A Perspective from Our Chairman and CEO

The questions below reflect those often asked by our shareholders about key areas of our businesses. The answers come from our Chairman and CEO, Indra Nooyi.

Q: In November 2007, PepsiCo announced a new organizational structure. What drove this decision, and how will the restructuring impact financial results?

A: Given our robust growth in recent years, we felt it was time to manage the company as three units instead of two — both to allow us to sustain our growth rate and also to develop global senior leadership talent for PepsiCo's future. We therefore created three operating business units: PepsiCo Americas Foods (PAF), PepsiCo Americas Beverages (PAB), and PepsiCo International (PI).

We are confident this organizational structure will help us deliver strong top-line performance and profit growth for the following reasons:

- Each sector has significant scale and growth potential, operates across multiple geographies, and is comprised of both developed and developing markets;
- This facilitates our ability to leverage both capabilities and innovation between our international and North American businesses;
- With each sector being of significant scale, more executives will have the opportunity to run large operating businesses and gain global operating experience; and
- It enables us to extend the competitive advantages of our very successful Power of One initiatives by making them increasingly global.

Finally, investors will receive more granular international performance data, as we will report volume, revenue and operating profit for six PepsiCo segments, versus four in the previous structure. Results under the new structure for 2005, 2006, and 2007 can be found on our company website www.pepsico.com, under the "Investors" tab.

Q: How is PepsiCo reacting to the changing global economy, particularly the slowing U.S. economy?

A: It is likely the world economies outside the emerging countries will slow in 2008 — although our businesses have generally proved pretty resilient in past economic downturns. It's also clear that inflation in commodity costs has accelerated, particularly as it relates to grains and energy. We will be utilizing all of the tools at our disposal to address rising inflation. From a productivity standpoint, we're accelerating efforts across the entire business system: product formulations, ingredient sourcing, trade efficiencies, manufacturing, go-to-market and administrative expenses. In addition, we will be looking to gain effective pricing, both through innovative new products as well as through a judicious combination of mix management, product weight-outs, and absolute pricing. As always, our decisions are grounded in the consumer, customer and competitive environments in each market.

Underlying these efforts are the important structural advantages we have across the world. Our brands have highly loyal and engaged consumers; they are affordable treats and healthy eats; and the strength of our go-to-market systems makes them readily available to consumers.

And as a team, we remain committed to managing for the long term, executing with excellence and consistently delivering our annual targets.

Q: How are you responding to the category shift in consumer beverage consumption between carbonated soft drinks (CSDs) and non-carbonated beverages (NCB), particularly in the United States?

A: We know that consumers have changing desires, and we are continually transforming our beverage portfolio in response to these changes.

Consumers respond to innovation in the CSD category, and so we continue to invigorate our flagship CSDs: Pepsi, Diet Pepsi and Mountain Dew. Last year, we launched Diet Pepsi Max in the United States, a no-calorie beverage with the energy boost of added caffeine and ginseng; and we launched Mountain Dew Game Fuel, created in conjunction with Microsoft's Xbox 360 exclusive title, Halo 3, marking the first time a soft drink has been created specifically for video gamers.

We have also introduced new carbonated juice drinks like Izze, an all-natural sparkling fruit juice brand that we acquired in 2006; and we have a growing energy drink business with Amp Energy, SoBe Adrenaline Rush and No Fear.

In non-carbonated beverages, we have made great progress in the nutrition category with the acquisition of Naked Juice and our recent introduction of Tropicana Pure.

We have U.S. category leadership positions with many of our NCB brands, including Aquafina, the number-one national PET water brand; Lipton, the number-one ready-to-drink tea and the number-one ready-to-drink coffee with Starbucks Frappuccino.

PepsiCo defines the performance category with our number-one sports drink Gatorade; and with our recent launch of G2 we have added a low-calorie, off-the-field hydration answer for athletes. Rounding out the NCB portfolio are great enhanced water brands including our low-calorie reformulated SoBe Life Water and Propel Fitness Waters.

Across the entire spectrum of categories, our continued focus on R&D and innovation as well as consumer insights enables us to adapt and continually meet consumer needs, while still leveraging the global strength of our flagship CSD beverage portfolio.

Q: What progress has PepsiCo made in its SAP implementation?

