

COVER SHEET

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S.E.C. Registration Number

PEPSI-COLA PRODUCTS
PHILIPPINES, INC.

(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 l u p a C i t y

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

Honeylin C. Castolo

Contact Person

807-9905

Company Telephone Number

1 2 3 1
Month 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

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

LCU

Document I.D.

Document I.D.

Cashier

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

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 at December 31, 2010 and June 30, 2010, and its financial performance and its cash flows for the six months ended December 31, 2010 and for the years ended June 30, 2010 and 2009, in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the accompanying financial statements as at and for the six months ended December 31, 2010 were prepared in connection with the Company's change in accounting period from fiscal year ending June 30 to calendar year ending December 31. The amounts presented for the prior periods in the statements of comprehensive income, statements of changes in equity, statements of cash flows and notes are for the twelve months ended June 30, 2010 and 2009 and, accordingly, are not entirely comparable.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

ROBERTO G. MANABAT

Partner

CPA License No. 0030640

SEC Accreditation No. 0677-A

Tax Identification No. 106-187-127

BIR Accreditation No. 08-001987-14-2010

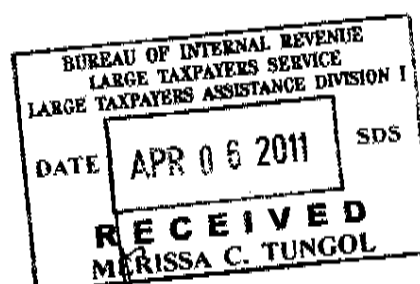
Issued June 30, 2010; Valid until June 29, 2013

PTR No. 2639619MB

Issued January 3, 2011 at Makati City

March 25, 2011

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 December 31, 2010 and June 30, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended December 31, 2010 and for the years ended June 30, 2010 and 2009, and notes, comprising a summary of significant accounting policies and other explanatory information. 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.

HWANG CHUNG
Chairman of the Board and CEO

PARTHA CHAKRABARTI
President

AKASH SHAH
SVP and Chief Financial Officer

BUREAU OF INTERNAL REVENUE LARGE TAXPAYERS SERVICE LARGE TAXPAYERS ASSISTANCE DIVISION I		
DATE	APR 06 2011	SDS
RECEIVED		
MERISSA C. TUNGOL		

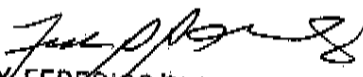


REPUBLIC OF THE PHILIPPINES)
Muntinlupa City) s.s.

SUBSCRIBED AND SWORN TO before me in the City of Muntinlupa City
this th day of MAR 28 2011 by:

<u>Name</u>	<u>Competent Evidence of Identity</u>	<u>Date/Place Issued</u>
Hwang Chung	Passport No. JR4016155	June 30, 2018 / Korea
Partha Chakrabarti	Passport No. Z1751780	Feb. 25, 2018 / Manila
Akash Shah	Passport No. BA647570	Oct. 22, 2014 / Bangkok

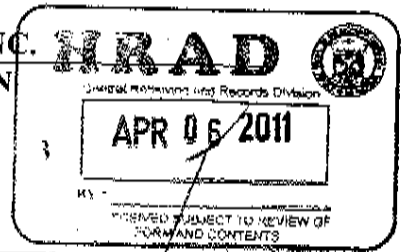
who have satisfactorily proven their identity to me through the above identification, that they are the same person who personally signed the foregoing instrument before me and acknowledged that they executed the same.


ATTY. FEDERICO CLAUDIO G. SANDOVAL
Notary Public

Doc. No. 72
Page No. 16
Book No. II
Series of 2011.

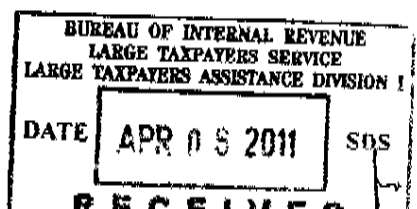
Until December 31, 2011; NC 10-029
Attorney's Roll No. 45274
IBP LRN: 07119, 01-08-2008; Rizal
PTR No. ~~075073~~ 01-25-2011 Muntinlupa City

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



	<i>Note</i>	December 31 2010	June 30 2010
ASSETS			
Current Assets			
Cash and cash equivalents	5, 22	P305,686	P643,613
Receivables - net	6, 22	1,023,879	1,075,420
Inventories	7	1,009,367	825,467
Due from related parties	14, 22	405,465	165,085
Prepaid expenses and other current assets		72,383	48,560
Total Current Assets		2,816,780	2,758,145
Noncurrent Assets			
Investments in associates	8	530,785	529,988
Bottles and cases - net	9	2,315,553	2,325,289
Property, plant and equipment - net	10, 12	3,374,631	3,243,647
Other noncurrent assets		99,176	108,800
Total Noncurrent Assets		6,320,145	6,207,724
		P9,136,925	P8,965,869
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	7, 11, 14, 22, 23, 26	P2,681,903	P2,427,637
Notes payable	10, 12, 14, 22	200,000	-
Income tax payable	13	10,568	58,840
Total Current Liabilities		2,892,471	2,486,477
Noncurrent Liabilities			
Deferred tax liabilities - net	13	367,113	391,887
Other noncurrent liabilities	23, 26	222,550	193,023
Total Noncurrent Liabilities		589,663	584,910
Total Liabilities		3,482,134	3,071,387
Equity			
Capital stock	24	554,066	554,066
Additional paid-in capital	24	1,197,369	1,197,369
Retained earnings	25	3,903,356	4,143,047
Total Equity		5,654,791	5,894,482
		P9,136,925	P8,965,869

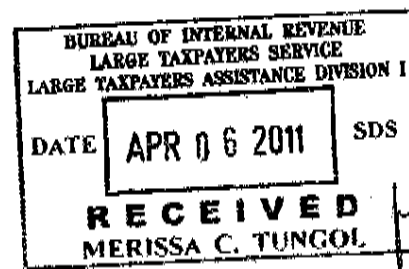
See Notes to the Financial Statements.



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

	Note	For the Six	For the Years Ended	
		Months Ended	June 30	
		December 31	2010	2009
GROSS SALES	21	P9,595,014	P18,789,186	P16,600,329
Less sales returns and discounts	21	1,301,030	2,660,341	2,368,284
NET SALES		8,293,984	16,128,845	14,232,045
COST OF GOODS SOLD	14, 15, 18, 19, 23, 26	6,450,573	11,917,903	10,042,738
GROSS PROFIT		1,843,411	4,210,942	4,189,307
OPERATING EXPENSES				
Selling and distribution	6, 14, 16, 18, 19, 23, 26	1,058,662	2,004,950	1,902,574
General and administrative	14, 17, 18, 19, 23, 26	391,845	708,092	620,850
Marketing	14	228,517	501,774	520,916
		1,679,024	3,214,816	3,044,340
INCOME FROM OPERATIONS		164,387	996,126	1,144,967
FINANCE AND OTHER INCOME (EXPENSE)				
Interest income	5, 14	6,173	12,947	17,234
Equity in net earnings of associates	8	797	2,265	2,221
Interest expense	12	(1,544)	(2,785)	(21,972)
Other income - net		15,103	45,915	38,979
		20,529	58,342	36,462
INCOME BEFORE INCOME TAX		184,916	1,054,468	1,181,429
INCOME TAX EXPENSE	13	55,230	315,792	381,739
NET INCOME/TOTAL COMPREHENSIVE INCOME		P129,686	P738,676	P799,690
Basic/Diluted Earnings Per Share	20	P0.04	P0.20	P0.22

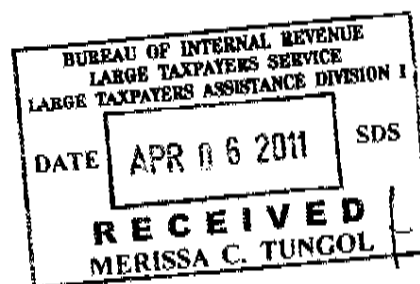
See Notes to the Financial Statements.



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

	<i>Note</i>	For the Six Months Ended December 31	For the Years Ended June 30	
		2010	2010	2009
CAPITAL STOCK	24	P554,066	P554,066	P554,066
ADDITIONAL PAID-IN CAPITAL	24	1,197,369	1,197,369	1,197,369
RETAINED EARNINGS				
Balance at beginning of period		4,143,047	3,958,437	3,527,951
Net income for the period		129,686	738,676	799,690
Dividends declared	25	(369,377)	(554,066)	(369,204)
Balance at end of period		3,903,356	4,143,047	3,958,437
		P5,654,791	P5,894,482	P5,709,872

See Notes to the Financial Statements.



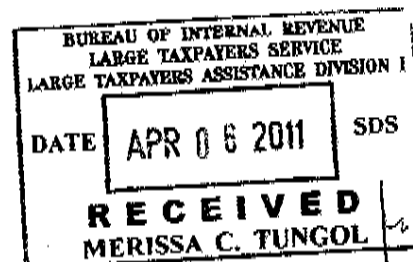
PEPSI-COLA PRODUCTS PHILIPPINES, INC.

STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

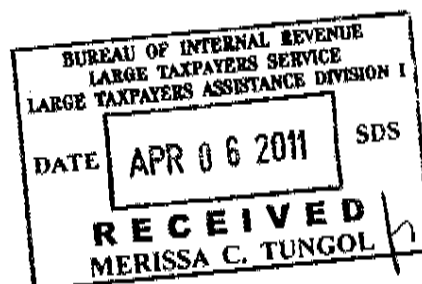
		For the Six Months Ended December 31	For the Years Ended June 30	
	<i>Note</i>	2010	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P184,916	P1,054,468	P1,181,429
Adjustments for:				
Depreciation and amortization	18	611,623	1,147,314	1,025,824
Retirement cost	23	28,614	53,460	34,791
Allowance for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others provisions - net	6, 7, 9	34,209	28,602	112,615
Interest expense	12	1,544	2,785	21,972
Interest income	5, 14	(6,173)	(12,947)	(17,234)
Equity in net earnings of associates	8	(797)	(2,265)	(2,221)
Loss (gain) on disposal of property and equipment		2,260	(1,650)	(1,841)
Operating income before working capital changes		856,196	2,269,767	2,355,335
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables	6	30,407	(71,524)	(159,923)
Inventories	7	(184,382)	(127,192)	(48,959)
Due from related parties		(240,380)	(48,631)	104,075
Prepaid expenses and other current assets		(23,823)	23,368	41,324
Increase (decrease) in accounts payable and accrued expenses	11	243,335	156,356	(8,414)
Cash generated from operations		681,353	2,202,144	2,283,438
Interest received		6,602	12,671	18,061
Income taxes paid		(127,210)	(240,174)	(139,272)
Contribution to plan assets	23	-	(56,000)	(48,000)
Net cash provided by operating activities		560,745	1,918,641	2,114,227

Forward



	Note	For the Six	For the Years Ended	
		Months Ended	June 30	
		December 31	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in other noncurrent assets		P9,624	P35,141	(P5,902)
Proceeds from disposal of property and equipment		7,885	10,454	5,370
Additions to:				
Property, plant and equipment	10	(447,336)	(679,743)	(833,864)
Bottles and cases	9	(297,924)	(447,117)	(968,275)
Net cash used in investing activities		(727,751)	(1,081,265)	(1,802,671)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (repayments of) notes payable	12	200,000	(50,000)	(97,100)
Cash dividends paid	25	(369,377)	(554,066)	(369,204)
Interest paid		(1,544)	(2,785)	(22,490)
Net cash used in financing activities		(170,921)	(606,851)	(488,794)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		(337,927)	230,525	(177,238)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD				
	5	643,613	413,088	590,326
CASH AND CASH EQUIVALENTS AT END OF PERIOD				
	5	P305,686	P643,613	P413,088

See Notes to the Financial Statements.



PEPSI-COLA PRODUCTS PHILIPPINES, INC.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per Share Data and
When Otherwise 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), non-carbonated beverages (NCB) and confectionery products to retail, wholesale, restaurants and bar trades. The registered office address and principal place of business of the Company is at Km. 29, National Road, Tunasan, Muntinlupa City.

The Company is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since February 1, 2008. On October 20, 2010, Lotte Chilsung Beverage Co. Ltd. acquired a 34.4% stake in the Company, making it the largest shareholder of the Company. The acquired shares represent the combined stakes of Guoco Assets (Philippines), Inc., Hong Way Holdings, Inc. and some minority shareholders. PepsiCo, Inc. continues to remain the other major shareholder with a 29.48% stake. Lotte Chilsung Beverage Co. Ltd. was organized and existing under the laws of South Korea. PepsiCo, Inc. was organized and existing under the laws of the United States of America.

