, 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 is 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. The Company has policies for acceptable collateral securities that may be presented upon submission of credit applications.

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

| | September 30, 2010 (Unaudited) | June 30, 2010 (Audited) |
|---|---|---|
| Receivables net | P948,591 | P1,075,420 |
| Cash in bank and cash equivalents | 499,615 | 471,606 |
| Due from related parties | 187,628 | 165,085 |
| | P1,635,834 | P1,712,111 |

The aging of trade receivables is as follows:

| | September 30, 2010 (Unaudited) | | June 30, 2010 (Audited) | |
|---|---|---|---|---|
| | Gross Amount | Impairment | Gross Amount | Impairment |
| Current | P653,582 | P - | 695,028 | P - |
| Past due 0-30 days | 213,730 | - | 271,680 | - |
| Past due 31-60 days | 46,679 | 19,360 | 43,540 | - |
| More than 60 days | 82,192 | 82,192 | 114,485 | 91,462 |
| | P996,183 | P101,552 | P1,124,733 | P91,462 |

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 September 30 and June 30, 2010.

As of September 30 and June 30, 2010, 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 the P19 million and P17 million for which an allowance was provided as of September 30 and June 30, 2010, respectively.

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

The credit qualities of financials 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

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 September 30 and June 30, 2010 under the line of credit is P3.430 billion and P2.960 billion, respectively, of which the Company had drawn P376 million and P283 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

- P875 million and P725 million domestic bills purchased line, which are available as of September 30 and June 30, 2010, respectively.

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

| | As of September 30, 2010 (Unaudited) | | | |
|---|---|---|---|---|
| | Carrying Amount | Contractual Cash Flow | One year or less | More than one year to five years |
| **Financial assets:** | | | | |
| Cash and cash equivalents | P633,967 | P633,967 | P633,967 | P - |
| Receivables - net | 948,591 | 948,591 | 948,591 | - |
| Due from related parties | 187,628 | 187,628 | 187,628 | - |
| | P1,770,186 | P1,770,186 | P1,770,186 | P - |
| **Financial liabilities:** | | | | |
| Accounts payable and accrued expenses | P2,034,799 | P2,034,799 | P2,034,799 | P - |
| Dividends payable | 326,439 | 326,439 | 326,439 | - |
| Other noncurrent liabilities | 69,284 | 84,558 | - | 84,558 |
| | P2,430,522 | P2,445,796 | P2,361,238 | P84,558 |

| | As of June 30, 2010 (Audited) | | | |
|---|---|---|---|---|
| | Carrying Amount | Contractual Cash Flow | One year or less | More than one year to five years |
| **Financial assets:** | | | | |
| 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 | - |
| | P1,884,118 | P1,884,118 | P1,884,118 | P - |
| **Financial liabilities:** | | | | |
| Accounts payable and accrued expenses | P2,240,450 | P2,240,450 | P2,240,450 | P - |
| Other noncurrent liabilities | 69,284 | 84,558 | - | 84,558 |
| | P2,309,734 | P2,325,008 | P2,240,450 | P84,558 |

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

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

<u>Market Risk</u>
Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and other market prices will affect the Company's 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 Risk*
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 P941 million as of September 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, through 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.

As of September 30 and June 30, 2010, the interest rates profile of the Company's interest-bearing financial instruments pertains mainly to cash equivalents amounting to P349 million and P390 million, respectively.

*Sensitivity Analysis*
A 2% increase in annual interest rates would have increased equity and profits for the three months ended September 30, 2010 by P1 million and increased for the fiscal year ended June 30, 2010 by P6 million.

A 2% decrease in interest rates for the three months ended September 30, 2010 and the fiscal year ended June 30, 2010 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 end of the reporting date.

*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 that 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 management considered the exposure to foreign currency risk to be insignificant. Further, the Company does not hold any investment in foreign securities as of September 30 and June 30, 2010.

Fair Values

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

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 condensed interim statements of financial position.

On September 9, 2010, the BOD approved the declaration of dividends amounting to P369 million or P0.10 per share, payable to stockholders of record as of September 24, 2010. Said dividends were paid on October 8, 2010.

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.