A: PepsiCo's multi-year technology transformation initiative continues on track. At the end of 2007, we kicked off our third major deployment by successfully implementing new capabilities to PCNA and the Quaker, Tropicana and Gatorade businesses. These implementations build on earlier SAP releases, enhancing the order management and demand planning functions for the Quaker, Tropicana and Gatorade businesses and deliver new capability to PCNA's fountain equipment service model. They also lay the groundwork to convert all of the financial processes, contracts and projects to SAP technology.

On the international front we went live with SAP financials at Gamesa and Sabritas and launched our first plant in Saltillo, Mexico; successfully integrated our Duyvis acquisition onto our new global platform; and launched China Beverages. We are working toward 2008 implementations in Egypt and Saudi Arabia.

We remain confident in the capabilities and business case that our transformation initiative will deliver.

Q: PepsiCo's businesses generate a lot of cash, and some people may believe the company's balance sheet is conservative. Will investors see any changes in capital structure, acquisition activity or increased share repurchases?

A: PepsiCo does generate considerable cash, and we are disciplined about how cash is reinvested in the business. Over the past three years, over $6 billion has been reinvested in the businesses through capital expenditures to fuel growth. All cash not reinvested in the business is returned to our shareholders. Since 2005, $16 billion has been returned to shareholders through a combination of dividends and share repurchases; and in 2007, cash returned to shareholders was up 34%. We will generally use our borrowing capacity in order to fund acquisitions — which was the case in 2007, when we spent $1.3 billion in acquisitions to enhance our future growth and create value for our shareholders. Our current capital structure and debt ratings give us ready access to capital markets and keep our cost of borrowing down.

Q: In 2007, you expanded your joint venture agreements with Starbucks and Unilever. Does this represent a new growth model for PepsiCo?

A: We have great partnerships on ready-to-drink beverages, with both Starbucks and Unilever. If what it takes to win in a certain marketplace is to partner with other brands and together make the pie much bigger, then we will apply that model to grow our businesses.

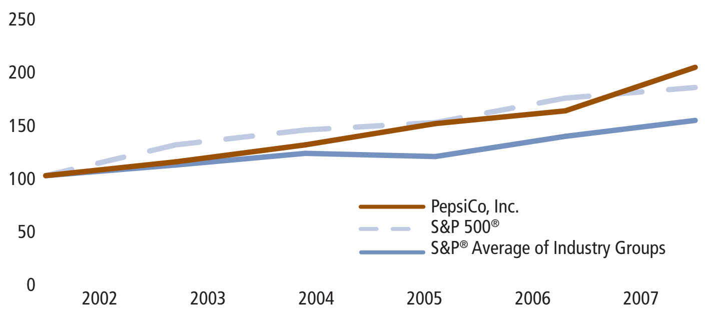
A key factor in these successful partnerships is that PepsiCo is not simply a distributor. The development of these brands is included in the partnerships between our companies on a worldwide scale, and that certainly distinguishes our model.

Growth will also come from the enormous opportunities we see for tuck-in acquisitions. We are also expanding into adjacent categories through our recently announced acquisition of Penelopa nuts and seeds in Bulgaria and our 2006 purchase of the Duyvis nuts business in Europe. Last year, we entered the salty snacks business in New Zealand with the acquisition of Bluebird Foods, and we expanded our snacks business in Brazil with the purchase of Lucky snacks. We also recently announced a joint venture with the Strauss Group to produce and sell Sabra refrigerated dips and spreads in the United States and Canada. In 2007, Sabra was the top-selling and fastest-growing maker of hummus in the United States. And we expanded our global juice footprint by acquiring U.S.-based Naked Juice, and the Sandora juice business in the Ukraine, which we purchased in a joint venture with PepsiAmericas.

So there are tremendous opportunities for us to continue to grow — through partnerships, as well as organically, and with tuck-in acquisitions.

Cumulative Total Shareholder Return

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



Shareholders purchasing PepsiCo stock at the end of 2002 and holding it to the end of 2007 received a higher cumulative return than the returns of the S&P 500 and our 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 beverage and foods businesses. The return on PepsiCo stock investment is calculated through December 28, 2007, the last trading day prior to the end of PepsiCo's fiscal year. The return for the S&P 500 and the S&P Average indices is calculated through December 31, 2007.

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
PepsiCo, Inc.	$100	$113	$129	$149	$161	$202
S&P 500®	$100	$129	$143	$150	$173	$183
S&P® Avg. of Industry Groups	$100	$110	$121	$118	$137	$152