



**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

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA,  
Greenhills, Mandaluyong City

Attention: **Ms. Justina F. Callangan**  
Acting Director, Corporation Finance Department

and

**THE PHILIPPINE STOCK EXCHANGE, INC.**

3rd Floor, Philippine Stock Exchange Plaza Ayala Avenue, Makati City

Attention: **Ms. Janet A. Encarnacion**  
Head, Disclosure Department

This refers to the letter of the Securities and Exchange Commission (SEC) dated December 7, 2011 which we received on December 15, 2011. Pursuant to the said letter, we are filing the attached Amended SEC Form 17-Q for the quarterly period ended September 30, 2011.

We amended the SEC Form 17-Q to include the following disclosure relating PFRS 9 (2009) in Note 3 to the Condensed Interim Financial Information:

The Company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting. The Company shall conduct in early 2012 another impact evaluation using the outstanding balances as at December 31, 2011. The Company's decision whether to early adopt or not either PFRS 9 (2009) or PFRS 9 (2010) for the 2012 financial reporting shall be disclosed in the Company's interim financial statements as at March 31, 2012. Should the Company's decision is to early adopt the said standard for its 2012 financial reporting, the Company's interim report as at March 31, 2012 will already reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the result of the Company's impact evaluation.

Kind regards,

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

By:

**Atty. Federico C. G. Sandoval**  
Assistant Corporate Secretary/Officer-In-Charge



# COVER SHEET

S.E.C. Identification No.

1 6 0 9 6 8

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

(Company's Full Name)

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

**Honeyln C. Castolo**

Contact Person

**(632) 8656-365**

Company Telephone Number

0 9

Month

3 0

Day

Calendar Year

**SEC Form 17-Q**

FORM TYPE

**May 2012**

Month Date  
Annual Meeting

Secondary License Type, if Applicable

**C F D**

Dept. Requiring this Doc.

Amended Article Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

Remarks - pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2011
2. Commission identification number 0000180968 3. BIR Tax Identification No 000-168-641
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: XXXXXXXXXX (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  
**Common Shares of Stock**

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

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

Yes  No

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

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

Part 1 – Financial Information

Item 1. Financial Statements.

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

		September 30	December 31
	Note	2011 (Unaudited)	2010 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9	P355,872	P305,686
Receivables - net	9	985,944	1,023,879
Inventories		984,947	1,009,367
Due from related parties	8, 9	442,317	405,465
Prepaid expenses and other current assets		5,080	72,383
<b>Total Current Assets</b>		<b>2,774,160</b>	<b>2,816,780</b>
<b>Noncurrent Assets</b>			
Investments in associates		526,890	530,785
Bottles and cases - net		2,539,341	2,315,553
Property, plant and equipment - net	6	3,667,371	3,374,631
Other noncurrent assets - net		128,894	99,176
<b>Total Noncurrent Assets</b>		<b>6,862,496</b>	<b>6,320,145</b>
		<b>P9,636,656</b>	<b>P9,136,925</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	9	P2,309,896	P2,681,903
Notes payable	9	750,000	200,000
Income tax payable		22,408	10,568
<b>Total Current Liabilities</b>		<b>3,082,304</b>	<b>2,892,471</b>
<b>Noncurrent Liabilities</b>			
Deferred tax liabilities - net		413,089	367,113
Other noncurrent liabilities		260,642	222,550
<b>Total Noncurrent Liabilities</b>		<b>673,731</b>	<b>589,663</b>
<b>Total Liabilities</b>		<b>P3,756,035</b>	<b>P3,482,134</b>

Forward

	September 30	December 31
	2011 (Unaudited)	2010 (Audited)
<b>Equity</b>		
Capital stock	P554,066	P554,066
Additional paid-in capital	1,197,369	1,197,369
Retained earnings	4,129,186	3,903,356
<b>Total Equity</b>	<b>5,880,621</b>	<b>5,654,791</b>
	<b>P9,636,656</b>	<b>P9,136,925</b>

