COVER SHEET

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S.E.C. Identification No.

PEPSI-COLA PRODUCTS PHILIPPINES, INC.

(Company's Full Name)

Km. 29 National Road, Tunasan, Muntinlupa City

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

Honeylin C. Castolo

Contact Person

(632) 8656-365

Company Telephone Number

3		3	1	SEC Form 17-Q	Aug 4, 2011
Month		Day		FORM TYPE	Month Date

Fiscal Year

Annual Meeting

Secondary License Type, If Applicable

C	F	D

Dept. Requiring this Doc.

Amended Article Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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SECForm17-Q (Aug 11) 050811 (2) (2).doc (Instructions)
February 2001

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 31, 2011**

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

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

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

6. Industry Classification Code: (SEC Use Only)

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

8. Issuer's telephone number, including area code: **(632) 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 Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding as of September 30, 2008
Common Shares of Stock	**3,693,772,279**

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

Yes [X] No [ ]

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

12. Indicate by check mark whether the registrant:

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

Yes [X] No [ ]

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

Yes [X] No [ ]

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Branches: Subic · Cebu · Bacolod · Iloilo

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-mail manila@kpmg.com.ph

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.

We have reviewed the accompanying condensed interim statement of financial position of Pepsi-Cola Products Philippines, Inc. (the Company) as at June 30, 2011, the condensed interim statements of comprehensive income for the six months ended June 30, 2011and 2010 and the three months ended June 30, 2011 and 2010, changes in equity and cash flows for the six months ended June 30, 201 1and 2010, and notes, comprising a summary of significant accounting policies and other explanatory information (the condensed interim financial information). Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with Philippine Accounting Standard 34, "Interim Financial Reporting" (PAS 34). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at June 30, 2011, is not prepared, in all material respects, in accordance with PAS 34.

Emphasis of Matter

We draw attention to the fact that we audited the financial statement of the Company as of December 31, 2010 and rendered our report dated March 25, 2011 on that statement.

Manabat Sanagustin & Co., CPAs

August 12, 2011
Makati City, Metro Manila

Part 1 – Financial Information

Item 1. Financial Statements.

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

	Note	**June 30 2011 (Unaudited)**	December 31 2010 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*9*	**P305,820**	P305,686
Receivables - net	*9*	**1,062,974**	1,023,879
Inventories		**1,050,594**	1,009,367
Due from related parties	*8, 9*	**440,707**	405,465
Prepaid expenses and other current assets		**60,599**	72,383
Total Current Assets		**2,920,694**	2,816,780
Noncurrent Assets			
Investments in associates		**526,372**	530,785
Bottles and cases - net		**2,643,860**	2,315,553
Property, plant and equipment - net	*6*	**3,521,875**	3,374,631
Other noncurrent assets - net		**140,953**	99,176
Total Noncurrent Assets		**6,833,060**	6,320,145
		P9,753,754	P9,136,925
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*9*	**P2,787,803**	P2,681,903
Notes payable	*9*	**550,000**	200,000
Income tax payable		**18,558**	10,568
Total Current Liabilities		**3,356,361**	2,892,471
Noncurrent Liabilities			
Deferred tax liabilities – net		**385,232**	367,113
Other noncurrent liabilities		**249,717**	222,550
Total Noncurrent Liabilities		**634,949**	589,663
Total Liabilities		**P3,991,310**	P3,482,134

Forward

	June 30	December 31
	2011	2010
	(Unaudited)	(Audited)
Equity		
Capital stock	**P554,066**	P554,066
Additional paid-in capital	**1,197,369**	1,197,369
Retained earnings	**4,011,009**	3,903,356
Total Equity	**5,762,444**	5,654,791
	P9,753,754	P9,136,925

See Notes to the Condensed Interim Financial Information.

