



Indra K. Nooyi
Chairman and Chief Executive Officer

Dear Fellow Shareholders,

It is now two years since we introduced a new strategic mission to try to capture the heart and soul of PepsiCo. The simple but powerful idea of Performance with Purpose combines the two things that define what we do—growing the business, and acting as ethical and responsible citizens of the world.

As I look back on 2008, I'm proud to report that Performance with Purpose is woven into the fabric of our company. Wherever we see success, we see both parts of our mission in action.

All over the world, whether it's Cedar Rapids or Calgary, Shanghai or São Paulo, Mexico City, Moscow or Mumbai, our associates draw strength and inspiration from this shared mission. This year's annual report brings some of their stories to life. It shows how performance and purpose combine to great effect in everything we do.

When times are tough it is especially important to be clear about your mission. By any measure, 2008 was a year of extremes, an incredibly volatile year.

Easy credit turned into a credit crunch that left many businesses and consumers strapped for cash. The global economy lurched rapidly into recession. Oil prices approached \$150 a barrel before returning back below \$40. Corn, sugar, oats and other key commodities saw significant price swings throughout the year. Global business was made harder by foreign exchange rates that fluctuated, at times wildly. The Dow Jones Index began 2008 above 13,000 and ended the year below 9,000. That dragged down even the strongest companies' stock—including PepsiCo shares.

All told, I can't recall a more eventful or trying year. Not that I think pessimism is in order. The ingenuity of our company showed through again. All our teams of extraordinary people applied their can-do spirit and must-do sense of responsibility to meet the economic and market challenges head on.

As a result, PepsiCo performed slightly better for the year than both the Dow Jones Industrial Average and the S&P 500. I believe that's because, while we can't control market volatility, we remained focused on our strategies for growth, and that is why our underlying businesses continued to perform very well in 2008.

We increased our dividend, continued our share repurchase program and positioned ourselves for even stronger performance as economic conditions improve.

- Net revenue grew 10%.
- Core division operating profit grew 6%.*
- Cash flow from operations was \$7 billion.
- Core return on invested capital was 29%.
- Core EPS grew 9%.*

In **PepsiCo Americas Foods** we had another year of strong growth to both the top and the bottom lines. That is testament to our strong brands and our efficient go-to-market systems. This year brought unprecedented cost inflation, but we carefully adjusted our pricing and the weights and package formats across our brands to find the right solution for each channel, each market, each customer and each consumer. The year presented some other unexpected problems that we coped with well. Our flagship Quaker plant in Cedar Rapids, Iowa, experienced a major flood but returned to normal production levels by year-end. In Latin America, our Brazil snacks business overcame a fire at one of our major plants to perform really well. We also refreshed the product portfolio. Frito-Lay North America introduced TrueNorth nut snacks and entered a joint venture that offers Sabra refrigerated dips. Some of our established products powered on. The Quaker business and our market-leading Sabritas and Gamesa brands helped us generate tremendous growth. On these strengths, PepsiCo Americas Foods increased revenues by 11 percent and core operating profit by 10 percent.*

PepsiCo Americas Beverages had a difficult year. In North America, our beverage volume was not immune to the overall category weakness triggered by the weak U.S. economy. As a result, PepsiCo Americas Beverages revenues declined by 1 percent and core operating profit fell by 7 percent.* But PepsiCo has proved time and again our skill in anticipating and responding to market changes and consumer preferences. Liquid refreshment beverages in the United States declined in 2008 for the first time in more than 50 years. We acted quickly and decisively to refresh the category. We refreshed the look of our iconic brands Pepsi-Cola, Mtn Dew, Sierra Mist and Gatorade. In Latin America, where we achieved strong results, we introduced SoBe Life, the world's first beverage made with PureVia™, an all-natural, zero-calorie sweetener; and early in 2009, we launched SoBe Lifewater with PureVia in the United States.



*For a reconciliation to the most directly comparable financial measure in accordance with GAAP, see page 95.



We are investing aggressively to keep our total beverage portfolio relevant to consumers of all ages. In non-carbonated beverages, we are working to deliver the right value for the money, to identify untapped thirst occasions and to deliver even more health benefits. We added vitamins to our Gatorade sublines; and this year we will introduce a new Trop50 orange juice beverage, with half the calories of orange juice, great nutritional benefits and the natural sweetness of PureVia.



We have a great portfolio that gives us all confidence. And we have reexamined how that portfolio connects with today's world. We have brought two things together—the fun and bubbles of our carbonated beverages that people really love, and the symbols and experiences of today's online world.

Our re-branding strategy sets an irresistible tone of joy, optimism and energy. Those are three words that I always want to be associated with PepsiCo.