*See Notes to the Condensed Interim Financial Information.*

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

	For The Nine Months Ended		For The Three Months Ended	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
	September 30	September 30	September 30	September 30
Gross Sales				
Less: Sales Return and Discounts	P14,699,910	P14,811,437	P4,921,198	P4,721,555
<b>NET SALES</b>	<b>2,063,924</b>	<b>2,081,065</b>	<b>731,158</b>	<b>639,593</b>
<b>COST OF GOODS SOLD</b>	<b>12,635,984</b>	<b>12,730,372</b>	<b>4,190,040</b>	<b>4,081,962</b>
<b>GROSS PROFIT</b>	<b>9,931,756</b>	<b>9,731,947</b>	<b>3,165,037</b>	<b>3,150,084</b>
<b>OPERATING EXPENSES</b>	<b>2,704,228</b>	<b>2,998,425</b>	<b>1,025,003</b>	<b>931,878</b>
<b>INCOME FROM OPERATIONS</b>	<b>2,387,066</b>	<b>2,399,250</b>	<b>857,754</b>	<b>781,635</b>
<b>NET FINANCE AND OTHER INCOME</b>	<b>317,222</b>	<b>599,175</b>	<b>167,249</b>	<b>150,243</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>7,059</b>	<b>42,682</b>	<b>1,351</b>	<b>12,555</b>
<b>INCOME TAX EXPENSE</b>	<b>324,281</b>	<b>641,857</b>	<b>168,600</b>	<b>162,798</b>
<b>NET INCOME/TOTAL COMPREHENSIVE INCOME</b>	<b>P215,830</b>	<b>P449,342</b>	<b>P118,176</b>	<b>P114,039</b>
Basic/Diluted Earnings Per Share	P0.06	P0.12	P0.03	P0.03

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 Nine Months Ended September 30	
	2011	2010
	(Unaudited)	
<b>CAPITAL STOCK</b>		
Common stock - P0.15 par value per share		
Authorized - 5,000,000,000		
Issued and outstanding - 3,693,772,279	P554,066	P554,066
<b>ADDITIONAL PAID-IN CAPITAL</b>	1,197,369	1,197,369
<b>RETAINED EARNINGS</b>		
Balance at beginning of period	3,903,356	3,807,746
Net income for the period	225,830	449,342
Dividend declared		(369,377)
Balance at end of period	4,129,186	3,887,711
	<b>P5,880,621</b>	<b>P5,639,146</b>

*See Notes to the Condensed Interim Financial Information.*

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

	For The Nine Months Ended September 30	
Note	2011 (Unaudited)	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	P324,281	P641,857
Adjustments for:		
Depreciation and amortization	862,644	890,841
Allowance (reversal of allowance) for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others - net	48,782	(51,303)
Retirement cost (income)	37,597	(5,500)
Interest expense	16,971	50
Equity in net loss (earnings) of associates	3,895	(1,040)
Loss (gain) on sale of property and equipment	2,558	(808)
Interest income	(4,680)	(10,065)
Operating income before working capital changes	1,292,048	1,464,032
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(1,378)	102,525
Inventories	11,696	(197,266)
Due from related parties	(36,852)	75,927
Prepaid expenses and other current assets	67,303	32,135
Increase (decrease) in accounts payable and accrued expenses	(369,456)	27,149
Cash generated from operations	963,361	1,504,502
Interest received	4,721	10,108
Income taxes paid	(40,635)	(125,931)
Interest paid	(15,813)	(50)
Net cash provided by operating activities	911,634	1,388,629
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposals of property and equipment	4,080	10,917
Net additions to:		
Property, plant and equipment	(656,038)	(520,941)
Bottles and cases	(729,772)	(487,620)
Increase in other noncurrent assets	(29,718)	(7,937)
Net cash used in investing activities	(P1,411,448)	(P1,005,581)
<i>Forward</i>		



**For The Nine Months  
Ended September 30**

	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Proceeds from (repayment of) notes payable	<b>P550,000</b>	<b>(P100,000)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>50,186</b>	<b>283,048</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>305,686</b>	<b>350,919</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P355,872</b>	<b>P633,967</b>

*See Notes to the Condensed Interim Financial Information.*

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**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. Lotte Chilsung Beverage Co. Ltd., with a 34.4% stake in the Company, is the largest shareholder of the Company. PepsiCo, Inc. is 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.

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

*Estimating Allowance for Impairment Losses on Receivables*  
As at September 30, 2011 and December 31, 2010, allowance for impairment losses on receivables amounted to P168 million and P128 million, respectively.