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

	Note	For The Six Months Ended June 30		For The Three Months Ended June 30	
		2011	2010	**2011**	2010
		(Unaudited)		(Unaudited)	
GROSS SALES		**P9,778,712**	P10,089,881	**P 5,339,550**	P5,493,903
Less: Sales Return and Discounts		**1,332,768**	1,441,471	**740,747**	785,813
NET SALES		**P8,445,944**	P8,648,410	**P4,598,803**	P4,708,090
COST OF GOODS SOLD		**6,766,719**	6,581,863	**3,631,510**	3,584,105
GROSS PROFIT		**1,679,225**	2,066,547	**967,293**	1,123,985
OPERATING EXPENSES		**1,529,253**	1,617,616	**860,301**	843,380
INCOME FROM OPERATIONS		**149,972**	448,931	**106,992**	280,605
NET FINANCE AND OTHER INCOME		**5,708**	30,127	**3,263**	16,136
INCOME BEFORE INCOME TAX		**155,680**	479,058	**110,255**	296,741
INCOME TAX EXPENSE		**48,027**	143,755	**34,464**	89,359
NET INCOME/TOTAL COMPREHENSIVE INCOME		**107,653**	335,303	**75,791**	207,382
Basic/Diluted Earnings Per Share	*5*	**P0.03**	P0.09	**P0.02**	P0.06

See Notes to the Condensed Interim Financial Information.

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

	For The Six Months Ended June 30	
	2011	2010
	(Unaudited)	
CAPITAL STOCK		
Common stock - P0.15 par value per share		
Authorized - 5,000,000,000		
Issued and outstanding - 3,693,772,279	**P554,066**	P554,066
ADDITIONAL PAID-IN CAPITAL	**1,197,369**	1,197,369
RETAINED EARNINGS		
Balance at beginning of period	**3,903,356**	3,807,746
Net income for the period	**107,653**	335,303
Balance at end of period	**4,011,009**	4,143,049
	P5,762,444	P5,894,484

See Notes to the Condensed Interim Financial Information.

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

		For The Six Months Ended June 30	
	Note	**2011**	2010
		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P155,680**	P479,058
Adjustments for:			
Depreciation and amortization	*6*	**564,188**	586,413
Retirement cost		**25,065**	24,026
Allowance for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others - net		**15,508**	(51,425)
Interest expense		**8,723**	50
Equity in net earnings of associates		**4,413**	(792)
Interest income		**(2,929)**	(5,932)
Gain on sale of property and equipment		**(2,618)**	(546)
Write-off of bottles and cases		**-**	(743)
Operating income before working capital changes		**768,030**	1,030,109
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables		**(53,191)**	(11,414)
Inventories		**(43,608)**	(89,258)
Due from related parties	*8*	**(35,242)**	98,470
Prepaid expenses and other current assets		**11,784**	26,143
Increase in accounts payable and accrued expenses		**106,030**	217,133
Cash generated from operations		**753,803**	1,271,183
Interest received		**2,955**	5,656
Interest paid		**(5,809)**	(50)
Income taxes paid		**(21,917)**	(123,695)
Net cash provided by operating activities		**729,032**	1,153,094
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of property and equipment		**6,041**	8,641
Net additions to:			
Property, plant and equipment	*6*	**(382,286)**	(386,118)
Bottles and cases		**(660,876)**	(391,582)
Decrease (increase) in other noncurrent assets		**(41,777)**	8,659
Net cash used in investing activities		**(1,078,898)**	(760,400)

Forward

	For The Six Months Ended June 30	
	2011	2010
	(Unaudited)	
CASH FLOWS FROM A FINANCING ACTIVITY		
Proceeds from (repayments of) notes payable	**P350,000**	(P100,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**134**	292,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**305,686**	350,919
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P305,820**	P643,613

See Notes to the Condensed Interim Financial Information.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

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

1. Reporting Entity

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

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
These condensed interim financial information have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. These condensed interim financial information do not include all of the information required for a complete set of financial statements, and should be read in conjunction with the annual financial statements of the Company as at December 31, 2010.

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

The significant judgments and estimates made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the annual financial statements as at and for the year ended December 31, 2010.

During the six months ended June 30, 2011, management reassessed its estimates in respect of the following:

Estimating Allowance for Impairment Losses on Receivables
As at June 30, 2011 and December 31, 2010, allowance for impairment losses on receivables amounted to P143 million and P128 million, respectively.

Estimating Net Realizable Value of Inventories
As at June 30, 2011 and December 31, 2010, the carrying amount of inventories was reduced to its net realizable values by P21 million and P18 million, respectively.

3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the annual financial statements as at and for the year ended December 31, 2010.

Changes in Accounting Policies
The following are the amendment to standard and interpretation, which are effective for the six months ended June 30, 2011, and have been applied in preparing these condensed interim financial information:

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements. The adoption of this revised standard did not have any significant impact on the Company's financial statements.

