

# Delivering Performance with Purpose in 2007

Dear Shareholders:

We have titled this year's annual report "Performance with Purpose: The Journey Continues." That's because in 2007 PepsiCo made great progress toward the long-term corporate objectives we set for ourselves last year: To achieve business and financial success while leaving a positive imprint on society.

## Once more, our extraordinary associates around the world delivered terrific performance, and I am delighted to share with you the following 2007 financial results:

- Net revenue grew 12%, roughly three times the rate of global GDP growth.
- Division operating profit grew 10%.\*
- Earnings per share grew 13%.\*
- Total return to shareholders was 26%.
- Return on invested capital was 29%.
- Cash flow from operations was \$6.9 billion.

In 2007 PepsiCo took important steps to support future growth.

What makes me particularly proud is that our 2007 performance was strong — not just measured by these short-term metrics — but also with the long-term equally in mind:

- We increased capital expenditures in plant and equipment worldwide to enable growth of core brands and expand into new platforms such as baked and crisp-bread snacks and non-carbonated beverages.
- We added several tuck-in acquisitions in key markets and segments, and we further expanded our successful coffee and tea joint ventures.
- We created the Chief Scientific Officer position to ensure our technical capabilities keep pace with increasingly sophisticated consumer demand; and we funded incremental investment to explore breakthrough R&D opportunities.
- We maintained focus on building next-generation IT capabilities with Project One Up, to support our long-term growth prospects worldwide.

\*See page 86.



Indra Nooyi  
Chairman and Chief Executive Officer



## Our brands once again demonstrated competitive strength.

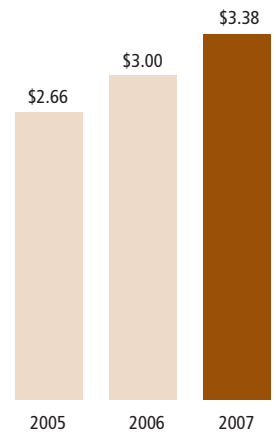
On the ground, in cities and towns around the world, good brand strategies were implemented with operational excellence. I'd like to share a few notable examples of the big marketplace wins we enjoyed in 2007:

- Our carbonated soft drink and savory snack brands gained market share in the United States and in many of our top international markets.
- In the United Kingdom, Baked Walkers crisps was named "New Product of the Year" by *Marketing Week* magazine.
- SunChips snacks delivered double-digit growth in the United States as a result of great, innovative marketing and in-store execution.
- 7UP H2Oh! was our fastest-growing brand in value and volume share in Brazil in its launch year.
- Pepsi Max came of age as a global brand, with outstanding performance in the United States as Diet Pepsi Max, after successes in Northern Europe and Australia and 2007 launches across Asia.
- PepsiCo beverage brands crossed the \$1 billion mark in Russia retail sales.
- We posted double-digit volume growth in China beverages and high-single-digit beverage volume growth in India.

And we did all of this while battling increased commodity inflation and more macroeconomic volatility than in previous years.

In the next few pages you'll learn a lot more about the performance of our individual businesses from the leaders of PepsiCo Americas Foods, PepsiCo Americas Beverages and PepsiCo International.

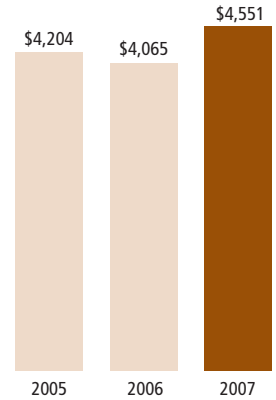
## Earnings Per Share\*



\*See page 86.

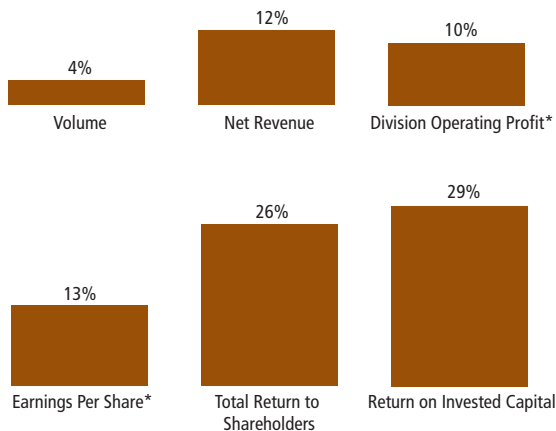
## Management Operating Cash Flow\*\*

\$ in Millions



\*\*See page 55.

## 2007 Scorecard



\*See page 86.



You'll see it's been a good year commercially. I believe that is in part because we have moved our *purpose* agenda forward.

In a networked global marketplace, companies must embrace the reality of rapid change and interconnectedness — and corporate strategy must holistically consider the complex factors shaping the landscape. That was why, last year, we said we would commit ourselves to deliver performance — but it would be performance with *purpose*.

