Performance with Purpose

The Promise of PepsiCo

PEPSICO

2010 Annual Report

Good for all...

is good for business.

At PepsiCo, Performance with Purpose means delivering sustainable growth by investing in a healthier future for people and our planet. As a global food and beverage company with brands that stand for quality and are respected household names — Pepsi-Cola, Lay's, Quaker Oats, Tropicana and Gatorade, to name but a few — we will continue to build a portfolio of enjoyable and healthier foods and beverages, find innovative ways to reduce the use of energy, water and packaging, and provide a great workplace for our associates. Additionally, we respect, support and invest in the local communities where we operate, by hiring local people, creating products designed for local tastes and partnering with local farmers, governments and community groups. Because a healthier future for all people and our planet means a more successful future for PepsiCo. This is our promise.

Providing people with choices...

At PepsiCo, our promise is to encourage people to live balanced and healthier lives. We're committed to offering balance in our portfolio for consumers to have a range of enjoyable and wholesome foods and beverages. We believe it's about providing people with choices, options to manage their portions, better nutrition education and compelling programs to encourage physical activity. But choice is the key. By 2020, we intend to triple our portfolio of wholesome and enjoyable offerings, while staying committed to the great taste and convenience that are expected of our great brands.

is good for business.

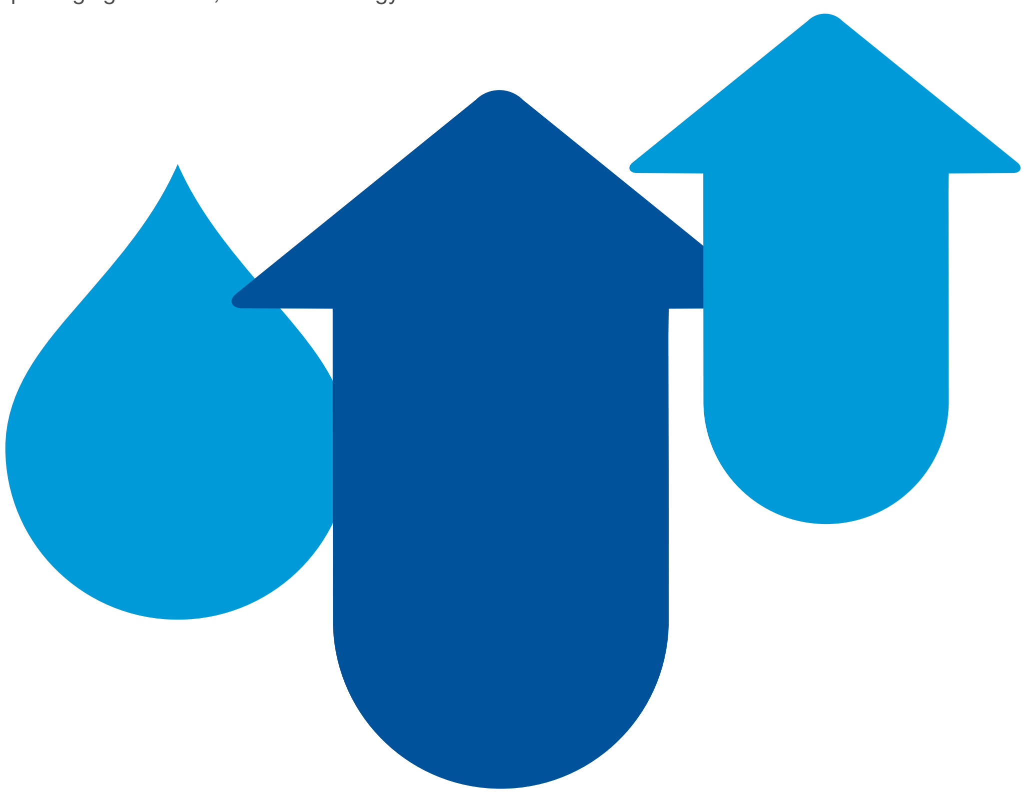
Health-conscious consumers who seek more wholesome food and beverage choices are increasingly a large and powerful force in the marketplace. At the same time, the changing global economy has deepened the demand for both quality and value. As the world's second-largest food and beverage business with an unparalleled distribution system, we are uniquely situated to lead the way in these changing market dynamics. We believe the expansion of our Good-for-You portfolio will help PepsiCo attain a competitive advantage in a global packaged-nutrition market valued today at $500 billion — and growing.

Supporting our planet...

Respecting humanity's right to water and other natural resources is a priority for PepsiCo. That's why we have invested in research, systems and facilities improvements. All of which decrease waste to landfills, create more sustainable packaging, reduce our carbon footprint, lower our energy and water use and improve the efficiency of our operations. It's also why we continue to work with global non-governmental organizations, national governments, local farmers and agronomists to pursue more sustainable growing practices, improve crop yields and support local growing collaboratives. These initiatives are simply the right thing to do, and they also demonstrate PepsiCo's interest in the development of the agricultural supply chain in emerging markets.

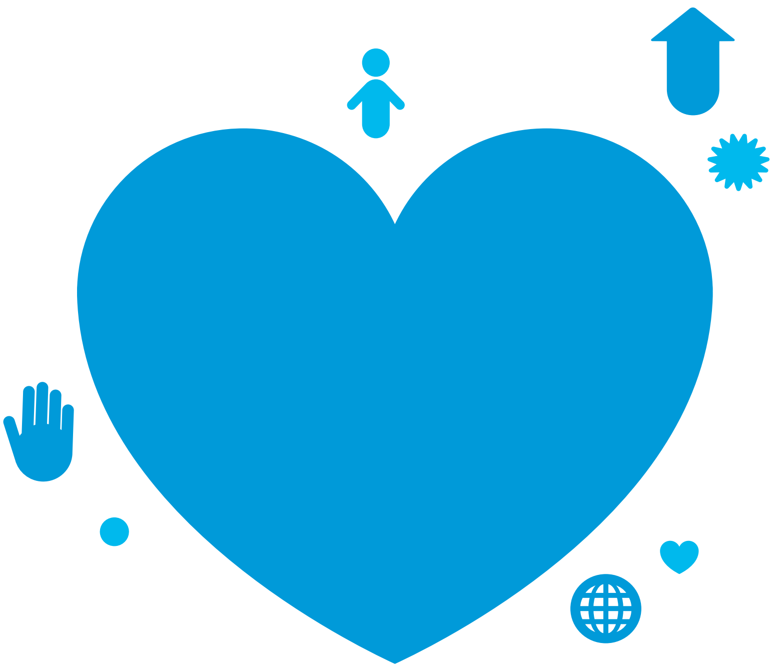
is good for business.

Being a “good company” is good for society and the communities where we operate, and it is an imperative for increasing our profitability. Environmental initiatives help us identify business synergies and cut our operating costs. Equally important is improving efficiencies in packaging materials, water and energy use, so we may continue to minimize waste and move toward significant environmental goals. These actions are helping to protect the communities where we operate, while strategically transforming our operations for long-term efficiency and sustainable growth.



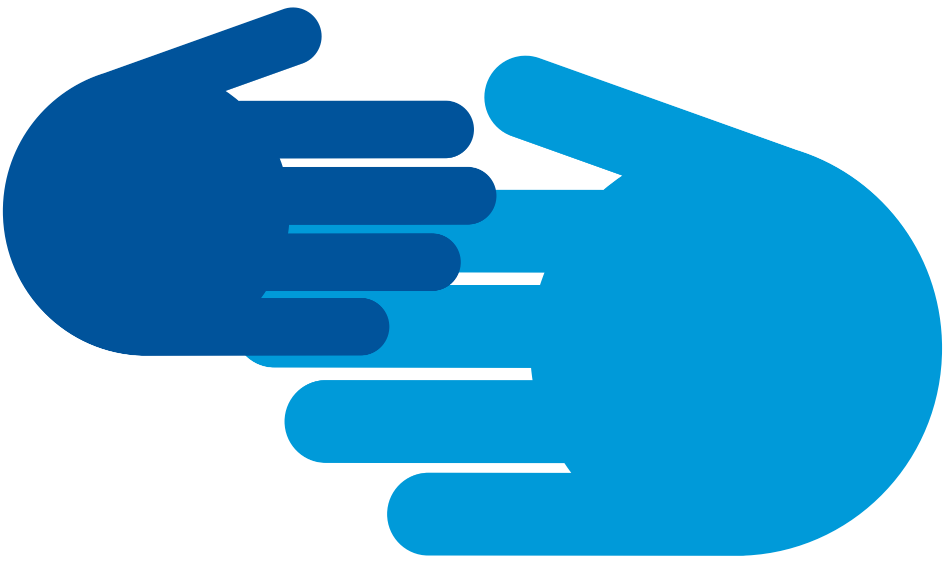
Investing in our people...

Helping our associates succeed and acquire the skills that enable growth also will help to sustain PepsiCo's long-term growth. A key component is attracting and developing the best people and empowering them to be innovative, take on new responsibilities and pursue exciting opportunities for themselves and the company. We're also committed to supporting our associates, their families and the communities where they live and we operate through local job creation, wellness initiatives and matching charitable contributions. We do all of this because we care about our associates, and because PepsiCo is successful when our people are empowered to develop their skills and lead healthier lives.



is good for business.

To maintain a leadership position in a changing world, we must rethink how we work, implement efficient new ways to collaborate on a global scale and share operational best practices throughout our organization. Our commitment to diversity in the workforce means we understand, firsthand, what our consumers seek in local markets around the world. Equally important is investing in our associates and the communities where they live. The result of these efforts is more engaged and productive associates who can seize opportunities to grow the company.



And good business...

We understand that companies succeed when society succeeds, and what's good for the world is good for business. Performance with Purpose ensures that this powerful idea is woven into everything we do at PepsiCo. But equally important, it is proving to be a driver of financial performance for our shareholders today and into the future. We continue to strike the balance between the short term and the long term through investments in acquisitions, research and development and emerging markets.

+33%

Net revenue grew 33 percent on a constant currency basis.[1]

+7%

Raised the annual dividend by 7 percent.

+23%

Core division operating profit rose 23 percent on a constant currency basis.[1]

+12%

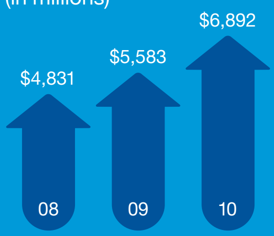
Core EPS grew 12 percent on a constant currency basis.[2]

Core Earnings Per Share[2]

+23%

Management operating cash flow, excluding certain items, reached $6.9 billion, up 23 percent.[1]

Management Operating Cash Flow, Excluding Certain Items[3]
(in millions)



[1] Core results and core results on a constant currency basis are non-GAAP measures that exclude certain items. See page 108 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

[2] Core results and core results on a constant currency basis are non-GAAP measures that exclude certain items. See page 64 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

[3] Core results and core results on a constant currency basis are non-GAAP measures that exclude certain items. See page 70 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

Watch an introductory video with PepsiCo's Chairman at www.PepsiCo.com/annual10.

is good for all.

Indra K. Nooyi
Chairman and Chief Executive Officer

Dear Fellow Shareholders,

2010 was a good year for PepsiCo. I am delighted with the success we have achieved, and I am sure you are too.

Amid the continuing challenge of the most difficult global macroeconomic environment in decades, we delivered strong operating performance that puts us in the top tier in our industry while we generated significant operating cash flow.

- Net revenue grew 33 percent on a constant currency basis.[1]
- Core division operating profit rose 23 percent on a constant currency basis.[1]
- Core EPS grew 12 percent on a constant currency basis.[2]
- Management operating cash flow, excluding certain items, reached $6.9 billion, up 23 percent.[1]
- $8 billion was returned to our shareholders through share repurchases and dividends.
- We raised the annual dividend by 7 percent.

We can confidently say that PepsiCo continues to operate from a position of balance and strength. We are the second-largest food and beverage business in the world, and the largest food and beverage business in North America.

2010 Snapshot

	%PY
Net Revenue[1]	+33%
Division Op. Profit[1]	+23%
EPS[2]	+12%
Mgmt OCF[1]	+23%
Annual Dividend	+ 7%

We are increasingly global. More than 45 percent of our revenue comes from outside the United States, with approximately 30 percent coming from emerging and developing markets, where we have tremendous growth opportunities. Globally, PepsiCo operates more than 100,000 routes, serves approximately 10 million outlets almost every week and generates more than $300 million in retail sales every day.

We are performing today to deliver top-tier financial performance, while investing to ensure that our performance levels can be sustained in the long term. For example, in 2010 we stepped up our investments in brand building, R&D, emerging markets infrastructure and our people.

PepsiCo has 19 brands that generate more than $1 billion of retail sales each — up from just 11 in 2000. Brands are our lifeblood — we invest to sustain and improve brand equity in existing global brands while judiciously focusing on our local and regional brands. In 2010, all of our $1 billion brands grew revenues, thanks in part to our brand-building activities.

Differentiated products help us drive sales and pricing. In 2010, we again increased our R&D investments in sweetener technologies, next-generation processing and packaging and nutrition products. For example, SoBe Lifewater Zero Calorie, a

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[2] Core results and core results on a constant currency basis are non-GAAP measures that exclude certain items. See page 64 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

product made with an all-natural, zero-calorie sweetener, was a direct result of that investment — the SoBe Lifewater brand grew volume 46 percent in 2010 alone. Similarly, our technology investments allowed us to reduce sodium levels in some of our salty snacks without compromising taste and to use 100 percent recycled PET in our Naked Juice bottles.

We increased our investment in emerging markets' selling and delivery systems by putting more coolers in the market and adding route and distribution capacity ahead of growth in India, China, Russia and other countries.

In 2010, we also increased our emphasis on our people — from leadership development to rotational assignments to experiential learning programs. Our people set us apart and attracting, retaining, retraining and developing them remain our biggest advantages and continuing challenges.

Performance with Purpose

In addition to sustainable financial performance, we made major strides in our Performance with Purpose journey.

Four years ago, we recognized that the environment was changing: increasingly, focus was shifting from corporate capabilities to include corporate character. A new understanding took shape: that ethics and growth are not just linked, but inseparable; a belief long treasured by PepsiCo.

Performance with Purpose means delivering sustainable growth by investing in a healthier future for people and our planet. Performance has always been the lifeblood of PepsiCo, and we remain committed to delivering top-tier financial returns. But we went a step further. We laid out additional short- and long-term goals for ourselves that included metrics related to our performance in the eyes of our retail partners, our consumers and, of course, our investors. Importantly, this is not at the cost of creating value for shareholders. It is the source of that value.

It's all about bringing our company performance and our social and environmental commitments together.

We set a series of long-term targets, but ensured that they also supported our short-term needs. Our business and our ethics are intertwined, and that is an enormous source of pride for everyone at PepsiCo. So let me explain the three Purpose planks that lead to outstanding performance: Human, Environmental, and Talent sustainability.

Human Sustainability

Human sustainability is our promise to encourage people to live balanced and healthy lives. It's about offering balance in our portfolio for consumers to have a range of enjoyable and wholesome foods and beverages. It's about providing people with choices, attractive options to manage their portions, better nutrition education and compelling programs to encourage physical activity.

But the key is choice. By expanding our portfolio, we are making sure our consumers can treat themselves when they want enjoyable products, but are able to buy a range of appetizing and healthier snacks when they are being health-conscious.

"We are performing today to deliver top-tier financial performance, while investing to ensure that our performance levels can be sustained in the long term."

Fun-for-You Portfolio

These products are part of PepsiCo's core food and beverage businesses.

Pepsi:
The bold, refreshing, robust cola

Red Rock Deli Potato Chips: Seasoned with delicious deli-inspired flavors

Better-for-You Portfolio

These are foods and beverages that have levels of total fat, saturated fat, sodium and/or added sugar that are in line with global dietary intake recommendations. Included in this category are products such as baked snacks with lower-fat content and beverages with fewer or no calories and less added sugar.

Baked! Lay's:
Baked potato crisps with zero trans fats

Propel Zero:
Zero-calorie enhanced water beverage with antioxidant and other vitamins

Good-for-You Portfolio

These are foods and beverages that deliver positive nutrition through the inclusion of whole grains, fruits, vegetables, low-fat dairy, nuts and seeds or significant amounts of important nutrients, while moderating total fat, saturated fat, sodium and/or added sugar. We also include products that have been specifically formulated to provide a functional benefit, such as addressing the performance needs of athletes.

Quaker Instant Oatmeal:
Made with heart-healthy whole-grain oats

Naked Juice:
100 percent juice smoothie made from real fruit

We are a founding member of the Healthy Weight Commitment Foundation, which is a first-of-its-kind coalition dedicated to helping Americans achieve healthy weight through energy balance — calories in and calories out. We also support programs across the world to help people lead healthier lives, from Vive Saludable Escuelas in Latin America, to our Get Active program in India, to our partnership with the United Kingdom's Department of Health on its Change4Life obesity campaign, to our work with the YMCA — America's largest provider of fitness programs — on its Activate America initiative.

Environmental Sustainability

Environmental sustainability is our promise to protect the Earth's natural resources. We are investing in a healthier planet by reducing water usage, increasing recycling levels and minimizing our carbon footprint. We are engaging in sustainable farming and helping communities in which we operate in the areas of water conservation, efficient agricultural methods and increasing access to safe water. In doing so, we are ensuring PepsiCo can continue long into the future. But in the here and now, we are reducing our energy and waste costs, and gaining real credibility with consumers and policymakers alike as we prove ourselves to be a company which takes its responsibilities seriously.

In 2010, we advanced our land and packaging commitments by launching the Dream Machine recycling partnership with Waste Management, Greenopolis and Keep America Beautiful, with a goal of increasing the U.S. beverage container recycling rate from 38 percent in 2009 to 50 percent by 2018. We made progress on our commitment to reduce our carbon footprint, opening LEED-certified plants in China in both 2009 and 2010, while managing the largest private-delivery fleet of electric vehicles in North America. Meanwhile, we strengthened our community pledge to be responsible in our use of natural resources, achieving positive water balance in India in 2009 and creating a new Agricultural Development Center in Peru in 2010.

Talent Sustainability

Talent sustainability is our promise to invest in our associates. Our goal is to help them succeed and develop the skills needed to drive the company's growth, while also contributing to the local communities where we live. It's about creating an environment where associates feel they can bring their whole selves to work. It's about building a diverse workforce where our associate base reflects our consumer base.

In 2010, our efforts focused on making training and development a priority, as we introduced new PepsiCo University leadership programs. Our ongoing efforts to create a culture where associates can bring their whole selves to work was affirmed with numerous "best employer" awards, from Turkey to India to Spain to Brazil.

2011 and Beyond

There is little debate that the pace of change in the world today can be challenging. It means that there is never a chance to rest on your laurels. No company can afford to stop awhile to congratulate itself on its success. You can be assured that our vigilance remains undimmed. To that end, we have identified six business imperatives on which we will focus.

Our first imperative is to **build and extend our macro snack portfolio**. PepsiCo is the largest player in this category, and we still have tremendous room for growth. Our goal is to grow the core salty snack brands that are loved and respected around the world, while expanding into adjacent categories. We will continue to grow top products in our portfolio such as Lay's, Doritos, Fritos and Cheetos, while also adding products that are baked, that incorporate whole grains or contain fruits and vegetables. We also will strive to create new flavors in tune with local tastes, which reflect local culture and traditions. In doing so, we will position ourselves to gain share, while continuing to grow the top and bottom line in our macro snack business.

Our second imperative is to **sustainably and profitably grow our beverage business worldwide**. Our beverage business is a large, highly profitable one, accounting for 51 percent of the company's revenues. We are a full-line liquid refreshment beverage company with a portfolio of much-loved brands, from the iconic Pepsi to Diet Pepsi, Pepsi Max, Mountain Dew, 7Up (International), Sierra Mist and Mirinda in carbonated beverages; Gatorade, Lipton Iced Tea, SoBe, Tropicana, Frappuccino and Naked Juice in the non-carbonated space. In this highly competitive category, our goal is to grow our developed market beverage business profitably while continuing to aggressively invest in fast-growing emerging and developing markets. In 2010, we revitalized both the Gatorade brand and the no-calorie carbonated category by putting a lot of weight behind Pepsi Max. In 2011, we have a laser-like focus on taking our profitable North America beverage business and growing it sustainably for the future. We are continuing, at the same time, to invest in emerging and developing markets — including, of course, the vital China and India markets.

Our third imperative is to **unleash the power of the Power of One**. Studies show that, 85 percent of the time, when a person eats a snack, he or she also reaches for a beverage. No company on earth is better positioned to fulfill both sides of that equation. To truly unleash the power of the Power of One, in 2010, we successfully completed the acquisitions of our anchor bottlers, which enabled us to better service our customers. As an integrated operating company across snacks and beverages, we now can provide incredible benefits to our retail partners and consumers. For example, we can respond to retailer needs with increased speed and agility; we can incubate new products in our distribution systems for a longer time; we can offer integrated in-store displays tuned to occasions and day parts; we can leverage our in-store merchandising better and we can truly bring the power of PepsiCo to all our retail partners. The opportunities to grow our top and bottom line through the Power of One are exciting indeed.

Our fourth imperative is to **build and expand our nutrition business** to rapidly grow our Good-for-You portfolio of products. With the acquisition of Wimm-Bill-Dann, PepsiCo's annual revenues from nutritious and functional foods have risen from $10 billion to nearly $13 billion. With the Global Nutrition Group, we will be able to harness the best of PepsiCo by retaining the operating capability within each sector while centralizing the innovation and development of these increasingly in-demand healthier, wholesome and tasty products.

The fifth imperative is to **cherish our PepsiCo associates**. We are fortunate to employ, worldwide, a truly remarkable set of associates. The market becomes more competitive every day. It is people who hold the key to great performance. To be a good employer is one of the most important strategic decisions a company has to make. In this regard, Performance with Purpose is an absolutely central part of our recruitment and retention processes. Many of our new associates come to us precisely because we are a company that respects them and respects the causes that they care passionately about.

The sixth and final imperative is the sum total of the other five. It is vital, in the end, that everything we do adds up to **excellent financial performance**. When we widen our horizons we are not, at the same time, losing our focus on performance. I can make this commitment — that we have a laser-like attention on being the best possible company, financially, that we can be.

Conclusion

I am sure you will agree that we have delivered strong and consistent performance. Any student of the numbers could be forgiven for thinking that we sailed along the calm waters with little to concern the crew. And, in one sense, that would be right. The crew of PepsiCo is a remarkably consistent and dedicated group. I want to pay tribute to every one of the associates who have done, as they always do, a magnificent job during trying circumstances. We all owe every one of them a debt of gratitude!

That is especially the case when you consider that business is conducted against the backdrop of a constantly shifting scene. It can be disconcerting. It can be challenging. But it can also be exciting, and the sense of commitment and desire that I feel from the associates in this company is the thing that keeps our company fresh and the thing that keeps our company successful.

Let me close by saying that this has been another year of excellent performance. We returned $8 billion to you, our shareholders — of that we are proud. Now that Performance with Purpose is no longer new, we can see that the evidence is mounting — what is good for society and what is good for our business are the same thing. We are making progress on all fronts. It is hugely encouraging and, though the backdrop can be difficult, we have the resources, the ingenuity and the desire to keep moving forward successfully. Of that, I am certain.

Indra K. Nooyi
Chairman and
Chief Executive Officer

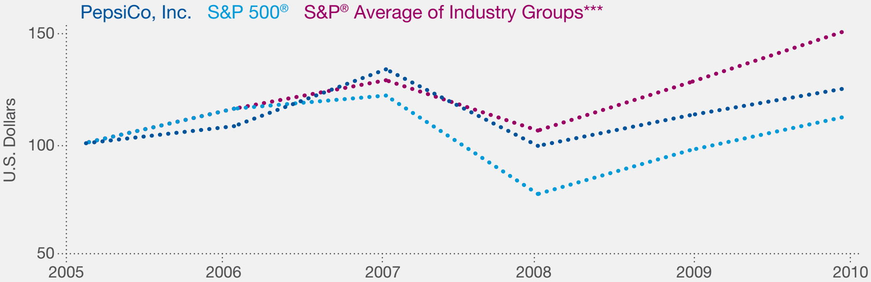
Financial Highlights

PepsiCo, Inc. and subsidiaries
(in millions except per share data; all per share amounts assume dilution)

	2010	2009	Chg[a]	Chg Constant Currency[a][f]
Summary of Operations				
Total net revenue	$57,838	$43,232	34%	33%
Core division operating profit[b]	$10,626	$ 8,647	23%	23%
Core total operating profit[c]	$ 9,773	$ 7,856	24%	
Core net income attributable to PepsiCo[d]	$ 6,675	$ 5,846	14%	
Core earnings per share attributable to PepsiCo[d]	$ 4.13	$ 3.71	12%	12%
Other Data				
Management operating cash flow, excluding certain items[e]	$ 6,892	$ 5,583	23%	
Net cash provided by operating activities	$ 8,448	$ 6,796	24%	
Capital spending	$ 3,253	$ 2,128	53%	
Common share repurchases	$ 4,978	–	n/m	
Dividends paid	$ 2,978	$ 2,732	9%	
Long-term debt	$19,999	$ 7,400	170%	

Cumulative Total Shareholder Return

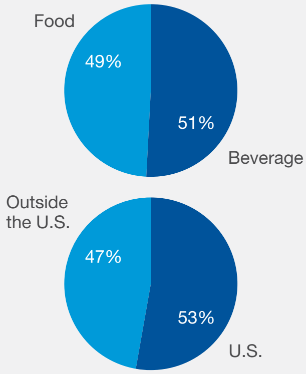
Return on PepsiCo stock investment (including dividends), the S&P 500 and the S&P Average of Industry Groups



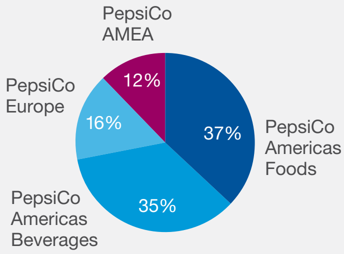
***The S&P Average of Industry Groups is derived by weighting the returns of two applicable S&P Industry Groups (Non-Alcoholic Beverages and Food) by PepsiCo's sales in its beverages and foods businesses. The returns for PepsiCo, the S&P 500 and the S&P Average indices are calculated through December 31, 2010.

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10
PepsiCo Inc.	$100	$108	$134	$ 99	$113	$125
S&P 500®	$100	$116	$122	$ 77	$ 97	$112
S&P® Avg. of Industry Groups***	$100	$116	$129	$106	$128	$151

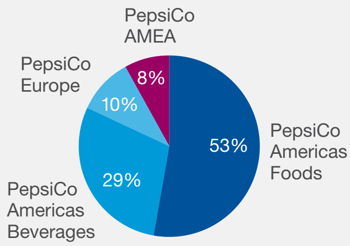
Mix of Net Revenue



Net Revenues



Division Operating Profit



(a) Percentage changes are based on unrounded amounts.

(b) Excludes corporate unallocated expenses and merger and integration charges in both years. In 2010, also excludes certain inventory fair value adjustments in connection with our bottling acquisitions and a one-time net charge related to the currency devaluation in Venezuela. In 2009, also excludes restructuring and impairment charges. See page 108 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(c) Excludes merger and integration charges and the net mark-to-market impact of our commodity hedges in both years. In 2010, also excludes certain inventory fair value adjustments in connection with our bottling acquisitions, a one-time net charge related to the currency devaluation in Venezuela, an asset write-off charge for SAP software and a contribution to The PepsiCo Foundation, Inc. In 2009, also excludes restructuring and impairment charges. See page 108 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(d) Excludes merger and integration charges and the net mark-to-market impact of our commodity hedges in both years. In 2010, also excludes a gain on previously held equity interests and certain inventory fair value adjustments in connection with our bottling acquisitions, a one-time net charge related to the currency devaluation in Venezuela, an asset write-off charge for SAP software, a contribution to The PepsiCo Foundation, Inc. and interest expense incurred in connection with our debt repurchase. In 2009, also excludes restructuring and impairment charges. See pages 64 and 108 for reconciliations to the most directly comparable financial measures in accordance with GAAP.

(e) Includes the impact of net capital spending, and excludes merger and integration payments and restructuring payments in both years. In 2010, also excludes discretionary pension and retiree medical payments, a contribution to The PepsiCo Foundation, Inc., interest paid related to our debt repurchase and capital expenditures related to the integration of our bottlers. In 2009, also excludes discretionary pension payments. See also "Our Liquidity and Capital Resources" in Management's Discussion and Analysis. See page 108 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(f) Assumes constant currency exchange rates used for translation based on the rates in effect in 2009. See pages 64 and 108 for reconciliations to the most directly comparable financial measures in accordance with GAAP.

PepsiCo Mega Brands

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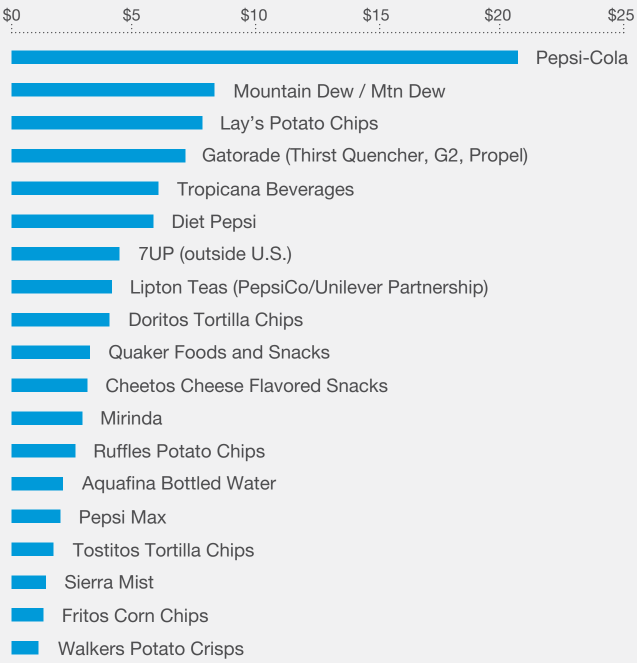
PepsiCo, Inc. has 19 mega brands that each generated $1 billion or more in 2010 in annual retail sales (estimated worldwide retail sales in billions).



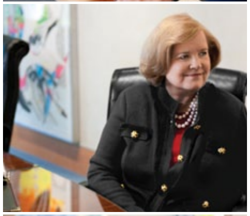
PepsiCo Board of Directors


Shona L. Brown
Senior Vice President,
Business Operations,
Google Inc.
45. Elected 2009.

Arthur C. Martinez
Former Chairman of the Board,
President and Chief Executive Officer,
Sears, Roebuck and Co.
71. Elected 1999.


Ian M. Cook
Chairman of the Board,
President and Chief Executive Officer,
Colgate-Palmolive Company
58. Elected 2008.

Indra K. Nooyi
Chairman of the Board and
Chief Executive Officer,
PepsiCo, Inc.
55. Elected 2001.

Dina Dublon
Consultant,
Former Executive Vice President
and Chief Financial Officer,
JPMorgan Chase & Co.
57. Elected 2005.

Sharon Percy Rockefeller
President and Chief Executive Officer,
WETA Public Radio
and Television Stations
66. Elected 1986.

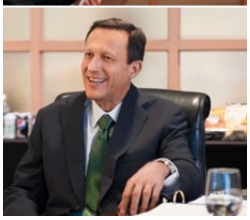

Victor J. Dzau, M.D.
Chancellor for Health Affairs,
Duke University;
President and Chief Executive Officer,
Duke University Health Systems
65. Elected 2005.

James J. Schiro
Former Chief Executive Officer,
Zurich Financial Services
65. Elected 2003.

Presiding Director


Ray L. Hunt
Chairman of the Board,
President and Chief Executive Officer,
Hunt Consolidated, Inc.
67. Elected 1996.

Lloyd G. Trotter
Managing Partner,
GenNx360 Capital Partners
65. Elected 2008.

Alberto Ibargüen
President and
Chief Executive Officer,
John S. and James L. Knight
Foundation
67. Elected 2005.

Daniel Vasella
Chairman of the Board and
Former Chief Executive Officer,
Novartis AG
57. Elected 2002.

PepsiCo Leadership

In photo, left to right: Eric J. Foss, John C. Compton, Zein Abdalla, Indra K. Nooyi, Hugh Johnston, Massimo F. d'Amore, Mehmood Khan, Saad Abdul-Latif

PepsiCo Executive Officers[4]

Indra K. Nooyi
Chairman of the Board,
Chief Executive Officer, PepsiCo

Zein Abdalla
Chief Executive Officer,
PepsiCo Europe

Saad Abdul-Latif
Chief Executive Officer,
PepsiCo Asia, Middle
East & Africa

Peter A. Bridgman
Senior Vice President,
Controller, PepsiCo

Albert P. Carey
President and Chief Executive
Officer, Frito-Lay North America

John C. Compton
Chief Executive Officer,
PepsiCo Americas Foods

Massimo F. d'Amore
Chief Executive Officer,
PepsiCo Beverages Americas

Eric J. Foss
Chief Executive Officer,
Pepsi Beverages Company

Richard Goodman
Executive Vice President,
PepsiCo Global Operations

Hugh Johnston
Executive Vice President,
Chief Financial Officer, PepsiCo

Mehmood Khan
Chief Executive Officer,
Global Nutrition Group and
Senior Vice President,
Chief Scientific Officer, PepsiCo

Larry Thompson
Senior Vice President,
Government Affairs,
General Counsel and Secretary,
PepsiCo

Cynthia M. Trudell
Senior Vice President,
Chief Personnel Officer, PepsiCo

Donald M. Kendall
Co-founder of PepsiCo

[4] PepsiCo Executive Officers subject to Section 16 of the Securities and Exchange Act of 1934 as of March 8, 2011.

Performance with Purpose: The Promise of PepsiCo

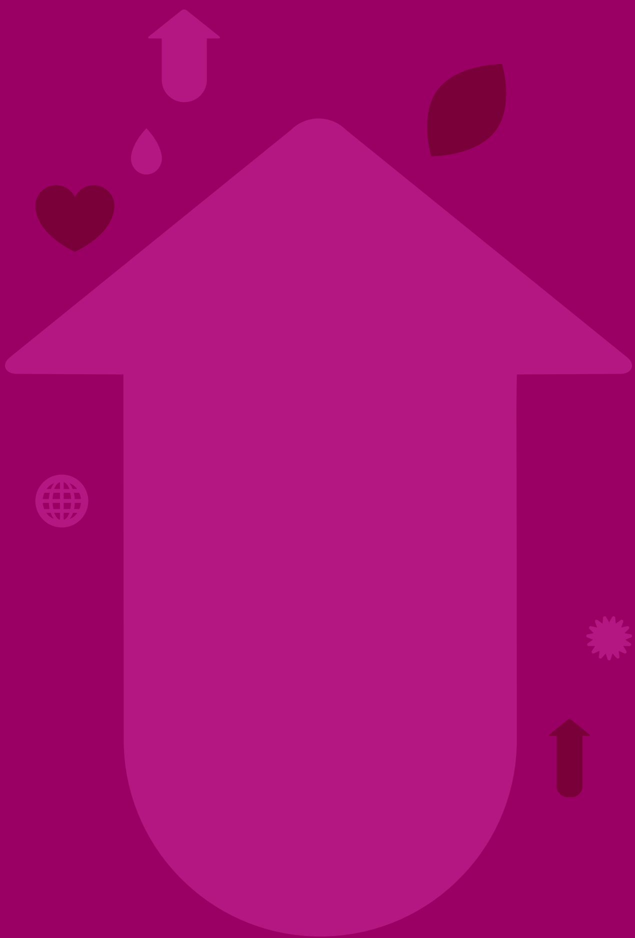
In 2009, PepsiCo made a promise to deliver sustainable growth by investing in a healthier future for our consumers, our planet, our associates and our communities. Every day we deliver on this promise by striving to meet the goals and commitments we've made in four key areas: Performance, Human sustainability, Environmental sustainability and Talent sustainability. With these as our guide, PepsiCo is strategically transforming itself for success in a changing global environment. The following pages provide a snapshot of our 2010 activities and progress, and the beginning stages of defining, measuring and tracking the data underlying each goal or commitment. PepsiCo's 2010 Corporate Citizenship Report, due for release later this year, will continue to offer a deeper look at our progress as we advance on our journey. We are proud of our Performance with Purpose achievements to date, but realize that fulfilling the Promise of PepsiCo will be a continuously challenging and rewarding journey.