*Estimating Net Realizable Value of Inventories*  
As at September 30, 2011 and December 31, 2010, the carrying amount of inventories was reduced to its net realizable values by P27 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.

#### Changes in Accounting Policies

The following are the amendment to standard and interpretation, which are effective for the nine months ended September 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 or Revised 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 nine months ended September 30, 2011.

The Company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting. The Company shall conduct in early 2012 another impact evaluation using the outstanding balances as at December 31, 2011. The Company's decision whether to early adopt or not either PFRS 9 (2009) or PFRS 9 (2010) for the 2012 financial reporting shall be disclosed in the Company's interim financial statements as at March 31, 2012. Should the Company's decision is to early adopt the said standard for its 2012 financial reporting, the Company's interim report as at March 31, 2012 will already reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the result of the Company's impact evaluation.

#### 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 Nine Months Ended September 30		For The Three Months Ended September 30	
	2011 (Unaudited)	2010	2011 (Unaudited)	2010
Net income (a)	P225,830	P449,342	P118,176	P114,039
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)	P0.06	P0.12	P0.03	P0.03

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

## 6. Property, Plant and Equipment

The movements in this account are as follows:

Measurement basis	Machinery and Other Equipment	Buildings and Leasehold Improvements	Construction in Progress	Furniture and Fixtures	Total
	Cost	Cost	Cost	Cost	
<b>Gross carrying amount:</b>					
December 31, 2010 (Audited)	P7,477,234	P843,084	P522,732	P31,702	P8,874,752
Additions	619,811	88,829	(53,769)	3,167	656,038
Disposals	(62,445)	-	-	(51)	(62,496)
Transfers/reclassifications	123,265	5,598	(128,863)	-	-
September 30, 2011 (Unaudited)	8,157,865	937,511	338,100	34,818	9,468,294
<b>Accumulated depreciation and amortization:</b>					
December 31, 2010 (Audited)	4,966,662	509,947	-	23,512	5,500,121
Depreciation and amortization	340,539	14,934	-	1,167	356,640
Disposals	(55,807)	-	-	(51)	(55,858)
Transfers/reclassifications	(37)	37	-	-	-
September 30, 2011 (Unaudited)	P5,251,357	P524,938	P-	P24,628	P5,800,923
December 31, 2010 (Audited)	P2,510,572	P333,137	P522,732	P8,190	P3,374,631
September 30, 2011 (Unaudited)	P2,906,808	P412,573	P338,100	P10,190	P3,667,371

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

The Company has ongoing definite corporate expansion projects or programs approved by the Board of Directors (BOD). As result of this expansion program, the Company spent for property, plant and equipment as well as bottles and shells amounting to P1.386 billion for the nine months ended September 30, 2011.

*Change in Estimated of Useful Lives (EUL) of certain Property and Equipment*  
In 2011, the Company reviewed and changed the EUL of certain property and equipment in line with actual utilization.

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" account 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 nine months ended September 30, 2011, the effect of change in EUL of certain Property and Equipment decreases depreciation expense amounted to P132 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:

(In 000,000's)	For the Nine Months Ended September 30					
	Carbonated Soft Drinks		Noncarbonated Beverages		Combined	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
<b>Sales</b>						
External sales	P10,345	P10,602	P4,353	P4,210	P14,700	P14,812
Sales discounts and returns	(1,544)	(1,617)	(529)	(454)	(2,064)	(2,081)
<b>Net sales</b>	<b>P8,801</b>	<b>P8,985</b>	<b>P3,833</b>	<b>P3,746</b>	<b>P12,636</b>	<b>P12,731</b>
<b>Result</b>						
Segment result*	P1,883	P2,116	P821	P882	P2,704	P2,998
Unallocated expenses					(2,287)	(2,399)
Interest and financing expenses					(14)	(4)
Interest income					2	10
Equity in net earnings (loss) of associates					(3)	1
Other income - net					23	36
Income tax expense					(92)	(123)
<b>Net income</b>					<b>P226</b>	<b>P449</b>
<b>Other Information**</b>						
Segment assets						
Investments in and advances to associates					P8,981	P8,507
Other noncurrent assets					527	531
<b>Combined total assets</b>					<b>P9,637</b>	<b>P9,137</b>
Segment liabilities						
Notes payable					P2,571	P2,904
Income tax payable					750	200
Deferred tax liabilities					22	11
<b>Combined total liabilities</b>					<b>P3,756</b>	<b>P3,482</b>
Capital expenditures						
Depreciation and amortization and impairment of property, plant and equipment and bottles and cases					P1,386	P1,009
Non-cash items other than depreciation and amortization					863	890
					49	(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 September 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 P2.270 billion and P2.549 billion for the nine months ended September 30, 2011 and 2010, respectively. Total purchases from Pepsi Lipton for the nine months ended September 30, 2011 and 2010 amounted to P68 million and P69 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 nine months ended September 30, 2011 and 2010, the Company incurred marketing expenses amounting to P351 million and P328 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 P80 million and P48 million as at September 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 as at December 31, 2010. The Company leases these parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P8 million each for the nine months ended September 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 September 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 September 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.
- e. The Company subleases a portion of its warehouse to Pepsi-Cola Far East Trade (PCFET), an affiliate. Rent income recognized amounted to P1.7 million for the period ended September 30, 2011 and 2010. The rent income is recognized by the Company under "Net Finance and Other Income" accounts in the condensed interim statements of comprehensive income.