2. Basis of Preparation

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs include statements named PFRS and Philippine Accounting Standards (PASs), including Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

The accompanying financial statements of the Company were approved and authorized for issue by the Company's Board of Directors (BOD) on March 25, 2011. The BOD has the power to amend the financial statements after issuance.

The accompanying financial statements as at and for the six months ended December 31, 2010 were prepared in connection with the change in the Company's accounting period from fiscal year ending June 30 to calendar year ending December 31. The amounts presented for the prior periods in the statements of comprehensive income, statements of changes in equity, statements of cash flows and notes are for the twelve months ended June 30, 2010 and 2009 and, accordingly, are not entirely comparable.

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 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 PFRSs requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. 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.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the sales price of goods and the cost of providing these goods.

Determining Whether an Arrangement Contains a Lease

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

Operating Lease - The Company as a Lessee

The Company has entered into various lease agreements covering land and facility. The Company has determined that all significant risks and rewards of ownership of these properties remain with the lessors.

Rent expense pertaining to these leased properties amounted to P93 million for the six months ended December 31, 2010 and P179 million and P153 million for the years ended June 30, 2010 and 2009, respectively (see Note 26).

Finance Lease - The Company as a Lessee

The Company entered into finance lease agreements covering pallets and power generation facilities for a period of five (5) to ten (10) years. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it has substantially acquired all the significant risks and rewards incidental to ownership of these pallets and power generation facilities and the provisions of the lease agreements effectively transfer ownership of the assets to the lessee at the end of the lease term. As of December 31 and June 30, 2010, the present value of minimum lease payments amounted to P571 million and P226 million, respectively (see Note 26).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty as of reporting date that have the most significant risk of causing a material adjustment to the carrying amounts of assets, liabilities and equity within the next financial year are as follows:

Estimating Allowance for Impairment Losses on Receivables

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Company performs regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provides these with the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Company. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase recorded operating expenses and decrease current assets. As of December 31, 2010 and June 30, 2010, allowance for impairment losses on receivables amounted to P128 million and P108 million, respectively. Receivables, net of allowance for impairment losses, amounted to P1.024 billion and P1.075 billion as of December 31, 2010 and June 30, 2010, respectively (see Note 6). No allowance for impairment losses was recognized for the amounts due from related parties as of December 31, 2010 and June 30, 2010 as these were deemed to be fully collectible.

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 P1.009 billion and P0.825 billion as of December 31, 2010 and June 30, 2010, 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, and vice versa. As of December 31, 2010 and June 30, 2010, accumulated amortization of excess of cost over deposit values of returnable bottles and cases amounted to P4.041 billion and P3.735 billion, respectively. The carrying value of bottles and cases amounted to P2.316 billion and P2.325 billion as of December 31, 2010 and June 30, 2010, 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 December 31, 2010 and June 30, 2010, allowance for unusable containers amounted to P12 million and P13 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, and vice versa.

The EUL are as follows:

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

As of December 31, 2010 and June 30, 2010, the carrying value of property, plant and equipment amounted to P3.375 billion and P3.244 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 estimations and assumptions. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the recoverable amounts and may lead to future additional impairment charges. As of December 31, 2010 and June 30, 2010, 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 December 31, 2010 and June 30, 2010, the carrying value of bottles and cases amounted to P2.316 billion and P2.325 billion, respectively (see Note 9). As of December 31, 2010 and June 30, 2010, the carrying value of property, plant and equipment amounted to P3.375 billion and P3.244 billion, respectively (see Note 10). Investments in associates amounted to P531 million and P530 million as of December 31, 2010 and June 30, 2010, 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 also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact of deferred tax accordingly. The Company's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. The Company has no unrecognized deferred tax assets as of December 31, 2010 and June 30, 2010. As of December 31, 2010 and June 30, 2010, the Company has net deferred tax liabilities amounting to P367 million and P392 million, respectively (see Note 13).

Estimating Retirement Liability

The determination of the retirement liability and retirement 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 December 31, 2010 and June 30, 2010, the Company has unrecognized net actuarial gains amounting to P5 million and P0.5 million, respectively (see Note 23).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Company's defense relating to these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 26).

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 relevant amendments to standards, improvements to standards and interpretation, which have been adopted as of July 1, 2010 and have been applied in preparing these financial statements:

- Philippine Interpretation IFRIC - 17, *Distributions of Non-cash 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 interpretation is effective for annual periods beginning on or after July 1, 2009. The adoption of this interpretation did not have any significant impact on the Company's financial statements.

- *Improvements to PFRSs 2009*, contain 15 amendments to 12 standards. The following improvements were identified to be relevant but did not have any material effect on the Company's financial statements:
 - PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in recognition of an asset can be classified as part of cash flow investing activities.
 - PAS 17, *Leases*. The IASB deleted guidance stating that a lease of land with an indefinite economic life is normally classified as an operating lease, unless title is expected to pass to the lessee at the end of the lease term. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7-13 of PAS 17, taking into account the fact that land normally has an indefinite economic life.
 - PAS 39, *Financial Instruments: Recognition and Measurement*. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.
 - PFRS 8, *Operating Segments*. The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

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. 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 period generally established by regulations or convention in the marketplace.

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. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. As of December 31, 2010 and June 30, 2010, the Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS financial assets.

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 AFS financial assets or FVPL financial assets. Loans and receivables are carried at amortized cost, less impairment losses. 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 cash and cash equivalents, receivables and amounts 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.

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

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 PFRSs, such as income tax payable, deferred tax liabilities 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 an exchange or 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.

Determination of Fair Values. A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, when necessary, based on the market values, being the estimated amount for which an asset could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of fair value of financial instruments carried at fair value, by valuation method have been defined as follows:

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

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 where no observable data are used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Offsetting Financial Instruments. Financial assets and 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. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the statements of financial position.

Capital Stock and Additional Paid-in Capital

Capital stock is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effect.

When shares are sold at premium, the differences between the proceeds and the par value is credited to "Additional paid-in capital" account.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). The cost of inventories, which is determined using the standard cost method adjusted to actual cost, includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing these inventories to their present location and condition. In the case of manufactured inventories and work in process, cost includes an appropriate share of production overheads based on normal operating capacity.

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

Investments in Associates

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

The Company's 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 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 cost in bringing the asset to working condition and location for its intended use) less accumulated depreciation, amortization and impairment losses, if any.

Subsequent costs (including costs of replacing a part of property, plant and equipment) that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss as incurred.

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

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 assets' residual values, 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 a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. Impairment loss is recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the Company's statements of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset of cash-generating units (CGU) to which the asset belongs is written down to its recoverable amount. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs.

The recoverable amount of a 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 between knowledgeable, willing parties, less the costs of disposal. Value in use is the present value of the future cash flows expected to be delivered from an asset or CGU. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property and equipment and bottles and cases) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

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.

Sale of Goods

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, and under normal credit terms.

Interest

Interest is recognized as it accrues, taking into account the effective yield on the asset.

Expenses

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

Cost of Goods Sold

Cost of goods sold includes direct material costs, labor and manufacturing expenses. This is recognized when the service is rendered or the expense is incurred.

Selling, Distribution and Marketing Expenses

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

General and Administrative Expenses

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

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

Determination of Whether an Arrangement Contains a Lease

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

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 unused net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate over income tax (MCIT) over the regular corporate income tax (RCIT). Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and taxable temporary differences arising on the initial recognition of goodwill.

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 unused NOLCO and unused tax credits from excess MCIT can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Company's statements of financial position.

Retirement Plan

The Company has funded, noncontributory, defined benefit retirement plan covering substantially all of its employees. Retirement benefit expense is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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 past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits immediately vest following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

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 in Philippine peso using the exchange rates prevailing at the reporting date. Exchange gains or losses arising from translation of foreign currency denominated items at rates different from those at which they were previously recorded are 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.

New Standards, Revised Standards, Amendments to Standards, Improvements to Standards and Interpretations Not Yet Adopted

A number of new standards, revised standard and improvements to standards are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Company's 2013 financial statements and could change the classification and assessment of financial assets. The Company does not plan to adopt this standard early and the extent of the impact of the new or revised standard and improvements to standards have not been determined.

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

To be Adopted on January 1, 2011

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Improvements to PFRSs 2010*, contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRSs, which are relevant to the Company and which the Company did not early adopt. None of these is expected to have a significant effect on the financial statements of the Company.
 - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

To be Adopted on January 1, 2013

- PFRS 9, *Financial Instruments* (2009), was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) 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. In October 2010, a new version of PFRS 9,

Financial Instruments (2010), was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

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 22 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.

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

Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises principally from the Company's trade receivables.

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

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

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

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

Collateral securities are required for credit limit applications that exceed certain thresholds (see Note 22). 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 December 31, 2010 and June 30, 2010 under the line of credit is P2.909 billion and P2.960 billion, respectively, of which the Company had drawn P625.3 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
- P615 million and P725 million domestic bills purchased line, which were available as of December 31, 2010 and June 30, 2010, 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 P2.32 billion as of December 31, 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 in 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 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 December 31, 2010 and June 30, 2010.

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.

The Company's net debt to equity ratio as at reporting date is as follows:

	2010	
	December 31	June 30
Total liabilities	P3,482,134	P3,071,387
Less cash and cash equivalents	305,686	643,613
Net debt	P3,176,448	P2,427,774
Total equity	P5,654,791	P5,894,482
Net debt to equity ratio	0.56:1	0.41:1

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2010	
	December 31	June 30
Cash on hand and in banks	P205,686	P253,613
Short-term investments	100,000	390,000
	P305,686	P643,613

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 exposure to interest rate risk is disclosed in Note 22.

6. Receivables

Receivables consist of:

	Note	2010	
		December 31	June 30
Trade	22	P1,086,104	P1,124,733
Others	22	65,764	59,176
		1,151,868	1,183,909
Less allowance for impairment losses		127,989	108,489
		P1,023,879	P1,075,420

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:

	Note	2010					
		December 31			June 30		
		Trade	Others	Total	Trade	Others	Total
Balance at beginning of period		P91,462	P17,027	P108,489	P125,512	P24,785	P150,297
Impairment losses (reversal of impairment losses) recognized during the period	16	17,110	3,595	20,705	(10,638)	(5,017)	(15,655)
Reversal of write-offs (write-offs) during the period		5	(1,210)	(1,205)	(23,412)	(2,741)	(26,153)
Balance at end of period		P108,577	P19,412	P127,989	P91,462	P17,027	P108,489

Impairment losses (reversal of impairment losses) recognized during the period is included as part of "Selling and distribution expenses" account in the statements of comprehensive income.

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 22.

7. Inventories

Inventories consist of:

	2010	
	December 31	June 30
Finished goods:		
At cost	P470,587	P387,887
At net realizable value	466,696	383,579
Work in process:		
At cost	3,925	14,482
At net realizable value	3,925	14,482
Raw and packaging materials:		
At cost	430,196	337,730
At net realizable value	422,587	325,824
Spare parts and supplies:		
At cost	122,811	106,883
At net realizable value	116,159	101,582
Total inventories at lower of cost and net realizable value	P1,009,367	P825,467

Reversal of write-down of inventories to net realizable value amounted to P3 million for the six months ended December 31, 2010. Write-down of inventories to net realizable value amounted to P6 million and P24 million for the years ended June 30, 2010 and 2009, respectively. The reversal of write-down and write-down of inventories to net realizable value are included as part of "Cost of Goods Sold" account in the statements of comprehensive income.

8. Investments in Associates

Investments in associates consist of:

	Percentage (%) of Ownership		Amount	
			2010	
	December 31	June 30	December 31	June 30
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 period			298,366	296,101
Equity in net earnings for the period			797	2,265
Balance at end of period			299,163	298,366
			P530,785	P529,988

On March 4, 2011, the SEC approved the change in accounting period of NHC from fiscal year ending June 30 to calendar year ending December 31. NRC is in the process of amending its articles of incorporation as of reporting date. The financial statements used for the purpose of applying equity method are the most recent management accounts of the associates as of December 31, 2010.

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

As of December 31, 2010 and June 30, 2010, the undistributed earnings of the associates included in the Company's retained earnings amounting to P299 million and P298 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 December 31, 2010 (Unaudited)				
	Assets	Liabilities	Equity	Revenues	Net Income
NRC	P1,085,396	P563,488	P521,908	P5,283	P708
NHC (consolidated)	1,085,950	563,221	522,729	5,283	229
	As of June 30, 2010 (Audited)				
	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

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

9. Bottles and Cases

Bottles and cases consist of:

	2010	
	December 31	June 30
Deposit values of returnable bottles and cases on hand - net of allowance for unusable containers of P11,545 as of December 31, 2010 and P13,128 as of June 30 2010	P282,743	P294,659
Excess of cost over deposit values of returnable bottles and cases - net of accumulated amortization*	1,999,695	2,014,982
	2,282,438	2,309,641
Bottles and shells in transit	33,115	15,648
	P2,315,553	P2,325,289

* This includes pallets under finance lease with net book value of P92 million and P99 million as of December 31, 2010 and June 30, 2010, respectively.