PepsiCo International's balanced and diverse snack and beverage portfolio had a good year. It delivered strong growth from treats to healthy eats. This thriving business spans Europe, the Middle East, Asia, Africa and Australia, serving 86 percent of the world's population. With per-capita consumption still relatively low in many of these markets, we have a strong opportunity to drive sales ahead of GDP growth.



This year we broadened our beverage portfolio by partnering with The Pepsi Bottling Group to acquire Russia's leading juice company, Lebedyansky, by acquiring V Water in the United Kingdom and by expanding our successful Lipton Tea partnership with Unilever. In the snack business, we acquired Bulgaria's leading nuts and seeds producer, and we introduced a variety of local flavors, including Lay's Shashlyk in Russia and Lay's Cool Blueberry in China. In India, we introduced Kurkure Naughty Tomato and Lay's Balsamic Blast and Spunky Pimento flavors; and our Doritos brand helped drive volume in the Middle East and South Africa. Together, these initiatives helped PepsiCo International revenues grow by 19 percent and core operating profit by 16 percent.*



To sustain our worldwide growth, we announced significant investments in key countries like Brazil, India, Mexico and China. In India and Brazil, we are combining capacity expansion and research and development (R&D) with sustainability efforts as we grow in those regions. Building on a brand history of more than 100 years in Mexico, we are investing over the next five years in R&D, manufacturing and distribution, marketing and advertising. And in China—one of our fastest-growing markets—we are funding capacity expansion, R&D, increased distribution, brand building, agricultural sustainability and resource conservation.

All over the company, we have Performance with Purpose as our mission. And the way we achieve it, all over the world, is always to encourage new ways of working. Innovation is our lifeblood—it drives success in all our businesses.

That is why we implemented a Productivity for Growth initiative across all sections of our business. Over the next three years, our productivity measures are expected to cumulatively free up more than \$1.2 billion. That money will allow us to step up investments in long-term product development, innovation and brand building. Our productivity savings will also enhance our operating agility and create some breathing room to respond to the changing economic environment. And, as long as that innovation is driven through the company, we will deliver the demands of Performance with Purpose.

2008 was a year in which our mission could easily have been abandoned. The extraordinary circumstances would have resulted in it being abandoned if it were not already embedded into our culture. So, during 2008 we stayed true to our beliefs, even as the backdrop got tougher.

For example, we never took our eyes off the sustainability agenda that underpins our commercial success. We have now driven sustainability all the way through the business. It is a *part* of what we do, not an *addition* to what we do.

To promote human sustainability, we worked within World Health Organization policies to teach

children the benefits of nutrition and inspire them to be more active. This work complements and extends our success in transforming our broad portfolio of beverages, snacks and foods, to ensure it delivers everything from treats to healthy eats.

To sustain the environment for future generations, we stepped up our global efforts to conserve water and energy and worked on lightweighting our packages, starting with new packaging for Aquafina that contains 35 percent less plastic.

To sustain our world-class talent, we're developing "PepsiCo University," a new learning management system that brings together functional and leadership training for associates around the world.

Our Performance with Purpose mission is not confined to PepsiCo associates alone. Even retired members of the PepsiCo family have joined our purpose movement, banding together as the PepsiCo Service Corps to further our goals and ideals in the communities we serve.

Such a resolute performance and such a focus on our purpose is why I have such confidence in this company for the future. Nobody can predict exactly how the global economic slowdown will affect specific markets in 2009, or how consumers will respond to the pressures they face. But we've shown we have the competitive strengths, the right strategies and the tenacity to maintain our competitive edge.

We have to remember the deep brand value we have. In good times and bad, people view our products as simple, affordable pleasures that keep them nourished and refreshed. Worldwide, our retail partners consider us a strategic partner whose powerful go-to-market systems deliver strong brands and fast-selling products that help them generate healthy cash flow.

We're led by an experienced management team that has proven it can address hyperinflation, currency devaluation and political turmoil as it keeps us growing. We're sustained by the associates, customers and business partners who help us deliver fun, nourishment and refreshment each day.

And we are always facing the future, looking for new ways of working, new ways of making good on the promise of Performance with Purpose.

What you see in these pages is an account of the immediate past with some sense of how it brought us to the present. But the essential point about our company, the thing that makes us successful year in, year out, is that we are always thinking about the future.

To celebrate the future generation, we asked the children of our associates around the world to draw their favorite PepsiCo products. Some of these drawings are featured on this annual report's cover, demonstrating that we're growing in ways that nurture, sustain and inspire people.

A great company is a place where people come together, with a purpose in common. By defining that purpose, by trying to bottle it, we are bound together. That is the message you see on every page of this report. It is full of stories and portraits that truly demonstrate the deeply personal, emotional connection our associates have made to Performance with Purpose. In any language, our associates will tell you, "We are Performance with Purpose." Please join us on this trip around the globe, and see for yourself why I'm so inspired by the great things we've accomplished together—and so excited about the many opportunities that still lie ahead.



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