- *Improvements to PFRSs 2010,* contain 11 amendments to six standards and to one interpretation. The following improvements were identified to be relevant but did not have any material effect on the Company's financial statements..

  - 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.

  - 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.

New Standard Not Yet Adopted
PFRS 9, *Financial Instruments* (2009), which 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). The standard has been approved but is not yet effective for the six months ended June 30, 2011. The Company does not plan to early adopt this standard and the extent of its impact on the financial statements has not been determined.

4. Seasonality of Operations

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

5. Basic/Diluted Earnings Per Share (EPS)

Basic EPS is computed as follows:

	For The Six Months Ended June 30		For The Three Months Ended June 30	
	2011	2010	**2011**	2010
	(Unaudited)		(Unaudited)	
Net income (a)	**P107,653**	P335,303	**P75,791**	P207,382
Weighted average number of shares outstanding (b)	**3,693,772,279**	3,693,772,279	**3,693,772,279**	3,693,772,279
Basic/Diluted EPS (a/b)	**P 0.03**	P0.09	**P0.02**	P0.06

As at June 30, 2011 and 2010, the Company has no dilutive equity instruments.

6. Property, Plant and Equipment

The movements in this account are as follows:

	Machinery and Other Equipment	Buildings and Leasehold Improvements	Construction in Progress	Furniture and Fixtures	Total
Measurement basis	*Cost*	*Cost*	*Cost*	*Cost*	
Gross carrying amount:					
December 31, 2010 (Audited)	P7,477,234	P843,084	P522,732	P31,702	P8,874,752
Additions	516,379	84,393	(221,145)	2,659	382,286
Disposals	(42,049)	-	-	(45)	(42,094)
Transfers/reclassifications	104,582	1,648	(106,230)	-	-
June 30, 2011 (Unaudited)	**8,056,146**	**929,125**	**195,357**	**34,316**	**9,214,944**
Accumulated depreciation and amortization:					
December 31, 2010 (Audited)	4,966,662	509,947	-	23,512	5,500,121
Depreciation and amortization	222,815	8,059	-	745	231,619
Disposals	(38,626)	-	-	(45)	(38,671)
Transfers/reclassifications	19	(19)	-	-	-
June 30, 2011 (Unaudited)	**5,150,870**	**P517,987**	-	**24,212**	**5,693,069**
December 31, 2010 (Audited)	P2,510,572	P333,137	P522,732	P8,190	P3,374,631
June 30, 2011 (Unaudited)	**P2,905,276**	**P411,138**	**P195,357**	**P10,104**	**P3,521,875**

No impairment indicators exist on the Company's property, plant and equipment as at June 30, 2011 and December 31, 2010.

The Company has ongoing definite corporate expansion projects or programs approved by the BOD. As result of this expansion program, the Company spent for property, plant and equipment, as well as bottles and shells, amounting to P1,043 million for the six months ended June 30, 2011.

Change in Estimated of Useful Lives (EUL) of certain Property and Equipment
In 2010, the Company reviewed the EUL of its property and equipment and determined that utilization of certain property and equipment is different from previous estimates.

The changes in EUL in each assets class are as follows:

	Number of Years	
	Old EUL	New EUL
Building	20	40
Leasehold Improvement	10	15
Machinery - Mechanical	10	25
Machinery – Electronics	10	5
Machinery – Component	10	5
Mechanical Machinery – Rehab –	4	8
Electronics Machinery - Rehab	4	5
Automotive	5	7

The effect of the above changes in depreciation expense recognized under the "Cost of Goods Sold" and "Operating Expenses" accounts in the condensed interim statements of comprehensive income in the current and future years follows:

	2011*	2012	2013	2014	2015 and beyond
Increase (decrease) in depreciation expense	(P175,306)	(P137,357)	(P87,371)	(P66,790)	P466,824

* For the six months ended June 30, 2011, the effect of change in EUL of certain Property and Equipment was a decrease in depreciation expense by P91 million.