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

	Note	2010	
		December 31	June 30
Gross carrying amount:			
Balance at beginning of period		P5,750,079	P5,250,140
Additions		290,267	499,939
Balance at the end of year		6,040,346	5,750,079
Accumulated amortization:			
Balance at beginning of period		3,735,097	3,172,072
Amortization for the period	18	305,416	564,021
Other movements		138	(996)
Balance at the end of period		4,040,651	3,735,097
Carrying amount:			
Balance at end of period		P1,999,695	P2,014,982

* This includes pallets under finance lease of P121 million and P119 million as of December 31, 2010 and June 30, 2010, respectively, with related accumulated amortization amounting to P29 million and P20 million as of December 31, 2010 and June 30, 2010, respectively, and net book value of P92 million and P99 million as of December 31, 2010 and June 30, 2010, respectively.

The amortization recognized for the period is included as part of "Cost of Goods Sold" account in the statements of comprehensive income.

10. Property, Plant and Equipment

The movements in this account are as follows:

	Note	Machinery and Other Equipment	Buildings and Leasehold Improvements	Construction In Progress	Furniture and Fixtures	Total
Gross carrying amount:						
July 1, 2009		P7,092,528	P762,675	P33,312	P29,092	P7,917,607
Additions		-	-	679,743	-	679,743
Disposals/write-offs		(113,510)	(70)	-	(305)	(113,885)
Transfers/reclassifications		372,010	75,343	(449,168)	1,815	-
June 30, 2010/July 1, 2010		7,351,028	837,948	263,887	30,602	8,483,465
Additions		-	-	447,336	-	447,336
Disposals/write-offs		(55,410)	(575)	-	(64)	(56,049)
Transfers/reclassifications		181,616	5,711	(188,491)	1,164	-
December 31, 2010		7,477,234	843,084	522,732	31,702	8,874,752
Accumulated depreciation and amortization:						
July 1, 2009		4,299,565	440,101	-	21,940	4,761,606
Depreciation and amortization	18	534,646	47,375	-	1,272	583,293
Disposals/write-offs		(104,741)	(35)	-	(305)	(105,081)
June 30, 2010/July 1, 2010		4,729,470	487,441	-	22,907	5,239,818
Depreciation and amortization	18	282,531	23,006	-	670	306,207
Disposals/write-offs		(45,339)	(500)	-	(65)	(45,904)
December 31, 2010		4,966,662	509,947	-	23,512	5,500,121
Carrying amount:						
June 30, 2010		P2,621,558	P350,507	P263,887	P7,695	P3,243,647
December 31, 2010		P2,510,572	P333,137	P522,732	P8,190	P3,374,631

A substantial portion of the Company's property, plant and equipment and certain parcels of land owned by NRC is mortgaged and placed in trust under two mortgage trust indentures to secure the Company's outstanding notes payable (see Notes 12 and 14).

The Company's bank loans were obtained for working capital requirements, thus no borrowing costs were capitalized in December 31, 2010.

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 P0.745 billion for the six months ended December 31, 2010, P1.127 billion for the year ended June 30, 2010 and P1.802 billion for the year ended June 30, 2009.

11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

		2010	
	Note	December 31	June 30
Trade payables	7, 14	P1,617,412	P1,468,984
Accrued advertising and marketing		203,819	186,420
Non-trade payables		95,120	77,840
Accrued retirement cost - current	23	87,875	87,875
Other accrued expenses	26	677,677	606,518
		P2,681,903	P2,427,637

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 accounts payable and other expenses is disclosed in Note 22.

12. Notes Payable

This account represents outstanding short-term loans from local banks amounting to P200 million as of December 31, 2010, which are payable in lump sum on maturity dates up to March 21, 2011. Interest rates range from 2.9% to 4.1% in 2010. The short-term loans are secured by two mortgage trust indentures on property, plant and equipment of the Company, and real estate of a related party, on a pro-rata and pari-passu. The carrying value of the outstanding collateral under the two mortgage trust indentures amounted to P337 million as of December 31, 2010 (see Notes 10 and 14). The Company has no outstanding short-term loans as of June 30, 2010.

Interest expense on notes payable recognized in profit or loss amounted to P1.5 million for six months ended December 31, 2010.

Information about the Company's exposures to interest rate risk and liquidity risk is disclosed in Note 22.

13. Income Taxes

The components of the income tax expense are as follows:

	For the Six Months Ended December 31	For the Years Ended June 30	
	2010	2010	2009
Current tax expense and final taxes on interest income	P80,004	P299,628	P324,832
Deferred tax expense (benefit) from origination and reversal of temporary differences and others	(24,774)	16,164	56,907
	P55,230	P315,792	P381,739

Deferred tax liabilities - net are attributable to the following:

	2010	
	December 31	June 30
Allowance for probable losses in values of bottles and cases, impairment losses, inventory obsolescence and other provisions	P117,460	P93,480
Accrual for retirement costs	72,068	63,484
Past service cost	28,967	35,270
	218,495	192,234
Bottles and cases	(418,864)	(414,853)
Marketing equipment	(166,744)	(169,268)
	(585,608)	(584,121)
	(P367,113)	(P391,887)

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:

	For the Six Months Ended December 31	For the Years Ended June 30	
	2010	2010	2009
Income before income tax	P184,916	P1,054,468	P1,181,429
Tax rate at 30% in 2010 and 32.5% in 2009	P55,475	P316,340	P383,964
Additions to (reductions in) income tax resulting from the tax effects of:			
Nondeductible expenses	527	2,840	1,704
Interest income subjected to final tax	(533)	(2,708)	(4,358)
Equity in net earnings of associates	(239)	(680)	(722)
Change in tax rate	-	-	1,192
Others	-	-	(41)
	P55,230	P315,792	P381,739

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.

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 29.48% 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 PepsiCo and Pepsi Lipton beverage products in the Philippines. In addition, PepsiCo and Pepsi Lipton shall supply the Company with the main raw materials (concentrates) in the production of these beverage products and share in the funding of certain marketing programs. The agreements may be renewed by mutual agreement between the parties. Under the agreements, PepsiCo and Pepsi Lipton have the right to terminate the contracts under certain conditions, including failure to comply with terms and conditions of the 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 P1.524 billion for the six months ended December 31, 2010 and P2.944 billion and P2.578 billion for the years ended June 30, 2010 and 2009, respectively. Total purchases from Pepsi Lipton for the six months ended December 31, 2010 amounted to P36 million and P99 million and P81 million for the years ended June 30, 2010 and 2009, respectively.

The Company has cooperative advertising and marketing programs 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 six months ended December 31, 2010, the Company incurred marketing expenses amounting to P229 million and P502 million and P521 million for the years ended June 30, 2010 and 2009, 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 P48 million and P5 million as of December 31, 2010 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 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 P5 million for the six months ended December 31, 2010 and P10 million and P11 million for the years ended June 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 and which are unsecured and payable on demand. The Company also has outstanding net receivables from NRC, amounting to P315 million and P119 million as of December 31, 2010 and June 30, 2010, 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 P4 million and P3 million as of December 31, 2010 and June 30, 2010, 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 non-cash 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:

	For the Six Months Ended December 31	For the Years Ended June 30	
	2010	2010	2009
Short-term employee benefits	P40,301	P87,114	P70,721
Post-employment benefits	1,176	3,159	3,754
	P41,477	P90,273	P74,475

15. Cost of Goods Sold

Cost of goods sold consists of:

		For the Six Months Ended December 31	For the Years Ended June 30	
	<i>Note</i>	2010	2010	2009
Materials and supplies used	14	P4,895,786	P9,073,587	P7,547,548
Delivery and freight		446,056	862,493	769,511
Depreciation and amortization	18	455,268	841,738	754,666
Rental and utilities	14, 26	164,722	295,250	268,318
Personnel expenses	19, 23	157,491	289,491	249,359
Others		331,250	555,344	453,336
		P6,450,573	P11,917,903	P10,042,738

16. Selling and Distribution Expenses

Selling and distribution expenses consist of:

		For the Six Months Ended December 31	For the Years Ended June 30	
	<i>Note</i>	2010	2010	2009
Distribution		P265,496	P502,806	P470,626
Personnel expenses	19, 23	227,513	415,835	408,061
Delivery and freight		150,115	286,638	230,101
Depreciation	18	141,053	271,359	233,383
Rental and utilities	14, 26	67,800	124,876	122,723
Others	6	206,685	403,436	437,680
		P1,058,662	P2,004,950	P1,902,574

17. General and Administrative Expenses

General and administrative expenses consist of:

		For the Six Months Ended December 31	For the Years Ended June 30	
	<i>Note</i>	2010	2010	2009
Personnel expenses	19, 23	P194,738	P333,132	P291,069
Outside services		72,130	118,026	106,881
Rental and utilities	14, 26	55,245	100,790	90,154
Others	18	69,732	156,144	132,746
		P391,845	P708,092	P620,850

18. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

		For the Six Months Ended December 31	For the Years Ended June 30	
	Note	2010	2010	2009
Cost of goods sold	15	P455,268	P841,738	P754,666
Selling and distribution	16	141,053	271,359	233,383
General and administrative	17	15,302	34,217	37,775
		P611,623	P1,147,314	P1,025,824

19. Personnel Expenses

		For the Six Months Ended December 31	For the Years Ended June 30	
	Note	2010	2010	2009
Salaries and wages		P551,128	P984,998	P913,698
Retirement cost	23	28,614	53,460	34,791
		P579,742	P1,038,458	P948,489

The above amounts are distributed as follows:

		For the Six Months Ended December 31	For the Years Ended June 30	
	Note	2010	2010	2009
Cost of goods sold	15	P157,491	P289,491	P249,359
Selling and distribution	16	227,513	415,835	408,061
General and administrative	17	194,738	333,132	291,069
		P579,742	P1,038,458	P948,489

20. Basic/Diluted Earnings Per Share (EPS)

Basic EPS is computed as follows:

		For the Six Months Ended December 31	For the Years Ended June 30	
		2010	2010	2009
Net income (a)		P129,686	P738,676	P799,690
Issued shares at beginning of the period		3,693,772,279	3,693,772,279	3,693,772,279
Weighted average number of shares outstanding (b)		3,693,772,279	3,693,772,279	3,693,772,279
Basic/Diluted EPS (a/b)		P0.04	P0.20	P0.22

As of December 31, 2010 and June 30, 2010 and 2009, the Company has no dilutive equity instruments.

21. 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, Mirinda, and Mug. The NCB brand category includes Gatorade, Tropicana/Twister, Lipton, 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		
	For the Six Months Ended December 31		For the Years Ended June 30	For the Six Months Ended December 31		For the Years Ended June 30	For the Six Months Ended December 31		For the Years Ended June 30
	2010	2010	2009	2010	2010	2009	2010	2010	2009
Net Sales									
External sales	P6,948	P13,560	P12,547	P2,647	P5,329	P4,053	P9,595	P18,789	P16,600
Sales discounts and returns	(1,011)	(2,091)	(1,953)	(290)	(589)	(415)	(1,301)	(2,660)	(2,368)
Net sales	P5,937	P11,469	P10,594	P2,357	P4,660	P3,638	P8,294	P16,129	P14,232
Result									
Segment result*	P1,319	P2,994	P3,118	P524	P1,217	P1,071	P1,843	P4,211	P4,189
Unallocated expenses							(1,679)	(3,215)	(3,044)
Interest and financing expenses									
Equity in net earnings of associates							(1)	(2)	(22)
Interest income							1	2	2
Other income - net							6	13	17
Income tax expense							15	46	40
Net income							(55)	(316)	(382)
Net income							P130	P739	P800
Other Information**									
Segment assets							P8,507	P8,327	P7,890
Investments in associates							531	530	528
Other noncurrent assets							99	109	144
Combined total assets							P9,137	P8,966	P8,562
Segment liabilities							P2,904	P2,620	P2,370
Income tax payable							11	59	156
Notes payable							200	-	50
Deferred tax liabilities - net							367	392	376
Combined total liabilities							P3,482	P3,071	P2,852
Capital expenditures							P745	P1,127	P1,802
Depreciation and amortization of bottles and shells and property, plant and equipment							612	1,147	1,026
Noncash items other than depreciation and amortization							34	29	113

* 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 total net sales.

** Segment assets and liabilities relate to balances as of December 31, 2010, June 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.