Certain metrics in the following commitments and goals exclude the impact of significant acquisitions, such as the acquisitions of PBG, PAS and Lebedyansky, due to challenges in obtaining certain data for periods prior to our acquisitions. We continue to work to collect and aggregate this data and intend to incorporate such data into our externally reported metrics as soon as it has been collected, aggregated and verified. We have identified in this report the instances in which the underlying data for such acquisitions has been excluded through the use of the symbol (*).

1–9

Performance

To all our investors ... It's a promise to strive to deliver superior, sustainable financial performance.



1

Grow international revenues at two times real global GDP growth rate.

As the world's second-largest food and beverage business, we make, market or sell our products in more than 200 countries. In fact, more than 45 percent of our business comes from outside the U.S. In 2010, our revenues outside the U.S. grew approximately 30 percent, significantly above our target of two times the real global GDP growth rate. Notably, our India business grew at about 2.5 times India's real GDP growth rate and our Brazil business grew at about 3.5 times Brazil's real GDP growth rate. And we continue to strengthen our growth potential with strategic investments in key markets. In 2011, for example, we acquired a controlling interest in Wimm-Bill-Dann, Russia's largest food and beverage business, and made plans in 2010 to build a new plant, part of a $1 billion investment program there. We also initiated a $2.5 billion investment program in China in 2010, which includes plans to open 10 to 12 new food and beverage plants and R&D facilities over three years. With these and other investments, we expect to continue increasing our international revenues at a faster pace than that of the world economy.

We opened a snacks plant in Azov, Russia, in 2009, and announced plans to build a beverage plant on the same property in 2010. This is just part of our commitment to growing international revenues through investments.

2

Grow savory snack and liquid refreshment beverage market share in the top 20 markets.

We're committed to growing our businesses faster than the market. In 2010, we grew share in many of our top 20 markets where we increased the relevance of our brands to consumers, introduced new products that meet changing tastes or extended our portfolio into fast-growing category sub-segments. For example, Pepsi Max offers a zero-calorie beverage option in markets where consumers are looking for healthier choices while maintaining great taste. In 2011, we are pursuing similar strategies: 50 percent of Frito-Lay's snacks will be made with all-natural ingredients, a highly demanded consumer product sub-category.

3

Sustain or improve brand equity scores for PepsiCo's 19 billion-dollar brands in the top 10 markets.

The reputation and performance of our brands are critical to building brand equity scores. We have sustained or grown brand equity in the majority of the top markets for most of our 19 billion-dollar brands. Driving these overall positive results have been very successful consumer engagement programs on our billion-dollar brands across the globe, such as the "Do Us a Flavour" competitions in the U.K. (Walkers), the Netherlands (Lay's) and India (Lay's). These programs allow consumers to have a say in selecting new flavors introduced by the brands, through text and online messages. Mountain Dew developed a partnership with consumers in the DEWmocracy 2 campaign to create three new DEW flavor innovations. And through the Gatorade Mission Control social media platform, which tracks online sports performance conversations in real time and then uses the information to deepen consumer engagement, we are able to adjust marketing plans and influence product innovation.

Gatorade's Mission Control monitors, reacts and engages with consumers in real time across the social web, building awareness of the brand.

Learn more about the Walkers “Do Us a Flavour” campaign at www.tinyurl.com/pepsico1.

4

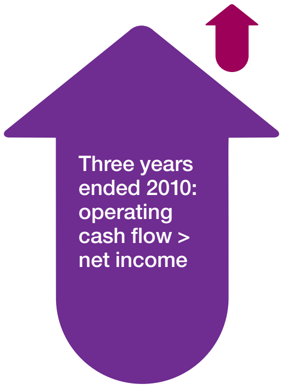
Rank among the top two suppliers in customer (retail partner) surveys where third-party measures exist.

We know that being viewed as a premier supplier by our customers is part of our success, and we pride ourselves on delivering superior value and expertise to our customers in important areas, including consumer insights, innovative marketing and supply chain management. Assessing our performance through our customers’ eyes ensures we are focused on the areas they believe are most important. Many retailers today have supplier scorecards that measure important sales and operational metrics. In addition, we also leverage third-party benchmarking tools from the U.S.’s Kantar Retail surveys and globally through the Advantage Group International survey. In Kantar Retail’s 2010 surveys, PepsiCo ranked among the top two foodservice suppliers in the U.S. and ranked number four among retail customers. We delivered year-over-year improvements in the areas of supply chain management and customer sales teams. Where we have dedicated PepsiCo Power of One retail customer teams, we ranked number three overall and number one for insights. Internationally, we had strong results in the Advantage Group International’s Advantage Report in a number of countries. In the U.K., Walkers was ranked number two for overall performance among sixteen confectionery and snack food companies. Tropicana, in the U.K., was ranked number one out of thirteen companies in the refrigerated dairy and juice category. In Canada, Frito-Lay was ranked number three among a total of 23 fast-moving consumer goods companies in the grocery channel. Going forward, we plan to expand our Power of One approach to a broader set of key customers and expect the efforts to translate into positive results in future surveys.

5

Continue to expand division operating margins.

PepsiCo is committed to delivering sustainable operating performance. In order to succeed, we know it's important to balance both the short and the long term. The 2010 acquisition of our anchor bottlers in North America and Europe, for example, enables us to drive growth, ensure a dynamic future for PepsiCo and create a more integrated supply chain. As expected, the decision to acquire these bottlers reduced overall division operating margins in 2010. However, we also understood that realizing operational synergies would better position us to increase margins over the long term. We also invested in some key growth drivers of our business, including expanding our business in China (one of our priority growth markets) and increasing advertising and marketing spending in our North America beverage and U.S. Quaker Foods businesses. Through these and other investments, we expect to increase overall division operating margins over time.



6

Increase cash flow in proportion to net income growth over three-year windows.

In the three years ended 2010, operating cash flow significantly outpaced the rate of net income. We believe that our disciplined approach to cash flow management will enable us to continue to meet or exceed this goal in the future.

7

Deliver total shareholder returns in the top quartile of our industry group.

We deliver strong returns to our shareholders through substantial profit growth, sound investment decisions and disciplined cash flow management. We increased our annual dividend in 2010 for the 38th consecutive year, from $1.80 to $1.92, or 7 percent, and we returned a total of $8 billion to shareholders in the form of share repurchases and dividends. From 2001-2005, our total cash returned to shareholders was $18 billion. Over the five-year period from 2006 to 2010, which included the economic turmoil of recent years, our total cash returned to shareholders was $29 billion. While delivering top-quartile returns remains a goal we continue to strive for, we're proud that we delivered above-average total shareholder returns among the top 15 global consumer product companies in 2010, as well as in six of the last 10 years.

8

Utilize a robust corporate governance structure to best represent the interests of PepsiCo and its shareholders.

PepsiCo maintains the highest standards of corporate governance, supported and monitored by a diverse and annually elected Board of Directors, and widely recognized by proxy advisory firms such as Institutional Shareholder Services (ISS) and GovernanceMetrics International (GMI). In 2010, *Ethisphere* magazine rated PepsiCo one of the world's most ethical companies. And again in 2010, we were included in the Dow Jones Sustainability Indexes (DJSI World and DJSI North America) with a "best in class" score for corporate governance in our industry group. We continue to achieve this level of success because we not only operate with strict corporate standards, but also track accountability and train our associates in our Worldwide Code of Conduct.

9

Ensure our PepsiCo value commitment to deliver sustained growth through empowered people acting with responsibility and building trust.

With clear values at the core of PepsiCo's culture, empowered associates have the guidance they need to act and work responsibly. We have reinforced the importance of our values through training, annual Code of Conduct certification and our new-hire orientation processes. In our 2006 Organizational Health Survey we began measuring how well our values are embraced company-wide and have received very positive ratings. In our last all-employee survey in 2009, we again received very favorable ratings in all levels of the company, from the front line to senior executives. The aggregate global score from employees regarding our commitment to living our values was 82 percent favorable, a rating we continually strive to increase. In 2011, as part of our biannual survey process, we will once again seek feedback on our commitment to our values from our associates, including those from our recently acquired bottling organizations. (*)

(*) See page 19.

10–20

Human Sustainability

To the people of the world … It's a promise to encourage people to live healthier by offering a portfolio of both enjoyable and healthier foods and beverages.

10

Increase the amount of whole grains, fruits, vegetables, nuts, seeds and low-fat dairy in our global product portfolio.

We've made great strides in increasing the amount of wholesome foods across our global portfolio. Through estimated 2010 U.S. data, the Quaker division is expected to have contributed nearly 500 million pounds of whole grains to the American diet. In Russia, with the acquisition of Lebedyansky in 2009, we became the number one juice company across Europe and expect to have sold 230 million servings of 100 percent juice in Russia in 2010. During the same year, Sabritas is estimated to have delivered more than 19 million pounds of nuts and seeds to Mexican consumers through its varied nuts and seeds product portfolio. In 2010, we also formed our Global Nutrition Group, which we believe will help us strive to become the leading provider of Good-for-You foods and beverages. This groundbreaking initiative is intended to help accelerate the growth of our Good-for-You products from $10 billion in net revenue in 2010 to $30 billion by 2020.

$10 billion

In 2010, our Good-for-You portfolio delivered $10 billion in net revenue.

Learn more about Frito-Lay's natural ingredients at www.tinyurl.com/pepsico2.

11

Reduce the average amount of sodium per serving in key global food brands, in key countries, by 25 percent by 2015, compared to a 2006 baseline.

We are making good progress in reducing sodium in many of our key global food brands. In the U.K., Walkers has significantly reduced sodium by 25 to 55+ percent in its products since 2005, while continuing to be the country's number one selling brand of crisps. In the U.S., Frito-Lay developed "Lightly Salted" versions of Fritos corn chips and Rold Gold Tiny Twist pretzels in 2010, each with 50 percent less sodium than their original versions. And in 2011, Frito-Lay in the U.S. will reduce sodium by nearly 25 percent, on average, across its entire flavored potato chip portfolio, including Lay's. In Brazil, we reduced sodium in one of our most popular snacks, Fandangos, by more than 30 percent, while expecting to achieve volume growth of more than 50 percent from 2006 to 2010. In 2011, we will continue to invest in developing different approaches to sodium reduction in our food brands, including the development of different salt crystal shapes that deliver great taste with less sodium. With these and other initiatives, we believe we are on track to meet our 2015 goal.

12

Reduce the average amount of saturated fat per serving in key global food brands, in key countries, by 15 percent by 2020, compared to a 2006 baseline.

We've been an industry leader in eliminating nearly all trans fats from our U.S. product portfolio and many of our global products; and now we're committed to reducing the saturated fat content of our key global food brands. In India, for example, we're using blended rice bran oil, which has led to a 40 percent decrease in saturated fat in leading products such as Kurkure namkeen snacks and Lay's potato chips. In China, increased sales of our Quaker products has been a driver behind a 10 percent decrease in saturated fat per serving across our foods portfolio. And in Russia, saturated fat levels have been reduced by almost 13 percent through the introduction of lower-saturated-fat versions of Cheetos and the more than 300 percent growth of low-saturated-fat Hrusteam products since 2006. In 2010, we launched versions of Cheetos and Fandangos in Brazil made with heart-healthier sunflower oil, and expect to incorporate it into other products throughout the world. To reach our 2020 goal, however, we will need to continue developing products that are great tasting with less saturated fat.

13

Reduce the average amount of added sugar per serving in key global beverage brands, in key countries, by 25 percent by 2020, compared to a 2006 baseline.

While reducing added sugars in beverages is challenging — due to strong consumer taste preferences for sugar and complex regulatory processes for alternatives — we have set aggressive

goals and are making progress toward achieving our 25 percent reduction target by 2020. In the U.S., for example, we have further expanded the successful SoBe Lifewater zero-calorie line of products to now offer 11 different flavors with all-natural, zero-calorie sweetener. In Turkey, a leading beverage, Fruko Gazoz, has been reformulated with a sweetener blend that reduces added sugar content by 32 percent. Looking longer term, we established partnerships that help develop an all-natural sweetener designed to replicate the taste and feel of sugar; and we expect to continue to invest in sweetener technologies that will help us deliver products with fewer calories while preserving the great taste consumers expect.

14

Display calorie count and key nutrients on our food and beverage packaging by 2012.

We're working to ensure that by 2012, basic nutritional information is available to consumers on packages (where feasible to print on the packaging and where permissible by local regulations) for all of our food and beverage products in key markets. In countries where we've already met this standard, we're also working toward an additional goal — displaying calorie or energy counts on the fronts of packages. We have already implemented front-of-pack labeling on many products in the U.K. and many other European countries, as well as in Australia. And we are rapidly expanding implementation in a number of countries around the globe, including the U.S., Canada, Mexico and Brazil. (*)

15

Advertise to children under 12 only products that meet our global science-based nutrition standards.

PepsiCo has taken a firm stand on responsible marketing to children by joining other global food and beverage manufacturers in adopting a voluntary commitment to advertise to children under the age of 12 only products that meet specific nutrition criteria. In 2010, we announced strict science-based criteria that ensure only our most nutritious products meet the standard for advertising to children under the age of 12. As verified by an independent third party, we achieved 98.5 percent compliance by the end of 2010 in globally representative markets such as India, China, Mexico and six countries in the European Union, all of which were monitored for compliance with our advertising-to-children policy. Additionally, we achieved 100 percent compliance with our U.S. and Canada advertising-to-children pledges, as verified by the Children's Food & Beverage Advertising Initiative in the U.S. and Advertising Standards Canada.

(*) See page 19.

16

Eliminate the direct sale of full-sugar soft drinks to primary and secondary schools around the globe by 2012.

PepsiCo continues to implement a global policy for beverage sales in schools — focused on water, juice, milk and low-calorie beverages that support healthy nutrition habits among students. By 2012, when the global school beverage policy is fully implemented, we will no longer sell full-sugar soft drinks directly to primary or secondary schools worldwide. These changes have already been made in a number of key markets. For example, between 2006 and 2009, we voluntarily discontinued direct sales of full-sugar soft drinks to K–12 schools in the U.S. and replaced them with smaller-portioned and lower-calorie beverage options. We also do not sell full-sugar soft drinks directly to primary and, in some cases, secondary schools in most of Europe, Canada, Australia and the majority of countries in the Arabian Peninsula.

17

Increase the range of foods and beverages that offer solutions for managing calories, like portion sizes.

In 2010, we continued to provide consumers with options to manage calorie intake, from launching new products with zero- and low-calorie sweeteners to reformulating existing products with fewer calories. Naked Juice, for example, introduced two 100 percent juice smoothies that have 35 percent fewer calories than regular Naked Juice Smoothies, and Tropicana added new flavors — such as Pomegranate Blueberry, Pineapple Mango and Farmstand Apple — to its Trop50 line, which offers 50 percent less sugar and fewer calories with no artificial sweeteners. In the U.K., we launched a 600ml zero-calorie cola at the same recommended retail price as a 500ml full-sugar cola. And in Brazil, we recently acquired Amacoco that positions us to broaden the distribution and sales of our lower-sugar coconut water product line. On the foods side, we utilized our expertise in baking and air-popping technologies to manage calories. In Mexico, a baking technique is used to produce a version of Sabritas potato chips that has 20 percent fewer calories. Several of our products, including SunChips, Sabra, Quaker's Quakes and True Delights rice snacks were recognized on *Good Housekeeping*'s "Best Low-Calorie Snack" list.

18

Invest in our business and research and development to expand our offerings of more affordable, nutritionally relevant products for underserved and lower-income communities.

We have strengthened our efforts to introduce affordable nutrition and are making strides to meet this long-term goal. For example, we developed a plan to launch affordable, fortified snacks and biscuits in India to address iron-deficiency anemia, with a pilot launch scheduled for Andhra Pradesh in India in 2011. Additionally, we are investing in research to identify key nutrient-dense staple crops that can be used in locally produced nutritious foods and snacks for sub-Saharan Africa.

19

Expand PepsiCo Foundation and PepsiCo corporate contribution initiatives to promote healthier communities, including enhancing diet and physical activity programs.

The PepsiCo Foundation is committed to helping people with the greatest health disparities achieve improved health and nutrition through effective and sustainable programs. Through a combination of Foundation grants and corporate contributions, we increased our annual investment from \$4.2 million in 2006 to \$4.7 million in 2010. In the U.S., the Foundation has contributed \$2.5 million to the Healthy Weight Commitment Foundation — a coalition of businesses, nonprofit organizations and athletes committed to reducing obesity by 2015.

The grant is being used for a public education campaign for moms and kids, and to implement a school-based program. PepsiCo continued to support the YMCA of the USA to improve the health, nutrition and well-being of underserved African-American and Latino populations — a collaborative program that has reached nearly 40,000 people in 85 communities. The Foundation's strong partnership with Save the Children has reached approximately 850,000 people in India and Bangladesh to help improve health and nutrition. And the Foundation's partnership with the World Food Program (WFP), which leverages PepsiCo's supply chain expertise to improve the WFP's logistics efficiency, will indirectly benefit approximately 90 million people served by the program.

20

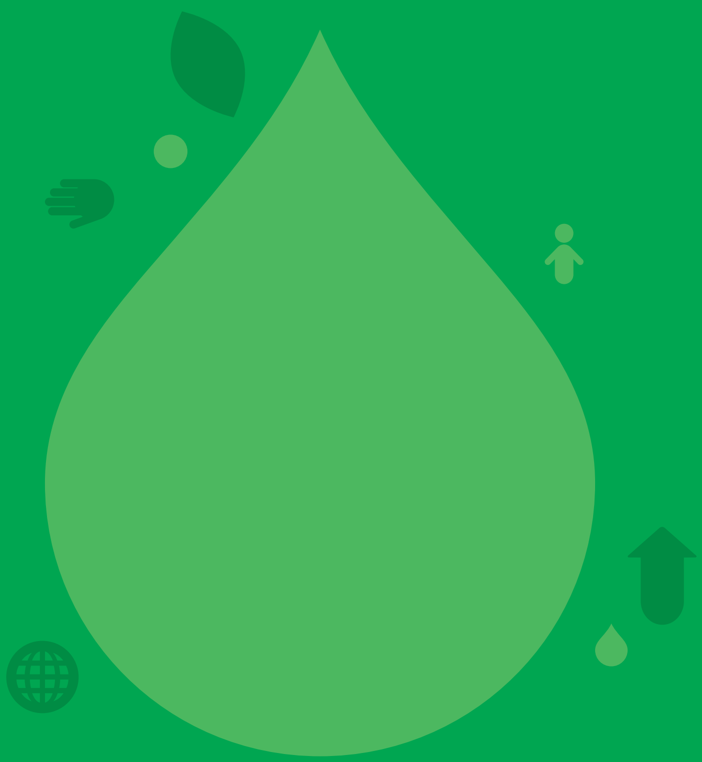
Integrate our policies and actions on human health, agriculture and the environment to make sure that they support each other.

Human health and environmental protection are two critical components of sustainable development. To ensure that our efforts in these areas are as cohesive and productive as possible, we have begun to develop a formal policy to coordinate our human health, agriculture and environment-related initiatives. In 2010, we championed a coordinated approach within the World Economic Forum (WEF) and, in partnership with some of the world's foremost thinkers in these key areas, called for governments and corporations to embrace an integrated approach to sustainable development and nutrition. In 2011 and beyond, we will accelerate our efforts, engaging our internal team of experts to create an integrated framework for company policies and practices that can be used to reach our goal and to serve as a basis for our Global Nutrition Group.

21–35

Environmental Sustainability

To the planet we all share ... It's a promise to be a good citizen of the world, protecting the Earth's natural resources through innovation and more efficient use of land, energy, water and packaging in our operations.



21

Improve our water-use efficiency by 20 percent per unit of production by 2015.

Water efficiency has long been an environmental focus at PepsiCo. Through the third quarter of 2010, our global food and beverage businesses reduced water-use intensity by 19.5 percent versus 2006. And we're on track to achieve our 2015 target for company-owned facilities. Upgrading our facilities with new technologies is one important way we are reaching this goal. For example, our Frito-Lay facility in Casa Grande, Arizona has been equipped with a state-of-the-art water filtration and purification system that can recycle and reuse up to 75 percent of the water used in production. Similar technology is also being deployed in our Tingalpa facility in Australia, a water-stressed area. We will continue to apply lessons learned in one facility to others across our global footprint. (*)

Reduced water-use intensity by 19.5 percent as of third quarter 2010, compared to our 2006 baseline.(*)

At our Frito-Lay facility in Casa Grande, Arizona, we are applying membrane bioreactor and low-pressure reverse osmosis technology to purify and recycle up to 75 percent of the site's process water.

22

Strive for positive water balance in our operations in water-distressed areas.

In 2009, PepsiCo's operations in India achieved positive water balance, enabling us to give back to society more water than we used to manufacture our products. To expand this achievement to other water-distressed areas where we have a presence, we have launched a number of projects. In 2010, for example, we began working with The Nature Conservancy to develop ways to identify areas of high water risk, so we can focus our attention and resources on achieving "net positive water impact" in the most vulnerable areas where we operate. We have selected watersheds in China, Mexico, Europe, India and the U.S. to pilot the development of a flexible and robust system that allows PepsiCo plants not only to characterize their water risk, but also identify locally relevant restoration initiatives that will improve water availability. (*)

(*) See page 19.

Learn more about how PepsiCo India is conserving water at www.tinyurl.com/pepsico3.

23

Provide access to safe water to three million people in developing countries by the end of 2015.

Having pledged more than $15 million since 2005 toward water projects, the PepsiCo Foundation is working to alleviate water scarcity in developing countries. In fact, the Foundation expects to provide access to safe water for one million people by the end of 2011, and to increase the number to three million people by 2015. The bulk of the Foundation's work is being done in partnership with Water.org, Safe Water Network, China Women's Development Foundation and Earth Institute at Columbia University. Together, we make vitally important water kiosks, household connections and municipal village systems available. At the village level, with the Foundation's funds, our partners can install farming irrigation, rainwater-harvesting systems, construct cisterns, and support sanitation and hygiene education programs.

24

Continue to lead the industry by incorporating at least 10 percent recycled polyethylene terephthalate (rPET) in our primary soft drink containers in the U.S., and broadly expand the use of rPET across key international markets.

We've been an industry leader in the innovative use of food-grade rPET in beverage containers in the U.S. market. In 2010, we continued to meet our commitment by including an average of 10 percent rPET in our primary soft drink containers in the U.S. We're particularly proud that our Naked Juice brand has commercialized a 100 percent post-consumer-recycled plastic bottle in the domestic grocery channel. Innovation is also driving our effort to expand the use of rPET internationally. For example, in France, during the third quarter of 2010, we began selling 1.5-liter containers of Tropicana that incorporated 50 percent rPET. This change represents an annual savings of approximately 1.1 million pounds of resin. In 2011, we have plans to expand our use of rPET in countries outside the U.S. by more than 2.5 million pounds.

25

Create partnerships that promote the increase of U.S. beverage container recycling rates to 50 percent by 2018.

We're creating national partnerships and developing new technologies to

make recycling easier and more efficient. Last year, we launched the Dream Machine recycling initiative with Waste Management, Greenopolis and Keep America Beautiful, to promote increasing the U.S. beverage container recycling rate from 38 percent in 2009 to 50 percent by 2018. The program, which includes reward-point incentives, encourages beverage container collection at public locations — such as grocery stores, gas stations, sports arenas, college campuses and schools — using intelligent kiosks equipped with scanners. With these and other efforts, we hope to encourage consumers to recycle and other organizations to establish recycling systems, because we can't reach this goal alone. We need everyone — industry and consumers — to join us.

PepsiCo's Dream Machine was developed to support PepsiCo's goal of increasing the U.S. beverage container recycling rate from 38 percent in 2009 to 50 percent by 2018.

26

Reduce packaging weight by 350 million pounds — avoiding the creation of one billion pounds of landfill waste by 2012.

We have made significant progress in reducing the amount of packaging we use to supply many of our products to consumers. For example, the 500ml Eco-Fina bottle weighs 10.9 grams, using 50 percent less plastic than the similar Aquafina packaging produced in 2002. This change helped us achieve a total packaging weight reduction of 103 million pounds in 2009 — getting us close to 30 percent of our 350-million-pound goal. We are confident that moves like this and other new initiatives in beverage and food product packaging will help us reach our 2012 goal.

103-million-pound

reduction in packaging weight in 2009.

Nine PepsiCo U.K. sites send zero waste to landfill.

27

Work to eliminate all solid waste to landfills from our production facilities.

Across our snack businesses in the U.S. and U.K., we've made considerable progress toward achieving the goal of sending zero waste to landfills. In 2009, PepsiCo generated an estimated 984,000 metric tons of solid waste from our global manufacturing facilities. Of that total, 17 percent was discarded in a landfill, and 82 percent was sent off-site for beneficial uses, such as recycling. Currently, nine PepsiCo U.K. sites send zero waste to landfill. In 2010, 13 Frito-Lay North America manufacturing sites averaged less than 1 percent of solid waste disposed to landfill. In 2011, Frito-Lay North America expects that 20 facilities will achieve this mark, and we believe 10 facilities will send zero waste to landfills by the end of the year. We are now introducing waste-reduction plans and training in many of our facilities around the world to further our progress. (*)

(*) See page 19.

28

Improve our electricity-use efficiency by 20 percent per unit of production by 2015.

We're achieving solid results by rolling out best practices throughout our manufacturing network to improve our electricity-use efficiency. For our global food and beverage manufacturing operations, we registered a nearly 9 percent improvement as of third quarter 2010, compared to the 2006 baseline, and we're on target to achieve our 2015 goal. This improvement in electricity efficiency was accomplished through numerous lighting, compressed air and motor efficiency projects across all PepsiCo business units. These reductions in electricity use helped enable Frito-Lay to receive six additional

The solar power system at Frito-Lay's Casa Grande, Arizona plant is one way the facility hopes to operate almost entirely on renewable energy sources.

LEED awards for Existing Buildings Gold Certifications in 2010 from the U.S. Green Building Council Leadership in Energy and Environmental Design. The Perry, Georgia; Topeka, Kansas; Modesto, California; Beloit, Wisconsin; Jonesboro, Arkansas; and Killingly, Connecticut manufacturing sites joined the Casa Grande site in 2010. (*)

(*) See page 19.

29

Reduce our fuel-use intensity by 25 percent per unit of production by 2015.

Fuel-use intensity for our global food and beverage manufacturing operations has improved by more than 12 percent as of the third quarter 2010 versus the 2006 baseline. Our progress is the result of a number of innovations being introduced in facilities around the world. In 2010, we extended the deployment of our new high-efficiency heat exchangers to production plants in the U.K., Portugal, Spain and India. This device, which was piloted in Australia and Russia, significantly improves heat transfer and recaptures heat lost in the potato chip frying process. Frito-Lay's Topeka, Kansas facility has reduced its natural gas consumption per pound of product by 40 percent since 1999 by installing new technologies, including high-efficiency oven burners and a high-efficiency biomass boiler. In addition to these and other technologies, our resource conservation programs are providing an essential foundation for helping our plants to reduce fuel-use intensity and keeping us on track to meet this 2015 goal. (*)

30

Commit to a goal of reducing greenhouse gas (GHG) intensity for U.S. operations by 25 percent through our partnership with the U.S. Environmental Protection Agency Climate Leaders program.

We have made important progress by establishing a rigorous new internal framework to drive our energy conservation efforts and are on track to meet our U.S. GHG intensity goal. Frito-Lay's transition to a more fuel-efficient fleet included a significant investment in electric-powered commercial trucks. In 2010, 13 electric Frito-Lay delivery trucks began their routes in the U.S. and Canada, with another 163 scheduled for launch in 2011. We believe this will make Frito-Lay the largest operator of all-electric private delivery trucks in North America. These trucks are estimated to emit 75 percent less greenhouse gas than conventional diesel trucks and will eliminate the need for approximately 500,000 gallons of fuel annually. (*)

31

Commit to an absolute reduction in GHG emissions across global operations.

We're making progress on our goal to reduce GHG emissions in our global manufacturing facilities and transportation systems. In South America, for example, the Green Stamp Program is optimizing vehicle efficiency through preventive maintenance and regular vehicle inspections, as well as through guidance on improving fuel-efficiency procedures for truck drivers and route salespeople. To date, approximately 80 percent of PepsiCo's fleet in Peru, Ecuador, Chile, Colombia, Argentina and Venezuela has participated in the program, with plans for further improvements underway. In the U.S. and Canada, the new Enterprise Transportation Management System is also driving route efficiency, productivity and cost savings. (*)

32

Apply proven sustainable agricultural practices on our farmed land.

We've been committed to sustainable agriculture practices for many years. In 2009, we launched our Global Sustainable Agriculture Policy — designed to encourage all of us, and our growers, to operate in a way that protects and nourishes land and communities. For example, we worked with a grower to determine whether alternative fertilizers could significantly reduce the carbon footprint associated with the agricultural production of oranges. If successful, these fertilizers could reduce the total carbon footprint of Tropicana Pure Premium juice by as much as 15 percent. We're also working to develop the first certification program of sustainable practices for our global suppliers. In 2011, the program will be piloted in the U.S. and then adopted worldwide. By including industry peers in the development process, we hope to establish a standard for all consumer goods companies interested in certifying their farming practices in areas such as water and energy management, soil conservation, nutrient and pesticide use.

33

Provide funding, technical support and training to local farmers.

PepsiCo is supporting local farmers globally through funding and training. In 2010, together with 350 British farmers, PepsiCo launched an important initiative to cut our carbon emissions and water use by 50 percent over five years.

(*) See page 19.

To achieve this, we're exploring a host of innovations with our growers, including i-crop™ "precision farming" technology (developed with Cambridge University); new low-carbon fertilizers; a plan to replace more than 75 percent of our current potato stock with varieties that give greater yields with less waste and The Cool Farm Tool software for measuring carbon emissions. As the U.K.'s largest buyer of potatoes and a major purchaser of oats and apples, we expect a significant, positive environmental impact from these steps. Similar agricultural initiatives are underway on every continent. In India, for example, we are teaching contract farmers sustainable agriculture practices, and helping 12,000 farmers form a cooperative and establish credit through the State Bank of India.

The web-based "precision farming" technology in the U.K., i-crop™, is designed to help farmers produce more while using less water.

34

Promote environmental education and best practices among our associates and business partners.

We have launched a host of initiatives with associates and partners that accelerate the adoption of environmental sustainability practices through education. In April 2010, more than 700 associates, suppliers and vendors, including representatives from 16 countries and every PepsiCo division, convened at the Global Sustainability Summit in Dallas, Texas, to share best practices in environmental sustainability. The PepsiCo Green volunteer organization inspires associates across the globe to set the standard for environmental sustainability by voluntarily raising awareness and inspiring wider eco-friendly practices both in the workplace and at home. From its 2007 launch, PepsiCo Green has grown virally in the U.S. and globally, expanding to 19 countries in 2010.

35

Integrate our policies and actions on human health, agriculture and the environment to make sure that they support each other.

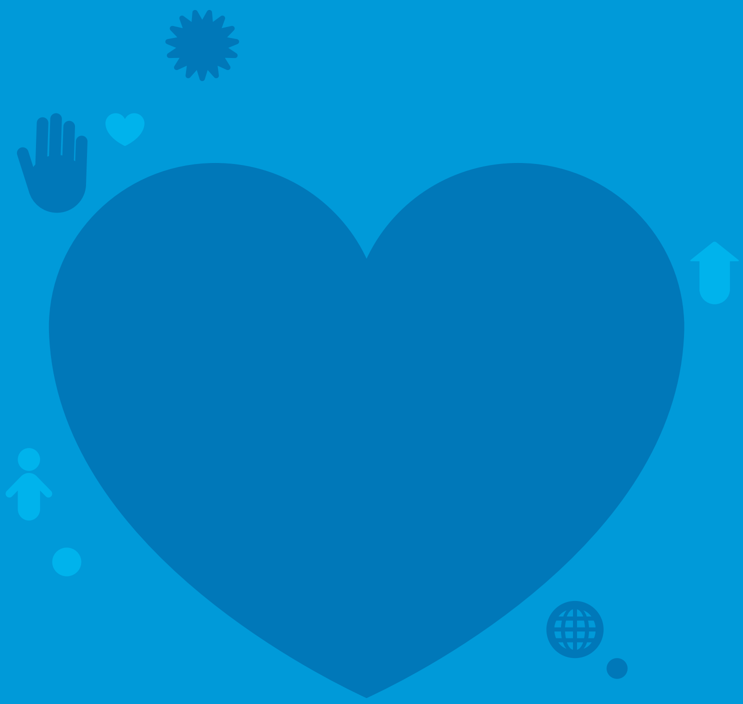
Human health and environmental protection are two critical components of sustainable development. To ensure that our efforts in these areas are as cohesive and productive as possible, we have begun to develop a formal policy to coordinate our human health, agriculture and environment-related initiatives. In 2010, we championed a coordinated approach within the World Economic Forum (WEF) and, in partnership with some of the world's foremost thinkers in these key areas, called for governments and corporations to embrace an integrated approach to sustainable development and nutrition. In 2011 and beyond, we will accelerate our efforts, engaging our internal team of experts to create an integrated framework for company policies and practices that can be used to reach our goal and to serve as a basis for our Global Nutrition Group.

Please note that this commitment and copy is the same as commitment 20.

36–47

Talent Sustainability

To the associates of PepsiCo … It's a promise to invest in our associates to help them succeed and develop the skills needed to drive the company's growth, while creating employment opportunities in the communities we serve.



36

Ensure high levels of associate engagement and satisfaction as compared with other Fortune 500 companies.

We seek the insights of our associates through our biannual Organizational Health Survey to help us increase associate engagement and satisfaction globally, regionally and locally. By conducting the survey every two years, we're able to analyze the data, create meaningful action plans and measure plan effectiveness. We also benchmark our results against other highly respected companies from different industries, using data from the Mayflower Group, a survey consortium of companies to which PepsiCo belongs. In our last full survey, conducted in 2009, we learned that 73 percent of our associates rated PepsiCo as a favorable place to work compared with other companies, 11 percentage points higher than the Mayflower benchmark. Our overall associate engagement index was also favorable at 75 percent. And our associate response rate of 89 percent was well above survey industry benchmarks. In 2011, we will again conduct our Organizational Health Survey of all associates, including those in our recently acquired bottling organizations, in approximately 80 countries and in 38 languages.

37

Foster diversity and inclusion by developing a workforce that reflects local communities.

We have a core belief that making the most of diverse strengths and talents helps make our company successful. We take great care to weave diversity and inclusion (D&I) into the very fabric of our culture to improve as a global, multicultural and multigenerational company capable of serving the world's communities effectively. To ensure that our focus on D&I is supported at all levels of the company, we seek the feedback of our associates as part of our biannual Organizational Health Survey. The feedback is encouraging. In 2009, our last full survey, 80 percent of our associates said their managers support their involvement in D&I activities, a 14 percentage point improvement since the question was first asked in 2004. Feedback externally is also positive. PepsiCo is frequently benchmarked for its global D&I initiatives, often by many of our most-valued retail customers. And in 2010, our D&I leadership and initiatives were once again recognized by numerous organizations and publications. The chart below provides a snapshot of PepsiCo's 2010 diversity statistics after the integration of our anchor bottlers and other acquisitions by the company.

2010 Diversity and Inclusion Statistics

	Total	Women	%	People of Color	%
Board of Directors[a]	12	4	33	4	33
Senior Executives[b]	13	2	15	3	23
Executives	2,970	915	31	600	20
All Managers	17,790	5,690	32	4,690	26
All Associates[c]	100,415	19,530	19	29,360	29

At year-end, we had approximately 294,000 associates worldwide.

[a] Our Board of Directors is pictured on page 17.

[b] Composed of PepsiCo Executive Officers listed on page 18.