You see, our performance and our purpose are not two separate things. They are not even two sides of the same coin. They are merging. For example, portfolio transformation — offering consumers healthier choices — is equally about human sustainability and top-line growth.

With great pride, I turn now to PepsiCo's 2007 achievements in each of the three elements that together form our purpose agenda: human, environment and talent sustainability.

*"Nothing would be more tiresome than eating and drinking if God had not made them a pleasure as well as a necessity." — Voltaire*

The goal of **human sustainability** is to nourish consumers with a range of products, from treats to healthy eats. We are proud to give consumers choices across the spectrum. Our products deliver joy as well as nutrition — and always, great taste. In 2007 we made great progress toward human sustainability:

- Reformulating some of our existing products to improve their nutritional profile.
- Launching new products that reflect consumer demand for healthier, nutritious snacks and beverages.
- Partnering with governments, health officials and non-governmental organizations to help address obesity concerns.
- Continuing to grow our portfolio of Smart Spot\* eligible products.
- Providing consumers with many great new treat choices and innovations.

You will find many examples of these efforts in the pages that follow.

## Select Portfolio Transformation Milestones

- 1964: Pepsi-Cola introduces Diet Pepsi.
- 1980: Frito-Lay begins "Light" line of low-fat snacks.
- 1989: Frito-Lay launches "1/3 Less Oil" line of snacks.
- 1991: Frito-Lay launches SunChips, its first multigrain snack.
- 1992: Pepsi-Cola launches Lipton Iced Teas in the United States.
- 1995: Baked Lay's arrives as a major low-fat snack.
- 1998: PepsiCo acquires Tropicana.
- 2001: PepsiCo merges with Quaker Oats, including Gatorade.
- 2002: Frito-Lay announces removal of trans fats from Doritos, Tostitos and Cheetos snacks.
- 2004: PepsiCo introduces Smart Spot\* symbol.
- 2006: Walkers introduces Baked Walkers Crisps with 70% less fat.
- 2007: Frito-Lay completes the conversion to sunflower oil across all potato chip brands in the United States, eliminating over 50% of the saturated fat in those brands.

\*See page 21.



“Your descendants shall gather your fruits.” — Virgil

The second component of purpose is **environmental sustainability**. Companies — like individuals — must act as custodians of our natural resources. As it is for each individual, it is a matter of moral urgency that companies do what they can. But it is a matter of business urgency too. Today, recruiting the best people is difficult without a good record on the environment — to say nothing of the direct link between resource conservation and business productivity.

Our stated goal is to further reduce our water and energy usage and move towards the ideal of “net neutral.” By 2015, corporate-wide, we will reduce per-unit water consumption by 20%, electricity consumption by 20% and manufacturing fuel consumption by 25% — as compared with our consumption metrics in 2006. We evaluate each project against return on investment hurdles, but also consider intangible benefits and longer-term implications. Here are some of the ways we continued to make real progress in 2007:

- Reusing water from processing, working with local communities to provide access to clean water, and supporting local farmers to deliver “more crop per drop.”

- Incorporating consideration of environmental sustainability issues and opportunities as part of every capital expenditure evaluation for projects greater than \$5 million.
- Using new technologies to save energy, and working out ways to communicate our conservation efforts through brand marketing activities.
- Offsetting the total purchased electricity used by all PepsiCo U.S.-based facilities, by purchasing renewable energy certificates.

These initiatives pay. Since 1999, Frito-Lay North America has reduced per-pound water use by more than 38%, manufacturing fuels by more than 27%, and electricity by more than 21%, thereby saving \$55 million in energy and utility costs compared with 1999.

As a result of these and many other actions, detailed later in this report, we earned inclusion in the Dow Jones Sustainability Index (DJSI) in both their North America and World Indices.

## 2007 Environmental Honors

- PepsiCo was added to **DJSI World Index** and maintained its position on **DJSI North America Index**.
- The U.S. Environmental Protection Agency (EPA) recognized PepsiCo as **Green Power Partner of the Year** and **Energy Star Partner of the Year**.
- *Working Mother* magazine named PepsiCo to its **Best Green Companies** for America’s Children List.
- The Cause Marketing Forum awarded Sam’s Club/Aquafina’s “Return the Warmth” program with the top environmental honor, the **Halo Award**.
- *CRO* magazine recognized PepsiCo among the **2007 100 Best Corporate Citizens** in the United States.
- PepsiCo was ranked **#10 in the LOHAS (Lifestyles of Health and Sustainability) Index** for its corporate social responsibility program and communications.
- The China Association of Enterprises with Foreign Investment (CAEFI) and *WTO Tribune Magazine* honored PepsiCo Investment (China) Ltd. with the **Corporate Social Responsibility Outstanding Contribution Award**.
- Frito-Lay’s Jonesboro facility received the **EPA Performance Track Distinction**, which recognizes facilities that set goals for continuous improvements in environmental performance.
- The U.S. Green Building Council Leadership in Energy and Environmental Design (LEED) program awarded **LEED Gold Status** to the Gatorade Blue Ridge facility in Wytheville, Virginia and Gatorade Tolleson facility in Arizona.
- The Thailand Government Department of Energy gave PepsiCo’s Thailand Lamphun plant an **Excellent Performance in Energy Conservation Award**.
- Frito-Lay was recognized in the **EPA’s 2007 Water Efficiency Leader** awards in recognition for exceptional commitment to water efficiency.
- Seven PepsiCo China bottling plants were recognized as **Best Water-Saving Companies** in China’s beverage industry by the China Beverage Industry Association.