22. 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 December 31 and June 30 is as follows:

	2010	
	December 31	June 30
Receivables - net	P1,023,879	P1,075,420
Cash and cash equivalents	305,686	643,613
Due from related parties	405,465	165,085
Total credit exposure	P1,735,030	P1,884,118

As of December 31, 2010 and June 30, 2010, the aging analysis per class of financial assets that were past due but not impaired is as follows:

December 31, 2010

	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		1 to 30 days	31 to 60 days	More than 60 days		
Cash and cash equivalents	P305,686	P -	P -	P -	P -	P305,686
Receivables:						
Trade	676,400	268,800	32,327	-	108,577	1,086,104
Others	12,151	15,653	3,831	14,717	19,412	65,764
Due from related parties	405,465	-	-	-	-	405,465
	1,399,702	284,453	36,158	14,717	127,989	1,863,019
Less allowance for impairment losses	-	-	-	-	127,989	127,989
	P1,399,702	P284,453	P36,158	P14,717	P -	P1,735,030

June 30, 2010

	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		1 to 30 days	31 to 60 days	More than 60 days		
Cash and cash equivalents	P643,613	P -	P -	P -	P -	P643,613
Receivables:						
Trade	695,028	271,680	43,540	23,023	91,462	1,124,733
Others	9,809	11,193	3,452	17,695	17,027	59,176
Due from related parties	165,085	-	-	-	-	165,085
	1,513,535	282,873	46,992	40,718	108,489	1,992,607
Less allowance for impairment losses	-	-	-	-	108,489	108,489
	P1,513,535	P282,873	P46,992	P40,718	P -	P1,884,118

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 P174 million and P149 million as of December 31, 2010 and June 30, 2010, respectively.

The Company's exposure to credit risk arises from default of the counterparty. There are no significant concentrations of credit risk within the Company. Cash in banks and cash equivalents, trade and other receivables and due from related parties are of high grade 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 December 31, 2010				
	Carrying amount	Contractual cash flow	One year or less	More than one year to five years
Financial assets:				
Cash and cash equivalents	P305,686	P305,686	P305,686	P -
Receivables - net	1,023,879	1,023,879	1,023,879	-
Due from related parties	405,465	405,465	405,465	-
	P1,735,030	P1,735,030	P1,735,030	P -
Financial liabilities:				
Notes payable	P200,000	P201,750	P201,750	P -
Accounts payable and accrued expenses *	2,496,905	2,496,905	2,496,905	-
Other noncurrent liabilities	70,194	82,548	-	82,548
	P2,767,099	P2,781,203	P2,698,655	P82,548

* Excluding statutory payables, accrual for operating leases and current portion of accrued retirement cost.

As of June 30, 2010				
	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

* Excluding statutory payables, accrual for operating leases and current portion of accrued retirement cost.

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	
	December 31	June 30
Financial assets (cash equivalents)	P100,000	P390,000
Financial liabilities	(200,000)	-
	(P100,000)	P390,000

Sensitivity Analysis

A 2% increase in interest rates would have increased (decreased) equity and profits for the six months ended December 31, 2010 and for the years ended June 30, 2010 and 2009 by (P1 million), P6 million and P3 million, respectively.

A 2% decrease in interest rates for the six months ended December 31, 2010 and for the years ended June 30, 2010 and 2009 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 short-term nature of these financial instruments and the interest rates that they carry approximate interest rates for comparable instruments in the market.

The fair value of finance lease liability is estimated as the present value of all future cash flows discounted using the fixed interest rate. The discount rate used in the present value of the minimum lease payment is the interest rate implicit in the lease. The reduction on the finance lease liability is recognized using the effective interest method.

23. 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	
	December 31	June 30
Present value of defined benefit obligation	P391,053	P425,945
Fair value of plan assets	155,933	214,844
Unfunded obligations	235,120	211,101
Unrecognized net actuarial gains	5,107	512
Accrued retirement cost	P240,227	P211,613

The current portion of accrued retirement cost included under "Accounts payable and accrued expenses" account in the statements of financial position amounted to P88 million as of December 31, 2010 and June 30, 2010, while the noncurrent portion included under "Other noncurrent liabilities" account in the statements of financial position amounted to P152 million and P124 million as of December 31, 2010 and June 30, 2010, respectively.

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

	For the Six Months Ended December 31	For the Years Ended June 30	
	2010	2010	2009
Interest cost	P18,635	P34,052	P32,742
Current service cost	14,813	29,022	26,619
Expected return on plan assets	(4,834)	(9,614)	(20,905)
Amortization of unrecognized net actuarial gain	-	-	(3,665)
Net retirement cost	P28,614	P53,460	P34,791
Actual return on plan assets	P9,429	P2,892	P12,363

The Company's retirement cost is allocated between "Cost of Goods Sold" account in the statements of comprehensive income, which amounted to P3 million, P5 million and P6 million for the six months ended December 31, 2010 and for the years ended June 30, 2010 and 2009, respectively, and "Operating Expenses" account in the statements of comprehensive income which amounted to P26 million, P48 million and P28 million for the six months ended December 31, 2010 and for the years ended June 30, 2010 and 2009, respectively.

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

	2010	
	December 31	June 30
Balance at beginning of period	P425,945	P382,590
Interest cost	18,635	34,052
Current service cost	14,813	29,022
Benefits paid	(68,340)	(19,757)
Actuarial loss	-	38
Balance at end of period	P391,053	P425,945

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

	2010	
	December 31	June 30
Balance at beginning of period	P214,844	P175,708
Expected return	4,834	9,614
Net actuarial gain (loss)	4,595	(6,721)
Benefits paid	(68,340)	(19,757)
Contributions	-	56,000
Balance at end of period	P155,933	P214,844

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

Annual rates	2010	
	December 31	June 30
Discount rate	8.75%	8.75%
Expected rate of return on plan assets	4.50%	4.50%
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 as of December 31, 2010 and June 30, 2010.

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:

	December 31	June 30			
	2010	2010	2009	2008	2007
Present value of the defined benefit obligation	P391,053	P425,945	P382,590	P333,886	P366,031
Fair value of plan assets	155,933	214,844	175,708	195,117	148,454
Deficit in the plan	(235,120)	(211,101)	(206,882)	(138,769)	(217,577)
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 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.

24. Capital Stock

This account consists of:

	For the Six Months Ended December 31 2010		For the Years Ended June 30			
	Shares	Amount	2010		2009	
			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/ 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 637 and 657 holders of common equity securities as of December 31, 2010 and June 30, 2010, respectively, based on the number of accounts registered with the Stock Transfer Agent. The PCD Nominee Corporation (Filipino) and (Non-Filipino) were considered as two holders.

25. Retained Earnings

The BOD approved several declarations of cash dividends amounting to P369 million in the six months ended December 31, 2010, P554 million in June 30, 2010 and P369 million in June 30, 2009. Details of the declarations are as follows:

Date of Declaration	Dividend Per Share	Payable to Stockholders of Record as of	Date of Payment
September 30, 2008	0.10	October 15, 2008	November 7, 2008
September 30, 2009	0.15	October 15, 2009	October 29, 2009
September 9, 2010	0.10	September 24, 2010	October 8, 2010

The Company 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 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.

26. Commitments and Contingencies

a. Leases

• *Operating Lease Commitments*

The Company leases, from third parties and NRC, certain parcels of land where its bottling plants and warehouses are located and facility for a period of one to twenty-five years, renewable for another one to twenty-five years. None of these leases includes contingent rentals. Rent expense pertaining to these leased properties amounted to P93 million for the six months ended December 31, 2010, P179 million and P153 million for the years ended June 30, 2010 and 2009, respectively (see Notes 14, 15, 16 and 17).

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

	For the Six Months Ended December 31	For the Years Ended June 30	
	2010	2010	2009
Less than one year	P92,497	P64,441	P63,803
Between one and five years	318,107	201,375	204,332
More than five years	292,326	188,186	197,321
	P702,930	P454,002	P465,456

• *Finance Lease Commitments*

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

	December 31			June 30		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	P14,835	P313	P14,522	P26,521	P538	P25,983
Between one and five years	395,695	137,026	258,669	84,558	15,274	69,284
More than five years	383,078	84,973	298,105	136,351	5,760	130,591
	P793,608	P222,312	P571,296	P247,430	P21,572	P225,858

The current portion of the obligation under finance lease which is included under "Accounts payable and accrued expenses" account in the statements of financial position amounted to P15 million and P27 million as of December 31, 2010 and June 30, 2010, respectively, while the noncurrent portion which is included under "Other noncurrent liabilities" account in the statements of financial position amounted to P70 million and P69 million as of December 31, 2010 and June 30, 2010, 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 December 31, 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 December 31, 2010 and June 30, 2010. Interest expense related to the obligation under finance lease amounted to P3 million for the six months ended December 31, 2010, P7 million and P2 million for the years ended June 30, 2010 and 2009, respectively.

- b. The Company is a party to a number of lawsuits and claims relating to labor and other issues arising out of the normal course of its business. Management and its 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.

27. Supplementary Information Required Under Revenue Regulations 15-2010 of the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulations (RR) 15-2010, *Amending Certain Provisions of Revenue Regulations No. 21-2002, as Amended, Implementing Section 6 (H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying Income Tax Returns*. Under the said RR, companies are required to provide, in addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year. Following are the tax information required under RR 15-2010 for the six months ended December 31, 2010:

A. Value Added Tax (VAT)

	Amount
1. Output VAT	P983,526
Basis of the Output VAT:	
Vatable sales	P8,214,125
Zero rated sales	79,859
Net deductible discount	(18,078)
	P8,275,906

	Amount
2. Input VAT	
Beginning of the year	P -
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	705,382
b. Goods other than for resale or manufacture	-
c. Capital goods subject to amortization	17,927
d. Capital goods not subject to amortization	-
e. Services lodged under cost of goods sold	150,249
f. Services lodged under other accounts	-
Claims for tax credit/refund and other adjustments	-
Balance at the end of the year	P873,558
3. Customs Duties and Tariff Fees:	
Landed cost of imports	P935,811
Customs duties paid or accrued	18,072
Tariff fees paid or accrued	-
	P953,883

B. Documentary Stamp Tax

	Amount
Notes payable	P329
Others	191
	P520

C. Withholding Taxes

	Amount
Tax on compensation and benefits	P89,219
Expanded withholding taxes	88,433
Final withholding taxes	27,186
	P204,838

D. All Other Taxes (Local and National)

	Amount
<i>Other taxes paid during the year recognized as part of "Taxes and licenses" account under Cost of Goods Sold and Operating Expenses</i>	
License and permit fees	P28,195
Real estate taxes	22,903
Others	4,412
	P55,510

E. Deficiency Tax Assessments and Tax Cases

As of December 31, 2010, the Company has no pending tax court cases nor tax assessment notices from the BIR.



Manabat Sanagustin & Co., CPAs

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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 six months ended December 31, 2010, included in this Form 17-A and have issued our report thereon dated March 25, 2011.

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

ROBERTO G. MANABAT

Partner

CPA License No. 0030640

SEC Accreditation No. 0677-A

Tax Identification No. 106-187-127

BIR Accreditation No. 08-001987-14-2010

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

PTR No. 2639619MB

Issued January 3, 2011 at Makati City

March 25, 2011
Makati City, Metro Manila

Pepsi-Cola Products Philippines, Inc.

Km. 29, National Road
Tunasan, Muntinlupa City
Binan, Laguna

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

(Amounts in Thousands)

Unappropriated Retained Earnings, <i>as adjusted to available for dividend distribution, beginning</i>	P4,138,561
Add: Net income actually earned/realized during the period	129,686
Net income during the period closed to Retained Earnings	
Less: Non actual/unrealized income net of tax	
Equity in net earnings of associates	(797)
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	-
Subtotal	4,267,450
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)	-
Net income actually earned during the period	4,267,450
Add(less):	
Dividend Declaration during the period	(369,377)
Appropriation of Retained Earnings during the period	-
Reversals of Appropriation	-
Effects of prior period adjustments	-
Treasury shares	-
Total Retained Earnings, End - Available for Dividend	<u><u>P3,898,073</u></u>



Manabat Sanagustin & Co., CPAs

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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 March 25, 2011.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules A to I (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

ROBERTO G. MANABAT
Partner

CPA License No. 0030640

SEC Accreditation No. 0677-A

Tax Identification No. 106-187-127

BIR Accreditation No. 08-001987-14-2010

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

PTR No. 2639649MB

Issued January 3, 2011 at Makati City

March 25, 2011
Makati City, Metro Manila

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 Affiliates).

