

# Dear Fellow Shareholders,

A Roman author said more than two millennia ago that anyone can steer the ship when the sea is calm. The true test of endurance and stamina, he went on, is to navigate through rough waters. Well, this year has seen some of the roughest possible waters. The economic tempest of 2008 turned into the perfect storm of 2009. Business was battered by volatile commodity costs, frozen credit markets, fluctuating currencies and negative GDP rates.

At PepsiCo, it seemed as if each day brought a new challenge. Every one of them tested the strength and capabilities of our organization. And I can declare with great pride that we passed the test of endurance and stamina wonderfully well. We are a company with great resilience. The ability of our associates to pull together has left me excited about our momentum from 2009 into 2010 and beyond.

I don't think this is due just to the ability of all the great people we have. I think our company is more than the sum of those considerable parts; we draw extra strength from the solid foundation of values and principles upon which PepsiCo is built.

The business community and government did a great deal of soul-searching in the midst of the challenging global economy, seeking to uncover the source of our world's financial problems and how best to share responsibility to address the situation. As debates raged on issues that are core to a vibrant, functioning marketplace, it became increasingly clear as the year went on that corporate ethics are inexorably linked to a healthy economy.

A former American president, Dwight Eisenhower, once said, "A people that values its privileges above its principles soon loses both." The same is true of a company, and the past 18 months have proved the wisdom of the remark.

Here at PepsiCo, we are fortunate to have embedded *Performance with Purpose* into our culture and fabric long before this current downturn. It is one of the fundamental factors that kept PepsiCo on the leading edge in 2009.

Our basic belief—that companies today must marry performance with ethical concerns—is resonating more than ever before. For consumers, this translates into receiving value, both economic and social, from trusted brands. For governments and the wider public, it translates into responsibility.

Indra K. Nooyi, Chairman and Chief Executive Officer



This acknowledges that businesses have a responsibility to the communities in which they operate, to the consumers they serve and to the environment whose resources they use.

We provide great-tasting products, outstanding quality and supreme value to consumers worldwide, while maintaining an underpinning of integrity and responsibility. We have instilled this fundamental belief into all of our brands—Quaker Oats, Tropicana, Sabritas, Walkers, Lay's, Gatorade and Pepsi-Cola, to name a few—to ensure we offer consumers a diverse portfolio of enjoyable and wholesome nutritious foods and beverages. We take seriously our responsibility to find innovative ways to use less energy, water and packaging, our responsibility to hire local people in the communities where we operate, create products designed for local tastes, and partner with local producers and suppliers. And, we have expanded our responsibility to partner with local governments and NGOs to address the growing twin problems of malnutrition and obesity acute to different parts of the world.

*Performance with Purpose* means that we will continue to bring together what is good for society and what is good for business. It encourages us to think globally while acting locally. It has helped us break into new regions and harness local products and talent to drive our growth. It drives our commitment to increase diversity in the workforce, enhancing our ability to



recruit the brightest and most talented associates from around the world. And it helps keep us focused on staying strong over the long term so that we are well-prepared to capitalize on all growth opportunities. Most importantly, the promise of PepsiCo is to continue to generate solid value for our shareholders.

### PEPSICO DELIVERED SOLID FINANCIAL PERFORMANCE IN 2009

Amidst the most challenging global macroeconomic environment in decades, we demonstrated the strength and resilience of both our people and portfolio by delivering solid operating performance and generating significant operating cash flow.

- Net revenue grew 5% on a constant currency basis.\*
- Core division operating profit rose 6% on a constant currency basis.\*
- Core EPS grew 6% on a constant currency basis.\*
- Management operating cash flow, excluding certain items, reached \$5.6 billion, up 16%.\*
- And, we raised the annual dividend by 6%.

Let me offer a few highlights from 2009:

**PepsiCo Americas Foods (PAF)** had another exceptional year with strong net revenue and operating profit growth despite significant commodity inflation. We held or grew share across the region, sustaining consumer momentum with solid innovation and targeted value offerings.

Although all of Europe was hit hard by the economic recession, **PepsiCo Europe** outpaced its peers and delivered solid results through excellent revenue management, tight cost controls and outstanding productivity.

**PepsiCo Asia Middle East and Africa (AMEA)** had another excellent year, with solid net revenue and operating profit growth driven by strong volume growth across the region, with exceptional growth in our India beverage business.