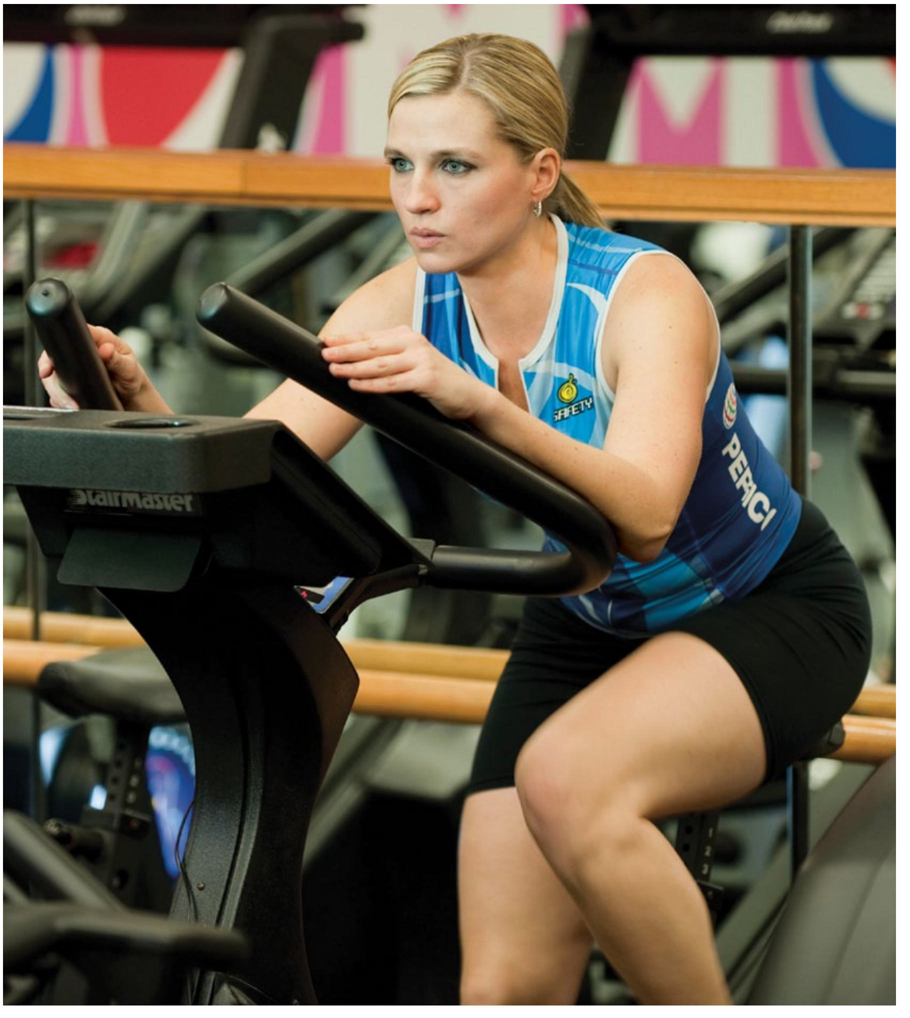
[c] Includes full-time associates only.

Executives, All Managers and All Associates are approximate numbers as of 12/25/10 for U.S. associates only.
Data in this chart is based on the U.S. definition for people of color.

38

Encourage our associates to lead healthier lives by offering workplace wellness programs globally.

Our global wellness strategy is designed to engage associates and their families in developing and sustaining healthy behaviors to improve their overall quality of life. To support associate wellness, we offer on-site health and wellness services in many countries around the world, including China, India, Mexico, South Africa, the U.K. and the U.S. These initiatives, which vary by location, include routine medical care at work sites, education programs on health, nutrition and exercise, programs on smoking cessation, on-site fitness centers and organized programs to encourage exercise. In 2010, we conducted an inventory of our wellness efforts globally with the intent of helping accelerate improvements, share best practices and grow beyond the 36 countries in which we currently offer programs. Our associate wellness efforts have been recognized in the U.S. by the National Business Group on Health, which awarded PepsiCo the 2010 Best Employers for Healthy Lifestyles Platinum Award. In addition to helping our associates, our focus on health and wellness brings a financial benefit. A 2009 study of our U.S. medical claims data found that associate participation in these programs significantly reduced healthcare and insurance costs over time. We are looking to track the impact of our programs around the world to identify sustained cost-saving trends.



39

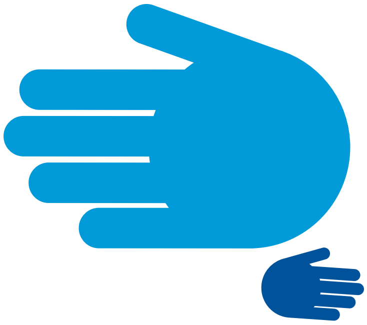
Ensure a safe workplace by continuing to reduce lost-time injury rates, while striving to improve other occupational health and safety metrics through best practices.

The health and safety of our associates is of paramount importance to PepsiCo. We are continually working across our businesses to prevent occupational injuries and illnesses, striving for an incident-free workplace. In 2011, we created a new Global Operations organization, which will help us strengthen health and safety governance in our supply chain globally as we leverage best practices across sectors while implementing locally relevant safety strategies. The new organization builds on the progress we made with the creation of the PepsiCo Health and Safety Leadership Council in 2008 to ensure we have the strategies, frameworks and systems to effectively manage risks, build health and safety leadership capabilities, identify global metrics and track performance. Areas of focus include machinery safety, fleet safety, activities requiring a permit to work and sales security. We are currently in the process of developing and implementing measurement tools to consistently track safety data on a global basis. These processes have been put in place due to the significant growth of the PepsiCo organization in recent years with the acquisitions of our two largest bottlers and the Lebedyansky juice business in Russia — all of which have increased the number of our manufacturing facilities, sales activities, associates and contractors worldwide.

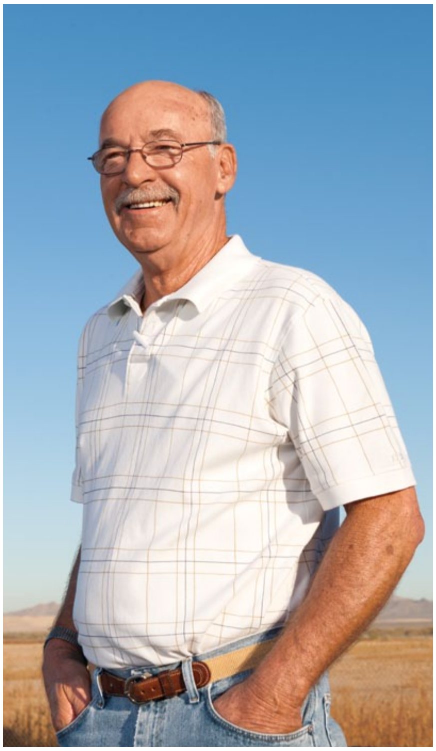
40

Support ethical and legal compliance through annual training in our Code of Conduct, which outlines PepsiCo's unwavering commitment to its human rights policy to treat every associate with dignity and respect.

We are fully committed to compliance with applicable laws and regulations and doing the right thing consistently, without compromise. To ensure ethical and legal compliance, we provide annual training on our Code of Conduct to salaried associates with e-mail accounts, who must certify that they have read and understand the Code and agree to abide by it. In 2010, approximately 57,000 associates in this target group completed this training and certification process. Our Code of Conduct, in 2010, also included in-person training for more than 100,000 associates outside of the target group. Distributed to associates, either electronically or in hard copy, our Code of Conduct is translated into 38 languages. In addition to our 2010 ranking as one of the world's most ethical companies by *Ethisphere* magazine, we also ranked in the top quartile for compliance performance for the beverage industry in the 2010 Dow Jones Sustainability World Index.



Two of Frito-Lay North America's 500 "Million Milers," pictured below, have career milestones of more than one million accident-free miles.



Learn more about Talent sustainability at www.tinyurl.com/pepsico4.

72 percent of our associates said they had opportunities to improve their skills at PepsiCo

41

Become universally recognized through top rankings as one of the best companies in the world for leadership development.

We are committed to a robust and systematic approach to managerial and executive development and succession planning. Our agenda includes formal leadership-development programs as well as annual 360-degree feedback processes and other measurement tools. To effectively prepare our managers and executives to lead in a challenging macroeconomic environment and to develop other associates, we have launched four new development programs in the last two years, spanning from first-time managers to senior leaders that provide leadership training to more than 2,700 associates around the world. To further support our leadership-development efforts, our Employee Resource Groups — with company sponsorship — offer additional avenues for leadership development that have demonstrated impact. We are pleased to be included in *Fortune* magazine's most recent global ranking of the 2009 25 "Top Companies for Leaders" and the Hay Group's 2010 ranking of the global top 20 "Best Companies for Leadership." In 2010, we were also recognized as a "Best Company for Leadership Development" in India by the Great Places to Work Institute.

42

Create a work environment in which associates know that their skills, talents and interests can fully develop.

We have established many programs that help our associates improve their skills and abilities. For example, we launched our annual Manager Quality Performance Index (MQPI) process in 2009 to collect data from associates on how well their managers provide feedback, develop "stretch" assignments and recognize and reward achievements. With this annual input, and with input from managers and leaders, we have the opportunity to shape a workplace in which our associates can grow. In 2010, we saw a positive increase in the overall MQPI scores across our executive population, as compared to the baseline established in 2009. Our ongoing efforts enable us to build from a position of strength. In the Organizational Health Survey conducted in 2009, 72 percent of our associates said they had opportunities to improve their skills, 10 percentage points above the Mayflower benchmark, while 77 percent said they had received the training needed to do a quality job, 7 percentage points above the average.

43

Conduct training for associates from the front line to senior management, to ensure that associates have the knowledge and skills required to achieve performance goals.

Training is an integral component of our talent and performance agendas. For example, more than 2,900 associates in 2010 registered and completed at least

A PepsiCo associate doing a final quality check on the Pepsi line at PepsiCo's Chongqing facility; China's first "green" beverage plant is an example of our commitment to create jobs locally.

one course from our award-winning Finance University. And, more than 1,000 non-finance associates completed one or more Finance University courses in 2010 with the aim of increasing their skills and improving their performance in their current roles. In another training initiative, supporting our commercialization competencies, a robust and continuously updated sales and customer management curriculum is available for all U.S. sales professionals. And, to enable us to deliver on our Research & Development (R&D)-related goals, we launched an R&D curriculum in 2010, available to our associates globally. Meanwhile, our operating groups continued to provide training for their frontline sales and operations teams. We were pleased last year to be named by *Actualidad Económica* magazine as "One of the Best Companies in Spain" for investment in training.

44

Create local jobs by expanding operations in developing countries.

In 2010, we announced numerous investments that will lead to job creation, including $2.5 billion in China over the next three years (in addition to the company's $1 billion investment announced in 2008); $250 million in Vietnam over the next three years; and $3 million in Peru over the next three years. We also signed a memorandum outlining plans to invest $140 million to build our tenth plant in Russia — part of a $1 billion investment program announced in 2009. The number of jobs created by these investments will be determined in the next few years. Meanwhile, last year we expanded our Sangareddy and Mahul beverage production facilities in India, as well as their corresponding beverage and food sales organization, creating 5,000 direct and indirect jobs. In Brazil, we grew production in São Paulo and Feira de Santana, and opened up a new business unit in Cachoeiro do Itapemirim, that created 360 jobs. Meanwhile, we are also creating jobs in the U.S. The investments we are making in our new Global Nutrition Group is one example, with many new positions based in Chicago, while in Virginia the Sabra Dipping Company joint venture opened its new manufacturing plant in Colonial Heights.

45

Support education through PepsiCo Foundation grants.

In 2010, the PepsiCo Foundation contributed a total of $7.6 million in grants to support education. The Foundation is proud to be the founding private-sector partner of Diplomas Now, an innovative school turnaround model that keeps at-risk students in school and on track to graduate. In three years, the Foundation will have committed $11 million to the program. The Foundation also funds the ExCEL Scholarship Program — available to children of active, full-time associates of PepsiCo. The program was created by the PepsiCo Foundation to help those who have the ability to achieve their full potential in college but have limited means to attend. Each year, the program awards up to 250 renewable scholarships worldwide, ranging from $1,000 to $10,000, for study at four-year colleges and universities, two-year colleges and vocational-technical schools in any country. In 2010 alone, the PepsiCo Foundation provided $3.1 million in scholarships.

46

Support associate volunteerism and community involvement through company-sponsored programs and initiatives.

All around the world, thousands of PepsiCo associates are engaged in volunteer activities that improve their communities. In 2010, for example, 200 associates in Mexico worked with United Way to help renovate a school for children with disabilities, and — for the fourth year — we continued our commitment to Vive Saludable Escuelas, which provides education on diet and physical activity to elementary and high school students throughout the country. In India, our HIV Prevention Education initiative reached more than one million people in the communities where we operate. The initiative is run by a large network of company volunteers in association with the country's International Labour Organization. And in the U.S., the 2010 Pepsi Refresh Project awarded more than $20 million in small grants to help communities move forward in the areas of health, arts and culture, food and shelter, the environment, neighborhoods and education. One of the original projects included a $10,000 grant to Mosaic, our African-American Employee Resource Group, which coordinated the efforts of nearly 1,400 associate volunteers in 30 food banks across the U.S. The Pepsi Refresh Project will be expanding to additional markets (Europe, Latin America and the Middle East) in 2011.

47

Match eligible associate charitable contributions globally, dollar for dollar, through the PepsiCo Foundation.

In 2010, the PepsiCo Foundation matched $5.1 million in associate charitable contributions. And over the past 12 years, the Foundation has provided $47 million in matching gifts to qualified nonprofit agencies working in environmental, educational, civic, arts and health and human services fields. Available to associates worldwide, matching gifts leverage and increase the impact of individual contributions. The matching gifts program also helped associates provide aid to populations affected by disaster. In 2010, for example, the PepsiCo Foundation matched associates' contributions to assist those affected by the Haiti earthquake, the Chile earthquake and the Pakistan floods, supplementing additional disaster relief aid provided by the Foundation and PepsiCo business units.

$47 million

in matching contributions since 1999

Contribution Summary
(in millions)

	2010
PepsiCo Foundation	$25.9
Corporate Contributions	2.0
Division Contributions	13.0
Estimated PepsiCo In-Kind Donations	37.7
Total	$78.6

Financials

Our discussion and analysis is an integral part of our consolidated financial statements and is provided as an addition to, and should be read in connection with, our consolidated financial statements and the accompanying notes. Definitions of key terms can be found in the glossary on page 109. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Our Business

Executive Overview

We are a leading global food, snack and beverage company. Our brands — which include Quaker Oats, Tropicana, Gatorade, Lay's and Pepsi — are household names that stand for quality throughout the world. As a global company, we also have strong regional brands such as Walkers, Gamesa and Sabritas. Either independently or through contract manufacturers, we make, market and sell a variety of convenient, enjoyable and wholesome foods and beverages in over 200 countries. Our portfolio includes oat, rice and grain-based foods, as well as carbonated and non-carbonated beverages. Our largest operations are in North America (United States and Canada), Mexico, Russia and the United Kingdom. Additional information concerning our divisions and geographic areas is presented in Note 1.

We are united by our unique commitment to Performance with Purpose, which means delivering sustainable growth by investing in a healthier future for people and our planet. Our goal is to continue to build a balanced portfolio of enjoyable and wholesome foods and beverages, find innovative ways to reduce the use of energy, water and packaging and provide a great workplace for our associates. Additionally, we are committed to respecting, supporting and investing in the local communities where we operate by hiring local people, creating products designed for local tastes and partnering with local farmers, governments and community groups. We make this commitment because we are a responsible company and a healthier future for all people and our planet means a more successful future for PepsiCo.

In recognition of our continuing sustainability efforts, we were again included on the Dow Jones Sustainability North America Index and the Dow Jones Sustainability World Index in September 2010. These indices are compiled annually.

Our management monitors a variety of key indicators to evaluate our business results and financial conditions. These indicators include market share, volume, net revenue, operating profit, management operating cash flow, earnings per share and return on invested capital.

Strategies to Drive Our Growth into the Future

We remain focused on growing our business with the objectives of improving our financial results and increasing returns for our shareholders. We continue to focus on delivering strong financial performance in both the near term and the long term, while making global investments in key regions and targeted product categories to drive sustainable growth. We have identified six key challenges and related strategic business imperatives that we believe will enable us to drive growth into the future:

Build and extend our macro snack portfolio

Our first imperative is to build and extend our macro snack portfolio. Building and extending our profitable macro snack business is important to our future. PepsiCo is the largest player in the macro snack category, and we believe there is still room for growth. Our goal in the macro snack business is to grow our core salty snack brands that are loved and respected around the world, while expanding into adjacent categories like crackers, bread bites and baked snacks. We will work to continue to grow our portfolio from Fun-for-You to Better-for-You products — while adding many Good-for-You products that are designed to meet growing global demand for wholesome and convenient nutrition. We will also strive to create new flavors in tune with local tastes, which reflect local culture and traditions. We believe that by doing so, we will position ourselves to gain share, while continuing to grow the top and bottom line in our macro snack business.

Sustainably and profitably grow our beverage business worldwide

Our second imperative is to sustainably and profitably grow our beverage business worldwide. The U.S. liquid refreshment beverage category and challenging economic conditions facing consumers continue to place pressure on our beverage business worldwide. In the face of this pressure, we continue to take action to ensure sustainable profitable growth in our beverage business worldwide. In 2010, we revitalized both the Gatorade brand and the no-calorie carbonated category by promoting Pepsi Max. Our focus in 2011 will be on taking our North American beverage business and growing it sustainably for the future, while continuing to invest in emerging and developing markets — including the vital China and India markets.

Unleash the power of the Power of One to provide better value for our customers

Our third imperative is to unleash the power of the Power of One to provide better value for customers. We must maintain mutually beneficial relationships with our customers to effectively compete. We are a leader in two extraordinary consumer categories that have special relevance to our customers across the globe. Our snacks and beverages are both high-velocity categories; both generate retail traffic; both are profitable; and both deliver strong cash flow. Studies show that 85 percent of the time, when a person eats a snack, he or she also reaches for a beverage. To realize the value of Power of One in 2010, we successfully completed our bottling acquisitions, which enabled us to better service our customers. We also continued, with a critical mass of SAP implementations, to standardize processes, improve organizational alignment and benchmark performance. In 2011, we are re-focusing our efforts with a systematic approach to unlock the Power of One across the entire value chain. We believe the opportunities in the U.S., in particular, are vast. We will work to make Power of One changes at every level: from the way our products reach our customers; to how our products are displayed; to the channels through which our products are marketed and advertised.

Build and expand our nutrition business
Our fourth imperative is to build and expand our nutrition business and our global nutrition initiatives, to rapidly grow our Good-for-You portfolio of products — both organically and through strategic tuck-in acquisitions. Consumer tastes and preferences are constantly changing and our success depends on our ability to respond to consumer trends, including responding to consumers' desire for healthier choices. Our basic belief is that companies succeed when society succeeds, and what is good for the world should be good for business. This includes encouraging people to live healthier lives by offering a portfolio of both enjoyable and wholesome foods and beverages. With the acquisition of Wimm-Bill-Dann Foods OJSC (WBD), PepsiCo's annual revenues from nutritious and functional foods are expected to rise from $10 billion to nearly $13 billion. We also are expanding our portfolio of products made with all-natural ingredients, increasing the amount of whole grains, fruits, vegetables, nuts, seeds and low-fat dairy in certain of our products and taking steps to reduce the average amount of sodium, saturated fat and added sugar per serving in certain of our products.

Cherish our PepsiCo associates
Our fifth imperative is to cherish our PepsiCo associates. Our continued growth requires us to hire, retain and develop our leadership bench. We are fortunate to employ, worldwide, a truly remarkable set of associates. The market becomes more competitive every day and innovation is the key to success. It is people who hold that key and to be a good employer is one of the most important strategic decisions a company has to make.

Achieve excellent performance
Our sixth and final imperative is the sum total of the other five. Our continued success requires that we do everything we can to position ourselves to achieve excellent performance in each of the areas mentioned above. By focusing on the five key challenges and related strategic business imperatives discussed above, we believe we can achieve this goal.

Our Operations

We are organized into four business units, as follows:

1) PepsiCo Americas Foods (PAF), which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA) and all of our Latin American food and snack businesses (LAF), including our Sabritas and Gamesa businesses in Mexico;
2) PepsiCo Americas Beverages (PAB), which includes PepsiCo Beverages Americas and Pepsi Beverages Company;
3) PepsiCo Europe, which includes all beverage, food and snack businesses in Europe; and
4) PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA.

Our four business units are comprised of six reportable segments (referred to as divisions), as follows:

- FLNA,
- QFNA,
- LAF,
- PAB,
- Europe, and
- AMEA.

Frito-Lay North America

Either independently or through contract manufacturers, FLNA makes, markets, sells and distributes branded snack foods. These foods include Lay's potato chips, Doritos tortilla chips, Cheetos cheese flavored snacks, Tostitos tortilla chips, branded dips, Ruffles potato chips, Fritos corn chips, Quaker Chewy granola bars and SunChips multigrain snacks. FLNA branded products are sold to independent distributors and retailers. In addition, FLNA's joint venture with Strauss Group makes, markets, sells and distributes Sabra refrigerated dips and spreads.

Quaker Foods North America

Either independently or through contract manufacturers, QFNA makes, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Aunt Jemima mixes and syrups, Cap'n Crunch cereal, Quaker grits, Life cereal, Rice-A-Roni, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers.

Latin America Foods

Either independently or through contract manufacturers, LAF makes, markets and sells a number of snack food brands including Doritos, Marias Gamesa, Cheetos, Ruffles, Emperador, Saladitas, Sabritas and Lay's, as well as many Quaker-brand cereals and snacks. These branded products are sold to independent distributors and retailers.

PepsiCo Americas Beverages

Either independently or through contract manufacturers, PAB makes, markets, sells and distributes beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mountain Dew, Gatorade, 7UP (outside the U.S.), Tropicana Pure Premium, Electropura, Sierra Mist, Epura and Mirinda. PAB also, either independently or through contract manufacturers, makes, markets and sells ready-to-drink tea, coffee and water products through joint ventures with Unilever (under the Lipton brand name) and Starbucks. In addition, PAB licenses the Aquafina water brand to its independent bottlers and markets this brand. Furthermore, PAB manufactures and distributes certain brands licensed from Dr Pepper Snapple Group, Inc. (DPSG), including Dr Pepper and Crush. PAB sells concentrate and finished goods for some of these brands to authorized bottlers, and some of these branded finished goods are sold directly by us to independent distributors and retailers. The bottlers sell our brands as finished goods to independent distributors and retailers. PAB's volume reflects sales to its independent distributors and retailers, as well as the sales of beverages bearing our trademarks that bottlers have reported as sold to independent distributors and retailers. Bottler case sales (BCS) and concentrate shipments and equivalents (CSE) are not necessarily equal during any given period due to seasonality, timing of product launches, product mix, bottler inventory practices and other factors. However, the difference between BCS and CSE measures has been greatly reduced since our acquisitions of our anchor bottlers, The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS), on February 26, 2010, as we now consolidate these bottlers and thus eliminate the impact of differences between BCS and CSE for a substantial majority of PAB's total volume. While our revenues are not entirely based on BCS volume, as there continue to be independent bottlers in the supply chain, we believe that BCS is a valuable measure as it quantifies the sell-through of our products at the consumer level.

See Note 15 for additional information about our acquisitions of PBG and PAS in 2010.

Europe

Either independently or through contract manufacturers, Europe makes, markets and sells a number of leading snack foods including Lay's, Walkers, Doritos, Cheetos and Ruffles, as well as many Quaker-brand cereals and snacks, through consolidated businesses as well as through noncontrolled affiliates. Europe also, either independently or through contract manufacturers, makes, markets and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, 7UP and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. In certain markets, however, Europe operates its own bottling plants and distribution facilities. In addition, Europe licenses the Aquafina water brand to certain of its authorized bottlers. Europe also, either independently or through contract manufacturers, makes, markets and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name).

Europe reports two measures of volume. Snacks volume is reported on a system-wide basis, which includes our own sales and the sales by our noncontrolled affiliates of snacks bearing Company-owned or licensed trademarks. Beverage volume reflects Company-owned or authorized bottler sales of beverages bearing Company-owned or licensed trademarks to independent distributors and retailers (see PepsiCo Americas Beverages above).

See Note 15 for additional information about our acquisitions of PBG and PAS in 2010 and our acquisition of WBD.

Asia, Middle East & Africa

AMEA makes, markets and sells a number of leading snack food brands including Lay's, Chipsy, Kurkure, Doritos, Cheetos and Smith's, through consolidated businesses as well as through noncontrolled affiliates. Further, either independently or through contract manufacturers, AMEA makes, markets and sells many Quaker-brand cereals and snacks. AMEA also makes, markets and sells beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mirinda, 7UP and Mountain Dew. These branded products are sold to authorized bottlers, independent distributors and retailers. However, in certain markets, AMEA operates its own bottling plants and distribution facilities. In addition, AMEA licenses the Aquafina water brand to certain of its authorized bottlers. AMEA also, either independently or through contract manufacturers, makes, markets and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). AMEA reports two measures of volume (see Europe above).

New Organizational Structure

Beginning in the first quarter of 2011, we realigned certain of our reportable segments to reflect changes in management responsibility. As a result, as of the beginning of our 2011 fiscal year, our Quaker snacks business in North America will be reported within our QFNA segment. Prior to this change, Quaker snacks in North America was reported as part of our FLNA segment. Additionally, as of the beginning of the first quarter of 2011, our South Africa snacks business will be reported within our Europe segment. Prior to this change, this business was reported as part of our AMEA segment. These changes did not impact our other existing reportable segments. Our historical segment reporting will be reclassified in 2011 to reflect the new organizational structure. The reportable segment amounts and discussions reflected in this annual report reflect the management reporting that existed through the end of our 2010 fiscal year.

Our Customers

Our primary customers include wholesale distributors, grocery stores, convenience stores, mass merchandisers, membership stores, authorized independent bottlers and foodservice distributors, including hotels and restaurants. We normally grant our independent bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements provide us with the right to charge our independent bottlers for concentrate, finished goods and Aquafina royalties and specify the manufacturing process required for product quality.

Since we do not sell directly to the consumer, we rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include volume-based rebates, product placement fees, promotions and displays. For our independent bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, and other promotional offers. Advertising support is directed at advertising programs and supporting independent bottler media. New product support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually.

Retail consolidation and the current economic environment continue to increase the importance of major customers. In 2010, sales to Wal-Mart (including Sam's) represented approximately 12% of our total net revenue. Our top five retail customers represented approximately 31% of our 2010 North American net revenue, with Wal-Mart (including Sam's) representing approximately 18%. These percentages include concentrate sales to our independent bottlers (including concentrate sales to PBG and PAS prior to the February 26, 2010 acquisition date) which were used in finished goods sold by them to these retailers.

See Note 15 for additional information about our acquisitions of PBG and PAS in 2010.

Our Related Party Bottlers

Prior to our acquisitions of PBG and PAS on February 26, 2010, we had noncontrolling interests in these bottlers. Because our ownership was less than 50%, and since we did not control these bottlers, we did not consolidate their results. Instead, we included our share of their net income based on our percentage of economic ownership in our income statement as bottling equity income. On February 26, 2010, in connection with our acquisitions of PBG and PAS, we began to consolidate the results of these bottlers. Our share of the net income of Pepsi Bottling Ventures LLC (PBV) is reflected in bottling equity income. Our share of income or loss from other noncontrolled affiliates is recorded as a component of selling, general and administrative expenses. See Note 8 for additional information on these related parties and related party commitments and guarantees.

Our Distribution Network

Our products are brought to market through DSD, customer warehouse and foodservice and vending distribution networks. The distribution system used depends on customer needs, product characteristics and local trade practices.

Direct-Store-Delivery

We, our independent bottlers and our distributors operate DSD systems that deliver snacks and beverages directly to retail stores where the products are merchandised by our employees or our bottlers. DSD enables us to merchandise with maximum visibility and appeal. DSD is especially well-suited to products that are restocked often and respond to in-store promotion and merchandising.

Customer Warehouse

Some of our products are delivered from our manufacturing plants and warehouses to customer warehouses and retail stores. These less costly systems generally work best for products that are less fragile and perishable, have lower turnover, and are less likely to be impulse purchases.

Foodservice and Vending

Our foodservice and vending sales force distributes snacks, foods and beverages to third-party foodservice and vending distributors and operators. Our foodservice and vending sales force also distributes certain beverages through our independent bottlers. This distribution system supplies our products to restaurants, businesses, schools, stadiums and similar locations.

Our Competition

Our businesses operate in highly competitive markets. We compete against global, regional, local and private label manufacturers on the basis of price, quality, product variety and distribution. In U.S. measured channels, our chief beverage competitor, The Coca-Cola Company, has a larger share of CSD consumption, while we have a larger share of liquid refreshment beverages consumption. In addition, The Coca-Cola Company has a significant CSD share advantage in many markets outside the United States. Further, our snack brands hold significant leadership positions in the snack industry worldwide. Our snack brands face local, regional and private label competitors, as well as national and global snack competitors, and compete on the basis of price, quality, product variety and distribution. Success in this competitive environment is dependent on effective promotion of existing products, the introduction of new products and the effectiveness of our advertising campaigns, marketing programs and product packaging. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allow us to compete effectively.

Other Relationships

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Those Board members do not participate in our vendor selection and negotiations nor in our customer negotiations. Our transactions with these vendors and customers are in the normal course of business and are consistent with terms negotiated with other vendors and customers. In addition, certain of our employees serve on the boards of PBV and other affiliated companies and do not receive incremental compensation for their Board services.

Our Business Risks

Demand for our products may be adversely affected by changes in consumer preferences and tastes or if we are unable to innovate or market our products effectively.

We are a consumer products company operating in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Any significant changes in consumer preferences or any inability on our part to anticipate or react to such changes could result in reduced demand for our products and erosion of our competitive and financial position. Our success depends on our ability to respond to consumer trends, including concerns of consumers regarding health and wellness, obesity, product attributes and ingredients, and to expand into adjacent categories. For example, if we are unable to grow our core salty snack brands while expanding into adjacent categories like crackers, bread bites and baked snacks, our growth rate may be adversely affected. In addition, changes in product category consumption or consumer demographics could result in reduced demand for our products. Consumer preferences may shift due to a variety of factors, including the aging of the general population, changes in social trends, changes in travel, vacation or leisure activity patterns, weather, seasonal consumption cycles, negative publicity resulting from regulatory action or litigation against companies in our industry, a downturn in economic conditions or taxes specifically targeting the consumption of our products. Any of these changes may reduce consumers' willingness to purchase our products. See also "Any damage to our reputation could have an adverse effect on our business, financial condition and results of operations.", "Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.", "Unfavorable economic conditions in the countries in which we operate may have an adverse impact on our business results or financial condition." and "Our financial performance could suffer if we are unable to compete effectively."

Our continued success is also dependent on our product innovation, including maintaining a robust pipeline of new products and improving the quality of existing products, and the effectiveness of our advertising campaigns, marketing programs and product packaging. Although we devote significant resources to meet this goal, including the development of our Global Nutrition Group, there can be no assurance as to our continued ability to develop and launch successful new products or variants of existing products, to grow our nutrition business or to effectively execute advertising campaigns and marketing programs. In addition, both the launch and ongoing success of new products and advertising campaigns are inherently uncertain, especially as to their appeal to consumers. Our failure to successfully launch new products could decrease demand for our existing products by negatively affecting consumer perception of existing brands, as well as result in inventory write-offs and other costs.

Any damage to our reputation could have an adverse effect on our business, financial condition and results of operations.

Maintaining a good reputation globally is critical to selling our branded products. Product contamination or tampering or the failure to maintain high standards for product quality, safety and integrity, including with respect to raw materials obtained from suppliers, may reduce demand for our products or cause production and delivery disruptions. If any of our products becomes unfit for consumption, misbranded or causes injury, we may have to engage in a product recall and/or be subject to liability. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time, which could further reduce consumer demand and brand equity. Our reputation could also be adversely impacted by any of the following, or by adverse publicity (whether or not valid) relating thereto: the failure to maintain high ethical, social and environmental standards for all of our operations and activities; the failure to achieve our human, environmental and talent sustainability goals, including our goals with respect to sodium, saturated fat and sugar reduction and the development of our nutrition business; or our environmental impact, including use of agricultural materials, packaging, energy use and waste management, or our responses to any of the foregoing. In addition, water is a limited resource in many parts of the world. Our reputation could be damaged if we do not act responsibly with respect to water use. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could have a material adverse effect on our business, financial condition and results of operations, as well as require additional resources to rebuild our reputation.

Our financial performance could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where we operate.

Our operations outside of the United States contribute significantly to our revenue and profitability, and we believe that our businesses in developing and emerging markets, particularly China, present an important future growth opportunity for us. However, there can be no assurance that our existing products, variants of our existing products or new products that we develop will be accepted or successful in any particular developing or emerging market, due to local competition, cultural differences or otherwise. If we are unable to expand our businesses in emerging and developing markets as a result of economic and political conditions, increased competition, an inability to acquire or form strategic business alliances or to make necessary infrastructure investments or for any other reason, our financial performance could be adversely affected. Unstable political conditions, civil unrest or other developments and risks in the markets where we operate, including in the Middle East and Egypt, could also have an adverse impact on our business results or financial condition. Factors that could adversely affect our business results in these markets include: import and export restrictions; foreign ownership restrictions; nationalization of our assets; regulations on the repatriation of funds which, from time to time, result in significant cash balances in countries such as Venezuela; and currency hyperinflation or devaluation. In addition, disruption in these markets due to political instability or civil unrest could result in a decline in consumer purchasing power, thereby reducing demand for our products. See also "Demand for our products may be adversely affected by changes in consumer preferences and tastes or if we are unable to innovate or market our products effectively." and "Our financial performance could suffer if we are unable to compete effectively."

Trade consolidation or the loss of any key customer could adversely affect our financial performance.

We must maintain mutually beneficial relationships with our key customers, including Wal-Mart, as well as other retailers, to effectively compete. There is a greater concentration of our customer base around the world, generally due to the continued consolidation of retail trade and the loss of any of our key customers, including Wal-Mart, could have an adverse effect on our financial performance. In addition, as retail ownership becomes more concentrated, retailers demand lower pricing and increased promotional programs. Further, as larger retailers increase utilization of their own distribution networks and private label brands, the competitive advantages we derive from our go-to-market systems and brand equity may be eroded. Failure to appropriately respond to these trends or to offer effective sales incentives and marketing programs to our customers could reduce our ability to secure adequate shelf space at our retailers and adversely affect our financial performance.

Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.

The conduct of our businesses, and the production, distribution, sale, advertising, labeling, safety, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets in which we operate. These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of political, economic or social events. Such regulatory environment changes may include changes in: food and drug laws; laws related to advertising and deceptive marketing practices; accounting standards; taxation requirements, including taxes specifically targeting the consumption of our products; competition laws; privacy laws; and environmental laws, including laws relating to the regulation of water rights and treatment. Changes in laws, regulations or governmental policy and the related interpretations may alter the environment in which we do business and, therefore, may impact our results or increase our costs or liabilities.

Governmental entities or agencies in jurisdictions where we operate may also impose new labeling, product or production requirements, or other restrictions. For example, studies are underway by various regulatory authorities and others to assess the effect on humans due to acrylamide in the diet. Acrylamide is a chemical compound naturally formed in a wide variety of foods when they are cooked (whether commercially or at home), including french fries, potato chips, cereal, bread and coffee. It is believed that acrylamide may cause cancer in laboratory animals when consumed in significant amounts. Studies are also underway by third parties to assess the health implications of carbonated soft drink consumption. If consumer concerns about acrylamide or carbonated soft drinks increase as a result of these studies, other new scientific evidence, or for any other reason, whether or not valid, demand for our products could decline and we could be subject to lawsuits or new regulations that could affect sales of our products, any of which could have an adverse effect on our business, financial condition or results of operations.