7. 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 business segments, the CSD and NCB categories. Analysis of financial information by business segment is as follows:

	For the Six Months Ended June 30					
	Carbonated Soft Drinks		Noncarbonated Beverages		Combined	
	2011	2010	2011	2010	2011	2010
(In 000,000's)	(Unaudited)		(Unaudited)		(Unaudited)	
Sales						
External sales	**P6,900**	P7,264	**P2,879**	P2,826	**P9,779**	P10,090
Sales discounts and returns	**(1,003)**	(1,127)	**(330)**	(315)	**(1,333)**	(1,442)
Net sales	**P5,897**	P6,137	**P2,549**	P2,511	**P8,446**	P8,648
Result						
Segment result*	**P1,172**	P1,467	**P507**	P600	**P1,679**	P2,067
Unallocated expenses					**(1,529)**	(1,618)
Interest and financing expenses					**(9)**	(3)
Interest income					**3**	6
Equity in net earnings of associates					**(4)**	1
Other income (expenses) - net					**16**	27
Income tax expense					**(48)**	(144)
Net income					**P108**	P336
Other Information**						
Segment assets					**P9,087**	P8,507
Investments in and advances to associates					**526**	531
Other noncurrent assets					**141**	99
Combined total assets					**P9,754**	P9,137
Segment liabilities					**P3,037**	P2,904
Notes payable					**550**	200
Income tax payable					**19**	11
Deferred tax liabilities					**385**	367
Combined total liabilities					**P3,991**	P3,482
Capital expenditures					**P1,043**	P778
Depreciation and amortization and impairment of property, plant and equipment and bottles and cases					**564**	586
Non-cash items other than depreciation and amortization					**16**	(51)

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

** Segment assets and liabilities relate to balances as at June 30, 2011 and 2010.

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.

8. Related Party Transactions

Related party relationship exists when one party has ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprises, or between and/or among the reporting enterprises and their key management personnel, directors, or its 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 P1,531 million and P1,587 million for the six months ended June 30, 2011 and 2010, respectively. Total purchases from Pepsi Lipton for the six months ended June 30, 2011 and 2010 amounted to P47 million and P51 million, respectively.

   The Company has a cooperative advertising and marketing program with PepsiCo and Pepsi Lipton that sets forth the agreed advertising and marketing activities and participation arrangement during the years covered by the bottling agreements. In certain instances, the Company pays for the said expenses and claims reimbursement from PepsiCo. For the six months ended June 30, 2011 and 2010, the Company incurred marketing expenses amounting to P206 million and P242 million, respectively. The Company's outstanding receivable from PepsiCo included under "Due from related parties" account in the condensed interim statements of financial position, which are unsecured, noninterest-bearing and payable on demand, amounted to P79 million and P48 million as at June 30, 2011 and December 31, 2010, respectively.

b. On April 11, 2007, the Company entered into a Performance Agreement with PepsiCo to meet certain marketing and investment levels from 2007 to 2017, as required by the bottling agreement with PepsiCo. The agreement requires the Company to: (1) spend a specified percentage with a minimum amount for the beverage products; (2) make certain investments based on a minimum percentage of the Company's sales to expand the Company's manufacturing capacity; (3) invest in a minimum number of coolers per year to support distribution expansion; and (4) expand the Company's distribution capabilities in terms of the number of active routes, the number of new routes and the number of trucks used for distribution support.

c. Certain parcels of land properties of Nadeco Realty Corporation (NRC), an associate, were mortgaged to secure a portion of the Company's notes payable. The Company leases these parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P5 million each for the six months ended June 30, 2011 and 2010, respectively. The Company has advances to NRC amounting to P38 million which bear interest at a fixed rate of 10% per annum. The Company also has outstanding net receivables from NRC, amounting to P320 and P315 million as at June 30, 2011 and December 31, 2010 which are unsecured, noninterest-bearing and payable on demand. The advances and receivables are included under "Due from related parties" account in the condensed interim statements of financial position.

d. The Company has outstanding working capital advances to Nadeco Holdings Corporation, an associate, amounting to P4 million as at June 30, 2011 and December 31, 2010 and which are unsecured, noninterest-bearing and payable on demand. The advances are included under "Due from related parties" account in the condensed interim statements of financial position.

9. Financial Instruments and Financial Risk Management

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

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

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

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

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

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

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

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

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

The Board of Director (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. The Company has policies for acceptable collateral securities that may be presented upon submission of credit applications.