**PepsiCo Americas Beverages (PAB)**, which faced considerable category pressures in North America, continued to make significant progress in rejuvenating the entire beverage portfolio. We successfully launched the Pepsi “Refresh Everything” campaign, gained traction on our Gatorade transformation to “G,”

and brought exciting innovation to market with the launch of zero-calorie SoBe Lifewater and Trop50 orange juice beverage, both naturally sweetened with purified stevia extract. We also reached agreement on merging into PepsiCo our two anchor bottlers, Pepsi Bottling Group and PepsiAmericas, in order to create a more agile, efficient, innovative and competitive beverage system, which will enable us to extend our leadership position in the North American Liquid Refreshment Beverage business.

With the merger of our anchor bottlers, PepsiCo will be a nearly \$60 billion company in terms of annual revenue. We are the largest food and beverage business in North America and the second-largest food and beverage business in the world, making us a critical partner for all retailers. We will have a new business structure and, as outlined below, clear strategies to support continued strong growth—growth that will enable us to continue to be both an attractive place to work and an attractive investment.

### STRATEGIES TO DRIVE OUR GROWTH

We continue to focus on delivering top-quartile financial performance in both the near term and the long term, while making the global investments in key regions and targeted product categories to drive sustainable growth. The next chapter in our growth is founded on six long-term growth strategies:

- 1. Expand the Global Leadership Position of Our Snacks Business.** PepsiCo is the global snacks leader, with the No. 1 savory category share position in virtually every key region across the globe. We have advantaged positions across the entire value chain in more than 40 developed and developing regions in which we operate as we capitalize on local manufacturing and optimized go-to-market capabilities in each region, as well as the ability to introduce locally relevant products using global capabilities. And we have significant growth opportunities as we expand our current businesses in these regions, extend our reach into new geographies and enter adjacent categories. Importantly, we will continue to make our core snacks healthier through innovations in heart-healthier oil, sodium reduction and the addition of whole grains, nuts and seeds.

\*Core results and core results on a constant currency basis are non-GAAP measures that exclude certain items. Please refer to pages 91 and 92 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.



**2. Ensure Sustainable, Profitable Growth in Global Beverages.** The merger with our anchor bottlers creates a lean, agile organization in North America with an optimized supply chain, a flexible go-to-market system and enhanced innovation capabilities. When combined with the actions we are taking to refresh our brands across the entire beverage category, we believe this game-changing transaction will enable us to accelerate our top-line growth and also improve our profitability. We continue to see significant areas of global beverage growth, particularly in developing markets and in evolving categories. We will invest in those attractive opportunities, concentrating in geographies and categories in which we are the leader or a close second, or where the competitive game remains wide open. Additionally, we will use our R&D capabilities to develop low- and zero-calorie beverages that taste great and add positive nutrition such as fiber, vitamins and calcium.

**3. Unleash the Power of “Power of One.”** PepsiCo is in the unique position to leverage two extraordinary consumer categories that have special relevance to retailers across the globe. Our snacks and beverages are both high-velocity categories; both generate retail traffic; both are very profitable; and both deliver exceptional cash flow. The combination of snacks and beverages—with our high-demand global and local brands—makes PepsiCo an essential partner for large-format as well as small-format retailers. We will increasingly use this portfolio and the high coincidence of consumption of these products through integrated offerings (products, marketing and merchandising) to create value for consumers and deliver greater top-line growth for retailers. We also will be accelerating Power of One supply chain and back-office synergies in many regions to improve profitability and enhance customer service.

**4. Rapidly Expand Our “Good-for-You” Portfolio.** PepsiCo currently has a roughly \$10 billion core of “Good-for-You” products anchored by: Tropicana, Naked juice, Lebedyansky, Sandora and our other juice brands; Aquafina; Quaker Oats;

Gatorade (for athletes); the new dairy joint venture with Almarai; and local “Good-for-You” products and brands. We will build on this core with an increasing stream of science-based innovation derived from the R&D capabilities that we have been ramping up over the past couple of years, as well as from targeted acquisitions and joint ventures. We will be investing to accelerate the growth of these platforms, and we will use the knowledge from these initiatives to improve our core snack and beverage offerings and also to develop highly nutritious products for undernourished people across the world.