## 2007 Talent Honors

- Corporate Research Foundation International, Holland's professional publication and ranking organization, named PepsiCo among the **Best Companies to Work for in Spain**.
- *Latina STYLE* named PepsiCo **Company of the Year**.
- University students in China named PepsiCo one of the **Best Graduate Employers in China** for the second year in a row.
- Catalyst honored PepsiCo with the **2007 Catalyst Award** for its **Woman of Color Multicultural Alliance**.
- China Rights Forum and China Business News Group named PepsiCo **2007 Outstanding Employer of China** in the Shanghai Region.
- *Business Ethics* magazine named PepsiCo to the **100 Best Corporate Citizens list**.
- *DiversityBusiness* named PepsiCo as one of **America's Top Organizations for Multicultural Business Opportunities**.
- *Hispanic Business* named PepsiCo among its **Top 60 Diversity Elite**.
- PepsiCo was named among the **Most Influential Multinationals in China** for the third consecutive year.
- The Human Rights Campaign named PepsiCo as one of the **Best Places to Work for Gay/Lesbian/Bisexual/Transgender (GLBT) Equality**.
- The AIDS Responsibility Project (ARP) presented PepsiCo with the **International Corporate Courage Award**.
- The Women's Foodservice Forum (WFF) honored PepsiCo with the inaugural **Jackie B. Trujillo SOAR Award**.
- *Working Mother* magazine named PepsiCo one of the top five among the **Top 50 Best Companies for Multicultural Women**.
- *Latin Business* magazine named PepsiCo to its **Corporate Diversity Honor Roll**.
- *Essence* magazine named PepsiCo one of the **25 Best Companies for Black Women**.
- The Chicagoland Chamber of Commerce awarded PepsiCo and EnAble with the **Innovation Award**.
- *The Times* recognized PepsiCo U.K. & Ireland as a place **Where Women Want to Work**.
- *Black Enterprise* magazine named PepsiCo as one of the **40 Best Companies for Diversity**.

All of this activity is crucial in its own right and crucial in fostering the third part of our purpose aims: Cherishing our employees, what we call **talent sustainability**.

*"The way you see people is the way you treat them, and the way you treat them is what they become." — Johann von Goethe*

PepsiCo is blessed with an extraordinary group of people. Talent sustainability is the process of treating them well and priming them to fulfill their dreams. So it is at PepsiCo. We pursue diversity to reflect the consumers we serve. We create an inclusive environment and encourage associates to bring their whole selves to work. We provide excellent benefits and training opportunities. Our associates respond accordingly and deliver the outstanding results we present to you here. They are great corporate citizens, in addition to being good parents, caregivers, coaches, and community leaders. They combine a wonderful can-do spirit with an earnest must-do sense of responsibility. Gathered together each day in offices, manufacturing facilities and distribution centers around the world, they make PepsiCo a company with a soul.

Let me share some notable examples of the ways we continued to advance our talent sustainability goals in 2007:

- Increasing female and minority representation in the management ranks.
- Engaging employees in health and wellness programs.
- Encouraging employees to participate in community service activities.
- Creating rewarding job opportunities for people with different abilities.

Again, these and other initiatives are detailed later in this report, and they helped PepsiCo earn accolades from several prominent organizations including

Catalyst, *DiversityInc*, *Black Enterprise* magazine, *Latina STYLE* magazine, *Fortune*, and others. We are proud to be recognized internationally as "a great company" for which to work.

Doing better by doing better — that's the ambition Performance with Purpose has sparked in us. It's always been part of our DNA and our operating mind set. In 2007, it boosted the engagement and emotional commitment of associates across the company.

All over the world, I have met associates who have embraced Performance with Purpose. New associates understand it instinctively and expect this sort of holistic approach from their employer. Veteran employees have embraced it with no less passion. For many it has rekindled their creative spirit and renewed their commitment to the company.

**Together, we are all building on the platform of human, environment and talent sustainability, while continuing to deliver great financial results.**

We can do that because all associates can see that performance and purpose go hand-in-hand. They see that what is good for society is also good for business. They see that we are walking the talk: measuring and tracking the things that we say are important. That is a great source of motivation across the company.

We enter the new year with great results behind us and great prospects to come. I look forward to 2008, because I know we are a strong company, a responsible company, a good company.



Indra K. Nooyi  
Chairman and Chief Executive Officer