We are also subject to Proposition 65 in California, a law which requires that a specific warning appear on any product sold in California that contains a substance listed by that State as having been found to cause cancer or birth defects. If we were required to add warning labels to any of our products or place warnings in certain locations where our products are sold, sales of those products could suffer not only in those locations but elsewhere.

In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions. Regulatory authorities under whose laws we operate may also have enforcement powers that can subject us to actions such as product recall, seizure of products or other sanctions, which could have an adverse effect on our sales or damage our reputation.

In addition, we and our subsidiaries are party to a variety of legal and environmental remediation obligations arising in the normal course of business, as well as environmental remediation, product liability, toxic tort and related indemnification proceedings in connection with certain historical activities and contractual obligations of businesses acquired by our subsidiaries. Due to regulatory complexities, uncertainties inherent in litigation and the risk of unidentified contaminants on current and former properties of ours and our subsidiaries, the potential exists for remediation, liability and indemnification costs to differ materially from the costs we have estimated. We cannot assure you that our costs in relation to these matters will not exceed our established liabilities or otherwise have an adverse effect on our results of operations.

If we are not able to build and sustain proper information technology infrastructure, successfully implement our ongoing business transformation initiative or outsource certain functions effectively, our business could suffer.

We depend on information technology as an enabler to improve the effectiveness of our operations and to interface with our customers, as well as to maintain financial accuracy and efficiency. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, the loss of or damage to intellectual property through security breach, or the loss of sensitive data through security breach or otherwise.

We have embarked on multi-year business transformation initiatives to migrate certain of our financial processing systems to an enterprise-wide systems solution. There can be no certainty that these initiatives will deliver the expected benefits. The failure to deliver our goals may impact our ability to (1) process transactions accurately and efficiently and (2) remain in step with the changing needs of the trade, which could result in the loss of customers. In addition, the failure to either deliver the application on time, or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers and revenue.

In addition, we have outsourced certain information technology support services and administrative functions, such as payroll processing and benefit plan administration, to third-party service providers and may outsource other functions in the future to achieve cost savings and efficiencies. If the service providers that we outsource these functions to do not perform effectively, we may not be able to achieve the expected cost savings and may have to incur additional costs to correct errors made by such service providers. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property through security breach, the loss of sensitive data through security breach or otherwise, or harm employee morale.

Our information systems could also be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets.

Unfavorable economic conditions in the countries in which we operate may have an adverse impact on our business results or financial condition.

Many of the countries in which we operate, including the United States, have experienced and continue to experience unfavorable economic conditions. Our business or financial results may be adversely impacted by these unfavorable economic conditions, including: adverse changes in interest rates or tax rates; volatile commodity markets; contraction in the availability of credit in the marketplace, potentially impairing our ability to access the capital markets on terms commercially acceptable to us; the effects of government initiatives to manage economic conditions; reduced demand for our products resulting from a slowdown in the general global economy or a shift in consumer preferences for economic reasons or otherwise to regional, local or private label products or other economy products, or to less profitable channels; or a decrease in the fair value of pension assets that could increase future employee benefit costs and/or funding requirements of our pension plans. In addition, we cannot predict how current or worsening economic conditions will affect our critical customers, suppliers and distributors and any negative impact on our critical customers, suppliers or distributors may also have an adverse impact on our business results or financial condition.

Fluctuations in foreign exchange rates may have an adverse impact on our business results or financial condition.

We hold assets and incur liabilities, earn revenues and pay expenses in a variety of currencies other than the U.S. dollar. Because our consolidated financial statements are presented in U.S. dollars, the financial statements of our foreign subsidiaries are translated into U.S. dollars. In 2010, our operations outside of the U.S. generated a significant portion of our net revenue. Fluctuations in foreign exchange rates may therefore adversely impact our business results or financial condition. See also "Market Risks" and Note 1 to our consolidated financial statements.

Our financial performance could suffer if we are unable to compete effectively.

The food and beverage industries in which we operate are highly competitive. We compete with major international food and beverage companies that, like us, operate in multiple geographic areas, as well as regional, local and private label manufacturers and other value competitors. In many countries where we do business, including the United States, The Coca-Cola Company is our primary beverage competitor. We compete on the basis of brand recognition, price, quality, product variety, distribution, marketing and promotional activity, convenience, service and the ability to identify and satisfy consumer preferences. If we are unable to compete effectively, we may be unable to gain or maintain share of sales or gross margins in the global market or in various local markets. This may have a material adverse impact on our revenues and profit margins. See also "Unfavorable economic conditions in the countries in which we operate may have an adverse impact on our business results or financial condition."

Our operating results may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.

We and our business partners use various raw materials and other supplies in our business, including apple and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruits and other fruits, oats, oranges, potatoes, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. Our key packaging materials include plastic resins, including polyethylene terephthalate (PET) and polypropylene resin used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel and natural gas are also important commodities due to their use in our plants and in the trucks delivering our products. Some of these raw materials and supplies are available from a limited number of suppliers. We are exposed to the market risks arising from adverse changes in commodity prices, affecting the cost of our raw materials and energy. The raw materials and energy which we use for the production of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. We purchase these materials and energy mainly in the open market. If commodity price changes result in unexpected increases in raw materials and energy costs, we may not be able to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating results. In addition, we use derivatives to hedge price risk associated with forecasted purchases of raw materials. Certain of these derivatives that do not qualify for hedge accounting treatment can result in increased volatility in our net earnings in any given period due to changes in the spot prices of the underlying commodities. See also "Unfavorable economic conditions in the countries in which we operate may have an adverse impact on our business results or financial condition.", "Market Risks" and Note 1 to our consolidated financial statements.

Disruption of our supply chain could have an adverse impact on our business, financial condition and results of operations.

Our ability and that of our suppliers, business partners, including our independent bottlers, contract manufacturers, independent distributors and retailers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to adverse weather conditions, government action, natural disaster, fire, terrorism, the outbreak or escalation of armed hostilities, pandemic, strikes and other labor disputes or other reasons beyond our or their control, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

Climate change, or legal, regulatory or market measures to address climate change, may negatively affect our business and operations.

There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products, such as sugar cane, corn, wheat, rice, oats, potatoes and various fruits. We may also be subjected to decreased availability or less favorable pricing for water as a result of such change, which could impact our manufacturing and distribution operations. In addition, natural disasters and extreme weather conditions may disrupt the productivity of our facilities or the operation of our supply chain. The increasing concern over climate change also may result in more regional, federal and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is enacted and is more aggressive than the sustainability measures that we are currently undertaking to monitor our emissions and improve our energy efficiency, we may experience significant increases in our costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. As a result, climate change could negatively affect our business and operations. See also "Disruption of our supply chain could have an adverse impact on our business, financial condition and results of operations."

If we are unable to hire or retain key employees or a highly skilled and diverse workforce, it could have a negative impact on our business.

Our continued growth requires us to hire, retain and develop our leadership bench and a highly skilled and diverse workforce. We compete to hire new employees and then must train them and develop their skills and competencies. Any unplanned turnover or our failure to develop an adequate succession plan to backfill current leadership positions or to hire and retain a diverse workforce could deplete our institutional knowledge base and erode our competitive advantage. In addition, our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs.

A portion of our workforce belongs to unions. Failure to successfully renew collective bargaining agreements, or strikes or work stoppages could cause our business to suffer.

Many of our employees are covered by collective bargaining agreements. These agreements expire on various dates. Strikes or work stoppages and interruptions could occur if we are unable to renew these agreements on satisfactory terms, which could adversely impact our operating results. The terms and conditions of existing or renegotiated agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency.

Failure to successfully complete or integrate acquisitions and joint ventures into our existing operations could have an adverse impact on our business, financial condition and results of operations.

In 2010, we acquired PBG and PAS and we recently acquired approximately 77% of WBD. We also regularly evaluate opportunities for strategic growth through tuck-in acquisitions and joint ventures. Potential issues associated with these and other acquisitions and joint ventures could include, among other things, our ability to realize the full extent of the benefits or cost savings that we expect to realize as a result of the completion of the acquisition or the formation of the joint venture within the anticipated time frame, or at all; receipt of necessary consents, clearances and approvals in connection with the acquisition or joint venture; diversion of management's attention from base strategies and objectives; and, with respect to acquisitions, our ability to successfully combine our businesses with the business of the acquired company in a manner that permits cost savings to be realized, including integrating the manufacturing, distribution, sales and administrative support activities and information technology systems among our company and the acquired company, motivating, recruiting and retaining executives and key employees, conforming standards, controls, procedures and policies, business cultures and compensation structures among our company and the acquired company, consolidating and streamlining corporate and administrative infrastructures, consolidating sales and marketing operations, retaining existing customers and attracting new customers, identifying and eliminating redundant and underperforming operations and assets, coordinating geographically dispersed organizations, and managing tax costs or inefficiencies associated with integrating our operations following completion of the acquisitions. In addition, acquisitions outside of the United States, including the WBD acquisition, increase our exposure to risks associated with foreign operations, including fluctuations in foreign exchange rates and compliance with foreign laws and regulations. If an acquisition or joint venture is not successfully completed or integrated into our existing operations, our business, financial condition and results of operations could be adversely impacted.

Forward-Looking and Cautionary Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. The discussion of risks below and elsewhere in this report is by no means all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our future performance.

Market Risks

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange rates; and
- interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging strategies. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies. Our global purchasing programs include fixed-price purchase orders and pricing agreements. See Note 9 for further information on our non-cancelable purchasing commitments. Our hedging strategies include the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity, foreign exchange or interest risks are classified as operating activities. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk and generally settle with these financial institutions on a net basis.

The fair value of our derivatives fluctuates based on market rates and prices. The sensitivity of our derivatives to these market fluctuations is discussed below. See Note 10 for further discussion of these derivatives and our hedging policies. See "Our Critical Accounting Policies" for a discussion of the exposure of our pension plan assets and pension and retiree medical liabilities to risks related to market fluctuations.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products.

Commodity Prices

We expect to be able to reduce the impact of volatility in our raw material and energy costs through our hedging strategies and ongoing sourcing initiatives.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $590 million as of December 25, 2010 and $151 million as of December 26, 2009. These contracts resulted in net unrealized gains of $46 million as of December 25, 2010 and net unrealized losses of $29 million as of December 26, 2009. At the end of 2010, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have decreased our net unrealized gains in 2010 by $64 million.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $266 million as of December 25, 2010 and $231 million as of December 26, 2009. These contracts resulted in net gains of $26 million in 2010 and net losses of $57 million in 2009. At the end of 2010, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have decreased our net gains in 2010 by $29 million.

Foreign Exchange

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within shareholders' equity under the caption currency translation adjustment.

Our operations outside of the U.S. generate over 45% of our net revenue, with Mexico, Canada, Russia and the United Kingdom comprising approximately 20% of our net revenue. As a result, we are exposed to foreign currency risks. During 2010, favorable foreign currency contributed 1 percentage point to net revenue growth, primarily due to appreciation of the Mexican peso, Canadian dollar and Brazilian real, partially offset by depreciation of the Venezuelan bolivar. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

In addition, we continue to use the official exchange rate to translate the financial statements of our snack and beverage businesses in Venezuela. We use the official rate as we currently intend to remit dividends solely through the government-operated Foreign Exchange Administration Board (CADIVI). As of the beginning of our 2010 fiscal year, the results of our Venezuelan businesses were reported under hyperinflationary accounting. This determination was made based upon Venezuela's National Consumer Price Index (NCPI) which indicated cumulative inflation in Venezuela in excess of 100% for the three-year period ended November 30, 2009. Consequently, the functional currency of our Venezuelan entities was changed from the bolivar fuerte (bolivar) to the U.S. dollar. Effective January 11, 2010, the Venezuelan government devalued the bolivar by resetting the official exchange rate from 2.15 bolivars per dollar to 4.3 bolivars per dollar; however, certain activities were permitted to access an exchange rate of 2.6 bolivars per dollar. Effective June 2010, the Central Bank of Venezuela began accepting and approving applications, under certain conditions, for non-CADIVI exchange transactions at the weighted-average implicit exchange rate obtained from the Transaction System for Foreign Currency Denominated Securities (SITME). As of December 25, 2010, this rate was 5.3 bolivars per dollar. We continue to use all available options, including CADIVI, SITME and bond auctions, to obtain U.S. dollars to meet our operational needs. In 2010, the majority of our transactions were remeasured at the 4.3 exchange rate, and as a result of the change to hyperinflationary accounting and the devaluation of the bolivar, we recorded a one-time net charge of $120 million in the first quarter of 2010. In 2010, our operations in Venezuela comprised 4% of our cash and cash equivalents balance and generated less than 1% of our net revenue. As of January 1, 2011, the Venezuelan government unified the country's two official exchange rates (4.3 and 2.6 bolivars per dollar) by eliminating the 2.6 bolivars per dollar rate, which was previously permitted for certain activities. This change did not, nor is expected to, have a material impact on our financial statements.

Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. We may enter into derivatives, primarily forward contracts with terms of no more than two years, to manage our exposure to foreign currency transaction risk. Our foreign currency derivatives had a total face value of $1.7 billion as of December 25, 2010 and $1.2 billion as of December 26, 2009. The contracts that qualify for hedge accounting resulted in net unrealized losses of $15 million as of December 25, 2010 and $20 million as of December 26, 2009. At the end of 2010, we estimate that an unfavorable 10% change in the exchange rates would have increased our net unrealized losses by $119 million. The contracts that do not qualify for hedge accounting resulted in net losses of $6 million in 2010 and a net gain of $1 million in 2009. All losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross-currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Certain of our fixed rate indebtedness has been swapped to floating rates. The notional amount, interest payment and maturity date of the interest rate and cross-currency swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.

Assuming year-end 2010 variable rate debt and investment levels, a 1-percentage-point increase in interest rates would have increased net interest expense by $43 million in 2010.

Risk Management Framework

The achievement of our strategic and operating objectives will necessarily involve taking risks. Our risk management process is intended to ensure that risks are taken knowingly and purposefully. As such, we leverage an integrated risk management framework to identify, assess, prioritize, manage, monitor and communicate risks across the Company. This framework includes:

- The PepsiCo Risk Committee (PRC), comprised of a cross-functional, geographically diverse, senior management group which meets regularly to identify, assess, prioritize and address strategic and reputational risks;
- Division Risk Committees (DRCs), comprised of cross-functional senior management teams which meet regularly to identify, assess, prioritize and address division-specific operating risks;
- PepsiCo's Risk Management Office, which manages the overall risk management process, provides ongoing guidance, tools and analytical support to the PRC and the DRCs, identifies and assesses potential risks and facilitates ongoing communication between the parties, as well as to PepsiCo's Audit Committee and Board of Directors;
- PepsiCo Corporate Audit, which evaluates the ongoing effectiveness of our key internal controls through periodic audit and review procedures; and
- PepsiCo's Compliance Department, which leads and coordinates our compliance policies and practices.

Our Critical Accounting Policies

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. Other than our accounting for pension plans, our critical accounting policies do not involve the choice between alternative methods of accounting. We applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented, and have discussed these policies with our Audit Committee.

Our critical accounting policies arise in conjunction with the following:

- revenue recognition;
- goodwill and other intangible assets;
- income tax expense and accruals; and
- pension and retiree medical plans.

Revenue Recognition

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the U.S., and generally within 30 to 90 days internationally, and may allow discounts for early payment. We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and certain chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. Based on our experience with this practice, we have reserved for anticipated damaged and out-of-date products.

Our policy is to provide customers with product when needed. In fact, our commitment to freshness and product dating serves to regulate the quantity of product shipped or delivered. In addition, DSD products are placed on the shelf by our employees with customer shelf space and storerooms limiting the quantity of product. For product delivered through our other distribution networks, we monitor customer inventory levels.

As discussed in "Our Customers," we offer sales incentives and discounts through various programs to customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled $29.1 billion in 2010, $12.9 billion in 2009 and $12.5 billion in 2008. Sales incentives include payments to customers for performing merchandising activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. The terms of most of our incentive arrangements do not exceed a year, and therefore do not require highly uncertain long-term estimates. For interim reporting, we estimate total annual sales incentives for most of our programs and record a pro rata share in proportion to revenue. Certain arrangements, such as fountain pouring rights, may extend beyond one year. Payments made to obtain these rights are recognized over the shorter of the economic or contractual life, as a reduction of revenue, and the remaining balances of $296 million, as of both December 25, 2010 and December 26, 2009, are included in current assets and other assets on our balance sheet.

We estimate and reserve for our bad debt exposure based on our experience with past due accounts and collectibility, the aging of accounts receivable and our analysis of customer data. Bad debt expense is classified within selling, general and administrative expenses in our income statement.

Goodwill and Other Intangible Assets

We sell products under a number of brand names, many of which were developed by us. The brand development costs are expensed as incurred. We also purchase brands in acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brands, based on estimated fair value, with any remaining purchase price recorded as goodwill. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, product life cycles, market share, consumer awareness, brand history and future expansion expectations, amount and timing of future cash flows and the discount rate applied to the cash flows.

We believe that a brand has an indefinite life if it has a history of strong revenue and cash flow performance, and we have the intent and ability to support the brand with marketplace spending for the foreseeable future. If these perpetual brand criteria are not met, brands are amortized over their expected useful lives, which generally range from five to 40 years. Determining the expected life of a brand requires management judgment and is based on an evaluation of a number of factors, including market share, consumer awareness, brand history and future expansion expectations, as well as the macroeconomic environment of the countries in which the brand is sold.

Perpetual brands and goodwill, including the goodwill that is part of our noncontrolled bottling investment balances, are not amortized. Perpetual brands and goodwill are assessed for impairment at least annually. If the carrying amount of a perpetual brand exceeds its fair value, as determined by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. Goodwill is evaluated using a two-step impairment test at the reporting unit level. A reporting unit can be a division or business within a division. The first step compares the book value of a reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of that goodwill.

Amortizable brands are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

In connection with our acquisitions of PBG and PAS, we reacquired certain franchise rights which provided PBG and PAS with the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. In determining the useful life of these reacquired franchise rights, we considered many factors including the existing perpetual bottling arrangements, the indefinite period expected for the reacquired rights to contribute to our future cash flows, as well as the lack of any factors that would limit the useful life of the reacquired rights to us, including legal, regulatory, contractual, competitive, economic or other factors. Therefore, certain reacquired franchise rights, as well as perpetual brands and goodwill, will not be amortized, but instead will be tested for impairment at least annually. Certain reacquired and acquired franchise rights are amortizable over the remaining contractual period of the contract in which the right was granted.

On December 7, 2009, we reached an agreement with DPSG to manufacture and distribute Dr Pepper and certain other DPSG products in the territories where they were previously sold by PBG and PAS. Under the terms of the agreement, we made an upfront payment of $900 million to DPSG on February 26, 2010. Based upon the terms of the agreement with DPSG, the amount of the upfront payment has been capitalized and will not be amortized, but instead will be tested for impairment at least annually.

Significant management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. These assumptions could be adversely impacted by certain of the risks discussed in "Our Business Risks."

We did not recognize any impairment charges for perpetual brands or goodwill in the years presented. In addition, as of December 25, 2010, we did not have any reporting units that were at risk of failing the first step of the goodwill impairment test. As of December 25, 2010, we had $26.4 billion of perpetual brands and goodwill, of which approximately 65% related to the goodwill and other nonamortizable intangible assets from the acquisitions of PBG and PAS.

Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit.

An estimated effective tax rate for a year is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item. We consider the tax adjustments from the resolution of prior year tax matters to be among such items.

Tax law requires items to be included in our tax returns at different times than the items are reflected in our financial statements. As a result, our annual tax rate reflected in our financial statements is different than that reported in our tax returns (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expense for which we have already taken a deduction in our tax return but have not yet recognized as expense in our financial statements.

In 2010, our annual tax rate was 23.0% compared to 26.0% in 2009, as discussed in "Other Consolidated Results." The tax rate in 2010 decreased 3.0 percentage points primarily reflecting the impact of our acquisitions of PBG and PAS, which includes the reversal of deferred taxes attributable to our previously held equity interests in PBG and PAS, as well as the favorable resolution of certain tax matters in 2010.

Pension and Retiree Medical Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts which vary based upon years of service, with retirees contributing the remainder of the cost.

See Note 7 for information about certain changes to our U.S. pension and retiree medical plans and changes in connection with our acquisitions of PBG and PAS.

Our Assumptions

The determination of pension and retiree medical plan obligations and related expenses requires the use of assumptions to estimate the amount of benefits that employees earn while working, as well as the present value of those benefits. Annual pension and retiree medical expense amounts are principally based on four components: (1) the value of benefits earned by employees for working during the year (service cost), (2) increase in the liability due to the passage of time (interest cost), and (3) other gains and losses as discussed below, reduced by (4) the expected return on plan assets for our funded plans.

Significant assumptions used to measure our annual pension and retiree medical expense include:

- the interest rate used to determine the present value of liabilities (discount rate);
- certain employee-related factors, such as turnover, retirement age and mortality;
- the expected return on assets in our funded plans;
- for pension expense, the rate of salary increases for plans where benefits are based on earnings; and
- for retiree medical expense, health care cost trend rates.

Our assumptions reflect our historical experience and management's best judgment regarding future expectations. Due to the significant management judgment involved, our assumptions could have a material impact on the measurement of our pension and retiree medical benefit expenses and obligations.

At each measurement date, the discount rates are based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to those of our liabilities. Our U.S. discount rate is determined using the Mercer Pension Discount Yield Curve (Mercer Yield Curve). The Mercer Yield Curve uses a portfolio of high-quality bonds rated Aa or higher by Moody's. The Mercer Yield Curve includes bonds that closely match the timing and amount of our expected benefit payments.

The expected return on pension plan assets is based on our pension plan investment strategy, our expectations for long-term rates of return by asset class, taking into account volatilities and correlation among asset classes and our historical experience. We also review current levels of interest rates and inflation to assess the reasonableness of the long-term rates. We evaluate our expected return assumptions annually to ensure that they are reasonable. Our pension plan investment strategy includes the use of actively managed securities and is reviewed annually based upon plan liabilities, an evaluation of market conditions, tolerance for risk and cash requirements for benefit payments. Our investment objective is to ensure that funds are available to meet the plans' benefit obligations when they become due. Our overall investment strategy is to prudently invest plan assets in a well-diversified portfolio of equity and high-quality debt securities to achieve our long-term return expectations. Our investment policy also permits the use of derivative instruments which are primarily used to reduce risk. Our expected long-term rate of return on U.S. plan assets is 7.8%. Our target investment allocation is 40% for U.S. equity allocations, 20% for international equity allocations and 40% for fixed income allocations. Actual investment allocations may vary from our target investment allocations due to prevailing market conditions. We regularly review our actual investment allocations and periodically rebalance our investments to our target allocations. To calculate the expected return on pension plan assets, we use a market-related valuation method that recognizes investment gains or losses (the difference between the expected and actual return based on the market-related value of assets) for securities included in our equity allocations over a five-year period. This has the effect of reducing year-to-year volatility. For all other asset categories, the actual fair value is used for the market-related value of assets.

The difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, other gains and losses resulting from actual experience differing from our assumptions and from changes in our assumptions determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of the market-related value of plan assets or plan liabilities, a portion of the net gain or loss is included in expense for the following year based upon the average remaining service period of active plan participants, which is approximately 11 years for pension expense and approximately eight years for retiree medical expense. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in earnings on a straight-line basis over the average remaining service period of active plan participants.

The health care trend rate used to determine our retiree medical plan's liability and expense is reviewed annually. Our review is based on our claim experience, information provided by our health plans and actuaries, and our knowledge of the health care industry. Our review of the trend rate considers factors such as demographics, plan design, new medical technologies and changes in medical carriers.

Weighted-average assumptions for pension and retiree medical expense are as follows:

	2011	2010	2009
Pension			
Expense discount rate	5.6%	6.0%	6.2%
Expected rate of return on plan assets	7.6%	7.6%	7.6%
Expected rate of salary increases	4.1%	4.4%	4.4%
Retiree medical			
Expense discount rate	5.2%	5.8%	6.2%
Expected rate of return on plan assets	7.8%		
Current health care cost trend rate	7.0%	7.5%	8.0%

Based on our assumptions, we expect our pension and retiree medical expenses to increase in 2011, as a result of assumption changes, an increase in experience loss amortization, plan changes and normal growth, partially offset by expected asset returns on contributions. The most significant assumption changes result from the use of lower discount rates.

Sensitivity of Assumptions

A decrease in the discount rate or in the expected rate of return assumptions would increase pension expense. The estimated impact of a 25-basis-point decrease in the discount rate on 2011 pension expense is an increase of approximately $55 million. The estimated impact on 2011 pension expense of a 25-basis-point decrease in the expected rate of return is an increase of approximately $28 million.

See Note 7 regarding the sensitivity of our retiree medical cost assumptions.

Funding

We make contributions to pension trusts maintained to provide plan benefits for certain pension plans. These contributions are made in accordance with applicable tax regulations that provide for current tax deductions for our contributions and taxation to the employee only upon receipt of plan benefits. Generally, we do not fund our pension plans when our contributions would not be currently tax deductible. As our retiree medical plans are not subject to regulatory funding requirements, we generally fund these plans on a pay-as-you-go basis, although we periodically review available options to make additional contributions toward these benefits.

Our pension contributions for 2010 were $1.5 billion, of which $1.3 billion was discretionary. Our U.S. retiree medical contributions for 2010 were $270 million, of which $170 million was discretionary.

In 2011, we expect to make pension contributions of approximately $160 million, with up to approximately $15 million expected to be discretionary. Our cash payments for retiree medical benefits are estimated to be approximately $145 million in 2011. Our pension and retiree medical contributions are subject to change as a result of many factors, such as changes in interest rates, deviations between actual and expected asset returns and changes in tax or other benefit laws. For estimated future benefit payments, including our pay-as-you-go payments as well as those from trusts, see Note 7.

Our Financial Results

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items:

	2010	2009	2008
Operating profit			
Mark-to-market net impact (gain/(loss))	$ 91	$ 274	$ (346)
Restructuring and impairment charges	–	$ (36)	$ (543)
Merger and integration charges	$ (769)	$ (50)	–
Inventory fair value adjustments	$ (398)	–	–
Venezuela currency devaluation	$ (120)	–	–
Asset write-off	$ (145)	–	–
Foundation contribution	$ (100)	–	–
Bottling equity income			
PepsiCo share of PBG restructuring and impairment charges	–	–	$ (138)
Gain on previously held equity interests	$ 735	–	–
Merger and integration charges	$ (9)	$ (11)	–
Interest expense			
Merger and integration charges	$ (30)	–	–
Debt repurchase	$ (178)	–	–
Net income attributable to PepsiCo			
Mark-to-market net impact (gain/(loss))	$ 58	$ 173	$ (223)
Restructuring and impairment charges	–	$ (29)	$ (408)
PepsiCo share of PBG restructuring and impairment charges	–	–	$ (114)
Gain on previously held equity interests	$ 958	–	–
Merger and integration charges	$ (648)	$ (44)	–
Inventory fair value adjustments	$ (333)	–	–
Venezuela currency devaluation	$ (120)	–	–
Asset write-off	$ (92)	–	–
Foundation contribution	$ (64)	–	–
Debt repurchase	$ (114)	–	–
Net income attributable to PepsiCo per common share — diluted			
Mark-to-market net impact (gain/(loss))	$ 0.04	$ 0.11	$(0.14)
Restructuring and impairment charges	–	$(0.02)	$(0.25)
PepsiCo share of PBG restructuring and impairment charges	–	–	$(0.07)
Gain on previously held equity interests	$ 0.60	–	–
Merger and integration charges	$(0.40)	$(0.03)	–
Inventory fair value adjustments	$(0.21)	–	–
Venezuela currency devaluation	$(0.07)	–	–
Asset write-off	$(0.06)	–	–
Foundation contribution	$(0.04)	–	–
Debt repurchase	$(0.07)	–	–

Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, fruit, aluminum and other raw materials. Certain of these commodity derivatives do not qualify for hedge accounting treatment and are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions take delivery of the underlying commodity. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses.

In 2010, we recognized $91 million ($58 million after-tax or $0.04 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

In 2009, we recognized $274 million ($173 million after-tax or $0.11 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

In 2008, we recognized $346 million ($223 million after-tax or $0.14 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses.

Restructuring and Impairment Charges

In 2009, we incurred charges of $36 million ($29 million after-tax or $0.02 per share) in conjunction with our Productivity for Growth program that began in 2008. The program includes actions in all divisions of the business, including the closure of six plants that we believe will increase cost competitiveness across the supply chain, upgrade and streamline our product portfolio, and simplify the organization for more effective and timely decision-making. These initiatives were completed in the second quarter of 2009.

In 2008, we incurred charges of $543 million ($408 million after-tax or $0.25 per share) in conjunction with our Productivity for Growth program.

Gain on Previously Held Equity Interests

In 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of $958 million ($0.60 per share), comprising $735 million which is non-taxable and recorded in bottling equity income and $223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests.

Merger and Integration Charges

In 2010, we incurred merger and integration charges of $799 million related to our acquisitions of PBG and PAS, as well as advisory fees in connection with our acquisition of WBD. $467 million of these charges were recorded in the PAB segment, $111 million recorded in the Europe segment, $191 million recorded in corporate unallocated expenses and $30 million recorded in interest expense. The merger and integration charges related to our acquisitions of PBG and PAS are being incurred to help create a more fully integrated supply chain and go-to-market business model, to improve the effectiveness and efficiency of the distribution of our brands and to enhance our revenue growth. These charges also include closing costs, one-time financing costs and advisory fees related to our acquisitions of PBG and PAS. In addition, we recorded $9 million of merger-related charges, representing our share of the respective merger costs of PBG and PAS, in bottling equity income. In total, the above charges had an after-tax impact of $648 million or $0.40 per share.

In 2009, we incurred $50 million of merger-related charges, as well as an additional $11 million of merger-related charges, representing our share of the respective merger costs of PBG and PAS, recorded in bottling equity income. In total, these charges had an after-tax impact of $44 million or $0.03 per share.

Inventory Fair Value Adjustments

In 2010, we recorded $398 million ($333 million after-tax or $0.21 per share) of incremental costs related to fair value adjustments to the acquired inventory and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date. Substantially all of these costs were recorded in cost of sales.

Venezuela Currency Devaluation

As of the beginning of our 2010 fiscal year, we recorded a one-time $120 million net charge related to our change to hyperinflationary accounting for our Venezuelan businesses and the related devaluation of the bolivar. $129 million of this net charge was recorded in corporate unallocated expenses, with the balance (income of $9 million) recorded in our PAB segment. In total, this net charge had an after-tax impact of $120 million or $0.07 per share.

Asset Write-Off

In 2010, we recorded a $145 million charge ($92 million after-tax or $0.06 per share) related to a change in scope of one release in our ongoing migration to SAP software. This change was driven, in part, by a review of our North America systems strategy following our acquisitions of PBG and PAS. This change does not impact our overall commitment to continue our implementation of SAP across our global operations over the next few years.

Foundation Contribution

In 2010, we made a $100 million ($64 million after-tax or $0.04 per share) contribution to The PepsiCo Foundation, Inc., in order to fund charitable and social programs over the next several years. This contribution was recorded in corporate unallocated expenses.

Debt Repurchase

In 2010, we paid $672 million in a cash tender offer to repurchase $500 million (aggregate principal amount) of our 7.90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a $178 million charge to interest expense ($114 million after-tax or $0.07 per share), primarily representing the premium paid in the tender offer.

PepsiCo Share of PBG's Restructuring and Impairment Charges

In 2008, PBG implemented a restructuring initiative across all of its geographic segments. In addition, PBG recognized an asset impairment charge related to its business in Mexico. Consequently, a non-cash charge of $138 million was included in bottling equity income ($114 million after-tax or $0.07 per share) as part of recording our share of PBG's financial results.

Non-GAAP Measures

Certain measures contained in this annual report are financial measures that are adjusted for items affecting comparability (see "Items Affecting Comparability" for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign currency. These measures are not in accordance with Generally Accepted Accounting Principles (GAAP). Items adjusted for currency assume foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our ongoing performance and with how management evaluates our operational results and trends. These measures are not, and should not be viewed as, a substitute for U.S. GAAP reporting measures. See "Management Operating Cash Flow."

Results of Operations — Consolidated Review

In the discussions of net revenue and operating profit below, *effective net pricing* reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries. Additionally, *acquisitions* reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

Servings

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

In 2010, total servings increased 7% compared to 2009, as servings for snacks increased 2% while servings for beverages increased 9%. In 2009, total servings increased slightly compared to 2008, as servings for snacks increased 1% while servings for beverages decreased 1%.

Total Net Revenue and Operating Profit

				Change	
	2010	2009	2008	2010	2009
Total net revenue	$57,838	$43,232	$43,251	34%	–
Operating profit					
FLNA	$ 3,549	$ 3,258	$ 2,959	9%	10%
QFNA	568	628	582	(10)%	8%
LAF	1,004	904	897	11%	1%
PAB	2,776	2,172	2,026	28%	7%
Europe	1,020	932	910	9%	2%
AMEA	742	716	592	4%	21%
Corporate Unallocated					
Mark-to-market net (gains/(losses))	91	274	(346)	(67)%	n/m
Merger and integration charges	(191)	(49)	–	284%	n/m
Restructuring and impairment charges	–	–	(10)	–	n/m
Venezuela currency devaluation	(129)	–	–	n/m	–
Asset write-off	(145)	–	–	n/m	–
Foundation contribution	(100)	–	–	n/m	–
Other	(853)	(791)	(651)	8%	21%
Total operating profit	$ 8,332	$ 8,044	$ 6,959	4%	16%
Total operating profit margin	14.4%	18.6%	16.1%	(4.2)	2.5

n/m represents year-over-year changes that are not meaningful.

2010

Total operating profit increased 4% and operating margin decreased 4.2 percentage points. Operating profit performance was impacted by items affecting comparability (see "Items Affecting Comparability") which reduced operating profit by 21 percentage points and contributed 2.9 percentage points to the total operating margin decline. Operating profit performance also reflects the incremental operating results from our acquisitions of PBG and PAS.

2009

Total operating profit increased 16% and operating margin increased 2.5 percentage points. These increases were driven by the net favorable mark-to-market impact of our commodity hedges and lower restructuring and impairment charges related to our Productivity for Growth program, collectively contributing 17 percentage points to operating profit growth, partially offset by 1 percentage point from costs associated with our acquisitions of PBG and PAS. Foreign currency reduced operating profit growth by 6 percentage points, and acquisitions contributed 2 percentage points to the operating profit growth.

Other corporate unallocated expenses increased 21%, primarily reflecting deferred compensation losses, compared to gains in 2008. The deferred compensation losses are offset (as an increase to interest income) by gains on investments used to economically hedge these costs.

Other Consolidated Results

	2010	2009	2008	Change 2010	Change 2009
Bottling equity income	$ 735	$ 365	$ 374	$ 370	$ (9)
Interest expense, net	$ (835)	$ (330)	$ (288)	$(505)	$(42)
Annual tax rate	23.0%	26.0%	26.7%		
Net income attributable to PepsiCo	$6,320	$5,946	$5,142	6%	16%
Net income attributable to PepsiCo per common share — diluted	$ 3.91	$ 3.77	$ 3.21	4%	17%
Mark-to-market net (gains)/losses	(0.04)	(0.11)	0.14		
Restructuring and impairment charges	–	0.02	0.25		
PepsiCo share of PBG's restructuring and impairment charges	–	–	0.07		
Gain on previously held equity interests	(0.60)	–	–		
Merger and integration charges	0.40	0.03	–		
Inventory fair value adjustments	0.21	–	–		
Venezuela currency devaluation	0.07	–	–		
Asset write-off	0.06	–	–		
Foundation contribution	0.04	–	–		
Debt repurchase	0.07	–	–		
Net income attributable to PepsiCo per common share — diluted, excluding above items*	$ 4.13**	$ 3.71	$ 3.68**	12%	1%
Impact of foreign currency translation				1	5
Growth in net income attributable to PepsiCo per common share — diluted, excluding above items, on a constant currency basis*				12%**	6%

* See "Non-GAAP Measures"
** Does not sum due to rounding

As discussed in "Our Customers," prior to our acquisitions of PBG and PAS on February 26, 2010, we had noncontrolling interests in each of these bottlers and consequently included our share of their net income in bottling equity income. Upon consummation of the acquisitions in the first quarter of 2010, we began to consolidate the results of these bottlers and recorded a $735 million gain in bottling equity income associated with revaluing our previously held equity interests in PBG and PAS to fair value. Our share of the net income of PBV is reflected in bottling equity income.