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	5,198,277	396,711,695	(353,451,412)				48,458,560
Nadeco Realty Corp.	156,887,017	196,292,525					353,179,542
Nadeco Holdings Corp.	2,999,846	826,308					3,826,154
Employees	4,170,194	25,148,249	(26,187,183)				3,131,260
Totals	169,255,334	619,978,777	(379,638,595)				408,595,616

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)	Distribu- tion of earnings by investees	Other (6)	Number of shares (2) or principal	Dividends received from
Nadeco Realty Corporation	22,000,000	529,475,257	706,562					
Nadeco Holdings	400	513,088	90,967					530,181,819
Totals	22,000,400	529,988,365	797,529					804,065
								530,785,884

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. 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						
Input tax on capital goods	74,956,008					74,956,008
Miscellaneous investments, dep and others	33,233,328				(6,928,845)	30,624,006
Miscellaneous receivables - long term	141,106				(2,609,322)	55,939
Miscellaneous assets	469,305				(85,167)	469,305
Totals	108,799,747				(9,623,334)	99,176,413

PEPSI-COLA PRODUCTS PHILIPPINES, INC.
 Schedule F. 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 G. 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 H. 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				

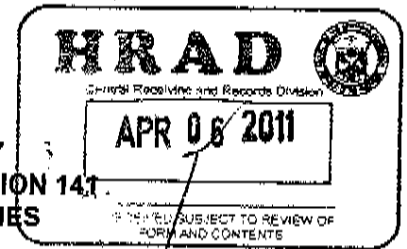
PEPSI-COLA PRODUCTS PHILIPPINES, INC.
 Schedule I. Capital Stock (1)

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	-	2,359,759,002	80,010	1,333,933,267
Totals	5,000,000,000	3,693,772,279	-	2,359,759,002	80,010	1,333,933,267

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 calendar year ended **31 December 2010**
2. SEC Identification Number **000160968** 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
Common Shares of Stock	3,693,772,279

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 - P2.739 million as of February 28, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

14. The following documents are incorporated in this report:

- (a) December 31, 2010 Audited Financial Statements attached as Exhibit I hereof;
- (b) Statement of Management Responsibility attached as Exhibit II hereof, and
- (c) Amendments to the Articles of Incorporation and By-Laws attached as Exhibit III 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, and confectionery products to retail, wholesale, restaurants and bar trades. The registered office address and principal place of business of the Company is Km. 29, National Road, Tunañan, Muntinlupa City.

b. Bankruptcy, Receivership or Similar Proceedings

The Company is 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 has not made any material reclassifications nor entered into a merger, consolidation or purchase or sale of significant amount of assets not in the ordinary course of business in the past three years.

(2) Business of Issue

a. Principal products

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

	For the six-months ended	Fiscal Year-ended	
	Dec 2010	June 2010	June 2009
Net Sales			
Carbonated soft drinks	₱ 5,937	₱11,469	₱10,594
Non-carbonated beverages	2,357	4,660	3,638
Total	₱ 8,294	₱16,129	₱14,232

	Dec 2010	June 2010	June 2009
	Segment result*		
Carbonated soft drinks	₱ 1,319	₱2,994	₱3,118
Non-carbonated beverages	524	1,217	1,071
Total	₱1,843	₱4,211	₱4,189

* 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 0.23% of total net sales for the six-months ended December 31, 2010, and 0.28%, and 0.26% for the fiscal year-ended June 30, 2010 and June 30, 2009 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, pack/price promotions, new product development, distribution and availability, packaging and customer goodwill.

Competitors in the 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 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 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 sugar requirements domestically because of import restrictions imposed by the Philippine government. It purchases beverage concentrates from PepsiCo and 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.

	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	October 8, 2007	October 8, 2017
Premier*	December 18, 1992	March 24, 2014

* trademark owned by the Company

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

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 ₱ 477,353 for the six-months ended December 31, 2010 and ₱317,460 and ₱233,293 for the fiscal years June 30, 2010 and 2009, 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 ₱30 million in wastewater treatment and air pollution abatement, respectively, in its facilities.

n. Employees

As of December 31, 2010, the Company employed approximately 2,622 people. In addition, it generally deploys around 2,000 casual employees working in the non-core operations of the business. DOLE accredited third party manpower and services supply the temporary manpower needs of the company. The number of casual employees varies seasonally, with generally higher numbers during peak months of March through June. As of December 31, 2010, it had 2,001 casual employees.

All of the regular and permanent production employees at the bottling plants and sales offices are represented by a union. The Company is a party to 13 collective bargaining agreements, with separate agreements for the sales and the non-sales forces in some business units. 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 has a contract period 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.

Significant emphasis is placed on training of 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 for this purpose. 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 improved 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 with 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 December 31, 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 December 31, 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 December 31, 2010 Audited Financial Statements, and the investments in shares of stocks disclosed in Note 8 to the December 31, 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 12 (Notes Payables) to the December 31, 2010 Audited Financial Statements for details on mortgage, lien or encumbrances over the properties of the Company.

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

The following were the matters voted upon at the Annual Stockholders' Meeting held on December 15, 2010:

- Amendment of Articles of Incorporations and By-Laws (refer to Exhibit III for the details of amendments). The number of votes are as follows: 2,536,099,947 (68.66% of total shares) - in favor, nil - not in favor and 2 - abstain. On December 22, 2010 the SEC approved the amendments to Articles of Incorporations and By-Laws.
- Election of Directors

The following were re-elected as members of the Board of Directors for the ensuing year (2010-2011):

Hwang Chung
Partha Chakrabarti
Inho Kim
Nam Kuen Lee
John L. Sigalos
Umrans Beba
Qasim Khan
Yeon-Suk No
Rafael M. Alunan III (Independent Director)
Oscar S. Reyes (Independent Director)

All of the above were incumbent Directors at the time of their re-election. 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.

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, 2009 and 2008 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
July to September 2010	P 2.65	P2.61
October to December 2010	P 2.95	P2.50

The closing share price as of March 15, 2011 is P2.14.

Stockholders

The Company has approximately 641 holders of common shares as of February 28, 2011 [with the PCD Nominee Corporation (Filipino) and (Non-Filipino) considered as two holders], 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 February 28, 2011.

NO.	Name	Number of Shares Held	Percentage of Ownership
1	LOTTE CHILSUNG BEVERAGE CO.LTD.	1,270,657,644	34.40%
2	QUAKER GLOBAL INVESTMENTS B.V.	1,089,101,358	29.48%
3	PCD NOMINEE CORP. (FILIPINO)	640,760,686	17.35%
4	PCD NOMINEE CORP (NON-FILIPINO)	626,727,983	16.97%
5	ORION LAND INC.	60,000,000	1.62%
6	BORROMEO, JOSEPH MARTIN H.	450,000	0.01%
7	YAN, LUCIO W.	300,000	0.01%
8	BLANCAVER, RENE B.	255,000	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	YU, FELIX S.	149,998	0.00%
13	MERCHAN BERNARDO	140,000	0.00%
14	UMALI, JOSE I.	100,000	0.00%
15	IGNACIO, JUANITO R.	100,000	0.00%
16	PINEDA, MA. CORAZON V.	100,000	0.00%
17	NARCISO, MA CELESTE S.	100,000	0.00%
18	CHEUNG WAI TAK	100,000	0.00%
19	SISON, NANCY B.	80,000	0.00%
20	DINO, ROSAURO P.	70,000	0.00%

Cash Dividends

The Board of Directors (BOD) approved several declarations of cash dividends amounting to ₱369 million in the six-months ended December 31, 2010, ₱554 million in fiscal year 2010 and ₱369 million in fiscal year 2009. Details of the declarations are as follows:

Date of Declaration	Dividend Per Share	Payable to Stockholders of Record as of	Date of Payment
September 30, 2008	0.10	October 15, 2008	November 7, 2008
September 30, 2009	0.15	October 15, 2009	October 29, 2009
September 9, 2010	0.10	September 24, 2010	October 8, 2010

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 - six-months-ended December 31, 2010 versus fiscal year June 30, 2010

With continued focus on driving affordability and availability across the country, the Company posted strong gross sales revenue of ₱9.6 billion for the six-months ended December 31, 2010. Annualized sales revenue grew by 3% in midst of fierce competition. The Company continued to expand its offering of beverages products through new product innovations such as Lipton Sparkling and Tropicana Juice Plus and packaging innovations such as Pepsi slim cans.

The sales revenue growth was tempered by unprecedented increase in sugar cost, which is one of key raw materials used by the Company. In 2009, sugar price started to rise 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. In Oct-Dec 2010 quarter, sugar prices increased by 12% versus Jan-Mar 2010 quarter and 55% versus Oct-Dec 2009. The result was gross profit amounting to ₱1.8 billion, while gross profit margin was 22% for the six-month ended December 31, 2010, down from year ago gross profit margin of 29%. Generally, profit is geared towards the Jan-June period of each year, representing the peak season. In 2010, it had shifted given the national elections in May 2010 and the hot weather. Thereby, impacting consumer spending for the six-months ended December 31, 2010.

The Company has continued to put a tight control on cost, with minimal fluctuations versus year ago. Increase in selling and distribution as well as marketing expenses were in line with the increase in revenue. General and administrative expenses increased due to one-time restructuring cost relating to the change in shareholders. Overall, operating expenses as a percentage of net sales was maintained at 20% both for the six-months ended December 31, 2010 and the fiscal year ended June 30, 2010. Net income amounted to ₱130 million, while net income margin was at 2% for the six-months ended December 31, 2010. 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 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.

FINANCIAL CONDITION AND LIQUIDITY

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 December 31, 2010 Audited Financial Statements for a detailed discussion on the Company's revolving credit facilities as of December 31, 2010).

Credit sales over the past three years have remained at the level of 64% to 68% of total sales. This credit sales level 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 were at 28 to 30 days, while, inventory days were at 9 to 11 days for the past three years. Trade payable days have remained at manageable levels.

Increase in current assets from ₱2,758 million as of June 2010 to ₱2,817 million as of December 2010 were due to increases in inventories by ₱184 million, amounts due from related parties by ₱240 million and prepaid expenses by ₱24 million. This was offset by decrease in cash and cash equivalents and receivables by ₱338 million and ₱52 million, respectively.

Non-current assets increased from ₱6,208 million as of June 2010 to ₱6,320 million as of December 2010 mainly due to additions to property, plant and equipment (net of depreciation) of ₱131 million, in line with the Company's continued expansion of plant capacity.

Increase in current liabilities from ₱2,486 million as of June 2010 to ₱2,892 million as of December 2010 is mainly due to increase in Accounts Payable & Accrued Expenses by ₱254 million and Notes Payable of ₱200 million. The increase is partially offset by the decrease in Income Tax Payable by ₱48 million.

Non-Current Liabilities increased from ₱585 million as of June 2010 to ₱590 million as of December 2010 due to increase in Other Non-Current Liabilities by ₱30 million, offset by the decrease in Deferred Tax Liabilities by ₱25 million.

Total assets increased from ₱8,966 million as of June 2010 to ₱9,137 million as of December 2010 mainly due to the significant increase in noncurrent assets described above. Total liabilities increased from ₱3,071 million as of June 2010 to ₱3,482 million as of December 2010 mainly due to similar factors stated in increase in current liabilities. Total equity decreased from ₱5,894 million to ₱5,655 million on account of net income of ₱130 million for the six-months ended December 31, 2010 less dividends of ₱369 million paid during the period.

MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

The Company has ongoing definite corporate expansion projects approved by the BOD. As a result of this expansion program, the Company spent for property, plant and equipment as well as bottles and shells amounting to ₱0.745 billion for the six-months ended December 31, 2010, ₱1.127 billion for the year ended June 30, 2010, and ₱1.802 billion for the year ended June 30, 2009. To this date, the Company continues to invest in major capital expenditures in order to complete the remaining expansion projects lined up in line with prior calendar year spending.

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 December 31, 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 solely responsible 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 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. 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 audit of its financial statements for the period from July 1 to December 31, 2010. Aside from audit services, it has also engaged Manabat Sanagustin & Co. to perform tax assurance services and render opinion on projects relating to interpretation of tax laws, regulations and rulings.