## 9. Financial Instruments and Financial Risk Management

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

*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.

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.

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

*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 PFRS, such as income tax payable and accrued retirement cost).

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

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

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. All risks faced by the Company are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Company's operations and forecasted results. The Company, through its training 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:

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Receivables - net	P985,944	P1,023,879
Cash in bank and cash equivalents	355,872	305,686
Due from related parties	442,317	405,465
<b>Total credit exposure</b>	<b>P1,784,133</b>	<b>P1,735,030</b>

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

**September 30, 2011**

	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	P355,872	P -	P -	P -	P -	P355,872
Trade and other receivables:						
Trade	656,548	216,756	41,341	34,036	118,425	1,067,706
Others	9,253	17,213	3,947	6,250	49,188	85,851
Due from related parties	434,945	3,639	1,516	2,217	-	442,317
	1,456,618	237,608	46,804	43,103	167,613	1,951,746
Less allowances for impairment losses					167,613	167,613
	P1,456,618	P237,608	P46,804	P43,103	P -	P1,784,133

**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
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 P178 million and P174 million as at September 30, 2011 and December 31, 2010, respectively.

To pursue timely realization of collateral in an orderly manner, the Company's policy discourages the acceptance of chattel and real estate collateral. For chattel and real estate collateral, the Company created rules governing the acceptance of such guarantees. On instances of customer default, the Company's credit committee with the support of the Corporate Legal Department is responsible for the foreclosure of collaterals in the form of real and movable personal properties. Series of demand letters are sent to the defaulting customer to command for payment and to propose for debt repayment agreements. If the customer fails to cooperate, the case will be endorsed to the Legal Department to facilitate the foreclosure of the collateral. The Company generally does not use non-cash collateral for its own operations.

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 September 30, 2011 and December 31, 2010 under the line of credit is P3.127 billion and P2.909 billion, respectively, of which the Company had drawn P953 million and P625 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
- P670 million and P615 million domestic bills purchased line, which are available as at September 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 September 30, 2011 (Unaudited)			
	Carrying Amount	Contractual Cash Flow	One year or less	More than one year to five years
<b>Financial assets:</b>				
Cash and cash equivalents	P355,872	P355,872	P355,872	P -
Receivables - net	985,944	985,944	985,944	-
Due from related parties	442,317	442,317	442,317	-
	P1,784,133	P1,784,133	P1,784,133	P -
<b>Financial liabilities:</b>				
Notes payable	P750,000	P773,988	P773,988	P -
Accounts payable and accrued expenses*	2,224,348	2,224,348	2,224,348	-
Other noncurrent liabilities**	80,633	91,799	-	91,799
	P3,054,981	P3,090,135	P2,998,336	P91,799

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

\*\*Excluding noncurrent 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
<b>Financial assets:</b>				
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 -
<b>Financial liabilities:</b>				
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.  
\*\*Excluding noncurrent 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 P2.245 billion as at September 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:

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Financial assets (cash equivalents)	P133,896	P100,000
Financial liabilities	(750,000)	(200,000)
	(P616,104)	(P100,000)

### *Sensitivity Analysis*

A 2% increase in annual interest rates would have decreased equity and profits for the nine months ended September 30, 2011 and for the year ended December 31, 2010 by P2 million and P1 million respectively.