2010

Bottling equity income increased $370 million, primarily reflecting the gain on our previously held equity interests in connection with our acquisitions of PBG and PAS, partially offset by the consolidation of the related financial results of the acquired bottlers.

Net interest expense increased $505 million, primarily reflecting higher average debt balances, interest expense incurred in connection with our cash tender offer to repurchase debt, and bridge and term financing costs in connection with our acquisitions of PBG and PAS. These increases were partially offset by lower average rates on our debt balances.

The reported tax rate decreased 3.0 percentage points compared to the prior year, primarily reflecting the impact of our acquisitions of PBG and PAS, which includes the reversal of deferred taxes attributable to our previously held equity interests in PBG and PAS, as well as the favorable resolution of certain tax matters in 2010.

Net income attributable to PepsiCo increased 6% and net income attributable to PepsiCo per common share increased 4%. Items affecting comparability (see "Items Affecting Comparability") decreased net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 8 percentage points.

2009

Bottling equity income decreased $9 million, primarily reflecting pre-tax gains on our sales of PBG and PAS stock in 2008, mostly offset by a 2008 non-cash charge of $138 million related to our share of PBG's 2008 restructuring and impairment charges.

Net interest expense increased $42 million, primarily reflecting lower average rates on our investment balances and higher average debt balances. This increase was partially offset by gains in the market value of investments used to economically hedge a portion of our deferred compensation costs.

The tax rate decreased 0.7 percentage points compared to 2008, primarily due to the favorable resolution of certain foreign tax matters and lower taxes on foreign results in 2009.

Net income attributable to PepsiCo increased 16% and net income attributable to PepsiCo per common share increased 17%. The favorable net mark-to-market impact of our commodity hedges and lower restructuring and impairment charges in 2009 were partially offset by the merger costs related to our acquisitions of PBG and PAS; these items affecting comparability (see "Items Affecting Comparability") increased net income attributable to PepsiCo by 16 percentage points and net income attributable to PepsiCo per common share by 17 percentage points. Net income attributable to PepsiCo per common share was also favorably impacted by share repurchases in 2008.

Results of Operations — Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. See "Items Affecting Comparability" for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
Net Revenue, 2010	$13,397	$1,832	$6,315	$20,401	$9,254	$6,639	$57,838
Net Revenue, 2009	$13,224	$1,884	$5,703	$10,116	$6,727	$5,578	$43,232
% Impact of:							
Volume(a)	–%	(1)%	3%	*	*	12%	*
Effective net pricing(b)	–	(3)	6	*	*	3	*
Foreign exchange	1	1	1	–	(2)	4	1
Acquisitions	–	–	–	*	*	1	*
% Change(c)	*1%*	*(3)%*	*11%*	*102%*	*38%*	*19%*	*34%*

	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
Net Revenue, 2009	$13,224	$1,884	$5,703	$10,116	$6,727	$5,578	$43,232
Net Revenue, 2008	$12,507	$1,902	$5,895	$10,937	$6,891	$5,119	$43,251
% Impact of:							
Volume(a)	1%	–%	(2)%	(7)%	(3)%	7%	(1)%
Effective net pricing(b)	5.5	–	12	–	5	4	5
Foreign exchange	(1)	(1)	(14)	(1)	(12)	(3)	(5)
Acquisitions	–	–	–	–	8	1	1.5
% Change(c)	*6%*	*(1)%*	*(3)%*	*(8)%*	*(2)%*	*9%*	*–%*

(a) Excludes the impact of acquisitions. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our beverage businesses, temporary timing differences between BCS and CSE. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

(b) Includes the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

(c) Amounts may not sum due to rounding.

* It is impractical to separately determine and quantify the impact of our acquisitions of PBG and PAS from changes in our pre-existing beverage business since we now manage these businesses as an integrated system.

Frito-Lay North America

	2010	2009	2008	% Change 2010	% Change 2009
Net revenue	$13,397	$13,224	$12,507	1	6
Impact of foreign currency translation				(1)	1
Net revenue growth, on a constant currency basis*				0.5**	6**
Operating profit	$ 3,549	$ 3,258	$ 2,959	9	10
Restructuring and impairment charges	–	2	108		
Operating profit, excluding above item*	$ 3,549	$ 3,260	$ 3,067	9	6
Impact of foreign currency translation				(1)	0.5
Operating profit growth excluding above item, on a constant currency basis*				8	7**

* See "Non-GAAP Measures"
** Does not sum due to rounding

2010

Pound volume decreased 1%, primarily due to the overlap of the 2009 "20% More Free" promotion, as well as a double-digit decline in SunChips, partially offset by mid-single-digit growth in trademark Lay's. Net revenue grew 1%, primarily reflecting mid-single-digit revenue growth in trademark Lay's, double-digit revenue growth in variety packs and high-single-digit revenue growth in trademark Ruffles. These gains were partially offset by a double-digit revenue decline in SunChips and a mid-single-digit revenue decline in Tostitos. Foreign currency contributed 1 percentage point to the net revenue growth.

Operating profit grew 9%, reflecting lower commodity costs, primarily cooking oil.

2009

Net revenue grew 6% and pound volume increased 1%. The volume growth reflects high-single-digit growth in dips, double-digit growth from our Sabra joint venture and low-single-digit growth in trademark Lay's. These volume gains were partially offset by high-single-digit declines in trademark Ruffles. Net revenue growth also benefited from effective net pricing. Foreign currency reduced net revenue growth by almost 1 percentage point.

Operating profit grew 10%, primarily reflecting the net revenue growth, partially offset by higher commodity costs, primarily cooking oil and potatoes. Lower restructuring and impairment charges in 2009 related to our Productivity for Growth program increased operating profit growth by nearly 4 percentage points.

Quaker Foods North America

	2010	2009	2008	% Change 2010	% Change 2009
Net revenue	$1,832	$1,884	$1,902	(3)	(1)
Impact of foreign currency translation				(1)	1
Net revenue growth, on a constant currency basis*				(4)	–
Operating profit	$ 568	$ 628	$ 582	(10)	8
Restructuring and impairment charges	–	1	31		
Operating profit, excluding above item*	$ 568	$ 629	$ 613	(10)	3
Impact of foreign currency translation				(1)	–
Operating profit growth excluding above item, on a constant currency basis*				(10)**	3

* See "Non-GAAP Measures"
** Does not sum due to rounding

2010

Net revenue declined 3% and volume declined 1%. The volume decline primarily reflects low-single-digit declines in Oatmeal and ready-to-eat cereals. Unfavorable mix and net pricing also contributed to the net revenue decline. Favorable foreign currency positively contributed 1 percentage point to the net revenue performance.

Operating profit declined 10%, primarily reflecting the net revenue performance, as well as insurance settlement recoveries recorded in the prior year related to the Cedar Rapids flood, which negatively impacted operating profit performance by 3 percentage points.

2009

Net revenue declined 1% and volume was flat. Low-single-digit volume declines in Oatmeal and high-single-digit declines in trademark Roni were offset by high-single-digit growth in ready-to-eat cereals. Favorable net pricing, driven by price increases taken in 2008, was offset by unfavorable mix. Unfavorable foreign currency reduced net revenue growth by 1 percentage point.

Operating profit increased 8%, primarily reflecting the absence of 2008 restructuring and impairment charges related to our Productivity for Growth program, which increased operating profit growth by 5 percentage points. Lower advertising and marketing, and selling and distribution expenses, also contributed to the operating profit growth.

Latin America Foods

	2010	2009	2008	% Change 2010	% Change 2009
Net revenue	$6,315	$5,703	$5,895	11	(3)
Impact of foreign currency translation				(1)	14
Net revenue growth, on a constant currency basis*				10	10**
Operating profit	$1,004	$ 904	$ 897	11	1
Restructuring and impairment charges	–	3	40		
Operating profit excluding above item*	$1,004	$ 907	$ 937	11	(3)
Impact of foreign currency translation				–	17
Operating profit growth excluding above item, on a constant currency basis*				11	13**

* See "Non-GAAP Measures"
** Does not sum due to rounding

2010

Volume increased 4%, reflecting mid-single-digit increases at Sabritas in Mexico and Brazil. Additionally, Gamesa in Mexico grew at a low-single-digit rate.

Net revenue increased 11%, primarily reflecting favorable effective net pricing and the volume growth. Net revenue growth reflected 1 percentage point of favorable foreign currency, which was net of a 6-percentage-point unfavorable impact from Venezuela.

Operating profit grew 11%, primarily reflecting the net revenue growth. Unfavorable foreign currency reduced operating profit growth slightly, as an 8-percentage-point unfavorable impact from Venezuela was offset by favorable foreign currency in other markets.

2009

Volume declined 2%, largely reflecting pricing actions to cover commodity inflation. A mid-single-digit decline at Sabritas in Mexico and a low-single-digit decline at Gamesa in Mexico were partially offset by mid-single-digit growth in Brazil.

Net revenue declined 3%, primarily reflecting an unfavorable foreign currency impact of 14 percentage points. Favorable effective net pricing was partially offset by the volume declines.

Operating profit grew 1%, reflecting favorable effective net pricing, partially offset by the higher commodity costs. Unfavorable foreign currency reduced operating profit by 17 percentage points. Operating profit growth benefited from lower restructuring and impairment charges in 2009 related to our Productivity for Growth program.

PepsiCo Americas Beverages

	2010	2009	2008	% Change 2010	% Change 2009
Net revenue	$20,401	$10,116	$10,937	102	(8)
Impact of foreign currency translation				–	1
Net revenue growth, on a constant currency basis*				102	(6)**
Operating profit	$ 2,776	$ 2,172	$ 2,026	28	7
Restructuring and impairment charges	–	16	289		
Merger and integration costs	467	–	–		
Inventory fair value adjustments	358	–	–		
Venezuela currency devaluation	(9)	–	–		
Operating profit, excluding above items*	$ 3,592	$ 2,188	$ 2,315	64	(5.5)
Impact of foreign currency translation				4	3
Operating profit, excluding above items, on a constant currency basis*				68	(3)**

* See "Non-GAAP Measures"

** Does not sum due to rounding

2010

Volume increased 10%, primarily reflecting volume from incremental brands related to our acquisition of PBG's operations in Mexico, which contributed over 6 percentage points to volume growth, as well as incremental volume related to our DPSG manufacturing and distribution agreement, entered into in connection with our acquisitions of PBG and PAS, which contributed over 5 percentage points to volume growth. North America volumes, excluding the impact of the incremental DPSG volume, declined 1%, driven by a 3% decline in CSD volume, partially offset by a 1% increase in non-carbonated beverage volume. The non-carbonated beverage volume growth primarily reflected a mid-single-digit increase in Gatorade sports drinks and a high-single-digit increase in Lipton ready-to-drink teas, mostly offset by mid-single-digit declines in our base Aquafina water and Tropicana businesses.

Net revenue increased 102%, primarily reflecting the incremental finished goods revenue related to our acquisitions of PBG and PAS.

Reported operating profit increased 28%, primarily reflecting the incremental operating results from our acquisitions of PBG and PAS, partially offset by the items affecting comparability in the above table (see "Items Affecting Comparability").

Excluding the items affecting comparability, operating profit increased 64%. Unfavorable foreign currency reduced operating profit performance by 4 percentage points, driven primarily by a 6-percentage-point unfavorable impact from Venezuela.

2009

BCS volume declined 6%, reflecting continued softness in the North America liquid refreshment beverage category.

In North America, non-carbonated beverage volume declined 11%, primarily driven by double-digit declines in Gatorade sports drinks and in our base Aquafina water business. CSD volumes declined 5%.

Net revenue declined 8%, primarily reflecting the volume declines. Unfavorable foreign currency contributed over 1 percentage point to the net revenue decline.

Operating profit increased 7%, primarily reflecting lower restructuring and impairment charges in 2009 related to our Productivity for Growth program. Excluding restructuring and impairment charges, operating profit declined 5.5%, primarily reflecting the net revenue performance. Operating profit was also negatively impacted by unfavorable foreign currency which reduced operating profit growth by almost 3 percentage points.

Europe

	2010	2009	2008	% Change 2010	% Change 2009
Net revenue	$9,254	$6,727	$6,891	38	(2)
Impact of foreign currency translation				2	12
Net revenue growth, on a constant currency basis*				40	10
Operating profit	$1,020	$ 932	$ 910	9	2
Restructuring and impairment charges	–	1	50		
Merger and integration costs	111	1	–		
Inventory fair value adjustments	40	–	–		
Operating profit, excluding above items*	$1,171	$ 934	$ 960	25	(3)
Impact of foreign currency translation				1	17
Operating profit growth excluding above items, on a constant currency basis*				26	13**

* See "Non-GAAP Measures"

** Does not sum due to rounding

2010

Snacks volume increased 2%, reflecting a double-digit increase in France, high-single-digit growth in Quaker in the United Kingdom and mid-single-digit increases in Russia and Turkey. These gains were partially offset by a double-digit decline in Romania and a low-single-digit decline in Spain. Additionally, Walkers in the United Kingdom experienced low-single-digit growth.

Beverage volume increased 10%, reflecting double-digit increases in Russia and Turkey, high-single-digit growth in Poland and France and a mid-single-digit increase in the United Kingdom. These gains were partially offset by a double-digit decline in Romania. Additionally, incremental brands related to our acquisitions of PBG and PAS contributed 5 percentage points to the beverage volume growth.

Net revenue grew 38%, primarily reflecting the incremental finished goods revenue related to our acquisitions of PBG and PAS. Unfavorable foreign currency reduced net revenue growth by 2 percentage points.

Operating profit grew 9%, primarily reflecting incremental operating results from our acquisitions of PBG and PAS. Operating profit growth was also adversely impacted by the items affecting comparability in the above table (see "Items Affecting Comparability"). Excluding these items, operating profit increased 25%. Unfavorable foreign currency reduced operating profit growth by 1 percentage point.

2009

Snacks volume declined 1%, reflecting continued macroeconomic challenges and planned weight outs in response to higher input costs. High-single-digit declines in Spain and Turkey and a double-digit decline in Poland were partially offset by low-single-digit growth in Russia. Additionally, Walkers in the United Kingdom declined at a low-single-digit rate. Our acquisition in the fourth quarter of 2008 of a snacks company in Serbia positively contributed 2 percentage points to the volume performance.

Beverage volume grew 3.5%, primarily reflecting our acquisition of Lebedyansky in Russia in the fourth quarter of 2008 which contributed 8 percentage points to volume growth. A high-single-digit increase in Germany and mid-single-digit increases in the United Kingdom and Poland were more than offset by double-digit declines in Russia and the Ukraine.

Net revenue declined 2%, primarily reflecting adverse foreign currency which contributed 12 percentage points to the decline, partially offset by acquisitions which positively contributed 8 percentage points to net revenue performance. Favorable effective net pricing positively contributed to the net revenue performance.

Operating profit grew 2%, primarily reflecting the favorable effective net pricing and lower restructuring and impairment costs in 2009 related to our Productivity for Growth program. Acquisitions positively contributed 5 percentage points to the operating profit growth and adverse foreign currency reduced operating profit growth by 17 percentage points.

Asia, Middle East & Africa

	2010	2009	2008	Change 2010	Change 2009
Net revenue	$6,639	$5,578	$5,119	19	9
Impact of foreign currency translation				(4)	3
Net revenue growth, on a constant currency basis*				15	12
Operating profit	$ 742	$ 716	$ 592	4	21
Restructuring and impairment charges	–	13	15		
Operating profit, excluding above items*	$ 742	$ 729	$ 607	2	20
Impact of foreign currency translation				(4)	3
Operating profit growth excluding above items, on a constant currency basis*				(2)	23

* See "Non-GAAP Measures"

2010

Snacks volume grew 15%, reflecting broad-based increases driven by double-digit growth in India, the Middle East and China, partially offset by a low-single-digit decline in Australia. Acquisitions contributed 2 percentage points to the snacks volume growth.

Beverage volume grew 7%, driven by double-digit growth in India and China, partially offset by a low-single-digit decline in the Middle East. Acquisitions had a nominal impact on the beverage volume growth rate.

Net revenue grew 19%, reflecting the volume growth and favorable effective net pricing. Foreign currency contributed nearly 4 percentage points to the net revenue growth. The net impact of acquisitions and divestitures contributed 1 percentage point to the net revenue growth.

Operating profit grew 4%, driven primarily by the net revenue growth, partially offset by higher commodity costs and increased investments in strategic markets. The net impact of acquisitions and divestitures reduced operating profit growth by 10 percentage points, primarily as a result of a one-time gain in the prior year associated with the contribution of our snacks business in Japan to form a joint venture with Calbee Foods Company (Calbee). Favorable foreign currency contributed 4 percentage points to the operating profit growth and the absence of restructuring and impairment charges in the current year contributed 2 percentage points.

2009

Snacks volume grew 9%, reflecting broad-based increases driven by double-digit growth in India and the Middle East, partially offset by a low-single-digit decline in China. Additionally, South Africa grew volume at a low-single-digit rate and Australia grew volume slightly. The net impact of acquisitions and divestitures contributed 2 percentage points to the snacks volume growth.

Beverage volume grew 8%, reflecting broad-based increases driven by double-digit growth in India and high-single-digit growth in Pakistan. Additionally, the Middle East grew at a mid-single-digit rate and China grew at a low-single-digit rate. Acquisitions had a nominal impact on the beverage volume growth rate.

Net revenue grew 9%, reflecting volume growth and favorable effective net pricing. Foreign currency reduced net revenue growth by over 3 percentage points. The net impact of acquisitions and divestitures contributed 1 percentage point to the net revenue growth.

Operating profit grew 21%, driven primarily by the net revenue growth. The net impact of acquisitions and divestitures contributed 11 percentage points to the operating profit growth and included a one-time gain associated with the contribution of our snacks business in Japan to form a joint venture with Calbee. Foreign currency reduced operating profit growth by 3 percentage points.

Our Liquidity and Capital Resources

We believe that our cash-generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing (including long-term debt financing which, depending upon market conditions, we may use to replace a portion of our commercial paper borrowings), will be adequate to meet our operating, investing and financing needs. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us or at all. See Note 9 for a description of our credit facilities. See also "Unfavorable economic conditions in the countries in which we operate may have an adverse impact on our business results or financial condition."

In addition, currency restrictions enacted by the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. As of December 25, 2010, our operations in Venezuela comprised 4% of our cash and cash equivalents balance.

Furthermore, our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related sales patterns, and generally lowest in the first quarter. On a continuing basis, we consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures, joint ventures and share repurchases. These transactions may result in future cash proceeds or payments.

Operating Activities

During 2010, net cash provided by operating activities was $8.4 billion, compared to net cash provided of $6.8 billion in the prior year. The increase over the prior year primarily reflects the incremental operating results from our acquisitions of PBG and PAS, as well as favorable working capital comparisons to the prior year. Also see "Management Operating Cash Flow" below for certain other items impacting net cash provided by operating activities.

In 2009, our operations provided $6.8 billion of cash, compared to $7.0 billion in 2008, reflecting a $1.0 billion ($0.6 billion after-tax) discretionary pension contribution to our U.S. pension plans, $196 million of restructuring payments related to our Productivity for Growth program and $49 million of merger cost payments related to our acquisitions of PBG and PAS. Operating cash flow also reflected net favorable working capital comparisons to 2008.

Investing Activities

During 2010, net cash used for investing activities was $7.7 billion, primarily reflecting $3.2 billion for net capital spending, $2.8 billion of net cash paid in connection with our acquisitions of PBG and PAS, and $0.9 billion of cash paid in connection with our manufacturing and distribution agreement with DPSG. We also paid $0.5 billion to acquire WBD American Depositary Shares in the open market.

In 2009, net cash used for investing activities was $2.4 billion, primarily reflecting $2.1 billion for capital spending and $0.5 billion for acquisitions.

Subsequent to year-end 2010, we paid $0.2 billion to acquire WBD American Depositary Shares in the open market. We also spent approximately $3.8 billion to acquire approximately 66% of WBD's outstanding ordinary shares, increasing our total ownership of WBD to approximately 77%. In addition to these transactions, we expect to incur an additional $1.4 billion of investing cash outflows in connection with our intended purchase of the remaining outstanding WBD shares, funded primarily through existing international cash. See Note 15.

We anticipate net capital spending in 2011 of about $3.7 billion, which includes about $150 million of capital spending related to the integration of PBG and PAS, as well as capital spending related to our acquisition of WBD.

Financing Activities

During 2010, net cash provided by financing activities was $1.4 billion, primarily reflecting proceeds from issuances of long-term debt of $6.5 billion, mostly in connection with our acquisitions of PBG and PAS, and net proceeds from short-term borrowings of $2.5 billion. These increases were largely offset by the return of operating cash flow to our shareholders through share repurchases and dividend payments of $8.0 billion.

In 2009, net cash used for financing activities was $2.5 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments of $2.7 billion. Net proceeds from issuances of long-term debt of $0.8 billion and stock option proceeds of $0.4 billion were mostly offset by net repayments of short-term borrowings of $1.0 billion.

We annually review our capital structure with our Board, including our dividend policy and share repurchase activity. In the first quarter of 2010, our Board of Directors approved a 7% dividend increase from $1.80 to $1.92 per share and authorized the repurchase of up to $15.0 billion of PepsiCo common stock through June 30, 2013. This authorization was in addition to our $8.0 billion repurchase program authorized by our Board of Directors, publicly announced on May 2, 2007 and which expired on June 30, 2010. We anticipate share repurchases of approximately $2.5 billion in 2011.

Management Operating Cash Flow

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Therefore, this measure is not, and should not be viewed as, a substitute for U.S. GAAP cash flow measures. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Additionally, we consider certain items (included in the table below), in evaluating management operating cash flow. We believe investors should consider these items in evaluating our management operating cash flow results.

The table below reconciles net cash provided by operating activities, as reflected in our cash flow statement, to our management operating cash flow excluding the impact of the items below.

	2010	2009	2008
Net cash provided by operating activities	$ 8,448	$ 6,796	$ 6,999
Capital spending	(3,253)	(2,128)	(2,446)
Sales of property, plant and equipment	81	58	98
Management operating cash flow	5,276	4,726	4,651
Discretionary pension and retiree medical contributions (after-tax)	983	640	–
Payments related to 2009 restructuring charges (after-tax)	20	168	180
Merger and integration payments (after-tax)	299	49	–
Foundation contribution (after-tax)	64	–	–
Debt repurchase (after-tax)	112	–	–
Capital investments related to the PBG/PAS integration	138	–	–
Management operating cash flow excluding above items	$ 6,892	$ 5,583	$ 4,831

In 2010, management operating cash flow was used primarily to repurchase shares and pay dividends. In 2009, management operating cash flow was used primarily to pay dividends. In 2008, management operating cash flow was used primarily to repurchase shares and pay dividends. We expect to continue to return management operating cash flow to our shareholders through dividends and share repurchases while maintaining short-term credit ratings that ensure appropriate financial flexibility and ready access to global and capital credit markets at favorable interest rates. However, see "Our Business Risks" for certain factors that may impact our operating cash flows.

Credit Ratings

Our objective is to maintain credit ratings that provide us with ready access to global capital and credit markets at favorable interest rates. On February 24, 2010, Moody's Investors Service (Moody's) lowered the corporate credit rating of PepsiCo and its supported subsidiaries and the rating of PepsiCo's senior unsecured long-term debt to Aa3 from Aa2. Moody's rating for PepsiCo's short-term indebtedness was confirmed at Prime-1 and the outlook is stable. On March 17, 2010, Standard & Poor's Ratings Services (S&P) lowered PepsiCo's corporate credit rating to A from A+ and lowered the rating of PepsiCo's senior unsecured long-term debt to A- from A+. S&P's rating for PepsiCo's short-term indebtedness was confirmed at A-1 and the outlook is stable. Any downgrade of our credit ratings by either Moody's or S&P, including any downgrade to below investment grade, could increase our future borrowing costs or impair our ability to access capital markets on terms commercially acceptable to us or at all. See "Our Business Risks" and Note 9.

Credit Facilities and Long-Term Contractual Commitments

See Note 9 for a description of our credit facilities and long-term contractual commitments.

Off-Balance-Sheet Arrangements

It is not our business practice to enter into off-balance-sheet arrangements, other than in the normal course of business. Additionally, we do not enter into off-balance-sheet transactions specifically structured to provide income or tax benefits or to avoid recognizing or disclosing assets or liabilities. See Note 9 for a description of our off-balance-sheet arrangements.

Consolidated Statement of Income

(in millions except per share amounts) *Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008*	2010	2009	2008
Net Revenue	$57,838	$43,232	$43,251
Cost of sales	26,575	20,099	20,351
Selling, general and administrative expenses	22,814	15,026	15,877
Amortization of intangible assets	117	63	64
Operating Profit	8,332	8,044	6,959
Bottling equity income	735	365	374
Interest expense	(903)	(397)	(329)
Interest income	68	67	41
Income before income taxes	8,232	8,079	7,045
Provision for income taxes	1,894	2,100	1,879
Net income	6,338	5,979	5,166
Less: Net income attributable to noncontrolling interests	18	33	24
Net Income Attributable to PepsiCo	$ 6,320	$ 5,946	$ 5,142
Net Income Attributable to PepsiCo per Common Share			
Basic	$ 3.97	$ 3.81	$ 3.26
Diluted	$ 3.91	$ 3.77	$ 3.21
Cash dividends declared per common share	$ 1.89	$ 1.775	$ 1.65

See accompanying notes to consolidated financial statements.

(in millions) *Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008*	2010	2009	2008
Operating Activities			
Net income	$ 6,338	$ 5,979	$ 5,166
Depreciation and amortization	2,327	1,635	1,543
Stock-based compensation expense	299	227	238
Restructuring and impairment charges	–	36	543
Cash payments for restructuring charges	(31)	(196)	(180)
Merger and integration costs	808	50	–
Cash payments for merger and integration costs	(385)	(49)	–
Gain on previously held equity interests in PBG and PAS	(958)	–	–
Asset write-off	145	–	–
Non-cash foreign exchange loss related to Venezuela devaluation	120	–	–
Excess tax benefits from share-based payment arrangements	(107)	(42)	(107)
Pension and retiree medical plan contributions	(1,734)	(1,299)	(219)
Pension and retiree medical plan expenses	453	423	459
Bottling equity income, net of dividends	42	(235)	(202)
Deferred income taxes and other tax charges and credits	500	284	573
Change in accounts and notes receivable	(268)	188	(549)
Change in inventories	276	17	(345)
Change in prepaid expenses and other current assets	144	(127)	(68)
Change in accounts payable and other current liabilities	488	(133)	718
Change in income taxes payable	123	319	(180)
Other, net	(132)	(281)	(391)
Net Cash Provided by Operating Activities	8,448	6,796	6,999
Investing Activities			
Capital spending	(3,253)	(2,128)	(2,446)
Sales of property, plant and equipment	81	58	98
Acquisitions of PBG and PAS, net of cash and cash equivalents acquired	(2,833)	–	–
Acquisition of manufacturing and distribution rights from DPSG	(900)	–	–
Investment in WBD	(463)	–	–
Other acquisitions and investments in noncontrolled affiliates	(83)	(500)	(1,925)
Divestitures	12	99	6
Cash restricted for pending acquisitions	–	15	(40)
Cash proceeds from sale of PBG and PAS stock	–	–	358
Short-term investments, by original maturity			
More than three months — purchases	(12)	(29)	(156)
More than three months — maturities	29	71	62
Three months or less, net	(229)	13	1,376
Other investing, net	(17)	–	–
Net Cash Used for Investing Activities	(7,668)	(2,401)	(2,667)

(Continued on following page)

Consolidated Statement of Cash Flows
(continued)

(in millions) *Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008*	2010	2009	2008
Financing Activities			
Proceeds from issuances of long-term debt	$ 6,451	$ 1,057	$ 3,719
Payments of long-term debt	(59)	(226)	(649)
Debt repurchase	(500)	–	–
Short-term borrowings, by original maturity			
More than three months — proceeds	227	26	89
More than three months — payments	(96)	(81)	(269)
Three months or less, net	2,351	(963)	625
Cash dividends paid	(2,978)	(2,732)	(2,541)
Share repurchases — common	(4,978)	–	(4,720)
Share repurchases — preferred	(5)	(7)	(6)
Proceeds from exercises of stock options	1,038	413	620
Excess tax benefits from share-based payment arrangements	107	42	107
Acquisition of noncontrolling interest in Lebedyansky from PBG	(159)	–	–
Other financing	(13)	(26)	–
Net Cash Provided by/(Used for) Financing Activities	1,386	(2,497)	(3,025)
Effect of exchange rate changes on cash and cash equivalents	(166)	(19)	(153)
Net Increase in Cash and Cash Equivalents	2,000	1,879	1,154
Cash and Cash Equivalents, Beginning of Year	3,943	2,064	910
Cash and Cash Equivalents, End of Year	$ 5,943	$ 3,943	$ 2,064
Non-cash activity:			
Issuance of common stock and equity awards in connection with our acquisitions of PBG and PAS, as reflected in investing and financing activities	$ 4,451	–	–

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

(in millions except per share amounts) *December 25, 2010 and December 26, 2009*	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,943	$ 3,943
Short-term investments	426	192
Accounts and notes receivable, net	6,323	4,624
Inventories	3,372	2,618
Prepaid expenses and other current assets	1,505	1,194
Total Current Assets	17,569	12,571
Property, Plant and Equipment, net	19,058	12,671
Amortizable Intangible Assets, net	2,025	841
Goodwill	14,661	6,534
Other nonamortizable intangible assets	11,783	1,782
Nonamortizable Intangible Assets	26,444	8,316
Investments in Noncontrolled Affiliates	1,368	4,484
Other Assets	1,689	965
Total Assets	$ 68,153	$ 39,848
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term obligations	$ 4,898	$ 464
Accounts payable and other current liabilities	10,923	8,127
Income taxes payable	71	165
Total Current Liabilities	15,892	8,756
Long-Term Debt Obligations	19,999	7,400
Other Liabilities	6,729	5,591
Deferred Income Taxes	4,057	659
Total Liabilities	46,677	22,406
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(150)	(145)
PepsiCo Common Shareholders' Equity		
Common stock, par value 1⅔¢ per share (authorized 3,600 shares, issued 1,865 and 1,782 shares, respectively)	31	30
Capital in excess of par value	4,527	250
Retained earnings	37,090	33,805
Accumulated other comprehensive loss	(3,630)	(3,794)
Repurchased common stock, at cost (284 and 217 shares, respectively)	(16,745)	(13,383)
Total PepsiCo Common Shareholders' Equity	21,273	16,908
Noncontrolling interests	312	638
Total Equity	21,476	17,442
Total Liabilities and Equity	$ 68,153	$ 39,848

See accompanying notes to consolidated financial statements.

(in millions)
Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008

	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
Preferred Stock	0.8	$ 41	0.8	$ 41	0.8	$ 41
Repurchased Preferred Stock						
Balance, beginning of year	(0.6)	(145)	(0.5)	(138)	(0.5)	(132)
Redemptions	(–)	(5)	(0.1)	(7)	(–)	(6)
Balance, end of year	(0.6)	(150)	(0.6)	(145)	(0.5)	(138)
Common Stock						
Balance, beginning of year	1,782	30	1,782	30	1,782	30
Shares issued in connection with our acquisitions of PBG and PAS	83	1	–	–	–	–
Balance, end of year	1,865	31	1,782	30	1,782	30
Capital in Excess of Par Value						
Balance, beginning of year		250		351		450
Stock-based compensation expense		299		227		238
Stock option exercises/RSUs converted[a]		(500)		(292)		(280)
Withholding tax on RSUs converted		(68)		(36)		(57)
Equity issued in connection with our acquisitions of PBG and PAS		4,451		–		–
Other		95		–		–
Balance, end of year		4,527		250		351
Retained Earnings						
Balance, beginning of year		33,805		30,638		28,184
Measurement date change		–		–		(89)
Adjusted balance, beginning of year		33,805		30,638		28,095
Net income attributable to PepsiCo		6,320		5,946		5,142
Cash dividends declared — common		(3,028)		(2,768)		(2,589)
Cash dividends declared — preferred		(1)		(2)		(2)
Cash dividends declared — RSUs		(12)		(9)		(8)
Other		6		–		–
Balance, end of year		37,090		33,805		30,638
Accumulated Other Comprehensive Loss						
Balance, beginning of year		(3,794)		(4,694)		(952)
Measurement date change		–		–		51
Adjusted balance, beginning of year		(3,794)		(4,694)		(901)
Currency translation adjustment		312		800		(2,484)
Cash flow hedges, net of tax:						
Net derivative (losses)/gains		(111)		(55)		16
Reclassification of net losses to net income		53		28		5
Pension and retiree medical, net of tax:						
Net pension and retiree medical (losses)/gains		(280)		21		(1,376)
Reclassification of net losses to net income		166		86		73
Unrealized gains/(losses) on securities, net of tax		23		20		(21)
Other		1		–		(6)
Balance, end of year		(3,630)		(3,794)		(4,694)
Repurchased Common Stock						
Balance, beginning of year	(217)	(13,383)	(229)	(14,122)	(177)	(10,387)
Share repurchases	(76)	(4,978)	–	–	(68)	(4,720)
Stock option exercises	24	1,487	11	649	15	883
Other	(15)	129	1	90	1	102
Balance, end of year	(284)	(16,745)	(217)	(13,383)	(229)	(14,122)
Total Common Shareholders' Equity		21,273		16,908		12,203

(a) Includes total tax benefits of $75 million in 2010, $31 million in 2009 and $95 million in 2008.

(Continued on following page)

(in millions) *Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008*	2010	2009	2008
Noncontrolling Interests			
Balance, beginning of year	$ 638	$ 476	$ 62
Net income attributable to noncontrolling interests	18	33	24
(Distributions to)/contributions from noncontrolling interests, net	(332)	150	450
Currency translation adjustment	(13)	(12)	(48)
Other, net	1	(9)	(12)
Balance, end of year	312	638	476
Total Equity	$ 21,476	$ 17,442	$ 12,582
Comprehensive Income			
Net income	$ 6,338	$ 5,979	$ 5,166
Other Comprehensive Income/(Loss)			
Currency translation adjustment	299	788	(2,532)
Cash flow hedges, net of tax	(58)	(27)	21
Pension and retiree medical, net of tax:			
Net prior service credit/(cost)	22	(3)	55
Net (losses)/gains	(136)	110	(1,358)
Unrealized gains/(losses) on securities, net of tax	23	20	(21)
Other	1	–	(6)
	151	888	(3,841)
Comprehensive Income	6,489	6,867	1,325
Comprehensive (income)/loss attributable to noncontrolling interests	(5)	(21)	24
Comprehensive Income Attributable to PepsiCo	$ 6,484	$ 6,846	$ 1,349

See accompanying notes to consolidated financial statements.

Note 1 Basis of Presentation and Our Divisions

Basis of Presentation

Our financial statements include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates based on our economic ownership interest. We do not control these other affiliates, as our ownership in these other affiliates is generally less than 50%. Intercompany balances and transactions are eliminated. Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years.