**5. Continue to Deliver on Our Environmental Sustainability Goals and Commitments.** We are committed to protecting the Earth’s natural resources and are well on our way to meeting our public goals for meaningful reductions in water, electricity and fuel usage. Our businesses around the world are implementing innovative approaches to be significantly more efficient in the use of land, energy, water and packaging—and we are actively working with the communities in which we operate to be responsive to their resource needs. In 2009, we formalized our commitment to water as a human right, and we will focus not only on world-class efficiency in our operations, but also on preserving water resources and enabling access to safe water. Our climate change focus is on reducing our carbon footprint, including a reduction in absolute greenhouse gas emissions through continued improvement in energy efficiency and the use of alternative energy sources. We actively work with our farmers to promote sustainable agriculture—and we are developing new packaging alternatives in both snacks and beverages to reduce our impact on the environment.

**6. Cherish Our Associates and Develop the Leadership to Sustain Our Growth.** We have an extraordinary talent base across our global organization—in our manufacturing facilities, our sales and distribution organizations, our marketing groups, our staff functions and with our general managers. As we expand our businesses, we are placing heightened focus on ensuring that we maintain an inclusive environment and on



developing the careers of our associates—all with the goal of continuing to have the leadership talent, capabilities and experience necessary to grow our businesses well into the future. As an example, we are implementing tailored training programs to provide our managers and senior executives with the strategic and leadership capabilities required in a rapidly changing environment.

These six strategies are being implemented across PepsiCo by our experienced leadership team that is geographically focused and coordinated through global centers of excellence and global functional leadership.

- **John Compton**, a 26-year PepsiCo veteran, leads PepsiCo Americas Foods, which spans all of our snack and food businesses in the Americas.
- PepsiCo Americas Beverages, which encompasses our beverage businesses across the Americas, is led by **Eric Foss** and **Massimo d'Amore**. Eric has 28 years in the PepsiCo family and brings extensive operational experience to his role as the leader of our bottling company. Massimo, with his 30 years in the global consumer space and 15 years with PepsiCo, provides leadership for all brands as well as operational leadership for Gatorade, Tropicana and our Latin America franchise business.
- **Zein Abdalla**, with more than 30 years in consumer goods and more than 14 years with PepsiCo, leads our food and beverage business in Europe.
- **Saad Abdul-Latif**, a 28-year veteran of PepsiCo, leads our food and beverage businesses in Asia, Middle East and Africa, our fastest-growing regions.

These general managers are supported by functional leaders and other executives who ably manage every aspect of our growing enterprise. Taken together, our top 15 leaders have more than 260 years of combined experience in the consumer space, with an average of 18 years each!

It is the true dedication, commitment, hard work and unity of purpose of PepsiCo's management teams, combined

*Our sincerest thanks...*

*During his 20-year career at PepsiCo, Mike White contributed significantly to PepsiCo—as CFO of Frito-Lay, CFO of Pepsi-Cola Company worldwide, CFO of PepsiCo, CEO of Frito-Lay Europe and then CEO of PepsiCo International. He served admirably as PepsiCo's Vice Chairman from 2006–2009, and played a major role in executing many of the company's acquisitions during that time. All of us at PepsiCo—from the Board to the Executive Team to the countless others he supported and mentored—thank Mike for his many contributions to PepsiCo and wish him and his family the very best.*

with our solid foundations for growth, that give me great optimism for 2010 and beyond. While we cannot underestimate the challenges that lie ahead as countries, businesses and consumers around the world begin to recover from what has been a turbulent and traumatic 18 months, I am confident that PepsiCo is starting from a strong position financially, operationally and culturally.

Our commitment to the principles and values of *Performance with Purpose* has helped us earn trust and respect from our consumers and partners, and the communities in which we operate across the world. By staying true to this foundation and continuing to execute on our strategies, we are sure that PepsiCo will continue to provide long-term sustainable growth for all stakeholders.

The *Performance with Purpose* initiatives that we have chosen to showcase in this year's annual report demonstrate that what's right for society is also what's right for business. It is a belief to which we are deeply committed. It has stood the test in difficult years, and we believe it will stand the test of time to come.

**INDRA K. NOOYI**  
Chairman and Chief Executive Officer