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

### Results of Operations

Pepsi-Cola Products Philippines, Inc. delivered strong gross revenues amounting to Php4.7 billion for the September quarter 2010. Gross revenues posted a tremendous 13% growth for the quarter vs. year ago levels. Carbonated soft drinks revenues grew by 11% for the quarter. Non-carbonated beverages (NCB) revenues continued its 17% growth trajectory. The NCB growth was largely attributable to the strategic move to drive health and wellness as well as affordability of NCB products across the Philippines by making NCB products available in returnable glass bottles format all over the country.

The impressive sales numbers were tempered by rising sugar prices. Sugar prices, both in the Philippines and globally, have soared to unusually high levels. Global demand for sugar has outpaced supply. Excessive rains in Brazil and weak monsoons in India curbed sugar yields. Furthermore, Brazil, the world's largest sugar producer, is diverting huge amounts of its cane crop to making ethanol fuel. Despite the higher sugar prices, the Company posted a gross profit of Php932 million for the September 2010 quarter, 12% lower compared to year ago. Gross profit margin dropped from 29% to 23%. Operating expenses were tightened, at 19% of net sales for the quarter as compared to 21% year ago. Significant cost savings were realized due to prudent cost management.

As a result, net income for the September 2010 quarter amounted to Php114 million, compared to Php201 million in previous year. Net income margin for the quarter is 3%, compared to 5% year ago.

### Financial Condition

Liquidity remained healthy while trade payable days have likewise stayed at manageable levels.

In line with the Company's strategy to grow NCB and maintain its CSD market, the Company has continued its investment in the distribution infrastructure such as bottles and shell and powered coolers. It has recently completed the expansion projects in Cebu, San Fernando, Iloilo and Muntinlupa.

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

1. Total current assets are at same level as year ago. The increase in inventories by Php120 million which is in line with the increase in revenues was offset by the decline in receivable by Php127 million.
2. Decrease in total non-current assets by 1% is due to decline in bottles and shells and property, plant and equipment by Php76 million.
3. Increase in total current liabilities by 6% is mainly due to dividend payable amounting to Php326 million.
4. Decrease in non-current liabilities by 4% is due to decline in deferred tax liabilities.
5. Decrease in total equity by 4% due to the dividends declared in 2010.

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

The Company is not aware of any trend that may affect its liquidity. Refer to Note 9 of the Condensed Interim Financial Statements for a discussion of the Company's liquidity risk and financial risk management.

### Events That May Trigger Direct or Contingent Obligations

Except as disclosed in Note 9 of the Condensed Interim Financial Statements, the Company is not aware of any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

**Off-Balance Sheet Transactions**

Except as disclosed in Note 9 of the Condensed Interim Financial Statements, to the Company's knowledge, there are no material off-balance sheet transactions, arrangement, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

**Material Commitments for Capital Expenditures**

In January 2008, the Company had embarked on an IPO, with net proceeds of approximately ₱1.2 billion, to fund the expansion of NCB business. The Company has fully utilized the net proceeds received from the IPO offering in its expansion projects. The Company expects to maintain its level of capital expenditures similar to previous periods. Refer to Note 6 of the Condensed Interim Financial Statement for the capital expenditures spent in 2010.

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

The Company's performance will continue to hinge on the overall performance of the Philippine economy, the natural seasonality of operations, the movement in sugar prices, and the competitive environment of the beverage market in the Philippines. Refer to Note 9 of the Condensed Interim Financial Statements for a discussion of the Company's Financial Risk Management.

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

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

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

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

**Top Five Key Performance Indicators**

The table below sets forth the comparative performance indicators of the Company.

| | September 30, 2010 | June 30, 2010 |
|---|---|---|
| Current ratio[1] | 1.02 | 1.12 |
| Debt-to-equity ratio[2] | -* | -* |

**The Company has no debt as of September 30, 2010 and June 30, 2010*

| | For the three months period ending | September 30 |
|---|---|---|
| | 2010 | 2009 |
| Gross sales | P4.7 billion | P4.2 billion |
| Gross profit margin[3] | 23% | 29% |
| Net income margin[4] | 3% | 5% |

[1] Current assets / current liabilities
[2] Bank loans / total stockholders' equity
[3] Gross profit / net sales
[4] Net income / net sales

**SIGNATURES**

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

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

By:

**Akash Shah**
Senior Vice President / Chief Financial Officer

Date: November 15, 2010