On February 26, 2010, we completed our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS). The results of the acquired companies in the U.S. and Canada are reflected in our consolidated results as of the acquisition date, and the international results of the acquired companies have been reported as of the beginning of our second quarter of 2010, consistent with our monthly international reporting calendar. The results of the acquired companies in the U.S., Canada and Mexico are reported within our PAB segment, and the results of the acquired companies in Europe, including Russia, are reported within our Europe segment. Prior to our acquisitions of PBG and PAS, we recorded our share of equity income or loss from the acquired companies in bottling equity income in our income statement. Our share of the net income of PBV is reflected in bottling equity income and our share of income or loss from other noncontrolled affiliates is reflected as a component of selling, general and administrative expenses. Additionally, in the first quarter of 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of $958 million, comprising $735 million which is non-taxable and recorded in bottling equity income and $223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests. See Notes 8 and 15 and for additional unaudited information on items affecting the comparability of our consolidated results, see "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

As of the beginning of our 2010 fiscal year, the results of our Venezuelan businesses are reported under hyperinflationary accounting. See "Our Business Risks" and "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used in determining, among other items, sales incentives accruals, tax reserves, stock-based compensation, pension and retiree medical accruals, useful lives for intangible assets, and future cash flows associated with impairment testing for perpetual brands, goodwill and other long-lived assets. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effect cannot be determined with precision, actual results could differ significantly from these estimates.

While the majority of our results are reported on a weekly calendar basis, most of our international operations report on a monthly calendar basis. The following chart details our quarterly reporting schedule:

Quarter	U.S. and Canada	International
First Quarter	12 weeks	January, February
Second Quarter	12 weeks	March, April and May
Third Quarter	12 weeks	June, July and August
Fourth Quarter	16 weeks	September, October, November and December

See "Our Divisions" below and for additional unaudited information on items affecting the comparability of our consolidated results, see "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior years' amounts to conform to the 2010 presentation.

Our Divisions

We manufacture or use contract manufacturers, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages, and foods in over 200 countries with our largest operations in North America (United States and Canada), Mexico, Russia and the United Kingdom. Division results are based on how our Chief Executive Officer assesses the performance of and allocates resources to our divisions. For additional unaudited information on our divisions, see "Our Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations. The accounting policies for the divisions are the same as those described in Note 2, except for the following allocation methodologies:

- stock-based compensation expense;
- pension and retiree medical expense; and
- derivatives.

Stock-Based Compensation Expense

Our divisions are held accountable for stock-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost. The allocation of stock-based compensation expense in 2010 was approximately 17% to FLNA, 2% to QFNA, 5% to LAF, 32% to PAB, 11% to Europe, 8% to AMEA and 25% to corporate unallocated expenses. We had similar allocations of stock-based compensation expense to our divisions in 2009 and 2008. The expense allocated to our divisions excludes any impact of changes in our assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

Pension and Retiree Medical Expense

Pension and retiree medical service costs measured at a fixed discount rate, as well as amortization of costs related to certain pension plan amendments and gains and losses due to demographics, including salary experience, are reflected in division results for North American employees. Division results also include interest costs, measured at a fixed discount rate, for retiree medical plans. Interest costs for the pension plans, pension asset returns and the impact of pension funding, and gains and losses other than those due to demographics, are all reflected in corporate unallocated expenses. In addition, corporate unallocated expenses include the difference between the service costs measured at a fixed discount rate (included in division results as noted above) and the total service costs determined using the plans' discount rates as disclosed in Note 7.

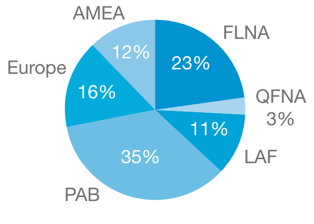
Derivatives

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, fruit and other raw materials. Certain of these commodity derivatives do not qualify for hedge accounting treatment and are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions take delivery of the underlying commodity. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses. These derivatives hedge underlying commodity price risk and were not entered into for speculative purposes.

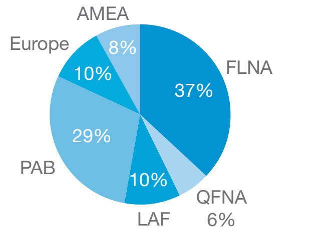
	2010	2009	2008	2010	2009	2008
		Net Revenue			*Operating Profit*[(a)]	
FLNA	$13,397	$13,224	$12,507	$3,549	$3,258	$2,959
QFNA	1,832	1,884	1,902	568	628	582
LAF	6,315	5,703	5,895	1,004	904	897
PAB[(b)]	20,401	10,116	10,937	2,776	2,172	2,026
Europe[(b)]	9,254	6,727	6,891	1,020	932	910
AMEA	6,639	5,578	5,119	742	716	592
Total division	57,838	43,232	43,251	9,659	8,610	7,966
Corporate Unallocated						
Net impact of mark-to-market on commodity hedges	–	–	–	91	274	(346)
Merger and integration costs	–	–	–	(191)	(49)	–
Restructuring and impairment charges	–	–	–	–	–	(10)
Venezuela currency devaluation	–	–	–	(129)	–	–
Asset write-off	–	–	–	(145)	–	–
Foundation contribution	–	–	–	(100)	–	–
Other	–	–	–	(853)	(791)	(651)
	$57,838	$43,232	$43,251	$8,332	$8,044	$6,959

(a) For information on the impact of restructuring, impairment and integration charges on our divisions, see Note 3.
(b) Changes in 2010 relate primarily to our acquisitions of PBG and PAS.

Net Revenue



Division Operating Profit



Corporate

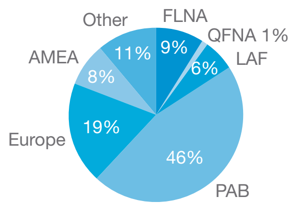
Corporate includes costs of our corporate headquarters, centrally managed initiatives, such as our ongoing business transformation initiative and research and development projects, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, certain commodity derivative gains and losses and certain other items.

Other Division Information

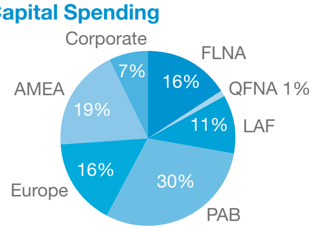
	2010	2009	2008	2010	2009	2008
		Total Assets			*Capital Spending*	
FLNA	$ 6,284	$ 6,337	$ 6,284	$ 526	$ 490	$ 553
QFNA	960	997	1,035	37	33	43
LAF	4,053	3,575	3,023	370	310	351
PAB[(a)]	31,622	7,670	7,673	973	182	344
Europe[(a)]	12,853	9,321	8,840	503	357	401
AMEA	5,748	4,937	3,756	624	585	479
Total division	61,520	32,837	30,611	3,033	1,957	2,171
Corporate[(b)]	6,394	3,933	2,729	220	171	275
Investments in bottling affiliates[(a)]	239	3,078	2,654	–	–	–
	$68,153	$39,848	$35,994	$3,253	$2,128	$2,446

(a) Changes in total assets in 2010 relate primarily to our acquisitions of PBG and PAS.
(b) Corporate assets consist principally of cash and cash equivalents, short-term investments, derivative instruments and property, plant and equipment.

Total Assets



Capital Spending



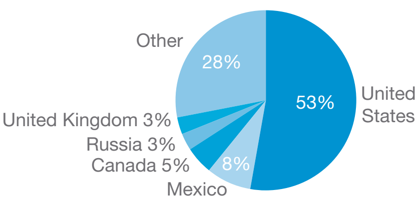
	2010	2009	2008	2010	2009	2008
		Amortization of Intangible Assets			*Depreciation and Other Amortization*	
FLNA	$ 7	$ 7	$ 9	$ 462	$ 440	$ 441
QFNA	–	–	–	38	36	34
LAF	6	5	6	213	189	194
PAB[(a)]	56	18	16	749	345	334
Europe[(a)]	35	22	23	343	227	210
AMEA	13	11	10	306	248	213
Total division	117	63	64	2,111	1,485	1,426
Corporate	–	–	–	99	87	53
	$117	$63	$64	$2,210	$1,572	$1,479

(a) Increases in 2010 relate primarily to our acquisitions of PBG and PAS.

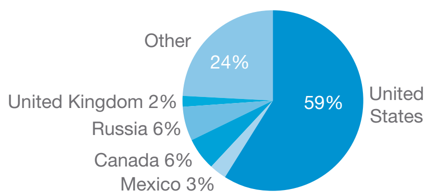
	2010	2009	2008	2010	2009	2008
		Net Revenue[(b)]			*Long-Lived Assets*[(c)]	
U.S.[(a)]	$30,618	$22,446	$22,525	$28,631	$12,496	$12,095
Mexico[(a)]	4,531	3,210	3,714	1,671	1,044	904
Canada[(a)]	3,081	1,996	2,107	3,133	688	556
Russia[(a)]	1,890	1,006	585	2,744	2,094	577
United Kingdom	1,888	1,826	2,099	1,019	1,358	1,509
All other countries	15,830	12,748	12,221	11,697	8,632	6,889
	$57,838	$43,232	$43,251	$48,895	$26,312	$22,530

(a) Increases in 2010 relate primarily to our acquisitions of PBG and PAS.
(b) Represents net revenue from businesses operating in these countries.
(c) Long-lived assets represent property, plant and equipment, nonamortizable intangible assets, amortizable intangible assets and investments in noncontrolled affiliates. These assets are reported in the country where they are primarily used.

Net Revenue



Long-Lived Assets



Note 2 Our Significant Accounting Policies

Revenue Recognition

We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and certain chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that our consumers receive the product quality and freshness that they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. Based on our experience with this practice, we have reserved for anticipated damaged and out-of-date products. For additional unaudited information on our revenue recognition and related policies, including our policy on bad debts, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations. We are exposed to concentration of credit risk by our customers, including Wal-Mart. In 2010, Wal-Mart (including Sam's) represented approximately 12% of our total net revenue, including concentrate sales to our bottlers (including concentrate sales to PBG and PAS prior to the February 26, 2010 acquisition date) which are used in finished goods sold by them to Wal-Mart. We have not experienced credit issues with these customers.

Sales Incentives and Other Marketplace Spending

We offer sales incentives and discounts through various programs to our customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled \$29.1 billion in 2010, \$12.9 billion in 2009 and \$12.5 billion in 2008. While most of these incentive arrangements have terms of no more than one year, certain arrangements, such as fountain pouring rights, may extend beyond one year. Costs incurred to obtain these arrangements are recognized over the shorter of the economic or contractual life, as a reduction of revenue, and the remaining balances of \$296 million, as of both December 25, 2010 and December 26, 2009, are included in current assets and other assets on our balance sheet. For additional unaudited information on our sales incentives, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other marketplace spending, which includes the costs of advertising and other marketing activities, totaled \$3.4 billion in 2010, \$2.8 billion in 2009 and \$2.9 billion in 2008 and is reported as selling, general and administrative expenses. Included in these amounts were advertising expenses of \$1.9 billion in 2010 and \$1.7 billion in both 2009 and 2008. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments;
- promotional materials in inventory; and
- production costs of future media advertising.

Deferred advertising costs of \$158 million and \$143 million at year-end 2010 and 2009, respectively, are classified as prepaid expenses on our balance sheet.

Distribution Costs

Distribution costs, including the costs of shipping and handling activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were \$7.7 billion in 2010 and \$5.6 billion in both 2009 and 2008.

Cash Equivalents

Cash equivalents are investments with original maturities of three months or less which we do not intend to rollover beyond three months.

Software Costs

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs include only (i) external direct costs of materials and services utilized in developing or obtaining computer software, (ii) compensation and related benefits for employees who are directly associated with the software project and (iii) interest costs incurred while developing internal-use computer software. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line basis when placed into service over the estimated useful lives of the software, which approximate five to ten years. Software amortization totaled \$137 million in 2010, \$119 million in 2009 and \$58 million in 2008. Net capitalized software and development costs were \$1.1 billion as of both December 25, 2010 and December 26, 2009.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, certain taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional information on our commitments, see Note 9.

Research and Development

We engage in a variety of research and development activities. These activities principally involve the development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were \$488 million in 2010, \$414 million in 2009 and \$388 million in 2008 and are reported within selling, general and administrative expenses.

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- *Property, Plant and Equipment and Intangible Assets* — Note 4, and for additional unaudited information on goodwill and other intangible assets, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- *Income Taxes* — Note 5, and for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- *Stock-Based Compensation* — Note 6.
- *Pension, Retiree Medical and Savings Plans* — Note 7, and for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- *Financial Instruments* — Note 10, and for additional unaudited information, see "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) amended its guidance on accounting for business combinations to improve, simplify and converge internationally the accounting for business combinations. The new accounting guidance continues the movement toward the greater use of fair value in financial reporting and increased transparency through expanded disclosures. We adopted the provisions of the new guidance as of the beginning of our 2009 fiscal year. The new accounting guidance changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. Additionally, under the new guidance, transaction costs are expensed rather than capitalized. Future adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the beginning of our 2009 fiscal year apply the new provisions and will be evaluated based on the outcome of these matters.

In June 2009, the FASB amended its accounting guidance on the consolidation of variable interest entities (VIE). Among other things, the new guidance requires a qualitative rather than a quantitative assessment to determine the primary beneficiary of a VIE based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. In addition, the amended guidance requires an ongoing reconsideration of the primary beneficiary. The provisions of this new guidance were effective as of the beginning of our 2010 fiscal year, and the adoption did not have a material impact on our financial statements.

In the second quarter of 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. The PPACA changes the tax treatment related to an existing retiree drug subsidy (RDS) available to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. As a result of the PPACA, RDS payments will effectively become taxable in tax years beginning in 2013, by requiring the amount of the subsidy received to be offset against our deduction for health care expenses. The provisions of the PPACA required us to record the effect of this tax law change beginning in our second quarter of 2010, and consequently we recorded a one-time related tax charge of $41 million in the second quarter of 2010. We continue to evaluate the longer-term impacts of this new legislation.

Note 3 Restructuring, Impairment and Integration Charges

In 2010, we incurred merger and integration charges of $799 million related to our acquisitions of PBG and PAS, as well as advisory fees in connection with our acquisition of WBD. $467 million of these charges were recorded in the PAB segment, $111 million recorded in the Europe segment, $191 million recorded in corporate unallocated expenses and $30 million recorded in interest expense. All of these charges, other than the interest expense portion, were recorded in selling, general and administrative expenses. The merger and integration charges related to our acquisitions of PBG and PAS are being incurred to help create a more fully integrated supply chain and go-to-market business model, to improve the effectiveness and efficiency of the distribution of our brands and to enhance our revenue growth. These charges also include closing costs, one-time financing costs and advisory fees related to our acquisitions of PBG and PAS. In addition, we recorded $9 million of merger-related charges, representing our share of the respective merger costs of PBG and PAS, in bottling equity income. Substantially all cash payments related to the above charges are expected to be paid by the end of 2011. In total, these charges had an after-tax impact of $648 million or $0.40 per share.

In 2009, we incurred $50 million of charges related to the merger of PBG and PAS, of which substantially all was paid in 2009. In 2009, we also incurred charges of $36 million ($29 million after-tax or $0.02 per share) in conjunction with our Productivity for Growth program that began in 2008. The program includes actions in all divisions of the business, including the closure of six plants that we believe will increase cost competitiveness across the supply chain, upgrade and streamline our product portfolio, and simplify the organization for more effective and timely decision-making. These charges were recorded in selling, general and administrative expenses. These initiatives were completed in the second quarter of 2009 and substantially all cash payments related to these charges were paid by the end of 2010.

In 2008, we incurred charges of $543 million ($408 million after-tax or $0.25 per share) in conjunction with our Productivity for Growth program. Approximately $455 million of the charge was recorded in selling, general and administrative expenses, with the remainder recorded in cost of sales.

A summary of our merger and integration activity in 2010 is as follows:

	Severance and Other Employee Costs(a)	Asset Impairment	Other Costs	Total
2010 merger and integration charges	$ 396	$ 132	$ 280	$ 808
Cash payments	(114)	–	(271)	(385)
Non-cash charges	(103)	(132)	16	(219)
Liability as of December 25, 2010	$ 179	$ –	$ 25	$ 204

(a) Primarily reflects termination costs for approximately 2,370 employees.

A summary of our restructuring and impairment charges in 2009 is as follows:

	Severance and Other Employee Costs(a)	Other Costs	Total
FLNA	$ –	$ 2	$ 2
QFNA	–	1	1
LAF	3	–	3
PAB	6	10	16
Europe	1	–	1
AMEA	7	6	13
	$17	$19	$36

(a) Primarily reflects termination costs for approximately 410 employees.

A summary of our restructuring and impairment charges in 2008 is as follows:

	Severance and Other Employee Costs	Asset Impairment	Other Costs	Total
FLNA	$ 48	$ 38	$ 22	$108
QFNA	14	3	14	31
LAF	30	8	2	40
PAB	68	92	129	289
Europe	39	6	5	50
AMEA	11	2	2	15
Corporate	2	–	8	10
	$212	$149	$182	$543

Severance and other employee costs primarily reflect termination costs for approximately 3,500 employees. Asset impairments relate to the closure of six plants and changes to our beverage product portfolio. Other costs include contract exit costs and third-party incremental costs associated with upgrading our product portfolio and our supply chain.

A summary of our Productivity for Growth program activity is as follows:

	Severance and Other Employee Costs	Asset Impairment	Other Costs	Total
2008 restructuring and impairment charges	$ 212	$ 149	$ 182	$ 543
Cash payments	(50)	–	(109)	(159)
Non-cash charge	(27)	(149)	(9)	(185)
Currency translation	(1)	–	–	(1)
Liability as of December 27, 2008	134	–	64	198
2009 restructuring and impairment charges	17	12	7	36
Cash payments	(128)	–	(68)	(196)
Currency translation	(14)	(12)	25	(1)
Liability as of December 26, 2009	9	–	28	37
Cash payments	(6)	–	(25)	(31)
Non-cash charge	(2)	–	(1)	(3)
Currency translation	–	–	(1)	(1)
Liability as of December 25, 2010	$ 1	$ –	$ 1	$ 2

Note 4 Property, Plant and Equipment and Intangible Assets

	Average Useful Life	2010	2009	2008
Property, plant and equipment, net				
Land and improvements	10–34 yrs.	$ 1,976	$ 1,208	
Buildings and improvements	15–44 yrs.	7,054	5,080	
Machinery and equipment, including fleet and software	5–15 yrs.	22,091	17,183	
Construction in progress		1,920	1,441	
		33,041	24,912	
Accumulated depreciation		(13,983)	(12,241)	
		$ 19,058	$ 12,671	
Depreciation expense		$ 2,124	$ 1,500	$1,422
Amortizable intangible assets, net				
Acquired franchise rights	56–60 yrs.	$ 949	$ –	
Reacquired franchise rights	1–14 yrs.	110	–	
Brands	5–40 yrs.	1,463	1,465	
Other identifiable intangibles	10–24 yrs.	747	505	
		3,269	1,970	
Accumulated amortization		(1,244)	(1,129)	
		$ 2,025	$ 841	
Amortization expense		$ 117	$ 63	$ 64

Property, plant and equipment is recorded at historical cost. Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service. Amortization of intangible assets for each of the next five years, based on existing intangible assets as of December 25, 2010 and using average 2010 foreign exchange rates, is expected to be $121 million in 2011, $114 million in 2012, $106 million in 2013, $89 million in 2014 and $81 million in 2015.

Depreciable and amortizable assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need for revision. For additional unaudited information on our policies for amortizable brands, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Nonamortizable Intangible Assets

Perpetual brands and goodwill are assessed for impairment at least annually. If the carrying amount of a perpetual brand exceeds its fair value, as determined by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. No impairment charges resulted from these impairment evaluations. The change in the book value of nonamortizable intangible assets is as follows:

	Balance, Beginning 2009	Acquisitions	Translation and Other	Balance, End of 2009	Acquisitions	Translation and Other	Balance, End of 2010
FLNA							
Goodwill	$ 277	$ 6	$ 23	$ 306	$ –	$ 7	$ 313
Brands	–	26	4	30	–	1	31
	277	32	27	336	–	8	344
QFNA							
Goodwill	175	–	–	175	–	–	175
LAF							
Goodwill	424	17	38	479	–	18	497
Brands	127	1	8	136	–	7	143
	551	18	46	615	–	25	640
PAB[a]							
Goodwill	2,355	62	14	2,431	7,476	39	9,946
Reacquired franchise rights	–	–	–	–	7,229	54	7,283
Acquired franchise rights	–	–	–	–	660	905[b]	1,565
Brands	59	48	5	112	66	4	182
Other	–	–	–	–	10	–	10
	2,414	110	19	2,543	15,441	1,002	18,986
Europe[a]							
Goodwill	1,469	1,291	(136)	2,624	583	(168)	3,039
Reacquired franchise rights	–	–	–	–	810	(17)	793
Acquired franchise rights	–	–	–	–	232	(5)	227
Brands	844	572	(38)	1,378	88	(86)	1,380
	2,313	1,863	(174)	4,002	1,713	(276)	5,439
AMEA							
Goodwill	424	4	91	519	116	56	691
Brands	98	–	28	126	26	17	169
	522	4	119	645	142	73	860
Total goodwill	5,124	1,380	30	6,534	8,175	(48)	14,661
Total reacquired franchise rights	–	–	–	–	8,039	37	8,076
Total acquired franchise rights	–	–	–	–	892	900	1,792
Total brands	1,128	647	7	1,782	180	(57)	1,905
Total other	–	–	–	–	10	–	10
	$6,252	$2,027	$ 37	$8,316	$17,296	$ 832	$26,444

(a) Net increases in 2010 relate primarily to our acquisitions of PBG and PAS.
(b) Includes $900 million related to our upfront payment to DPSG to manufacture and distribute Dr Pepper and certain other DPSG products.

Note 5 Income Taxes

		2010	2009	2008
Income before income taxes				
U.S.		$4,008	$4,209	$3,274
Foreign		4,224	3,870	3,771
		$8,232	$8,079	$7,045
Provision for income taxes				
Current:	U.S. Federal	$ 932	$1,238	$ 815
	Foreign	728	473	732
	State	137	124	87
		1,797	1,835	1,634
Deferred:	U.S. Federal	78	223	313
	Foreign	18	21	(69)
	State	1	21	1
		97	265	245
		$1,894	$2,100	$1,879
Tax rate reconciliation				
U.S. Federal statutory tax rate		35.0%	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit		1.1	1.2	0.8
Lower taxes on foreign results		(9.4)	(7.9)	(8.0)
Acquisitions of PBG and PAS		(3.1)	–	–
Other, net		(0.6)	(2.3)	(1.1)
Annual tax rate		23.0%	26.0%	26.7%
Deferred tax liabilities				
Investments in noncontrolled affiliates		$ 74	$1,120	
Debt guarantee of wholly owned subsidiary		828	–	
Property, plant and equipment		1,984	1,056	
Intangible assets other than nondeductible goodwill		3,726	417	
Other		647	68	
Gross deferred tax liabilities		7,259	2,661	
Deferred tax assets				
Net carryforwards		1,264	624	
Stock-based compensation		455	410	
Retiree medical benefits		579	508	
Other employee-related benefits		527	442	
Pension benefits		291	179	
Deductible state tax and interest benefits		320	256	
Long-term debt obligations acquired		291	–	
Other		904	560	
Gross deferred tax assets		4,631	2,979	
Valuation allowances		(875)	(586)	
Deferred tax assets, net		3,756	2,393	
Net deferred tax liabilities		$3,503	$ 268	

	2010	2009	2008
Deferred taxes included within:			
Assets:			
Prepaid expenses and other current assets	$ 554	$391	
Other assets	–	–	
Liabilities:			
Deferred income taxes	$4,057	$659	
Analysis of valuation allowances			
Balance, beginning of year	$ 586	$657	$695
Provision/(Benefit)	75	(78)	(5)
Other additions/(deductions)	214	7	(33)
Balance, end of year	$ 875	$586	$657

For additional unaudited information on our income tax policies, including our reserves for income taxes, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reserves

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions and the related open tax audits are as follows:

- U.S. — continue to dispute one matter related to tax years 1998 through 2002. During 2010, all but three issues were resolved for tax years 2003 through 2005. These three issues are currently under review by the IRS Appeals Division. Our U.S. tax returns for the years 2006 through 2007 are currently under audit;
- Mexico — audits have been substantially completed for all taxable years through 2005;
- United Kingdom — audits have been completed for all taxable years prior to 2008; and
- Canada — domestic audits have been substantially completed for all taxable years through 2007. International audits have been completed for all taxable years through 2003.

While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution. For further unaudited information on the impact of the resolution of open tax issues, see "Other Consolidated Results."

As of December 25, 2010, the total gross amount of reserves for income taxes, reported in other liabilities, was $2,023 million. Any prospective adjustments to these reserves will be recorded as an increase or decrease to our provision for income taxes and would impact our effective tax rate. In addition, we accrue interest related to reserves for income taxes in our provision for income taxes and any associated penalties are recorded in selling, general and administrative expenses. The gross amount of interest accrued, reported in other liabilities, was $570 million as of December 25, 2010, of which $135 million was recognized in 2010. The gross amount of interest accrued was $461 million as of December 26, 2009, of which $30 million was recognized in 2009.

A rollforward of our reserves for all federal, state and foreign tax jurisdictions, is as follows:

	2010	2009
Balance, beginning of year	$1,731	$1,711
Additions for tax positions related to the current year	204	238
Additions for tax positions from prior years	517	79
Reductions for tax positions from prior years	(391)	(236)
Settlement payments	(30)	(64)
Statute of limitations expiration	(7)	(4)
Translation and other	(2)	7
Balance, end of year	$2,022[(a)]	$1,731

(a) Includes amounts related to our acquisitions of PBG and PAS.

Carryforwards and Allowances

Operating loss carryforwards totaling $9.1 billion at year-end 2010 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: $0.4 billion in 2011, $6.5 billion between 2012 and 2030 and $2.2 billion may be carried forward indefinitely. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Undistributed International Earnings

As of December 25, 2010, we had approximately $26.6 billion of undistributed international earnings. We intend to continue to reinvest earnings outside the U.S. for the foreseeable future and, therefore, have not recognized any U.S. tax expense on these earnings.

Note 6 Stock-Based Compensation

Our stock-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. Stock options and restricted stock units (RSU) are granted to employees under the shareholder-approved 2007 Long-Term Incentive Plan (LTIP), the only stock-based plan under which we currently grant stock options and RSUs. Stock-based compensation expense was $352 million in 2010, $227 million in 2009 and $238 million in 2008. In 2010, $299 million was recorded as stock-based compensation expense and $53 million was included in merger and integration charges. $86 million of the $352 million recorded in 2010 was related to the unvested acquisition-related grants described below. Income tax benefits related to stock-based compensation expense and recognized in earnings were $89 million in 2010, $67 million in 2009 and $71 million in 2008. At year-end 2010, 154 million shares were available for future stock-based compensation grants.

In connection with our acquisition of PBG, we issued 13.4 million stock options and 2.7 million RSUs at weighted-average grant prices of $42.89 and $62.30, respectively, to replace previously held PBG equity awards. In connection with our acquisition of PAS, we issued 0.4 million stock options at a weighted-average grant price of $31.72 to replace previously held PAS equity awards. Our equity issuances included 8.3 million stock options and 0.6 million RSUs which were vested at the acquisition date and were included in the purchase price. The remaining 5.5 million stock options and 2.1 million RSUs issued are unvested and are being amortized over their remaining vesting period, up to three years.

As a result of our annual benefits review in 2010, the Company approved certain changes to our benefits programs to remain market competitive relative to other leading global companies. These changes included ending the Company's broad-based SharePower stock option program. Consequently, beginning in 2011, no new awards will be granted under the SharePower program. Outstanding SharePower awards from 2010 and earlier will continue to vest and be exercisable according to the terms and conditions of the program. See Note 7 for additional information regarding other related changes.

Method of Accounting and Our Assumptions

We account for our employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and generally have a 10-year term. We do not backdate, reprice or grant stock-based compensation awards retroactively. Repricing of awards would require shareholder approval under the LTIP.

The fair value of stock option grants is amortized to expense over the vesting period, generally three years. Executives who are awarded long-term incentives based on their performance are generally offered the choice of stock options or RSUs. Executives who elect RSUs receive one RSU for every four stock options that would have otherwise been granted. Senior officers do not have a choice and are granted 50% stock options and 50% performance-based RSUs. Vesting of RSU awards for senior officers is contingent upon the achievement of pre-established performance targets approved by the Compensation Committee of the Board of Directors. RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Each RSU is settled in a share of our stock after the vesting period.

Our weighted-average Black-Scholes fair value assumptions are as follows:

	2010	2009	2008
Expected life	5 yrs.	6 yrs.	6 yrs.
Risk-free interest rate	2.3%	2.8%	3.0%
Expected volatility	17%	17%	16%
Expected dividend yield	2.8%	3.0%	1.9%

The expected life is the period over which our employee groups are expected to hold their options. It is based on our historical experience with similar grants. The risk-free interest rate is based on the expected U.S. Treasury rate over the expected life. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Dividend yield is estimated over the expected life based on our stated dividend policy and forecasts of net income, share repurchases and stock price.

A summary of our stock-based compensation activity for the year ended December 25, 2010 is presented below:

Our Stock Option Activity

	Options[(a)]	Average Price[(b)]	Average Life (years)[(c)]	Aggregate Intrinsic Value[(d)]
Outstanding at December 26, 2009	106,011	$51.68		
Granted	26,858	54.09		
Exercised	(23,940)	43.47		
Forfeited/expired	(2,726)	55.85		
Outstanding at December 25, 2010	106,203	$54.03	5.19	$1,281,596
Exercisable at December 25, 2010	67,304	$50.26	3.44	$1,040,510

(a) Options are in thousands and include options previously granted under PBG, PAS and Quaker plans. No additional options or shares may be granted under the PBG, PAS and Quaker plans.
(b) Weighted-average exercise price.
(c) Weighted-average contractual life remaining.
(d) In thousands.

Our RSU Activity

	RSUs[(a)]	Average Intrinsic Price[(b)]	Average Life (years)[(c)]	Aggregate Intrinsic Value[(d)]
Outstanding at December 26, 2009	6,092	$60.98		
Granted	8,326	65.01		
Converted	(3,183)	63.58		
Forfeited/expired	(573)	62.50		
Outstanding at December 25, 2010	10,662	$63.27	1.69	$700,397

(a) RSUs are in thousands and include RSUs previously granted under a PBG plan. No additional RSUs or shares may be granted under the PBG plan.
(b) Weighted-average intrinsic value at grant date.
(c) Weighted-average contractual life remaining.
(d) In thousands.

Other Stock-Based Compensation Data

	2010	2009	2008
Stock Options			
Weighted-average fair value of options granted	$ 13.93	$ 7.02	$ 11.24
Total intrinsic value of options exercised[(a)]	$502,354	$194,545	$410,152
RSUs			
Total number of RSUs granted[(a)]	8,326	2,653	2,135
Weighted-average intrinsic value of RSUs granted	$ 65.01	$ 53.22	$ 68.73
Total intrinsic value of RSUs converted[(a)]	$202,717	$124,193	$180,563

(a) In thousands.

As of December 25, 2010, there was $423 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation is expected to be recognized over a weighted-average period of two years.

Note 7 Pension, Retiree Medical and Savings Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts, which vary based upon years of service, with retirees contributing the remainder of the costs.

Gains and losses resulting from actual experience differing from our assumptions, including the difference between the actual return on plan assets and the expected return on plan assets, and from changes in our assumptions are also determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of the market-related value of plan assets or plan liabilities, a portion of the net gain or loss is included in expense for the following year based upon the average remaining service period of active plan participants, which is approximately 11 years for pension expense and approximately eight years for retiree medical expense. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in earnings on a straight-line basis over the average remaining service period of active plan participants.

In connection with our acquisitions of PBG and PAS, we assumed sponsorship of pension and retiree medical plans that provide benefits to U.S. and certain international employees. Subsequently, during the third quarter of 2010, we merged the pension plan assets of the legacy PBG and PAS U.S. pension plans with those of PepsiCo into one master trust.

During 2010, the Compensation Committee of PepsiCo's Board of Directors approved certain changes to the U.S. pension and retiree medical plans, effective January 1, 2011. Pension plan design changes include implementing a new employer contribution to the 401(k) savings plan for all future salaried new hires of the Company, as salaried new hires are no longer eligible to participate in the defined benefit pension plan, as well as implementing a new defined benefit pension formula for certain hourly new hires of the Company. Pension plan design changes also include implementing a new employer contribution to the 401(k) savings plan for certain legacy PBG and PAS salaried employees (as such employees are also not eligible to participate in the defined benefit pension plan), as well as implementing a new defined benefit pension formula for certain legacy PBG and PAS hourly employees. The retiree medical plan design change includes phasing out Company subsidies of retiree medical benefits.

As a result of these changes, we remeasured our pension and retiree medical expenses and liabilities in the third quarter of 2010, which resulted in a one-time pre-tax curtailment gain of $62 million included in retiree medical expense.

The provisions of both the PPACA and the Health Care and Education Reconciliation Act are reflected in our retiree medical expenses and liabilities and were not material to our financial statements.

Selected financial information for our pension and retiree medical plans is as follows:

	Pension				Retiree Medical	
	2010	2009	2010	2009	2010	2009
	U.S.		*International*			
Change in projected benefit liability						
Liability at beginning of year	$6,606	$ 6,217	$1,709	$1,270	$ 1,359	$ 1,370
Acquisitions	2,161	–	90	–	396	–
Service cost	299	238	81	54	54	44
Interest cost	506	373	106	82	93	82
Plan amendments	28	–	–	–	(132)	–
Participant contributions	–	–	3	10	–	–
Experience loss/(gain)	583	70	213	221	95	(63)
Benefit payments	(375)	(296)	(69)	(50)	(100)	(80)
Settlement/curtailment gain	(2)	–	(3)	(8)	–	–
Special termination benefits	45	–	3	–	3	–
Foreign currency adjustment	–	–	(18)	130	2	6
Other	–	4	27	–	–	–
Liability at end of year	$9,851	$ 6,606	$2,142	$1,709	$ 1,770	$ 1,359
Change in fair value of plan assets						
Fair value at beginning of year	$5,420	$ 3,974	$1,561	$1,165	$ 13	$ –
Acquisitions	1,633	–	52	–	–	–
Actual return on plan assets	943	697	164	159	7	2
Employer contributions/funding	1,249	1,041	215	167	270	91
Participant contributions	–	–	3	10	–	–
Benefit payments	(375)	(296)	(69)	(50)	(100)	(80)
Settlement	–	–	(2)	(8)	–	–
Foreign currency adjustment	–	–	(28)	118	–	–
Other	–	4	–	–	–	–
Fair value at end of year	$8,870	$ 5,420	$1,896	$1,561	$ 190	$ 13
Funded status	$ (981)	$(1,186)	$ (246)	$ (148)	$(1,580)	$(1,346)

	Pension				Retiree Medical	
	2010	2009	2010	2009	2010	2009
	U.S.		International			
Amounts recognized						
Other assets	$ 47	$ –	$ 66	$ 50	$ –	$ –
Other current liabilities	(54)	(36)	(10)	(1)	(145)	(105)
Other liabilities	(974)	(1,150)	(302)	(197)	(1,435)	(1,241)
Net amount recognized	$ (981)	$(1,186)	$ (246)	$ (148)	$(1,580)	$(1,346)
Amounts included in accumulated other comprehensive loss (pre-tax)						
Net loss	$2,726	$ 2,563	$ 767	$ 625	$ 270	$ 190
Prior service cost/(credit)	117	101	17	20	(150)	(102)
Total	$2,843	$ 2,664	$ 784	$ 645	$ 120	$ 88
Components of the increase/(decrease) in net loss						
Change in discount rate	$ 556	$ 47	$ 213	$ 97	$ 101	$ 11
Employee-related assumption changes	4	–	(4)	70	8	(38)
Liability-related experience different from assumptions	43	23	5	51	(22)	(36)
Actual asset return different from expected return	(300)	(235)	(41)	(54)	(6)	(2)
Amortization of losses	(119)	(111)	(24)	(9)	(9)	(11)
Other, including foreign currency adjustments	(21)	13	(7)	49	8	–
Total	$ 163	$ (263)	$ 142	$ 204	$ 80	$ (76)
Liability at end of year for service to date	$9,163	$ 5,784	$1,743	$1,414		

The components of benefit expense are as follows:

	Pension						Retiree Medical		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
	U.S.			International					
Components of benefit expense									
Service cost	$ 299	$ 238	$ 244	$ 81	$ 54	$ 61	$ 54	$ 44	$ 45
Interest cost	506	373	371	106	82	88	93	82	82
Expected return on plan assets	(643)	(462)	(416)	(123)	(105)	(112)	(1)	–	–
Amortization of prior service cost/(credit)	12	12	19	2	2	3	(22)	(17)	(13)
Amortization of net loss	119	110	55	24	9	19	9	11	7
	293	271	273	90	42	59	133	120	121
Settlement/curtailment (gain)/loss	(2)	(13)	3	1	3	3	(62)	–	–
Special termination benefits	45	–	31	3	–	2	3	–	3
Total	$ 336	$ 258	$ 307	$ 94	$ 45	$ 64	$ 74	$120	$124

The estimated amounts to be amortized from accumulated other comprehensive loss into benefit expense in 2011 for our pension and retiree medical plans are as follows:

	Pension		Retiree Medical
	U.S.	International	
Net loss	$144	$39	$ 12
Prior service cost/(credit)	15	2	(28)
Total	$159	$41	$(16)

The following table provides the weighted-average assumptions used to determine projected benefit liability and benefit expense for our pension and retiree medical plans:

	Pension						Retiree Medical		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
		U.S.			*International*				
Weighted-average assumptions									
Liability discount rate	5.7%	6.1%	6.2%	5.5%	5.9%	6.3%	5.2%	6.1%	6.2%
Expense discount rate	6.0%	6.2%	6.5%	6.0%	6.3%	5.6%	5.8%	6.2%	6.5%
Expected return on plan assets	7.8%	7.8%	7.8%	7.1%	7.1%	7.2%	7.8%		
Liability rate of salary increases	4.1%	4.4%	4.4%	4.1%	4.1%	4.1%			
Expense rate of salary increases	4.4%	4.4%	4.6%	4.1%	4.2%	3.9%			

The following table provides selected information about plans with liability for service to date and total benefit liability in excess of plan assets:

	Pension				Retiree Medical	
	2010	2009	2010	2009	2010	2009
	U.S.		*International*			
Selected information for plans with liability for service to date in excess of plan assets						
Liability for service to date	$ (525)	$(2,695)	$ (610)	$ (342)		
Fair value of plan assets	$ –	$ 2,220	$ 474	$ 309		
Selected information for plans with projected benefit liability in excess of plan assets						
Benefit liability	$(5,806)	$(6,603)	$(1,949)	$(1,566)	$(1,770)	$(1,359)
Fair value of plan assets	$ 4,778	$ 5,417	$ 1,638	$ 1,368	$ 190	$ 13

Of the total projected pension benefit liability at year-end 2010, $747 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.