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

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Receivables - net	**P1,062,974**	P1,023,879
Cash in bank and cash equivalents	**305,820**	305,686
Due from related parties	**440,707**	405,465
Total credit exposure	**P1,809,501**	P1,735,030

As at June 30, 2011 and December 31, 2010, the aging analysis per class of financial assets that were past due but not impaired is as follows:

June 30, 2011

	Neither past due nor impaired	Past due 1 to 30 days	Past due 31 to 60 days	Past due More than 60 days	Impaired	Total
Cash and cash equivalents	P305,820	P -	P -	P -	P -	P305,820
Trade and other receivables:						
Trade	677,537	257,903	44,247	32,177	114,432	1,126,296
Others	19,210	18,072	3,421	10,407	28,150	79,260
Due from related parties	431,309	4,219	3,686	1,493	-	440,707
	1,433,876	280,194	51,354	44,077	142,582	1,952,083
Less allowance for impairment losses	-	-	-	-	142,582	142,582
	P1,433,876	P280,194	P51,354	P44,077	P -	P1,809,501

December 31, 2010

	Neither past due nor impaired	Past due 1 to 30 days	31 to 60 days	More than 60 days	Impaired	Total
Cash and cash equivalents	P305,686	P -	P -	P -	P -	P305,686
Trade and other 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

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 P163 million and P174 million as at June 30, 2011 and December 31, 2010, respectively.

The Company's exposure to credit risk arises from default of the counterparty. There are no significant concentrations of credit risk within 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

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 at June 30, 2011 and December 31, 2010 under the line of credit is P3.340 billion and P2.909 billion, respectively, of which the Company had drawn P884 million and P625.3 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

- P690 million and P615 million domestic bills purchased line, which are available as at June 30, 2011 and December 31, 2010, respectively.

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

	As at June 30, 2011 (Unaudited)			
	Carrying Amount	**Contractual Cash Flow**	**One year or less**	**More than one year to five years**
Financial assets:				
Cash and cash equivalents	**P305,820**	**P305,820**	**P305,820**	**P -**
Receivables - net	**1,062,974**	**1,062,974**	**1,062,974**	**-**
Due from related parties	**440,707**	**440,707**	**440,707**	
	P1,809,501	**P1,809,501**	**P1,809,501**	**P -**
Financial liabilities:				
Notes payable	**P550,000**	**P556,976**	**P556,976**	**P -**
Accounts payable and accrued expenses*	**2,622,370**	**2,622,370**	**2,622,370**	**-**
Other noncurrent liabilities	**79,461**	**91,885**		**91,885**
	P3,251,831	**P3,271,231**	**P3,179,346**	**P91,885**

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

	As at December 31, 2010 (Audited)			
	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.

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

Financial Assets Used for Managing Liquidity Risk

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

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 Risk

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

The Company minimizes its exposure to risks in changes in commodity prices by entering into contracts with suppliers with duration ranging from six months to one year with fixed volume commitment for the contract duration and with stipulation for price adjustments depending on market prices. The Company has outstanding purchase commitment amounting to P2.9 billion as at June 30, 2011. 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.

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

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Financial assets (cash equivalents)	**P62,532**	P100,000
Financial liabilities	**(550,000)**	(200,000)
	(P487,468)	(P100,000)

Sensitivity Analysis

A 2% increase in annual interest rates would have decreased equity and profits for the six months ended June 30, 2011 and for the year ended December 31, 2010 by P2 million and 1 million respectively.

A 2% decrease in interest rates for the six months ended June 30, 2011 and the year ended December 31, 2010 would have had the equal but opposite effect, on the basis that all other variables remain constant.

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

Foreign Currency Risk
The Company is exposed to foreign currency risk on purchases that are denominated in currencies other than the Philippine peso, mostly in U.S. dollar and EURO. In respect of monetary assets and liabilities held in currencies other that the Philippine peso, the Company ensures that its exposure is kept to an acceptable level, by buying foreign currencies at spot rates where necessary to address short-term imbalances. The management considered the exposure to foreign currency risk to be insignificant. Further, the Company does not hold any investment in foreign securities as at June 30, 2011 and December 31, 2010.

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

The fair value of finance lease liability included under "Accounts Payable and Accrued Expenses" and "Other Noncurrent Liabilities" account is estimated at 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.