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 (ii) tax accounting, compliance, advice, planning and any other form of tax services are summarized as follows:

	Six Months period ended December 31, 2010	Fiscal Year ended June 30, 2010	Fiscal Year ended June 30, 2009
Statutory audit fees	P 3.00 Million	P 3.68 Million	P 3.50 Million
Tax advice fees	-	-	P0.33 Million
Total	P 3.00 Million	P 3.68 Million	P3.83 Million

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, of the Company:

Name	Age	Citizenship	Year Position was Assumed
Hwang Chung	61	Korean	2010
Partha Chakrabarti	46	Indian	2010
Inho Kim	44	Korean	2010
Nam Kuen Lee	56	Korean	2010
John L. Sigalos	44	American	2009
Umran Beba**	46	Turkish	2010
Qasim Khan	53	Pakistani	2008
Yeon-Suk No	46	Korean	2010
Rafael M. Alunan III*	62	Filipino	2007
Oscar S. Reyes*	64	Filipino	2007

* Independent Director

** Resigned effective February 15, 2011, thereby reducing the number of directors from 10 to 9.

Executive Officers

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

Name	Age	Citizenship	Position	Year Position was Assumed
Hwang Chung	61	Korean	Chairman of the Board Chief Executive Office	2010 2011
Partha Chakrabarti	46	Indian	President	2010
Yeon-Suk No	46	Korean	Executive Vice-President and Chief Strategy Officer	2010
Akash Shah	36	Canadian	Senior Vice-President and Chief Financial Officer	2010
Roberto H. Goce	57	Filipino	Senior Vice-President/Senior General Manager, Cagayan Valley Operations, Central Luzon Operations and North Luzon Operations	2006
Daniel D. Gregorio, Jr.	58	Filipino	Senior Vice-President for Manufacturing and Logistics	1998
Ma. Rosario C.Z. Nava	42	Filipino	Corporate Secretary and Compliance Officer	2007

Background Information and Business Experience**Directors:****HWANG CHUNG**

Mr. Chung is the new Chairman of the Board of Directors and Chief Executive Officer of the Company. He is the current President/CEO of Lotte Chilsung Beverage Co., Ltd. and Lotte Asahi Liquor Co., Ltd., as well as a director of Lotte Liquor Co., Ltd. Prior to his current appointments, he was President/CEO of Korea Seven Co., Ltd. (Seven Eleven Korea), and held various positions in Lotte Chilsung Beverage Co., Ltd. including Senior Executive Sales Director, Marketing Director and Product Development Director.

PARTHA CHAKRABARTI

Mr. Chakrabarti has been employed by PepsiCo since 1994 and he remains a PepsiCo employee while holding his current position in the Company under a formal secondment agreement. He is currently the Company's President. Prior to this, he was the Corporation's Executive Vice-President/Chief Operating Officer for Finance, Treasury, HR/EIRC/Legal, Manufacturing and Logistics and before that, he was its Senior Vice-President/Chief Financial Officer. 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.

INHO KIM

Mr. Kim has been with the Lotte Group for 18 years now. He is currently a director of International and New Business Development for the Lotte Group. Prior assignments included Corporate Planning for 7-Eleven, as well as having been Research Associate for the Lotte R&D Center. He holds an MBA from Korea University Business School and a Bachelor of Arts degree in English Literature and Language from Kyung Hee University.

NAM KUEN LEE

Mr. Lee is the current Executive Managing Director for Planning and Overseas Business of Lotte Chilsung Beverage Co., Ltd. He also sits as Chief Executive Officer of CH Beverage Co., Ltd. and Auditor of Sanjung & Changdae Beverage Co. Prior positions held in Lotte Chilsung Beverage Co., Ltd. included being Sales Director of 2nd Area HQ, Planning Director, Chief of Planning Department, and Head of the Budget Management and Finance Teams.

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 (RESIGNED ON FEBRUARY 15, 2011)

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 and South Asia Business Unit. Prior to joining PepsiCo, he worked for Procter & Gamble. He holds an MBA and Marketing degrees (with honors) from Michigan State University.

YEON-SUK NO

Mr. No is currently the Executive Vice-President and Chief Strategy Officer of the Company. He is also the Head of P-project Team of Lotte Chilsung Beverage Co., Ltd. He has held a number of positions in Lotte Chilsung Beverage Co., Ltd. including being the Head of various departments namely, the Overseas Business Department, Syrup Sales Branch, Sales Strategy & Support Team, and Sales Channel Analysis Team. He was also Manager of Product Planning, Advertisement, Information and Strategy in said company. Mr. No holds a Bachelor of Business Administration degree from the Hanyang 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:

AKASH SHAH

Mr. Shah is currently the Company'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 management positions in the Asia-Pacific region, including China (M&A, Business Development Director), Thailand (Franchise CFO), and across South East Asia (Planning Director). 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.

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 the Company's 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 its employees as instrumental to the overall success of the Company's 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 allowances, 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 five (5) years and up to the latest date.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Directors and Executive Officers

The aggregate compensation paid in the period from July 1 to December 31, 2010 and the fiscal years 2010, and 2009 to the following Executive Officers is set out in the table below:

1. Micky Yong – Chairman, President & Chief Executive Officer *(retired on October 20, 2010)*
2. Felix S. Yu – Executive Vice-President & Chief Operating Officer for National Sales Operations *(retired on October 20, 2010)*
3. Partha Chakrabarti – President *(effective from October 20, 2010)*
4. No, Yeon-Suk – Executive Vice-President & Chief Strategy Officer *(effective from October 20, 2010)*
5. Akash Shah – Senior Vice-President & Chief Financial Officer
6. Daniel D. Gregorio, Jr. – Senior Vice-President for Manufacturing & Logistics
7. Roberto H. Goce – Senior Vice-President, Corporate Services Group

Name	Year	Salary	Bonus	Others
Aggregate for above-named officers	FY 2008	43,708,000	22,066,000	-
	FY 2009	40,716,000	11,618,000	-
	FY 2010	43,739,000	20,444,000	-
	July 1 to Dec. 31, 2010	23,977,244	2,698,333	-
All other directors and officers as a group unnamed	FY 2008	-	-	P1,336,765*
	FY 2009	-	-	3,352,941*
	FY 2010	-	-	2,535,000*
	July 1 to Dec. 31, 2010	-	-	765,000*

* 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 Company'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 (P500,000.00). Previously, 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 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 February 28, 2011.

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	Lotte Chilsung Beverage Co., Ltd. ¹ 50-2 Jamwon-dong, Seocho-gu, Seoul, Korea Relationship - Stockholder	Same as indicated in column 2	Korean	1,270,657,644	34.4000%
Common shares	Quaker Global Investments B.V. ² Zonnebaan 35, 3542 Eb Utrecht The Netherlands Relationship - Stockholder	Same as indicated in column 2	Dutch	1,089,101,358	29.4848%
Common shares	PCD Nominee Corporation (Filipino) ³ 37th Floor, The Enterprise Center Ayala Avenue, Makati City Relationship – please refer to footnote	Please refer to footnote	Filipino	640,760,686	17.3471%
Common shares	PCD Nominee Corporation (Non-Filipino) ⁴ 37th Floor, The Enterprise Center Ayala Avenue, Makati City Relationship – please refer to footnote	Please refer to footnote	Non-Filipino	626,727,983	16.9672%

¹ Lotte Chilsung Beverage Co., Ltd. ("Lotte") is a corporation duly organized and existing under and by virtue of the laws of Korea with principal office at 50-2 Jamwon-dong, Seocho-gu, Seoul, Korea. Lotte, through its Board of Directors, has designated Mr. Yeon-Suk No to vote its shares of stock in the Corporation.

² 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. Partha Chakrabarti to vote its shares of stock in the Corporation.

³ 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 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.

⁴ Same as footnote 1 above except that the beneficial ownership of shares registered in the name of PCD Nominee Corporation 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.

Security Ownership of Management as of February 28, 2011.

Title of Class	Name and Address of Owner	Amount & Nature of Beneficial Ownership	Citizenship	Percent of Class
Common shares	Hwang Chung Chairman of the Board and Chief Executive Officer c/o 50-2 Jamwon-dong, Seocho-gu, Seoul, Korea	1*	Korean	Nil
Common shares	Partha Chakrabarti President, c/o Km. 29, National Road, Tunasan, Muntinlupa City	1*	Indian	Nil
Common shares	Inho Kim Non-Executive Director c/o 25th Floor, Lotte Bldg. 1, Sogong-Dong, Jung-Gu, Seoul (100-721), Korea	1*	Korean	Nil
Common shares	Nam Kuen Lee Non-Executive Director c/o 50-2 Jamwon-dong, Seocho-gu, Seoul, Korea	1*	Korean	Nil
Common shares	John L. Sigalos Non-Executive Director c/o 20th Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	American	Nil
Common shares	Umrhan Beba Non-Executive Director c/o 20th Floor Caroline Center 28 Yun Ping Road, Causeway Bay, Hong Kong	1*	Turkish	Nil
Common shares	Qasim Khan Non-Executive Director c/o 25th Floor Emporium Tower, 622 Sukhumvit Road, Klongton, Klongtoey, Bangkok, Thailand	1*	Pakistani	Nil
Common shares	Yeon-Suk No Executive Vice-President and Chief Strategy Officer c/o Km. 29, National Road, Tunasan, Muntinlupa City	1*	Korean	Nil
Common shares	Rafael M. Alunan III Independent Director c/o 5th 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	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/Senior General Manager, Cagayan Valley Operations, Central Luzon Operations and North Luzon Operations 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 7th 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 December 31, 2010 are 80,010 shares which is approximately 0.0022% of the Company's 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 of the Company. A change in substantial ownership of the Company occurred on October 20, 2010 when Guoco Assets (Philippines), Inc. and Hong Way Holdings, Inc. (collectively, the "Guoco Group") and a group of shareholders represented by Mr. Jose M. Periquet, Jr. sold its 30.14% and 4.26% shareholdings, respectively, in the Company to Lotte Chilsung Beverage Co., Ltd. ("Lotte"). Lotte currently holds 34.4000% of the total issued and outstanding capital stock of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Refer to Note 14 to the December 31, 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 and progress against the relevant Annual Operating Plan and Operating Targets, monitors 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.

The Executive Committee shall be composed of at least seven members, namely, the Chief Executive Officer, the Chief Strategy Officer, the Chief Operating Officer, the Chief Financial Officer, and three regular directors.

The incumbent members of the Executive Committee as of February 28, 2011 are as follows: Messrs. Partha Chakrabarti (President), Akash Shah (Chief Financial Officer), and Qasim Khan.

There are vacancies in the Executive Committee resulting from the resignation of the Chairman and certain members thereof representing the Guoco Group following the sale by the Guoco Group of its entire shareholdings in the Company to Lotte Chilsung Beverage Co., Ltd. The Board of Directors of the Company has decided to defer filling the vacancies in the Executive Committee and to take this up at the Organizational Meeting of the newly-elected Board of Directors after the Annual Stockholders' Meeting.

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 Company that business operations are carried out according to approved standards and objectives, and the Company's resources are preserved and productive.

The Audit Committee shall be composed of at four 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 as of February 28, 2011 are as follows: Messrs. Oscar S. Reyes (Chairman), John L. Sigalos, and Rafael M. Alunan III.

There is a vacancy in the Audit Committee resulting from the resignation of one of the members thereof representing the Guoco Group following the sale by the Guoco Group of its entire shareholdings in the Company to Lotte Chilsung Beverage Co., Ltd. The Board of Directors of the Company has decided to defer filling the vacancy in the Audit Committee and to take this up at the Organizational Meeting of the newly-elected Board of Directors after the Annual Stockholders' Meeting.

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.

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

The incumbent members of the Compensation and Remuneration Committee as of February 28, 2011 are as follows: Messrs. John L. Sigalos and Rafael M. Alunan III.

There is a vacancy in the Compensation and Remuneration Committee resulting from the resignation of the Chairman and one of the members thereof representing the Guoco Group following the sale by the Guoco Group of its entire shareholdings in the Corporation to Lotte Chilsung Beverage Co., Ltd. The Board of Directors of the Company has decided to defer filling the vacancy in the Compensation and Remuneration Committee and to take this up at the Organizational Meeting of the newly-elected Board of Directors after the Annual Stockholders' Meeting.

Nomination Committee

The Nomination Committee ensures that the Company'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 Company as a responsible enterprise which has a positive value on the communities where it operates.

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

The incumbent members of the Nomination Committee as of February 28, 2011 are as follows: Messrs. Nam Kuen Lee, John L. Sigalos and Rafael M. Alunan III.

The chairmanship of the Executive, Nomination, and Compensation and Remuneration Committees shall be decided later by the unanimous vote of its Director-members once it convenes in meetings held for this purpose pursuant to the By-laws of the Company.

For purposes of evaluating compliance with the Manual, the Company has adopted the self-rating form prescribed by the Securities and Exchange Commission ("SEC"). The Company has complied with its Manual through the election of two (2) independent directors to the Company'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 Company's Human Resources Department; and adherence to applicable accounting standards and disclosure requirements.

The Company 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 Company.