Future Benefit Payments and Funding

Our estimated future benefit payments are as follows:

	2011	2012	2013	2014	2015	2016–20
Pension	$480	$500	$520	$560	$595	$3,770
Retiree medical[(a)]	$155	$155	$160	$165	$170	$ 875

(a) Expected future benefit payments for our retiree medical plans do not reflect any estimated subsidies expected to be received under the 2003 Medicare Act. Subsidies are expected to be approximately $11 million for each of the years from 2011 through 2015 and approximately $90 million in total for 2016 through 2020.

These future benefits to beneficiaries include payments from both funded and unfunded pension plans.

In 2011, we expect to make pension contributions of approximately $160 million, with up to approximately $15 million expected to be discretionary. Our net cash payments for retiree medical are estimated to be approximately $145 million in 2011.

Plan Assets

Pension

Our pension plan investment strategy includes the use of actively managed securities and is reviewed annually based upon plan liabilities, an evaluation of market conditions, tolerance for risk and cash requirements for benefit payments. Our investment objective is to ensure that funds are available to meet the plans' benefit obligations when they become due. Our overall investment strategy is to prudently invest plan assets in a well-diversified portfolio of equity and high-quality debt securities to achieve our long-term return expectations. Our investment policy also permits the use of derivative instruments which are primarily used to reduce risk. Our expected long-term rate of return on U.S. plan assets is 7.8%. Our target investment allocation is 40% for U.S. equity allocations, 20% for international equity allocations and 40% for fixed income allocations. Actual investment allocations may vary from our target investment allocations due to prevailing market conditions. We regularly review our actual investment allocations and periodically rebalance our investments to our target allocations. In an effort to enhance diversification, the pension plan divested its holdings of PepsiCo stock in the fourth quarter of 2010.

The expected return on pension plan assets is based on our pension plan investment strategy, our expectations for long-term rates of return by asset class, taking into account volatilities and correlation among asset classes, and our historical experience. We also review current levels of interest rates and inflation to assess the reasonableness of the long-term rates. We evaluate our expected return assumptions annually to ensure that they are reasonable. To calculate the expected return on pension plan assets, we use a market-related valuation method that recognizes investment gains or losses (the difference between the expected and actual return based on the market-related value of assets) for securities included in our equity strategies over a five-year period. This has the effect of reducing year-to-year volatility. For all other asset categories, the actual fair value is used for the market-related value of assets.

Retiree Medical

In 2010, we made nondiscretionary contributions of $100 million to fund the payment of U.S. retiree medical claims. During the fourth quarter of 2010, we made a discretionary contribution of $170 million to fund future U.S. retiree medical plan benefits. This contribution was invested consistent with the allocation of existing assets in the U.S. pension plan.

Fair Value

The guidance on fair value measurements defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

Plan assets measured at fair value as of fiscal year-end 2010 and 2009 are categorized consistently by level in both years, and are as follows:

	2010*				2009
	Total	Level 1	Level 2	Level 3	Total
U.S. plan assets					
Equity securities:					
PepsiCo common stock[(a)]	$ –	$ –	$ –	$ –	$ 332
U.S. common stock[(a)]	304	304	–	–	229
U.S. commingled funds[(b)]	3,426	–	3,426	–	1,387
International common stock[(a)]	834	834	–	–	700
International commingled fund[(c)]	992	–	992	–	114
Preferred stock[(d)]	4	–	4	–	4
Fixed income securities:					
Government securities[(d)]	950	–	950	–	741
Corporate bonds[(d)]	2,374	–	2,374	–	1,214
Mortgage-backed securities[(d)]	20	–	20	–	201
Other:					
Contracts with insurance companies[(f)]	28	–	–	28	9
Cash and cash equivalents	81	81	–	–	457
Subtotal U.S. plan assets	9,013	$1,219	$7,766	$28	5,388
Dividends and interest receivable	47				32
Total U.S. plan assets	$9,060				$5,420
International plan assets					
Equity securities:					
U.S. commingled funds[(b)]	$ 193	$ –	$ 193	$ –	$ 180
International commingled funds[(c)]	779	–	779	–	661
Fixed income securities:					
Government securities[(d)]	184	–	184	–	139
Corporate bonds[(d)]	152	–	152	–	128
Fixed income commingled funds[(e)]	393	–	393	–	363
Other:					
Contracts with insurance companies[(f)]	28	–	–	28	29
Currency commingled funds[(g)]	42	–	42	–	44
Cash and cash equivalents	120	120	–	–	17
Subtotal international plan assets	1,891	$ 120	$1,743	$28	1,561
Dividends and interest receivable	5				–
Total international plan assets	$1,896				$1,561

(a) Based on quoted market prices in active markets.
(b) Based on the fair value of the investments owned by these funds that track various U.S. large, mid-cap and small company indices. Includes one large-cap fund that represents 32% and 25%, respectively, of total U.S. plan assets for 2010 and 2009.
(c) Based on the fair value of the investments owned by these funds that track various non-U.S. equity indices.
(d) Based on quoted bid prices for comparable securities in the marketplace and broker/dealer quotes that are not observable. Corporate bonds of U.S.-based companies represent 22% and 18%, respectively, of total U.S. plan assets for 2010 and 2009.
(e) Based on the fair value of the investments owned by these funds that track various government and corporate bond indices.
(f) Based on the fair value of the contracts as determined by the insurance companies using inputs that are not observable.
(g) Based on the fair value of the investments owned by these funds. Includes managed hedge funds that invest primarily in derivatives to reduce currency exposure.
* 2010 amounts include $190 million of retiree medical plan assets that are restricted for purposes of providing health benefits for U.S. retirees and their beneficiaries.

Retiree Medical Cost Trend Rates

An average increase of 7% in the cost of covered retiree medical benefits is assumed for 2011. This average increase is then projected to decline gradually to 5% in 2020 and thereafter. These assumed health care cost trend rates have an impact on the retiree medical plan expense and liability. However, the cap on our share of retiree medical costs limits the impact. In addition, beginning January 1, 2011, the Company will start phasing out company subsidies of retiree medical benefits. A 1-percentage-point change in the assumed health care trend rate would have the following effects:

	1% Increase	1% Decrease
2010 service and interest cost components	$ 5	$ (4)
2010 benefit liability	$42	$(50)

Savings Plan

Our U.S. employees are eligible to participate in 401(k) savings plans, which are voluntary defined contribution plans. The plans are designed to help employees accumulate additional savings for retirement, and we make company matching contributions on a portion of eligible pay based on years of service. In 2010, in connection with our acquisitions of PBG and PAS, we also made company retirement contributions for certain employees on a portion of eligible pay based on years of service. In 2010 and 2009, our total contributions were $135 million and $72 million, respectively.

Beginning January 1, 2011, a new employer contribution to the 401(k) savings plan will become effective for certain eligible legacy PBG and PAS salaried employees as well as all future eligible salaried new hires of PepsiCo who are not eligible to participate in the defined benefit pension plan as a result of plan design changes approved during 2010.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Note 8 Noncontrolled Bottling Affiliates

On February 26, 2010, we completed our acquisitions of PBG and PAS, at which time we gained control over their operations and began to consolidate their results. See Note 1. Prior to these acquisitions, PBG and PAS represented our most significant noncontrolled bottling affiliates. Sales to PBG in 2010 (prior to the acquisition date) represented less than 1% of our total net revenue in 2010, 6% of our total net revenue in 2009 and 7% of our total net revenue in 2008.

See Note 15 for additional information regarding our acquisitions of PBG and PAS.

The Pepsi Bottling Group

In addition to approximately 32% of PBG's outstanding common stock that we owned at year-end 2009, we owned 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary.

PBG's summarized financial information is as follows:

	2009	2008
Current assets	$ 3,412	
Noncurrent assets	10,158	
Total assets	$13,570	
Current liabilities	$ 1,965	
Noncurrent liabilities	7,896	
Total liabilities	$ 9,861	
Our investment	$ 1,775	
Net revenue	$13,219	$13,796
Gross profit	$ 5,840	$ 6,210
Operating income	$ 1,048	$ 649
Net income attributable to PBG	$ 612	$ 162

Our investment in PBG, which included the related goodwill, was $463 million higher than our ownership interest in their net assets less noncontrolling interests at year-end 2009.

During 2008, together with PBG, we jointly acquired Russia's leading branded juice company, Lebedyansky. See Note 14 for further information on this acquisition.

PepsiAmericas

At year-end 2009, we owned approximately 43% of the outstanding common stock of PAS.

PAS's summarized financial information is as follows:

	2009	2008
Current assets	$ 952	
Noncurrent assets	4,141	
Total assets	$5,093	
Current liabilities	$ 669	
Noncurrent liabilities	2,493	
Total liabilities	$3,162	
Our investment	$1,071	
Net revenue	$4,421	$4,937
Gross profit	$1,767	$1,982
Operating income	$ 381	$ 473
Net income attributable to PAS	$ 181	$ 226

Our investment in PAS, which included the related goodwill, was $322 million higher than our ownership interest in their net assets less noncontrolling interests at year-end 2009.

Related Party Transactions

Our significant related party transactions are with our noncontrolled bottling affiliates, including PBG and PAS prior to our acquisitions on February 26, 2010. All such amounts are settled on terms consistent with other trade receivables and payables. The transactions primarily consist of (1) selling concentrate to these affiliates, which they use in the production of CSDs and non-carbonated beverages, (2) selling certain finished goods to these affiliates, (3) receiving royalties for the use of our trademarks for certain products and (4) paying these affiliates to act as our manufacturing and distribution agent for product associated with our national account fountain customers. Sales of concentrate and finished goods are reported net of bottler funding. For further unaudited information on these bottlers, see "Our Customers" in Management's Discussion and Analysis of Financial Condition and Results of Operations. These transactions with our bottling affiliates are reflected in our consolidated financial statements as follows:

	2010[(a)]	2009	2008
Net revenue	$993	$3,922	$4,049
Cost of sales	$116	$ 634	$ 660
Selling, general and administrative expenses	$ 6	$ 24	$ 30
Accounts and notes receivable	$ 27	$ 254	$ 248
Accounts payable and other liabilities	$ 42	$ 285	$ 198

(a) Includes transactions with PBG and PAS in 2010 prior to the date of acquisition. 2010 balance sheet information for PBG and PAS is not applicable as we consolidated their balance sheets at the date of acquisition.

We also coordinate, on an aggregate basis, the contract negotiations of sweeteners and other raw material requirements, including aluminum cans and plastic bottles and closures for certain of our independent bottlers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, these transactions are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our bottlers, but we consider this exposure to be remote.

In addition, our joint ventures with Unilever (under the Lipton brand name) and Starbucks sell finished goods (ready-to-drink teas, coffees and water products) to our noncontrolled bottling affiliates. Consistent with accounting for equity method investments, our joint venture revenue is not included in our consolidated net revenue and therefore is not included in the above table.

In 2010, we repurchased $357 million (5.5 million shares) of PepsiCo stock from the Master Trust which holds assets of PepsiCo's U.S. qualified pension plans at market value. See Note 7.

Note 9 Debt Obligations and Commitments

	2010	2009
Short-term debt obligations		
Current maturities of long-term debt	$ 113	$ 102
Commercial paper (0.2%)	2,632	–
Notes due 2011 (4.4%)	1,513	–
Other borrowings (5.3% and 6.7%)	640	362
	$ 4,898	$ 464
Long-term debt obligations		
Notes due 2012 (3.1% and 1.9%)	$ 2,437	$1,079
Notes due 2013 (3.0% and 3.7%)	2,110	999
Notes due 2014 (5.3% and 4.0%)	2,888	1,026
Notes due 2015 (2.6%)	1,617	–
Notes due 2016–2040 (4.9% and 5.4%)	10,828	4,056
Zero coupon notes, due 2011–2012 (13.3%)	136	192
Other, due 2011–2019 (4.8% and 8.4%)	96	150
	20,112	7,502
Less: current maturities of long-term debt obligations	(113)	(102)
	$19,999	$7,400

The interest rates in the above table reflect weighted-average rates at year-end.

In the first quarter of 2010, we issued $1.25 billion of floating rate notes maturing in 2011 which bear interest at a rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 3 basis points, $1.0 billion of 3.10% senior notes maturing in 2015, $1.0 billion of 4.50% senior notes maturing in 2020 and $1.0 billion of 5.50% senior notes maturing in 2040. A portion of the net proceeds from the issuance of these notes was used to finance our acquisitions of PBG and PAS and the remainder was used for general corporate purposes.

On February 26, 2010, in connection with the transactions contemplated by the PBG merger agreement, Pepsi-Cola Metropolitan Bottling Company, Inc. (Metro) assumed the due and punctual payment of the principal of (and premium, if any) and interest on PBG's 7.00% senior notes due March 1, 2029 ($1 billion principal amount of which are outstanding). These notes are guaranteed by Bottling Group, LLC and PepsiCo.

On February 26, 2010, in connection with the transactions contemplated by the PAS merger agreement, Metro assumed the due and punctual payment of the principal of (and premium, if any) and interest on PAS's 7.625% notes due 2015 ($9 million principal amount of which are outstanding), 7.29% notes due 2026 ($100 million principal amount of which are outstanding), 7.44% notes due 2026 ($25 million principal amount of which are outstanding), 4.50% notes due 2013 ($150 million principal amount of which are outstanding), 5.625% notes due 2011 ($250 million principal amount of which are outstanding), 5.75% notes due 2012 ($300 million principal amount of which are outstanding), 4.375% notes due 2014 ($350 million principal amount of which are outstanding), 4.875% notes due 2015 ($300 million principal amount of which are outstanding), 5.00% notes due 2017 ($250 million principal amount of which are outstanding) and 5.50% notes due 2035 ($250 million principal amount of which are outstanding). These notes are guaranteed by PepsiCo.

On February 26, 2010, as a result of the transactions contemplated by the PBG merger agreement, Bottling Group, LLC became a wholly owned subsidiary of Metro. Bottling Group, LLC's 4.625% senior notes due 2012 ($1 billion principal amount of which are outstanding), 4.125% senior notes due 2015 ($250 million principal amount of which are outstanding), 5.00% senior notes due 2013 ($400 million principal amount of which are outstanding), 5.50% senior notes due 2016 ($800 million principal amount of which are outstanding), 6.95% senior notes due 2014 ($1.3 billion principal amount of which are outstanding) and 5.125% senior notes due 2019 ($750 million principal amount of which are outstanding) are guaranteed by PepsiCo.

As of December 25, 2010, the long-term debt acquired from our anchor bottlers (including debt previously issued by PBG, Bottling Group, LLC and PAS) in connection with our acquisitions of PBG and PAS has a total face value of approximately $7,484 million (fair value of $8,472 million) with a weighted-average stated interest rate of 5.7%. This acquired debt has a remaining weighted-average maturity of 6.6 years. See Note 15.

In the third quarter of 2010, we entered into a $2,575 million 364-day unsecured revolving credit agreement which expires in June 2011. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than June 2012. This agreement replaced our $1,975 million 364-day unsecured revolving credit agreement and a $540 million amended PAS credit facility and is in addition to our existing $2,000 million unsecured revolving credit agreement and the $1,080 million amended PBG credit facility, both of which expire in 2012. Funds borrowed under these agreements may be used for general corporate purposes, including but not limited to repayment of our outstanding commercial paper, working capital, capital investments and/or acquisitions. Borrowings under the amended PBG credit facility are guaranteed by PepsiCo. Our lines of credit remain unused as of December 25, 2010.

In the fourth quarter of 2010, we paid $672 million in a cash tender offer to repurchase $500 million (aggregate principal amount) of our 7.90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a $178 million charge to interest expense, primarily representing the premium paid in the tender offer.

In the fourth quarter of 2010, we issued $500 million of 0.875% senior unsecured notes maturing in 2013, $1.0 billion of 3.125% senior unsecured notes maturing in 2020 and $750 million of 4.875% senior unsecured notes maturing in 2040. A portion of the net proceeds from the issuance of these notes was used to finance the debt repurchase and the remainder was used for general corporate purposes.

In addition, as of December 25, 2010, $657 million of our debt related to borrowings from various lines of credit that are maintained for our international divisions. These lines of credit are subject to normal banking terms and conditions and are fully committed at least to the extent of our borrowings.

Long-Term Contractual Commitments[a]

		Payments Due by Period			
	Total	2011	2012–2013	2014–2015	2016 and beyond
Long-term debt obligations[b]	$19,337	$ –	$4,569	$4,322	$10,446
Interest on debt obligations[c]	7,746	809	1,480	1,075	4,382
Operating leases	1,676	390	543	320	423
Purchasing commitments	2,433	765	1,159	481	28
Marketing commitments	824	294	268	151	111
	$32,016	$2,258	$8,019	$6,349	$15,390

(a) Reflects non-cancelable commitments as of December 25, 2010 based on year-end foreign exchange rates and excludes any reserves for uncertain tax positions as we are unable to reasonably predict the ultimate amount or timing of settlement.
(b) Excludes $662 million related to the fair value step-up of debt acquired in connection with our acquisitions of PBG and PAS, as well as $113 million related to current maturities of long-term debt.
(c) Interest payments on floating-rate debt are estimated using interest rates effective as of December 25, 2010.

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Non-cancelable operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for packaging materials, oranges and orange juice. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding to independent bottlers is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. Accrued liabilities for pension and retiree medical plans are not reflected in our long-term contractual commitments because they do not represent expected future cash outflows. See Note 7 for additional information regarding our pension and retiree medical obligations.

Off-Balance-Sheet Arrangements

It is not our business practice to enter into off-balance-sheet arrangements, other than in the normal course of business. See Note 8 regarding contracts related to certain of our bottlers.

See "Our Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our borrowings.

Note 10 Financial Instruments

We are exposed to market risks arising from adverse changes in:
- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange risks, and
- interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity, foreign exchange or interest risks are classified as operating activities. See "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.

For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within common shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. Ineffectiveness of our hedges is not material. If the derivative instrument is terminated, we continue to defer the related gain or loss and then include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss in net income immediately.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk and generally settle with these financial institutions on a net basis.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivatives. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for natural gas, diesel fuel and aluminum. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net gains of $12 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $590 million as of December 25, 2010 and $151 million as of December 26, 2009. These contracts resulted in net unrealized gains of $46 million as of December 25, 2010 and net unrealized losses of $29 million as of December 26, 2009.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $266 million as of December 25, 2010 and $231 million as of December 26, 2009. These contracts resulted in net gains of $26 million in 2010 and net losses of $57 million in 2009.

Foreign Exchange

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within common shareholders' equity as currency translation adjustment.

Our operations outside of the U.S. generate over 45% of our net revenue, with Mexico, Canada, Russia and the United Kingdom comprising approximately 20% of our net revenue. As a result, we are exposed to foreign currency risks. We also enter into derivatives, primarily forward contracts with terms of no more than two years, to manage our exposure to foreign currency transaction risk. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.

Our foreign currency derivatives had a total face value of $1.7 billion as of December 25, 2010 and $1.2 billion as of December 26, 2009. The contracts that qualify for hedge accounting resulted in net unrealized losses of $15 million as of December 25, 2010 and $20 million as of December 26, 2009. During the next 12 months, we expect to reclassify net losses of $14 million related to these hedges from accumulated other comprehensive loss into net income. The contracts that do not qualify for hedge accounting resulted in net losses of $6 million in 2010 and a net gain of $1 million in 2009. All losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross-currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Certain of our fixed rate indebtedness has been swapped to floating rates. The notional amount, interest payment and maturity date of the interest rate and cross-currency swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.

The notional amounts of the interest rate derivative instruments outstanding as of December 25, 2010 and December 26, 2009 were $9.23 billion and $5.75 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. We classify both the earnings and cash flow impact from these interest rate derivative instruments consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net losses of $13 million related to these hedges from accumulated other comprehensive loss into net income.

As of December 25, 2010, approximately 43% of total debt (including indebtedness acquired in our acquisitions of PBG and PAS), after the impact of the related interest rate derivative instruments, was exposed to variable rates compared to 57% as of December 26, 2009.

Fair Value Measurements

The fair values of our financial assets and liabilities as of December 25, 2010 and December 26, 2009 are categorized as follows:

	2010		2009	
	Assets[a]	Liabilities[a]	Assets[a]	Liabilities[a]
Available-for-sale securities[b]	$ 636	$ –	$ 71	$ –
Short-term investments — index funds[c]	$ 167	$ –	$120	$ –
Deferred compensation[d]	$ –	$559	$ –	$461
Derivatives designated as hedging instruments:				
Forward exchange contracts[e]	$ 8	$ 23	$ 11	$ 31
Interest rate derivatives[f]	284	12	177	43
Commodity contracts — other[g]	70	2	8	5
Commodity contracts — futures[h]	1	23	–	32
	$ 363	$ 60	$196	$111
Derivatives not designated as hedging instruments:				
Forward exchange contracts[e]	$ 1	$ 7	$ 4	$ 2
Interest rate derivatives[f]	6	45	–	–
Commodity contracts — other[g]	28	1	7	60
Commodity contracts — futures[h]	–	1	–	3
Prepaid forward contracts[i]	48	–	46	–
	$ 83	$ 54	$ 57	$ 65
Total derivatives at fair value	$ 446	$114	$253	$176
Total	$1,249	$673	$444	$637

(a) Financial assets are classified on our balance sheet within other assets, with the exception of short-term investments. Financial liabilities are classified on our balance sheet within other current liabilities and other liabilities. Unless specifically indicated, all financial assets and liabilities are categorized as Level 2 assets or liabilities.
(b) Based on the price of common stock. Categorized as a Level 1 asset.
(c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability. Categorized as a Level 1 asset.
(d) Based on the fair value of investments corresponding to employees' investment elections. At December 25, 2010 and December 26, 2009, $170 million and $121 million, respectively, are categorized as Level 1 liabilities. The remaining balances are categorized as Level 2 liabilities.
(e) Based on observable market transactions of spot and forward rates.
(f) Based on LIBOR and recently reported transactions in the marketplace.
(g) Based on recently reported transactions in the marketplace, primarily swap arrangements.
(h) Based on average prices on futures exchanges. Categorized as a Level 1 asset or liability.
(i) Based primarily on the price of our common stock.

The effective portion of the pre-tax (gains)/losses on our derivative instruments are categorized in the tables below.

	Fair Value/Non-designated Hedges		Cash Flow Hedges			
	Losses/(Gains) Recognized in Income Statement[a]		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement[b]	
	2010	2009	2010	2009	2010	2009
Forward exchange contracts	$ 6	$ (29)	$ 26	$ 75	$40	$(64)
Interest rate derivatives	(104)	206	75	32	7	–
Prepaid forward contracts	(4)	(5)	–	–	–	–
Commodity contracts	(30)	(274)	(32)	(1)	28	90
Total	$(132)	$(102)	$ 69	$106	$75	$ 26

(a) Interest rate gains/losses are included in interest expense in our income statement. All other gains/losses are included in corporate unallocated expenses.
(b) Interest rate losses are included in interest expense in our income statement. All other gains/losses are included in cost of sales in our income statement.

The carrying amounts of our cash and cash equivalents and short-term investments approximate fair value due to the short-term maturity. Short-term investments consist principally of short-term time deposits and index funds used to manage a portion of market risk arising from our deferred compensation liability. The fair value of our debt obligations as of December 25, 2010 and December 26, 2009 was $25.9 billion and $8.6 billion, respectively, based upon prices of similar instruments in the marketplace.

The above table excludes guarantees. See Note 9 for additional information on our guarantees.

Note 11 Net Income Attributable to PepsiCo per Common Share

Basic net income attributable to PepsiCo per common share is net income available for PepsiCo common shareholders divided by the weighted average of common shares outstanding during the period. Diluted net income attributable to PepsiCo per common share is calculated using the weighted average of common shares outstanding adjusted to include the effect that would occur if in-the-money employee stock options were exercised and RSUs and preferred shares were converted into common shares. Options to purchase 24.4 million shares in 2010, 39.0 million shares in 2009 and 9.8 million shares in 2008 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. Out-of-the-money options had average exercise prices of $67.26 in 2010, $61.52 in 2009 and $67.59 in 2008.

The computations of basic and diluted net income attributable to PepsiCo per common share are as follows:

	2010		2009		2008	
	Income	Shares[a]	Income	Shares[a]	Income	Shares[a]
Net income attributable to PepsiCo	$6,320		$5,946		$5,142	
Preferred shares:						
Dividends	(1)		(1)		(2)	
Redemption premium	(5)		(5)		(6)	
Net income available for PepsiCo common shareholders	$6,314	1,590	$5,940	1,558	$5,134	1,573
Basic net income attributable to PepsiCo per common share	$ 3.97		$ 3.81		$ 3.26	
Net income available for PepsiCo common shareholders	$6,314	1,590	$5,940	1,558	$5,134	1,573
Dilutive securities:						
Stock options and RSUs	–	23	–	17	–	27
ESOP convertible preferred stock	6	1	6	2	8	2
Diluted	$6,320	1,614	$5,946	1,577	$5,142	1,602
Diluted net income attributable to PepsiCo per common share	$ 3.91		$ 3.77		$ 3.21	

(a) Weighted-average common shares outstanding (in millions).

Note 12 Preferred Stock

As of December 25, 2010 and December 26, 2009, there were 3 million shares of convertible preferred stock authorized. The preferred stock was issued for an ESOP established by Quaker and these shares are redeemable for common stock by the ESOP participants. The preferred stock accrues dividends at an annual rate of $5.46 per share. At year-end 2010 and 2009, there were 803,953 preferred shares issued and 227,653 and 243,553 shares outstanding, respectively. The outstanding preferred shares had a fair value of $74 million as of December 25, 2010 and $73 million as of December 26, 2009. Each share is convertible at the option of the holder into 4.9625 shares of common stock. The preferred shares may be called by us upon written notice at $78 per share plus accrued and unpaid dividends. Quaker made the final award to its ESOP plan in June 2001.

	2010		2009		2008	
	Shares[a]	Amount	Shares[a]	Amount	Shares[a]	Amount
Preferred stock	0.8	$ 41	0.8	$ 41	0.8	$ 41
Repurchased preferred stock						
Balance, beginning of year	0.6	$145	0.5	$138	0.5	$132
Redemptions	–	5	0.1	7	–	6
Balance, end of year	0.6	$150	0.6	$145	0.5	$138

(a) In millions.

Note 13 Accumulated Other Comprehensive Loss Attributable to PepsiCo

Comprehensive income is a measure of income which includes both net income and other comprehensive income or loss. Other comprehensive income or loss results from items deferred from recognition into our income statement. Accumulated other comprehensive loss is separately presented on our balance sheet as part of common shareholders' equity. Other comprehensive income/(loss) attributable to PepsiCo was $164 million in 2010, $900 million in 2009 and $(3,793) million in 2008. The accumulated balances for each component of other comprehensive loss attributable to PepsiCo were as follows:

	2010	2009	2008
Currency translation adjustment	$(1,159)	$(1,471)	$(2,271)
Cash flow hedges, net of tax[(a)]	(100)	(42)	(14)
Unamortized pension and retiree medical, net of tax[(b)]	(2,442)	(2,328)	(2,435)
Unrealized gain on securities, net of tax	70	47	28
Other	1	–	(2)
Accumulated other comprehensive loss attributable to PepsiCo	$(3,630)	$(3,794)	$(4,694)

(a) Includes $23 million after-tax gain in 2009 and $17 million after-tax loss in 2008 for our share of our equity investees' accumulated derivative activity.
(b) Net of taxes of $1,322 million in 2010, $1,211 million in 2009 and $1,288 million in 2008. Includes $51 million decrease to the opening balance of accumulated other comprehensive loss attributable to PepsiCo in 2008 due to a change in measurement date for our pension and retiree medical plans.

Note 14 Supplemental Financial Information

	2010	2009	2008
Accounts receivable			
Trade receivables	$5,514	$4,026	
Other receivables	953	688	
	6,467	4,714	
Allowance, beginning of year	90	70	$ 69
Net amounts charged to expense	12	40	21
Deductions[(a)]	(37)	(21)	(16)
Other[(b)]	79	1	(4)
Allowance, end of year	144	90	$ 70
Net receivables	$6,323	$4,624	
Inventories[(c)]			
Raw materials	$1,654	$1,274	
Work-in-process	128	165	
Finished goods	1,590	1,179	
	$3,372	$2,618	

(a) Includes accounts written off.
(b) Includes adjustments related to our acquisitions of PBG and PAS, currency translation effects and other adjustments.
(c) Inventories are valued at the lower of cost or market. Cost is determined using the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. Approximately 8% in 2010 and 10% in 2009 of the inventory cost was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories were not material.

	2010	2009
Other assets		
Noncurrent notes and accounts receivable	$ 165	$ 118
Deferred marketplace spending	203	182
Unallocated purchase price for recent acquisitions	–	143
Pension plans	121	64
Other investments[(a)]	653	89
Other	547	369
	$ 1,689	$ 965
Accounts payable and other current liabilities		
Accounts payable	$ 3,865	$2,881
Accrued marketplace spending	1,841	1,656
Accrued compensation and benefits	1,779	1,291
Dividends payable	766	706
Other current liabilities	2,672	1,593
	$10,923	$8,127

(a) In 2010, includes our investment in WBD of $549 million. This investment is accounted for as an available-for-sale security with any unrealized gains or losses recorded in other comprehensive income.

	2010	2009	2008
Other supplemental information			
Rent expense	$ 526	$ 412	$ 357
Interest paid	$ 1,043	$ 456	$ 359
Income taxes paid, net of refunds	$ 1,495	$1,498	$ 1,477
Acquisitions[(a)]			
Fair value of assets acquired	$27,665	$ 851	$ 2,907
Cash paid, net of cash acquired	(3,044)	(466)	(1,925)
Equity issued	(4,451)	–	–
Previously held equity interests in PBG and PAS	(4,293)	–	–
Liabilities and noncontrolling interests assumed	$15,877	$ 385	$ 982

(a) In 2010, amounts primarily reflect our acquisitions of PBG and PAS. During 2008, together with PBG, we jointly acquired Lebedyansky, for a total purchase price of $1.8 billion.

Note 15 Acquisitions

PBG and PAS

On August 3, 2009, we entered into a Merger Agreement (the PBG Merger Agreement) with PBG and Metro pursuant to which PBG merged with and into Metro, with Metro continuing as the surviving corporation and a wholly owned subsidiary of PepsiCo. Also on August 3, 2009, we entered into a Merger Agreement (the PAS Merger Agreement and together with the PBG Merger Agreement, the Merger Agreements) with PAS and Metro pursuant to which PAS merged with and into Metro, with Metro continuing as the surviving corporation and a wholly owned subsidiary of PepsiCo. On February 26, 2010, we acquired PBG and PAS to create a more fully integrated supply chain and go-to-market business model, improving the effectiveness and efficiency of the distribution of our brands and enhancing our revenue growth. The total purchase price was approximately $12.6 billion, which included $8.3 billion of cash and equity and the fair value of our previously held equity interests in PBG and PAS of $4.3 billion.

Under the terms of the PBG Merger Agreement, each outstanding share of common stock of PBG not held by Metro, PepsiCo or a subsidiary of PepsiCo or held by PBG as treasury stock (each, a "PBG Share") was canceled and converted into the right to receive, at the holder's election, either 0.6432 shares of common stock of PepsiCo (the "PBG Per Share Stock Consideration") or $36.50 in cash, without interest (the "PBG Cash Election Price"), subject to proration provisions which provide that an aggregate 50% of such outstanding PBG Shares were converted into the right to receive common stock of PepsiCo and an aggregate 50% of such outstanding PBG Shares were converted into the right to receive cash and each PBG Share and share of Class B common stock of PBG held by Metro, PepsiCo or a subsidiary of PepsiCo was canceled or converted to the right to receive 0.6432 shares of common stock of PepsiCo. Under the terms of the PAS Merger Agreement, each outstanding share of common stock of PAS not held by Metro, PepsiCo or a subsidiary of PepsiCo or held by PAS as treasury stock (each, a "PAS Share") was canceled and converted into the right to receive, at the holder's election, either 0.5022 shares of common stock of PepsiCo (the "PAS Per Share Stock Consideration") or $28.50 in cash, without interest (the "PAS Cash Election Price"), subject to proration provisions which provide that an aggregate 50% of such outstanding PAS Shares were converted into the right to receive common stock of PepsiCo and an aggregate 50% of such outstanding PAS Shares were converted into the right to receive cash and each PAS Share held by Metro, PepsiCo or a subsidiary of PepsiCo was canceled or converted into the right to receive 0.5022 shares of common stock of PepsiCo.

Under the terms of the applicable Merger Agreement, each PBG or PAS stock option was converted into an adjusted PepsiCo stock option to acquire a number of shares of PepsiCo common stock, determined by multiplying the number of shares of PBG or PAS common stock subject to the PBG or PAS stock option by an exchange ratio (the "Closing Exchange Ratio") equal to the closing price of a share of PBG or PAS common stock on the business day immediately before the acquisition date divided by the closing price of a share of PepsiCo common stock on the business day immediately before the acquisition date. The exercise price per share of PepsiCo common stock subject to the adjusted PepsiCo stock option is equal to the per share exercise price of PBG or PAS stock option divided by the Closing Exchange Ratio.