A 2% decrease in interest rates for the nine months ended September 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 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 management considered the exposure to foreign currency risk to be insignificant. Further, the Company does not hold any investment in foreign securities as at September 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 bank debt to equity ratio as at reporting date is as follows:

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Bank debt*	P750,000	P200,000
Total equity	P5,880,621	P5,654,790
Bank debt to equity ratio	0.13:1	0.04:1

\* Bank debt is composed of notes payable



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

### Results of Operations

3Q2011 has been a positive turning point for PCPPI as revenues and net income have begun picking up. The primary factors to this turnaround have been the much-anticipated drop in sugar prices and increased marketing efforts on the part of PCPPI.

3Q2011 gross sales increased to P4.9 billion by about 3% versus 3Q2010. The increase was mainly due to the aggressive expansion of the use of returnable packaging format for PCPPI's non-carbonated beverages (NCB) business across the country and the growth in the flavors line of the carbonated soft drinks (CSD) business. This is in line with PCPPI's strategy of maintaining a firm position in the CSD market and increasing the revenue share of NCB in its product portfolio. Although Sept 2011 YTD gross sales of P14.70 billion still trails year ago gross sales by less than 1%, this is remarkable considering the high base created by dry weather and election-related spending during the 1H2010.

3Q2011 gross profit increased by 10% to P1.03 billion and gross profit margin increased to 24.5%, primarily due to a major drop in sugar prices. September 2011 sugar prices are estimated to be down 20% from September 2010 and about 40% down from its peak earlier this year. The drop in sugar prices has been mainly due to a good sugarcane harvest and the use of other sugar crop sources. Meanwhile, Sept 2011 YTD gross profit of P2.70 billion is still down 10% compared to same period last year. However, this is expected to continue to reverse as sugar prices are expected to stabilize at current levels on the back of over-supply locally. On the other hand, the gain accrued to the drop in sugar prices has been partially counter-balanced by the increase in fuel prices.

Although Sept 2011 YTD operating expenses of P2.39 billion have been comparable to last year's levels, at 19% over net sales, 3Q2011's operating expenses of P857.75 million have increased by 9.7% to 20.5% of net sales, primarily due to increased marketing spending.

Finally, net income has also started to pick up as 3Q2011 posted a net income of P118.18 million which is 4% higher than 3Q2010. Although, Sept 2011 YTD net income of P225.83 million still trails last year's net income, PCPPI expects the reversal trend to continue for the fourth quarter on the back of the stabilization of sugar prices at current levels and increased marketing efforts.

### 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 completed the expansion projects in San Fernando and Cagayan De Oro.

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

1. Decrease in current assets by 1.5%. This is due to net decrease in receivables and amount due from related parties by P1 million, inventories by P24 million, and prepaid expenses by P67 million, offset by increase in cash and cash equivalents by P50 million.
2. Increase in total noncurrent assets by 9% due mainly to increase in bottles and cases by P224 million and property, plant and equipment by P293 million in line with the Company's expansion projects.

3. Increase in total current liabilities by 7% due to increase in notes payable by P550 million, offset by decrease in accounts payable and accrued expenses by P372 million.
4. Increase in total non-current liabilities by 14% due to increase in deferred tax liabilities by P46 million and other non-current liabilities by P38 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 Board of Directors. As a result of this expansion program, the Company spent for property, plant and equipment as well as bottles and shells amounting to P1,386 million and P1,009 million for the nine-months ended September 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.

	September 30, 2011	December 31, 2010
Current ratio <sup>1</sup>	0.90	0.97
Debt (bank loans)-to-equity ratio <sup>2</sup>	0.13	0.04
<sup>1</sup> Current assets / current liabilities		
<sup>2</sup> Bank loans / total stockholders' equity		

For the nine months ended September 31

	2011	2010
Gross sales	P14.7 billion	P14.8 billion
Gross profit margin <sup>3</sup>	21%	24%
Net income margin <sup>4</sup>	2%	4%
<sup>3</sup> Gross profit / net sales		
<sup>4</sup> 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: December 15, 2011