While the Company 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. Hwang Chung in his capacity as the Chief Executive Officer. Said position is the Company's equivalent position for principal executive officer.
2. Partha Chakrabarti in his capacity as the President. Said position is the Company's equivalent position for principal operating officer.
3. Akash Shah in his capacity as the Senior Vice President and 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:



HWANG CHUNG

Chairman of the Board and CEO

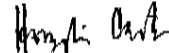


PARTHA CHAKRABARTI

President


AKASH SHAH

*Senior Vice-President 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 APR 04 2011 by:

<u>Name</u>	<u>Competent Evidence of Identity</u>	<u>Valid Until</u>
Hwang Chung	Passport No. JR4016155	June 30, 2018/ Korea
Partha Chakrabarti	Passport No. Z1751780	Feb. 25, 2018/ Manila
Akash Shah	Passport No. BA647570	Oct. 22, 2014/ Bangkok
Ma. Rosario C. Z. Nava	SSS No. 33-0460082-8	
Honeylin C. Castolo	SSS No. 33-3165379-6	

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. FEDERICO CLAUDIO G. SANDOVAL
Notary Public

Until December 31, 2011; NC 10-029

Attorney's Roll No. 45274

IBP LRN: 07119; 01-08-2008; Rizal

PTR No. ~~075003~~ ; 01-25-2011 Muntinlupa City

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EXHIBIT C – AMENDMENTS TO THE ARTICLES OF INCORPORATIONS AND BY-LAWS

A. AMENDMENTS TO THE ARTICLES OF INCORPORATION

1. Inclusion of “confectionery” in the Primary Purpose clause and amendment of the SECOND Article, as follows:

“SECOND. That the purposes for which the said Corporation is formed are:

PRIMARY PURPOSE

To engage in, operate, conduct and maintain the business of manufacturing, importing, buying, selling, handling, distributing, trading or otherwise dealing in, at wholesale and (to the extent allowed by law) retail, confectionery, drinks and other beverages in bottles, cans and other containers or dispensers and other related goods of whatever nature, and any and all materials, supplies and other goods used or employed in or related to the manufacture of such finished products.”

2. Reduction in the number of directors from ten (10) to nine (9) and amendment of the SIXTH Article, as follows:

“SIXTH. That the number of directors of said Corporation shall be nine (9) and that the names, nationalities and residences of the directors who are to serve until their successors are elected and qualified as provided by the By-Laws are as follows:

X X X.”

3. Various amendments relating to the manner of giving notice of Board and Board committee meetings (to include by electronic mail) and increasing the required vote in Board meetings to ¾ or 75% for the validity of certain corporate acts, among others, will be introduced in the TWELFTH Article, as follows:

“(b) Each of the directors and members of the Executive, Audit, Nomination, Compensation and Remuneration, and other committees, including *ex-officio* directors and members, shall receive written notice (whether by personal service, Δ facsimile or electronic mail) of all meetings of the Board of Directors and/or any committee at least seven (7) days prior to the date of any such meeting. All proceedings had and business transacted at any meeting without such notice shall be null and void *ab initio* unless all the members of the Board or committee, as the case may be, waive such notice.”

“© For as long as the Exclusive Bottling Appointments granted by PepsiCo, Inc. (“PepsiCo”) or its affiliates to the Corporation authorizing the Corporation under the terms and conditions specified therein to produce beverages known as and sold under the trademarks PEPSI, DIET PEPSI, PEPSI LIGHT, PEPSI MAX, MIRINDA, MOUNTAIN DEW, DIET 7UP, 7UP, GATORADE, PROPEL, TROPICANA and STING, or its replacement or supplemental agreements (collectively, the “Appointments”), provide for and remain effective, PepsiCo retains, among other rights, the right to cancel and terminate the Appointments [except if PepsiCo is a party to or the cause of such event(s)] upon any sale, transfer, change of ownership, or other disposition (including, but not limited to, merger, consolidation, or dissolution), whether voluntary or involuntary or by operation of law or otherwise, without the prior written consent of PepsiCo which in its absolute and unqualified discretion may be withheld, of the stock, shares of interest, or other evidence of ownership of the Corporation, in a single transaction or a series of related transactions:

x x x.”

“(e) For as long as the Appointments remain effective, at any board of directors meeting of the Corporation, the affirmative vote of three-fourths or 75% of the directors Δ shall be required for the validity of any of the following acts:

x x x

“(2) Disposal of any assets of the Corporation which have a value in excess of 10% of the net book value of all the assets of the Corporation unless provided for in the relevant Annual Operating Plan;”

x x x

“(9) Declaration or payment of dividends other than in accordance with the policy that Δ the Corporation may declare and pay dividends up to 50% (or such other percentage as may be reset by the Board) of its net profits (after allowing for provisions and other requirements of the Annual Operating Plan) on condition that it complies with Δ the applicable Operating Targets as set out in the then current Annual Operating Plan;”

“(10) Recruitment, hiring, or otherwise changing terms of employment (including compensation, severance, or termination) for the six (6) highest-paid executives, officers and/or directors of the Corporation other than such terms as Δ recommended by the Compensation and Remuneration Committee of the Corporation;”

x x x.”

B. AMENDMENTS TO THE BY-LAWS

- 1. Amendment of SECTION 1 of ARTICLE 1 to clarify that it is the President that signs stock certificates, as follows:**

“SECTION 1. Certificates of stock shall be issued in numerical order from the stock certificate book, signed by the President and countersigned by the Secretary, and sealed with the seal of the Corporation. A record of each certificate shall be kept on the stub thereof.”

- 2. Various amendments relating to the change in the date of holding the annual stockholders' meeting (to provide consistency with the Corporation's fiscal year which is also being amended), deletion of the provision on voting by ballot to provide some flexibility in voting procedures during annual stockholders' meetings, updating the Order of Business during annual stockholders' meetings to apprise the stockholders of the usual agenda during such annual meetings, among others, will be introduced in ARTICLE II, as follows:**

“SECTION 1. The annual meeting of Stockholders shall be held in Metro Manila △ on the last Friday of May of each year △ (which shall not be a legal holiday) or, if it be a legal holiday, on the business day immediately preceding it △.”

“SECTION 2. Special meetings of the Stockholders may be called at the office of the Corporation by resolution of the Board of Directors, upon request of the Stockholders holding one-third or more of the fully paid-up capital stock, or by the President.”

“SECTION 3. Subject to the rule on proxies and information statements under pertinent laws and rules, notices of every annual or special meeting of Stockholders shall be mailed to the last known post office address of each Stockholder not less than ten (10) days prior to any such meeting, and in case of a special meeting such notice shall state the object or objects of the meeting. Notices of special meetings shall be sent by the person or persons issuing the call.”

“SECTION 4. The election of Directors of the Corporation shall be held at the annual meeting of the Stockholders each year. △ No delinquent stock shall be voted.”

“SECTION 6. The order of business at regular meetings of the Stockholders, and as far as possible at all other meetings, shall be:

1. Call to Order;
2. Certification of Notice and of Quorum;
3. Approval of minutes of the previous meeting;
4. Report of the Chief Executive Officer;
5. Presentation of the Audited Financial Statements;
6. Ratification of Acts of the Board of Directors and Management for the previous year;
7. Election of Directors;
8. Appointment of Auditors;
9. Other Matters;
10. Adjournment.”

X X X

“SECTION 8. For as long as the Exclusive Bottling Appointments granted by PepsiCo, Inc. (“PepsiCo”) or its affiliates to the Corporation authorizing the Corporation under the terms and conditions specified therein to produce beverages known as and sold under the trademarks PEPSI, DIET PEPSI, PEPSI LIGHT, PEPSI MAX, MIRINDA, MOUNTAIN DEW, DIET 7UP, 7UP, GATORADE, PROPEL, TROPICANA and STING, or its replacement or supplemental agreements (collectively, the “Appointments”), provide for and remain effective, PepsiCo retains, among other rights, the right to cancel and terminate the Appointments [except if PepsiCo is a party to or the cause of such event(s)] upon any sale, transfer, change of ownership or other disposition (including, but not limited to, merger, consolidation or dissolution), whether voluntary or involuntary or by operation of law or otherwise, without the prior written consent of PepsiCo which in its absolute and unqualified discretion may be withheld, of the stock, shares of interest or other evidence of ownership of the Corporation, in a single transaction or a series of related transactions:

X X X.”

3. Various amendments relating to the manner of giving notice of Board and Board committee meetings (to include by electronic mail) and increasing the required vote in Board meetings to $\frac{3}{4}$ or 75% for the validity of certain corporate acts (similar to the amendments introduced in the Amended Articles of Incorporation), updating the Order of Business during Board of Directors' meetings, clarifying the membership of the various Board committees and aligning provisions on its role, duties and responsibilities with updated corporate governance rules and requirements, among others, will be introduced in ARTICLE III, as follows:

“SECTION 1. The business of the Corporation shall be conducted and all its property controlled and held by a Board of Directors the members of which shall be elected from among the Stockholders at the annual meeting, and who shall hold office for one year, and until their successors are duly elected and qualified. All Directors shall at all times possess all the qualifications and none of the disqualifications provided for in the Articles of Incorporation, these By-Laws, the Manual of Corporate Governance, applicable laws, regulations, and resolutions and rules passed or adopted by the Nomination Committee. The Board of Directors shall be responsible for setting the overall strategic direction of the Corporation. It shall agree upon the long-term plans, capitalization and significant investments of the Corporation, set the key strategic milestones, plans and policies for execution by the Chief Executive Officer and the senior management team, and approve the Annual Operating Plan.”

“SECTION 2. Regular meetings of the Board of Directors may be held at such times and at such places, either within or without the Philippines, as the Board of Directors may from time to time determine.”

“SECTION 3. Special Meetings of the Board of Directors may be called at any time by the President or by any three members of the board and may be held at any place, either within or without the Philippines.”

“SECTION 4. Notices of regular and special meetings of the Board of Directors shall be given to each Director by personal delivery, facsimile or electronic mail not less than seven (7) days before any such meeting, and notices of special meetings shall state the purpose or purposes thereof. Notices of regular and special Board meetings shall be sent by the Secretary or Assistant Secretary and. All proceedings had and business transacted without such notice shall be null and void *ab initio* unless all Directors waive such notice.”

“SECTION 5. A quorum at any meeting of the Board of Directors shall consist of a majority of the entire membership of the Board and a majority of those present shall be necessary to decide any matter that may come before a meeting, except for the election of officers which shall require the vote of a majority of all the members of the Board, or as otherwise provided for in the Articles of Incorporation, these By-Laws, or by law.”

“SECTION 9. The order of business at regular meetings of the Board of Directors, and as far as possible at all other meetings, shall be:

1. Call to Order;
2. Certification of Notice and of Quorum;
3. Approval of minutes of previous Board meetings;
4. Ratification of minutes of previous committee meetings;
5. Matters for the Board’s Consideration and Approval;
6. Matters for the Board’s Information;
7. Other Matters;
8. Adjournment.”

“SECTION 10. The Board of Directors shall create and appoint the following committees: an Executive Committee, an Audit Committee, a Nomination Committee, a Compensation and Remuneration Committee, and may create such other committees as it may deem necessary or convenient. The Executive Committee, the Audit Committee, the Nomination Committee, and the Compensation and Remuneration Committee shall resolve all matters brought before it (including the election of their respective Chairmen) by the unanimous vote of its Director-members. If unanimity cannot be achieved at the committee level, the unresolved issue or matter for decision by the committee shall be elevated to the Board for consideration and approval which shall decide the same by majority vote, unless it is one of those corporate acts requiring the vote of three-fourths or 75% of the members of the Board.”

“10.1 The Executive Committee shall be composed of seven (7) members, namely, the Chief Executive Officer, the Chief Strategy Officer, the Chief Operating Officer, the Chief Financial Officer, and ^ three (3) regular Directors. For as long as the Appointments remain effective, then PepsiCo shall be entitled to nominate at least one member of the Executive Committee. The Executive Committee shall meet ^ regularly and shall review the detailed financial and operating performance of the Corporation ^. It shall review progress against the relevant Annual Operating Plan and Operating Targets, monitor 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. It shall work with the Chief Executive Officer in identifying issues affecting the business of the Corporation, and shall provide guidance to the Chief Executive Officer. It shall work with the Chief Executive Officer and his/her senior management team to formulate and develop the Annual Operating Plan prior to review by the Board of Directors. The Executive Committee shall have and exercise all the powers of the Board of Directors during the intervals between Board meetings except for: (1) approval of any action for which Stockholders’ approval is also required; (2) the filling of vacancies in the Board; (3) the amendment or repeal of these By-Laws or the adoption of new by-laws; (4) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; (5) a distribution of dividends to the Stockholders; and (6) such other matters as may be specifically excluded or limited by the Board or by the Corporation Code. The Executive Committee shall

keep minutes of each of its meetings, which shall be presented at the next succeeding meeting of the Board of Directors for ratification.”