Under the terms of the PBG Merger Agreement, each PBG restricted stock unit (RSU) was adjusted so that its holder is entitled to receive, upon settlement, a number of shares of PepsiCo common stock equal to the number of shares of PBG common stock subject to the PBG RSU multiplied by the PBG Per Share Stock Consideration. PBG performance-based RSUs were converted into PepsiCo RSUs based on 100% target achievement, and, following conversion, remain subject to continued service of the holder. Each PBG RSU held by a non-employee director was vested and canceled at the acquisition date, and, in exchange for cancellation of the PBG RSU, the holder received the PBG Per Share Stock Consideration for each share of PBG common stock subject to the PBG RSU.

Under the terms of the PAS Merger Agreement, each cash-settled PAS RSU was canceled in exchange for a cash payment equal to the closing price of a share of PAS common stock on the business day immediately before the closing of the PAS merger for each share of PAS common stock subject to each PAS RSU. Each PAS restricted share was converted into either the PAS Per Share Stock Consideration or the PAS Cash Election Price, at the election of the holder, with the same proration procedures applicable to PAS stockholders described above.

Pursuant to the terms of PBG's executive retention arrangements, PBG equity awards granted to certain executives prior to the PBG merger vest immediately upon a qualifying termination of the executive's employment except for certain PBG executives whose equity awards vested immediately at the effective time of the PBG merger pursuant to the terms of PepsiCo's executive retention agreements. Each PAS equity award granted prior to the PAS merger vested immediately at the effective time of the PAS merger pursuant to the original terms of the awards.

Prior to the acquisitions, we had equity investments in PBG and PAS. In addition to approximately 32% of PBG's outstanding common stock that we owned at year-end 2009, we owned 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. At year-end 2009, we owned approximately 43% of the outstanding common stock of PAS.

The guidance on accounting for business combinations requires that an acquirer remeasure its previously held equity interest in an acquiree at its acquisition date fair value and recognize the resulting gain or loss in earnings. Thus, in connection with our acquisitions of PBG and PAS, the carrying amounts of our previously held equity interests in PBG and PAS were revalued to fair value at the acquisition date, resulting in a gain in the first quarter of 2010 of $958 million, comprising $735 million which is non-taxable and recorded in bottling equity income and $223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests.

As discussed in Note 9, in January 2010, we issued $4.25 billion of fixed and floating rate notes. A portion of the net proceeds from the issuance of these notes was used to finance our acquisitions of PBG and PAS.

Our actual stock price on February 25, 2010 (the last trading day prior to the closing of the acquisitions) was used to determine the value of stock, stock options and RSUs issued as consideration in connection with our acquisitions of PBG and PAS and thus to calculate the actual purchase price.

The table below represents the computation of the purchase price excluding assumed debt and the fair value of our previously held equity interests in PBG and PAS as of the acquisition date:

	Total Number of Shares/ Awards Issued	Total Fair Value
Payment in cash, for the remaining (not owned by PepsiCo and its subsidiaries) outstanding shares of PBG and PAS common stock and equity awards vested at consummation of merger	–	$3,813
Payment to PBG and PAS of shares of PepsiCo common stock for the remaining (not owned by PepsiCo and its subsidiaries) outstanding shares of PBG and PAS common stock and equity awards vested at consummation of merger	67	4,175
Issuance of PepsiCo equity awards (vested and unvested) to replace existing PBG and PAS equity awards	16	276
Total purchase price	83	$8,264

The following table summarizes the fair value of identifiable assets acquired and liabilities assumed in the acquisitions of PBG and PAS and the resulting goodwill as of the acquisition date:

	Acquisition Date Fair Value
Inventory	$ 1,006
Property, plant and equipment	5,574
Amortizable intangible assets	1,298
Nonamortizable intangible assets, primarily reacquired franchise rights	9,036
Other current assets and current liabilities[(a)]	751
Other noncurrent assets	281
Debt obligations	(8,814)
Pension and retiree medical benefits	(962)
Other noncurrent liabilities	(744)
Deferred income taxes	(3,246)
Total identifiable net assets	4,180
Goodwill	8,059
Subtotal	12,239
Fair value of acquisition of noncontrolling interest	317
Total purchase price	$12,556

(a) Includes cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and other current liabilities.

Goodwill is calculated as the excess of the purchase price paid over the net assets recognized. The goodwill recorded as part of the acquisitions of PBG and PAS primarily reflects the value of adding PBG and PAS to PepsiCo to create a more fully integrated supply chain and go-to-market business model, as well as any intangible assets that do not qualify for separate recognition. Goodwill is not amortizable nor deductible for tax purposes. Substantially all of the goodwill is recorded in our PAB segment.

In connection with our acquisitions of PBG and PAS, we reacquired certain franchise rights which had previously provided PBG and PAS with the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. Reacquired franchise rights totaling $8.0 billion were assigned a perpetual life and are, therefore, not amortizable. Amortizable acquired franchise rights of $0.9 billion have weighted-average estimated useful lives of 56 years. Other amortizable intangible assets, primarily customer relationships, have weighted-average estimated useful lives of 20 years.

Under the guidance on accounting for business combinations, merger and integration costs are not included as components of consideration transferred but are accounted for as expenses in the period in which the costs are incurred. See Note 3 for details on the expenses incurred during 2010.

The following table presents unaudited consolidated pro forma financial information as if the closing of our acquisitions of PBG and PAS had occurred on December 27, 2009 for purposes of the financial information presented for the year ended December 25, 2010; and as if the closing of our acquisitions of PBG and PAS had occurred on December 28, 2008 for purposes of the financial information presented for the year ended December 26, 2009.

	2010	2009
Net Revenue	$59,582	$57,471
Net Income Attributable to PepsiCo	$ 5,856	$ 6,752
Net Income Attributable to PepsiCo per Common Share – Diluted	$ 3.60	$ 4.09

The unaudited consolidated pro forma financial information was prepared in accordance with the acquisition method of accounting under existing standards, and the regulations of the U.S. Securities and Exchange Commission, and is not necessarily indicative of the results of operations that would have occurred if our acquisitions of PBG and PAS had been completed on the dates indicated, nor is it indicative of the future operating results of PepsiCo.

The historical unaudited consolidated financial information has been adjusted to give effect to pro forma events that are (1) directly attributable to the acquisitions, (2) factually supportable, and (3) expected to have a continuing impact on the combined results of PepsiCo, PBG and PAS.

The unaudited pro forma results have been adjusted with respect to certain aspects of our acquisitions of PBG and PAS to reflect:

- the consummation of the acquisitions;
- consolidation of PBG and PAS which are now owned 100% by PepsiCo and the corresponding gain resulting from the remeasurement of our previously held equity interests in PBG and PAS;
- the elimination of related party transactions between PepsiCo and PBG, and PepsiCo and PAS;
- changes in assets and liabilities to record their acquisition date fair values and changes in certain expenses resulting therefrom; and
- additional indebtedness, including, but not limited to, debt issuance costs and interest expense, incurred in connection with the acquisitions.

The unaudited pro forma results do not reflect future events that may occur after the acquisitions, including, but not limited to, the anticipated realization of ongoing savings from operating synergies in subsequent periods. They also do not give effect to certain one-time charges we expect to incur in connection with the acquisitions, including, but not limited to, charges that are expected to achieve ongoing cost savings and synergies.

WBD

On February 3, 2011, we announced that we had completed the previously announced acquisition of ordinary shares, American Depositary Shares and Global Depositary Shares of WBD, a company incorporated in the Russian Federation, which represent in the aggregate approximately 66% of WBD's outstanding ordinary shares, pursuant to the purchase agreement dated December 1, 2010 between PepsiCo and certain selling shareholders of WBD for approximately $3.8 billion. The acquisition increased PepsiCo's total ownership of WBD to approximately 77%.

PepsiCo expects to make an offer in Russia (Russian Offer) on or before March 11, 2011 to acquire all of the remaining ordinary shares, in accordance with the mandatory tender offer rules of the Russian Federation. The price to be paid in the Russian Offer will be 3,883.70 Russian rubles per ordinary share. This price is $132, which is the price per share PepsiCo paid to the selling shareholders pursuant to the purchase agreement, converted to Russian rubles at the Central Bank of Russia exchange rate established for February 3, 2011. Concurrently with the Russian Offer, we expect to make an offer (U.S. Offer) to all holders of American Depositary Shares at a price per American Depositary Share equal to 970.925 Russian rubles (which is one-fourth of 3,883.70 Russian rubles since each American Depositary Share represents one-fourth of an ordinary share), without interest and less any fees, conversion expenses and applicable taxes. This amount will be converted to U.S. dollars at the spot market rate on or about the date that PepsiCo pays for the American Depositary Shares tendered in the U.S. Offer.

To Our Shareholders:

At PepsiCo, our actions — the actions of all our associates — are governed by our Worldwide Code of Conduct. This Code is clearly aligned with our stated values — a commitment to sustained growth, through empowered people, operating with responsibility and building trust. Both the Code and our core values enable us to operate with integrity — both within the letter and the spirit of the law. Our Code of Conduct is reinforced consistently at all levels and in all countries. We have maintained strong governance policies and practices for many years.

The management of PepsiCo is responsible for the objectivity and integrity of our consolidated financial statements. The Audit Committee of the Board of Directors has engaged independent registered public accounting firm, KPMG LLP, to audit our consolidated financial statements, and they have expressed an unqualified opinion.

We are committed to providing timely, accurate and understandable information to investors. Our commitment encompasses the following:

Maintaining strong controls over financial reporting.
Our system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled *Internal Control — Integrated Framework*. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the U.S. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified time periods. We monitor these internal controls through self-assessments and an ongoing program of internal audits. Our internal controls are reinforced through our Worldwide Code of Conduct, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law.

Exerting rigorous oversight of the business.
We continuously review our business results and strategies. This encompasses financial discipline in our strategic and daily business decisions. Our Executive Committee is actively involved — from understanding strategies and alternatives to reviewing key initiatives and financial performance. The intent is to ensure we remain objective in our assessments, constructively challenge our approach to potential business opportunities and issues, and monitor results and controls.

Engaging strong and effective Corporate Governance from our Board of Directors.
We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight as a representative of our shareholders. Our Audit Committee is comprised of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. We review our critical accounting policies, financial reporting and internal control matters with them and encourage their direct communication with KPMG LLP, with our General Auditor, and with our General Counsel. We also have a Compliance Department to coordinate our compliance policies and practices.

Providing investors with financial results that are complete, transparent and understandable.
The consolidated financial statements and financial information included in this report are the responsibility of management. This includes preparing the financial statements in accordance with accounting principles generally accepted in the U.S., which require estimates based on management's best judgment.

PepsiCo has a strong history of doing what's right.
We realize that great companies are built on trust, strong ethical standards and principles. Our financial results are delivered from that culture of accountability, and we take responsibility for the quality and accuracy of our financial reporting.

February 18, 2011

Peter Bridgman

Peter A. Bridgman
Senior Vice President and Controller

Hugh F. Johnston

Hugh F. Johnston
Chief Financial Officer

Indra K. Nooyi

Indra K. Nooyi
Chairman of the Board of Directors and
Chief Executive Officer

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 25, 2010.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

During our fourth fiscal quarter of 2010, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting during our fourth fiscal quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

February 18, 2011

Peter A. Bridgman
Senior Vice President and Controller

Hugh F. Johnston
Chief Financial Officer

Indra K. Nooyi
Chairman of the Board of Directors and
Chief Executive Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheets of PepsiCo, Inc. and subsidiaries ("PepsiCo, Inc." or "the Company") as of December 25, 2010 and December 26, 2009, and the related Consolidated Statements of Income, Cash Flows and Equity for each of the fiscal years in the three-year period ended December 25, 2010. We also have audited PepsiCo, Inc.'s internal control over financial reporting as of December 25, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). PepsiCo, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. as of December 25, 2010 and December 26, 2009, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 25, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, PepsiCo, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 25, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

KPMG LLP

New York, New York
February 18, 2011

Selected Financial Data

Quarterly *(in millions except per share amounts, unaudited)*	2010 First Quarter	2010 Second Quarter	2010 Third Quarter	2010 Fourth Quarter	2009 First Quarter	2009 Second Quarter	2009 Third Quarter	2009 Fourth Quarter
Net revenue	$9,368	$14,801	$15,514	$18,155	$8,263	$10,592	$11,080	$13,297
Gross profit	$4,905	$ 8,056	$ 8,506	$ 9,796	$4,519	$ 5,711	$ 5,899	$ 7,004
Mark-to-market net impact[(a)]	$ (46)	$ 4	$ (16)	$ (33)	$ (62)	$ (100)	$ (29)	$ (83)
Merger and integration charges[(b)]	$ 321	$ 155	$ 69	$ 263	–	–	$ 9	$ 52
Gain on previously held equity interests[(c)]	$ (958)	–	–	–				
Inventory fair value adjustments[(d)]	$ 281	$ 76	$ 17	$ 24				
Venezuela currency devaluation[(e)]	$ 120	–	–	–				
Asset write-off[(f)]	$ 145	–	–	–				
Foundation contribution[(g)]	$ 100	–	–	–				
Debt repurchase[(h)]	–	–	–	$ 178				
Restructuring and impairment charges[(i)]					$ 25	$ 11	–	–
Net income attributable to PepsiCo	$1,430	$ 1,603	$ 1,922	$ 1,365	$1,135	$ 1,660	$ 1,717	$ 1,434
Net income attributable to PepsiCo per common share – basic	$ 0.90	$ 1.00	$ 1.21	$ 0.86	$ 0.73	$ 1.06	$ 1.10	$ 0.92
Net income attributable to PepsiCo per common share – diluted	$ 0.89	$ 0.98	$ 1.19	$ 0.85	$ 0.72	$ 1.06	$ 1.09	$ 0.90
Cash dividends declared per common share	$ 0.45	$ 0.48	$ 0.48	$ 0.48	$0.425	$ 0.45	$ 0.45	$ 0.45
Stock price per share[(j)]								
High	$66.98	$ 67.61	$ 66.83	$ 68.11	$56.93	$ 56.95	$ 59.64	$ 64.48
Low	$58.75	$ 61.04	$ 60.32	$ 63.43	$43.78	$ 47.50	$ 52.11	$ 57.33
Close	$66.56	$ 63.56	$ 65.57	$ 65.69	$50.02	$ 53.65	$ 57.54	$ 60.96

(a) In 2010, we recognized $91 million ($58 million after-tax or $0.04 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses. In 2009, we recognized $274 million ($173 million after-tax or $0.11 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

(b) In 2010, we incurred merger and integration charges of $799 million related to our acquisitions of PBG and PAS, as well as advisory fees in connection with our acquisition of WBD. In addition, we recorded $9 million of merger-related charges, representing our share of the respective merger costs of PBG and PAS. In total, these charges had an after-tax impact of $648 million or $0.40 per share. In 2009, we recognized $50 million of merger-related charges, as well as an additional $11 million of costs in bottling equity income representing our share of the respective merger costs of PBG and PAS. In total, these costs had an after-tax impact of $44 million or $0.03 per share. See Note 3.

(c) In 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of $958 million ($0.60 per share), comprising $735 million which is non-taxable and recorded in bottling equity income and $223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests. See Note 15.

(d) In 2010, we recorded $398 million ($333 million after-tax or $0.21 per share) of incremental costs related to fair value adjustments to the acquired inventory and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date.

(e) In 2010, we recorded a one-time $120 million net charge ($120 million after-tax or $0.07 per share) related to our change to hyperinflationary accounting for our Venezuelan businesses and the related devaluation of the bolivar.

(f) In 2010, we recorded a $145 million charge ($92 million after-tax or $0.06 per share) related to a change in scope of one release in our ongoing migration to SAP software.

(g) In 2010, we made a $100 million ($64 million after-tax or $0.04 per share) contribution to The PepsiCo Foundation Inc., in order to fund charitable and social programs over the next several years.

(h) In 2010, we paid $672 million in a cash tender offer to repurchase $500 million (aggregate principal amount) of our 7.90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a $178 million charge to interest expense ($114 million after-tax or $0.07 per share), primarily representing the premium paid in the tender offer.

(i) Restructuring and impairment charges in 2009 were $36 million ($29 million after-tax or $0.02 per share). See Note 3.

(j) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo common stock.

Five-Year Summary (unaudited)

	2010	2009	2008	2007	2006
Net revenue	$57,838	$43,232	$43,251	$39,474	$35,137
Net income attributable to PepsiCo	$ 6,320	$ 5,946	$ 5,142	$ 5,658	$ 5,642
Net income attributable to PepsiCo per common share – basic	$ 3.97	$ 3.81	$ 3.26	$ 3.48	$ 3.42
Net income attributable to PepsiCo per common share – diluted	$ 3.91	$ 3.77	$ 3.21	$ 3.41	$ 3.34
Cash dividends declared per common share	$ 1.89	$ 1.775	$ 1.65	$ 1.425	$ 1.16
Total assets	$68,153	$39,848	$35,994	$34,628	$29,930
Long-term debt	$19,999	$ 7,400	$ 7,858	$ 4,203	$ 2,550
Return on invested capital(a)	19.3%	27.2%	25.5%	28.9%	30.4%

(a) Return on invested capital is defined as adjusted net income attributable to PepsiCo divided by the sum of average common shareholders' equity and average total debt. Adjusted net income attributable to PepsiCo is defined as net income attributable to PepsiCo plus net interest expense after-tax. Net interest expense after-tax was $534 million in 2010, $211 million in 2009, $184 million in 2008, $63 million in 2007 and $72 million in 2006.

- Includes restructuring and impairment charges of:

	2009	2008	2007	2006
Pre-tax	$ 36	$ 543	$ 102	$ 67
After-tax	$ 29	$ 408	$ 70	$ 43
Per share	$0.02	$0.25	$0.04	$0.03

- Includes mark-to-market net (income)/expense of:

	2010	2009	2008	2007	2006
Pre-tax	$ (91)	$ (274)	$ 346	$ (19)	$ 18
After-tax	$ (58)	$ (173)	$ 223	$ (12)	$ 12
Per share	$(0.04)	$(0.11)	$0.14	$(0.01)	$0.01

- In 2010, we incurred merger and integration charges of $799 million related to our acquisitions of PBG and PAS, as well as advisory fees in connection with our acquisition of WBD. In addition, we recorded $9 million of merger-related charges, representing our share of the respective merger costs of PBG and PAS. In total, these costs had an after-tax impact of $648 million or $0.40 per share.
- In 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of $958 million ($0.60 per share), comprising $735 million which is non-taxable and recorded in bottling equity income and $223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests.
- In 2010, we recorded $398 million ($333 million after-tax or $0.21 per share) of incremental costs related to fair value adjustments to the acquired inventory and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date.
- In 2010, we recorded a one-time $120 million net charge ($120 million after-tax or $0.07 per share) related to our change to hyperinflationary accounting for our Venezuelan businesses and the related devaluation of the bolivar.
- In 2010, we recorded a $145 million charge ($92 million after-tax or $0.06 per share) related to a change in scope of one release in our ongoing migration to SAP software.
- In 2010, we made a $100 million ($64 million after-tax or $0.04 per share) contribution to The PepsiCo Foundation Inc., in order to fund charitable and social programs over the next several years.
- In 2010, we paid $672 million in a cash tender offer to repurchase $500 million (aggregate principal amount) of our 7.90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a $178 million charge to interest expense ($114 million after-tax or $0.07 per share), primarily representing the premium paid in the tender offer.
- In 2009, we recognized $50 million of merger-related charges related to our acquisitions of PBG and PAS, as well as an additional $11 million of costs in bottling equity income representing our share of the respective merger costs of PBG and PAS. In total, these costs had an after-tax impact of $44 million or $0.03 per share.
- In 2008, we recognized $138 million ($114 million after-tax or $0.07 per share) of our share of PBG's restructuring and impairment charges.
- In 2007, we recognized $129 million ($0.08 per share) of non-cash tax benefits related to the favorable resolution of certain foreign tax matters. In 2006, we recognized non-cash tax benefits of $602 million ($0.36 per share) primarily in connection with the IRS's examination of our consolidated income tax returns for the years 1998 through 2002.
- On December 30, 2006, we adopted guidance from the FASB on accounting for pension and other postretirement benefits which reduced total assets by $2,016 million, total common shareholders' equity by $1,643 million and total liabilities by $373 million.

Division operating profit, core results and core constant currency results are non-GAAP financial measures as they exclude certain items noted below. However, we believe investors should consider these measures as they are more indicative of our ongoing performance and with how management evaluates our operational results and trends.

Commodity Mark-to-Market Net Impact

In the year ended December 25, 2010, we recognized $91 million of mark-to-market net gains on commodity hedges in corporate unallocated expenses. In the year ended December 26, 2009, we recognized $274 million of mark-to-market net gains on commodity hedges in corporate unallocated expenses. We centrally manage commodity derivatives on behalf of our divisions. Certain of these commodity derivatives do not qualify for hedge accounting treatment and are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions take delivery of the underlying commodity.

Merger and Integration Charges

In the year ended December 25, 2010, we incurred merger and integration charges of $799 million related to our acquisitions of PBG and PAS, as well as advisory fees in connection with our acquisition of WBD, including $467 million recorded in the PAB segment, $111 million recorded in the Europe segment, $191 million recorded in corporate unallocated expenses and $30 million recorded in interest expense. These charges also include closing costs, one-time financing costs and advisory fees related to the acquisitions. In addition, in the year ended December 25, 2010, we recorded $9 million of charges, representing our share of the respective merger costs of PBG and PAS, recorded in bottling equity income. In the year ended December 26, 2009, we incurred $50 million of costs associated with the mergers with PBG and PAS, as well as an additional $11 million of costs representing our share of the respective merger costs of PBG and PAS, recorded in bottling equity income.

Restructuring and Impairment Charges

As a result of our previously initiated Productivity for Growth program, in the year ended December 26, 2009, we recorded $36 million of restructuring and impairment charges.

Gain on Previously Held Equity Interests in PBG and PAS

In the first quarter of 2010, in connection with our acquisitions of PBG and PAS, we recorded a gain on our previously held equity interests of $958 million, comprising $735 million which is non-taxable and recorded in bottling equity income and $223 million related to the reversal of deferred tax liabilities associated with these previously held equity interests.

Inventory Fair Value Adjustments

In the year ended December 25, 2010, we recorded $398 million of incremental costs, substantially all in cost of sales, related to fair value adjustments to the acquired inventory and other related hedging contracts included in PBG's and PAS's balance sheets at the acquisition date, including $358 million recorded in the PAB segment and $40 million recorded in the Europe segment.

Venezuela Currency Devaluation

As of the beginning of our 2010 fiscal year, we recorded a one-time $120 million net charge related to our change to hyperinflationary accounting for our Venezuelan businesses and the related devaluation of the bolivar fuerte (bolivar). $129 million of this net charge was recorded in corporate unallocated expenses, with the balance (income of $9 million) recorded in our PAB segment.

Asset Write-Off for SAP Software

In the first quarter of 2010, we recorded a $145 million charge related to a change in scope of one release in our ongoing migration to SAP software. This change was driven, in part, by a review of our North America systems strategy following our acquisitions of PBG and PAS. This change does not impact our overall commitment to continue our implementation of SAP across our global operations over the next few years.

Foundation Contribution

In the first quarter of 2010, we made a $100 million contribution to The PepsiCo Foundation, Inc. (Foundation), in order to fund charitable and social programs over the next several years. This contribution was recorded in corporate unallocated expenses.

Interest Expense Incurred in Connection with Debt Repurchase

In the year ended December 25, 2010, we paid $672 million in a cash tender offer to repurchase $500 million (aggregate principal amount) of our 7.90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a $178 million charge to interest expense, primarily representing the premium paid in the tender offer.

Management Operating Cash Flow

Additionally, management operating cash flow is the primary measure management uses to monitor cash flow performance. This is not a measure defined by GAAP. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities.

2010 Net Revenue Growth Reconciliation

	2010
Reported Net Revenue Growth	34%
Foreign Currency Translation	(1)
Constant Currency Net Revenue Growth	33%

Operating Profit Reconciliation

	2010	2009	Growth
Total Reported Operating Profit	$ 8,332	$8,044	4%
Mark-to-Market Net Gains	(91)	(274)	
Merger and Integration Charges	769	50	
Restructuring and Impairment Charges	–	36	
Inventory Fair Value Adjustments	398	–	
Venezuela Currency Devaluation	120	–	
Asset Write-Off	145	–	
Foundation Contribution	100	–	
Total Core Operating Profit	9,773	7,856	24%
Impact of Other Corporate Unallocated	853	791	
Core Division Operating Profit	$10,626	$8,647	23%
Foreign Currency Translation			0.5
Core Constant Currency Division Operating Profit Growth			23%*

* Does not sum due to rounding

Net Income Attributable to PepsiCo Reconciliation

	2010	2009	Growth
Reported Net Income Attributable to PepsiCo	$6,320	$5,946	6%
Mark-to-Market Net Gains	(58)	(173)	
Restructuring and Impairment Charges	–	29	
Merger and Integration Charges	648	44	
Gain on Previously Held Equity Interests	(958)	–	
Inventory Fair Value Adjustments	333	–	
Venezuela Currency Devaluation	120	–	
Asset Write-Off	92	–	
Foundation Contribution	64	–	
Debt Repurchase	114	–	
Core Net Income Attributable to PepsiCo	$6,675	$5,846	14%

Net Cash Provided by Operating Activities Reconciliation

	2010	2009	Growth
Net Cash Provided by Operating Activities	$ 8,448	$ 6,796	24%
Capital Spending	(3,253)	(2,128)	
Sales of Property, Plant and Equipment	81	58	
Management Operating Cash Flow	5,276	4,726	
Discretionary Pension and Retiree Medical Contributions (after-tax)	983	640	
Payments Related to 2009 Restructuring Charges (after-tax)	20	168	
Merger and Integration Payments (after-tax)	299	49	
Foundation Contribution (after-tax)	64	–	
Debt Repurchase (after-tax)	112	–	
Capital Investments Related to the PBG/PAS Integration	138	–	
Management Operating Cash Flow Excluding above Items	$ 6,892	$ 5,583	23%

Acquisitions: reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

Bottlers: customers to whom we have granted exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographical area.

Bottler Case Sales (BCS): measure of physical beverage volume shipped to retailers and independent distributors from both PepsiCo and our independent bottlers.

Bottler funding: financial incentives we give to our independent bottlers to assist in the distribution and promotion of our beverage products.

Concentrate Shipments and Equivalents (CSE): measure of our physical beverage volume shipments to independent bottlers, retailers and independent distributors. This measure is reported on our fiscal year basis.

Constant currency: financial results assuming constant foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period.

Consumers: people who eat and drink our products.

CSD: carbonated soft drinks.

Customers: authorized independent bottlers, distributors and retailers.

Derivatives: financial instruments, such as futures, swaps, Treasury locks, options and forward contracts, that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates and stock prices.

Direct-Store-Delivery (DSD): delivery system used by us and our independent bottlers to deliver snacks and beverages directly to retail stores where our products are merchandised.

Effective net pricing: reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

Hedge accounting: treatment for qualifying hedges that allows fluctuations in a hedging instrument's fair value to offset corresponding fluctuations in the hedged item in the same reporting period. Hedge accounting is allowed only in cases where the hedging relationship between the hedging instruments and hedged items is highly effective, and only prospectively from the date a hedging relationship is formally documented.

Management operating cash flow: net cash provided by operating activities less capital spending plus sales of property, plant and equipment. It is our primary measure used to monitor cash flow performance.

Mark-to-market net gain or loss or impact: the change in market value for commodity contracts, that we purchase to mitigate the volatility in costs of energy and raw materials that we consume. The market value is determined based on average prices on national exchanges and recently reported transactions in the marketplace.

Marketplace spending: sales incentives offered through various programs to our customers and consumers (trade spending), as well as advertising and other marketing activities.

Servings: common metric reflecting our consolidated physical unit volume. Our divisions' physical unit measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

Transaction gains and losses: the impact on our consolidated financial statements of exchange rate changes arising from specific transactions.

Translation adjustment: the impact of converting our foreign affiliates' financial statements into U.S. dollars for the purpose of consolidating our financial statements.

Common Stock Information

Stock Trading Symbol — PEP

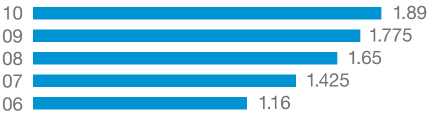
Stock Exchange Listings
The New York Stock Exchange is the principal market for PepsiCo common stock, which is also listed on the Chicago and Swiss Stock Exchanges.

Shareholders
As of February 11, 2011, there were approximately 165,700 shareholders of record.

Dividend Policy
Dividends are usually declared in late January or early February, May, July and November and paid at the end of March, June and September and the beginning of January. The dividend record dates for these payments are, subject to approval by the Board of Directors, expected to be March 4, June 3, September 2 and December 2, 2011. We have paid consecutive quarterly cash dividends since 1965.

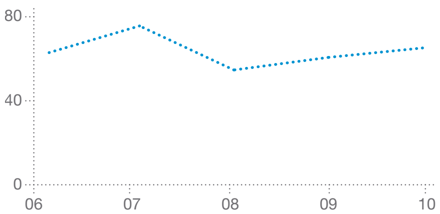
Stock Performance
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made on December 31, 2005 was worth about $1,255 on December 31, 2010, assuming the reinvestment of dividends into PepsiCo stock. This performance represents a compounded annual growth rate of 4.6 percent.

Cash Dividends Declared
Per Share (in $)



The closing price for a share of PepsiCo common stock on the New York Stock Exchange was the price as reported by Bloomberg for the years ending 2006–2010. Past performance is not necessarily indicative of future returns on investments in PepsiCo common stock.

Year-end Market Price of Stock
Based on calendar year end (in $)



Shareholder Information

Annual Meeting
The Annual Meeting of Shareholders will be held at Frito-Lay Corporate headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 4, 2011, at 9:00 a.m. local time. Proxies for the meeting will be solicited by an independent proxy solicitor. This annual report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings
Registered Shareholders (shares held by you in your name) should address communications concerning transfers, statements, dividend payments, address changes, lost certificates and other administrative matters to:

PepsiCo, Inc.
c/o BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015
Telephone: 800-226-0083
800-231-5469 (TDD for hearing impaired)
201-680-6685 (Outside the U.S.)
201-680-6685 (TDD outside the U.S.)
E-mail: shrrelations@bnymellon.com
Website: www.bnymellon.com/shareowner/equityaccess

or

Manager Shareholder Relations
PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
Telephone: 914-253-3055
E-mail: investor@pepsico.com

In all correspondence or telephone inquiries, please mention PepsiCo, your name as printed on your stock certificate, your Investor ID (IID), your address and your telephone number.

SharePower Participants (associates with SharePower Options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch
1400 Merrill Lynch Drive
MSC NJ2-140-03-17
Pennington, NJ 08534
Telephone: 800-637-6713 (U.S., Puerto Rico and Canada)
609-818-8800 (all other locations)

If using overnight or certified mail, send to:

Merrill Lynch
Client Account Services ESOP
1800 Merrill Lynch Drive
MSC 0802
Pennington, NJ 08534

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address and your telephone number, and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Associate Benefit Plan Participants
PepsiCo 401(k) Plan and PepsiCo Stock Purchase Program

The PepsiCo Savings & Retirement Center at Fidelity
P.O. Box 770003
Cincinnati, OH 45277-0065
Telephone: 800-632-2014
(Overseas: Dial your country's AT&T Access Number +800-632-2014. In the U.S., access numbers are available by calling 800-331-1140. From anywhere in the world, access numbers are available online at www.att.com/traveler.)
Website: www.netbenefits.com

PepsiCo Stock Purchase Program — for Canadian associates:

Fidelity Stock Plan Services
P.O. Box 5000
Cincinnati, OH 45273-8398
Telephone: 800-632-2014
Website: www.netbenefits.com

Please have a copy of your most recent statement available when calling with inquiries.

If using overnight or certified mail, send to:

Fidelity Investments
100 Crosby Parkway
Mail Zone KC1F-L
Covington, KY 41015

Shareholder Services

BuyDIRECT Plan
Interested investors can make their initial purchase directly through BNY Mellon Shareowner Services, transfer agent for PepsiCo and Administrator for the Plan. A brochure detailing the Plan is available on our website www.pepsico.com or from our transfer agent:

PepsiCo, Inc.
c/o BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015
Telephone: 800-226-0083
800-231-5469 (TDD for hearing impaired)
201-680-6685 (Outside the U.S.)
201-680-6610 (TDD outside the U.S.)
E-mail: shrrelations@bnymellon.com
Website: www.bnymellon.com/shareowner/equityaccess

Other services include dividend reinvestment, direct deposit of dividends, optional cash investments by electronic funds transfer or check drawn on a U.S. bank, sale of shares, online account access and electronic delivery of shareholder materials.

Financial and Other Information
PepsiCo's 2011 quarterly earnings releases are expected to be issued the weeks of April 25, July 18, October 10, 2011 and February 6, 2012.

Copies of PepsiCo's SEC filings, earnings and other financial releases, corporate news and additional company information are available on our website www.pepsico.com.

PepsiCo's CEO and CFO Certifications required under Sarbanes-Oxley Section 302 were filed as an exhibit to our Form 10-K filed with the SEC on February 18, 2011. PepsiCo's 2010 Domestic Company Section 303A CEO Certification was filed with the New York Stock Exchange (NYSE). In addition, we have a written statement of Management's Report on Internal Control over Financial Reporting on page 103 of this annual report. If you have questions regarding PepsiCo's financial performance contact:

Independent Auditors
KPMG LLP
345 Park Avenue
New York, NY 10154-1002
Telephone: 212-758-9700

Corporate Headquarters
PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
Telephone: 914-253-2000

PepsiCo Website
www.pepsico.com

PepsiCo Values

Our commitment:
To deliver SUSTAINED GROWTH
through EMPOWERED PEOPLE
acting with RESPONSIBILITY
and building TRUST.

Guiding Principles

We must always strive to:
Care for customers, consumers and the world we live in.
Sell only products we can be proud of.
Speak with truth and candor.
Balance short term and long term.
Win with diversity and inclusion.
Respect others and succeed together.

MIX
Paper from responsible sources
FSC® C020268
FSC www.fsc.org

Environmental Profile

This annual report paper is Forest Stewardship Council (FSC) certified, which promotes environmentally appropriate, socially beneficial and economically viable management of the world's forests. This report was printed with the use of 100 percent certified renewable wind power resources, preventing approximately 14,000 pounds of carbon dioxide greenhouse gas emissions from reaching the environment. This amount of wind-generated electricity is equivalent to approximately 12,000 miles not driven in an automobile or approximately 1,000 trees being planted.

All of the inks used in this annual report were formulated with soy-based products. Soy ink is naturally low in VOCs (volatile organic compounds, chemical compounds that evaporate and react to sunlight) and its usage can reduce emissions causing air pollution.

PepsiCo continues to reduce the costs and environmental impact of annual report printing and mailing by utilizing a distribution model that drives increased online readership and fewer printed copies.

We hope you can agree that this is truly Performance with Purpose in action. You can learn more about our environmental efforts at www.pepsico.com.

QR Codes

A QR (Quick Response) code is a two-dimensional code that directs users to a specific web destination, video or application. Readers should scan the code using the camera on their smartphone and an application specific to the phone's operating system. Here are a few QR code readers we recommend: www.scanlife.com, www.i-nigma.com, www.neoreader.com. The URLs that are coded into the four QR codes are:

Walkers "Do Us a Flavour" Campaign
www.tinyurl.com/pepsico1

Frito-Lay All-Natural Ingredients
www.tinyurl.com/pepsico2

PepsiCo India
www.tinyurl.com/pepsico3

PepsiCo Talent Sustainability
www.tinyurl.com/pepsico4

Design: Addison www.addison.com Printing: Sandy Alexander Inc. Photography: Four Square Studio, Bobby Fisher, Victor Borisov, David Goldman/AP Images for Frito-Lay North America, James Schnepf Photography


ORANGE
100% pure pressed juice
Tropicana
PURE PREMIUM
ORIGINAL ORANGE
JUS D'ORANGE
SINAASAPPELSAP
ORANGENSAFT
berry veggie
Naked
100% FRUIT & VEG JUICE SMOOTHIE
NO SUGAR ADDED
G SERIES
FIT
03
RECOVER
桂格
QUAKER

PEPSICO