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

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

The Company defines capital as total equity shown in the condensed interim statements of financial position.

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:

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Total liabilities	**P3,991,310**	P3,482,134
Less cash and cash equivalents	**305,820**	305,686
Net debt	**P3,685,490**	P3,176,448
Total equity	**P5,762,444**	P5,654,791
Net debt to equity ratio	**0.64:1**	0.56:1

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

Results of Operations

The Company continued its focus on maintaining a firm position in the carbonated soft drinks market and driving expansion of the fast-growing non-carbonated beverages through continuing the strategic agenda to drive affordability and availability across the Philippines. The Company introduced new product innovations such as Sting Power Lime, Lipton Sparkling, Tropicana Fruit Burst in order to match fast-changing consumer preferences. Gross sales revenue for the quarter and for the six months ended July 31, 2011 increased by more than 15% from 2009 levels, and almost flat against 2010 levels – a notable performance for the year 2011 given the short, cooler peak season, aggressive competition and marketplace challenges, continuous oil price hike and rising commodity prices that have had an effect on consumer spending. In addition, the Company is overlapping the effects of election-related spending that fuelled record growth in 2010 and a long, hot peak weather season. This notable performance was brought about by the growth on non-carbonated beverages business coupled with sustained efforts on maintaining a healthy revenue mix.

Unprecedented increase in sugar cost caused by supply shortfalls from Brazil, the largest exporter, and weather shocks in Australia continued to hurt the Company's profitability. As a percentage to net sales, sugar cost increased by 4% compared to year ago level. Nevertheless, sugar cost is expected to return to manageable levels. In second quarter, sugar costs improved. It has declined by 2% of net sales compared to year ago.

To temper the impact of sugar price hike, the Company has implemented a strategy of tactical pricing and an effective cost management. Given the challenges in the first half of 2011, the Company tightened the timing of its operating expenses, reducing it by 5% for the past six months and almost flat against year ago.

Gross profit margin decreased from 24% to 21% only for the three-month period against year ago in the midst of the challenges in pricing and commodity costs. Comparative figure for the six-month period showed a decrease in gross profit margin from 24% to 20% against year ago.

Operating expenses for the quarter and for the past six months remained stable as management sustained its efforts to control costs. As a percentage of net sales, operating expenses increased from 18% to 19% for the quarter and decreased from 19% to 18% for the six month period versus year ago levels.

Net income margin declined from 4% to 2% for the quarter and 4% to 1% for the six month period compared to year ago. The Company expects profitability to improve in the coming months as sugar prices ease and sales growth improves.

Financial Condition

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

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

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

1. Decrease in current assets by 4%. This is due to increases in receivables by P39 million and inventories by P41 million, offset by decrease in prepaid expenses by P12 million.
2. Increase in total noncurrent assets by 8% due mainly to increase in bottles and cases by P328 million in line with the Company's expansion projects.
3. Increase in total current liabilities by 16% due to increase in notes payable by P350 million.

Known Trends, Demands, or Uncertainties That May Affect Liquidity

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

Events That May Trigger Direct or Contingent Obligations

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

Off-Balance Sheet Transactions

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

Material Commitments for Capital Expenditures

The Company has ongoing definite corporate expansion projects approved by the BOD. As a result of this expansion program, the Company spent for property, plant and equipment as well as bottles and shells amounting to P1,040 million and P778 million for the three-months ended June 30, 2011 and 2010, respectively. To this date, the Company continues to invest in major capital expenditures in order to complete the remaining expansion projects in line with prior calendar year spending.

Trends or Uncertainties That May Impact Results of Operations

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

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

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

Seasonality Aspects That May Affect Financial Conditions or Results of Operations

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

Top Five Key Performance Indicators

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

	June 30, 2011	December 31, 2010
Current ratio[1]	0.87	0.97
Debt (bank loans)-to-equity ratio[2]	0.10	0.04

[1] Current assets / current liabilities

[2] Bank loans / total stockholders' equity

For the six months ended June 31

	2011	2010
Gross sales	P9.8 billion	P10.1 billion
Gross profit margin[3]	20%	24%
Net income margin[4]	1%	4%

[3] Gross profit / net sales
[4] Net income / net sales

SIGNATURES

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

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

By:

Akash Shah
Senior Vice-President and
Chief Financial Officer

Date: August 12, 2011