“10.2 The Audit Committee shall be composed of four (4) members of the Board, with at least two members being independent directors. Each member shall preferably have accounting and finance/audit backgrounds and shall have adequate understanding of the Corporation’s financial management systems and environment. The Chairman of the Audit Committee shall be an independent director. The Audit Committee shall meet at least once every three months, and shall (a) assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations; (b) check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements; (c) perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management; (d) pre-approve all audit plans, scope and frequency before the conduct of external audit; (e) perform direct interface functions with the internal and external auditors; (f) endeavour to elevate to international standards the accounting and auditing processes, practices and methodologies in accordance with applicable laws and regulations; (g) develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation through a step-by-step procedures and policies handbook that will be used by the entire organization. The Audit Committee shall keep minutes of each of its meetings, which shall be presented at the next succeeding meeting of the Board of Directors for ratification.”

“10.3 The Nomination Committee shall be composed of at least three members, one of whom shall be an independent director. The Board of Directors may also designate non-voting members as it may on a case-to-case basis require for purposes of advising the Committee. The Nomination Committee shall meet at least once a year, and shall (a) 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, these By-Laws, the Manual of Corporate Governance, applicable laws, regulations, and resolutions and rules passed or adopted by it, the Shareholders, the Board of Directors, including disqualifying nominees who, in the Committee’s judgment, represents an interest adverse to or in direct or indirect conflict with those of the Corporation; (b) advise the Board and the Shareholders, as applicable, whether the directors continue to be qualified or are disqualified from continuing as members of the Board of Directors; (c) in consultation with the Executive Committee, re-define the role, duties, and responsibilities of the Chief Executive Officer or other members of senior management by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times. The Nomination Committee shall keep minutes of each of its meetings, which shall be presented at the next succeeding meeting of the Board of Directors for ratification.”

“10.4 The Compensation and Remuneration Committee shall be composed of at least three members, one of whom shall be an independent director. The Board of Directors may also designate non-voting members as it may on a case-to-case basis require for purposes of advising the Committee. The Compensation and Remuneration Committee shall meet at least once a year, and shall (a) establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation’s culture, strategy and control environment; (b) designate the amount of remuneration, which shall be in a sufficient level to attract and retain senior management and directors who are needed to run the Corporation successfully; (c) develop a Full Business Interest Disclosure form as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired; (d) disallow any director to decide his or her own remuneration; (e) to the extent required by law or regulation, provide in the Corporation’s annual reports, information, and proxy statements a clear, concise, and understandable disclosure of all fixed and variable compensation that may be paid to its directors and top four (4) Δ management officers for the previous fiscal year Δ ; and (f) review (if any) or cause the development of, the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts. The Compensation and Remuneration Committee shall keep minutes of each of its meetings, which shall be presented at the next succeeding meeting of the Board of Directors for ratification.”

“10.5 The other committees of the Board, created and appointed by the Board from time to time, shall have such powers and duties not inconsistent herewith as the Board of Directors may from time to time determine. All such committees shall resolve all matters brought before it (including the election of their respective Chairmen) by the unanimous vote of its Director-members. If unanimity cannot be achieved at the committee level, the unresolved issue or matter for decision by the committee shall be elevated to the Board for consideration and approval which shall decide the same by majority vote, unless it is one of those corporate acts requiring the vote of three-fourths or 75% of the members of the Board. The members of the Executive Committee and such other committees created by the Board of Directors may be removed at any time by the Board of Directors, with or without cause, and any vacancies in such committees shall be filled by the Board of Directors, at any regular or special meeting of the Board at which a quorum is present; provided, that only the party which nominated the member who was removed may nominate the replacement of such member. The Board of Directors shall adopt rules and regulations not inconsistent herewith, prescribing the powers of the Executive Committee and the other committees, and the manner in which said powers shall be exercised.”

'Each of the members of the Executive, Audit, Nomination, Compensation and Remuneration, and other committees shall receive written notice (whether by personal delivery, Δ facsimile or electronic mail) of all meetings of such committee, at least seven (7) days prior to the date of any such meeting. All proceedings had and business transacted at any meeting without such notice shall be null and void *ab initio* unless all committee members waive such notice.'

x x x

"SECTION 13. For so long as the Appointments remain effective, at any board of directors meeting of the Corporation, the affirmative vote of three-fourths or 75% of the directors Δ shall be required for the validity of any of the following acts:

x x x

'(2) Disposal of any assets of the Corporation which have a value in excess of 10% of the net book value of all the assets of the Corporation unless provided for in the relevant Annual Operating Plan;'

x x x

'(9) Declaration or payment of dividends other than in accordance with the policy that Δ the Corporation may declare and pay dividends up to 50% (or such other percentage as may be reset by the Board) of its net profits (after allowing for provisions and other requirements of the Annual Operating Plan) on condition that it complies with Δ the applicable Operating Targets as set out in the then current Annual Operating Plan;'

'(10) Recruitment, hiring, or otherwise changing terms of employment (including compensation, severance, or termination) for the six (6) highest-paid executives, officers and/or directors of the Corporation other than such terms as Δ recommended by the Compensation and Remuneration Committee of the Corporation;'

x x x."

4. **Amendment of SECTION 1 of ARTICLE III-A to clarify that in no case shall the Corporation have less than two independent directors pursuant to the requirement of the Securities Regulation Code, as follows:**

"SECTION 1. The Corporation shall, to the extent required by law or regulation, have two independent directors or at least 20% of its board size, whichever is the lesser, provided, that the number of independent directors shall in no case be less than two. All Directors, including Independent Directors, shall at all times possess all the qualifications and none of the disqualifications provided for in the Articles of Incorporation, these By-

Laws, the Manual of Corporate Governance, applicable laws, regulations, and resolutions and rules passed or adopted by the Nomination Committee.”

5. Various amendments relating to the separation of the positions of President and Chief Executive Officer and properly delineating their functions, clarifying who are the Officers of the Corporation and clarifying their respective roles, duties and responsibilities, and amending certain provisions to align these with updated corporate governance rules and requirements, among others, will be introduced in Article IV, as follows:

“SECTION 1. The Officers of the Corporation △ are the Chairman of the Board, the Vice-Chairman, the President, the Chief Executive Officer, the Chief Strategy Officer, the Chief Operating Officer, one or more Executive Vice Presidents, one or more Vice Presidents, the Compliance Officer, the Chief Financial Officer, the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary, and such other officers as the Board of Directors may from time to time elect or appoint. Any two or more offices, except those the functions and duties of which are incompatible, may be held by one person by resolution of the Board of Directors.”

X X X

“SECTION 3. The Vice-Chairman of the Board shall preside at the meetings of the Board of Directors and Stockholders in the absence of the Chairman. He/She shall exercise such powers and perform such duties and functions as the Board of Directors may, from time to time, assign to him/her.”

“SECTION 4. The President shall be a △ director of the Corporation. He/She may call special meetings of the Stockholders and the Board of Directors and shall perform all such other duties as are incident to his/her office or are properly required of him/her by the Board of Directors.”

“SECTION 5. The Chief Executive Officer, who need not be a director of the Corporation, shall be in charge of the general management of the business and affairs of the Corporation. Along with the senior management team reporting to him/her, he/she shall be fully responsible for the day-to-day operations of the business of the Corporation and shall develop the Annual Operating Plan, and present the Annual Operating Plan to the Executive Committee and Board of Directors for review and approval, be fully responsible for executing the Annual Operating Plan, be charged with maximizing the Corporation’s business results, identifying issues affecting its business, and developing and executing plans to enhance the Corporation’s performance. He/She shall perform all such other duties as are incident to his/her office or are properly required of him/her by the Board of Directors. He/She shall sign contracts and other instruments of the Corporation as are proper and necessary for the transaction of the ordinary business of the Corporation.”

“SECTION 6. The Chief Strategy Officer shall be responsible for developing the long-term business plan of the Corporation. He/She shall identify and develop plans for the introduction of new product lines and implementation of new business of the Corporation. He/She shall evaluate business opportunities for the Corporation, including, but not limited to, joint ventures, acquisitions and strategic alliances. He/She shall be in charge of liaising in behalf of the Corporation with PepsiCo on all matters that relate to the Appointments. He/She shall perform such other duties as are incident to his/her office or are properly required of him/her by the Board of Directors.”

“SECTION 7. The Chief Operating Officer shall be in charge of the overall sales, marketing, and operations of the Corporation including Δ planning, directing, and coordinating the operations of the Corporation, and shall perform such other duties as are incident to his/her office or are properly required of him/her by the Board of Directors.”

“SECTION 8. The Executive Vice-President(s) and the Vice-President(s) shall constitute the senior management team of the Corporation and shall report directly to the Chief Executive Officer. If qualified, they shall assume such specific duties as the Chief Executive Officer may assign to them in writing, or as may be properly required of them by the Board of Directors.”

“SECTION 9. The Chairman of the Board shall, to the extent required by law or regulation, designate a Compliance Officer who shall hold the position of a Vice President or its equivalent. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer. The Compliance Officer shall directly report to the Chairman of the Board, and shall perform the following duties: (a) monitor compliance with the provisions and requirements of the Corporation’s Manual of Corporate Governance (the “Manual”) and the rules and regulations of regulatory agencies; (b) appear before the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same; (c) determine violation/s of the Manual and recommend penalty for violation thereof for Δ review and approval of the Board, as well as the adoption of measures to prevent a repetition of the violation; (d) issue a certification as required by law or regulation on the extent of the Corporation’s compliance with the Manual for the completed year, explaining the reason/s of the latter’s deviation from the same; and (e) identify, monitor, and control compliance risks.

“SECTION 10. The Corporate Secretary, who shall be a citizen and resident of the Philippines, shall issue all notices of regular meetings of the Stockholders and Board of Directors; keep the minutes of all meetings of the Stockholders and Board of Directors; have charge of the corporate seal and records; sign, with the President, all stock certificates and such instruments as require such signature; and make such reports and perform such other duties as are incident to his/her office, or as may be properly required of him/her by the Board of Directors.”

“SECTION 11. The Assistant Corporate Secretary shall also be a citizen and resident of the Philippines, and in the absence or disability of the Corporate Secretary, shall act in his/her place and perform his/her duties. The Corporate Secretary may delegate any or all of his/her powers, duties, functions and responsibilities to the Assistant Corporate Secretary who shall always be subject to the supervision and control of the Corporate Secretary. The Assistant Corporate Secretary shall also perform such other duties as may, from time to time, be assigned to him/her by the Board of Directors or the Chief Executive Officer.”

“SECTION 12. The Chief Financial Officer, who shall report to the Chief Executive Officer, shall exercise the financial management function for the Corporation, including treasury management, taxation and tax planning, audit and financial compliance, banking relationships and arrangements, and such other duties consistent and typically exercised by one with the job title as may from time to time be delegated or required by the Board of Directors.”

“SECTION 13. The Treasurer shall have charge of all monies of the Corporation and shall keep regular books of account therefor. He/She shall sign or countersign such instruments as require his/her signature; perform all duties incident to his/her office and render such accounts, reports, and statements as may be properly required of him/her by the Chief Executive Officer or the Board of Directors. Unless otherwise determined by the Board of Directors, he/she shall sign, in the name of the Corporation, all checks, drafts and orders for payment of money, and in case the Board of Directors shall so require, he/she shall give a bond satisfactory to the Board of Directors for the faithful performance of his/her duties.”

“SECTION 14. The officers of the Corporation shall receive such compensation and salary as may be recommended by the Compensation and Remuneration Committee; provided, however that the power to fix the compensation and salary of the officers performing management functions, other than the officers enumerated in these By-laws, may be delegated by the Board of Directors to the Chief Executive Officer.”

6. Change in the fiscal year of the Corporation to 1 January to 31 December of each calendar year and amendment of SECTION 1 of ARTICLE V, as follows:

“SECTION 1. The Fiscal Year of the Corporation shall commence with the opening of business on the 1st day of ^ January of each calendar year, and shall close on the ^ 31st day of ^ December ^ of the same year.”

7. **Increasing the vote required to delegate the amendment, modification or repeal of the Corporation's By-Laws, or the adoption of new By-Laws, to $\frac{3}{4}$ or 75% and amendment of SECTION 1 of ARTICLE IX, as follows:**

"SECTION 1. These By-Laws may be amended or repealed by the affirmative vote of at least a majority of the Board of Directors and of the Stockholders representing a majority of the outstanding capital stock at any Stockholders meeting called for that purpose. However, the power to amend, modify or repeal these By-Laws or to adopt new By-Laws may be delegated to the Board of Directors by the affirmative vote of Stockholders representing not less than three-fourths or 75% of the outstanding capital stock: Provided, however, that any such delegation of powers to the Board of Directors may be revoked by the vote of the Stockholders representing a mere majority of the outstanding capital stock at a regular or special meeting."

