

PEPSICO INC
Form 10-K
February 18, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 25, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-1183

PepsiCo, Inc.

(Exact Name of Registrant as Specified in Its Charter)

North Carolina

13-1584302

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

700 Anderson Hill Road, Purchase, New York

10577

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: 914-253-2000

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

| Title of each class | Name of each exchange on which registered |
|--|--|
| Common Stock, par value 1-2/3 cents per share | New York and Chicago Stock Exchanges |
| Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None | |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
 No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|--|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of PepsiCo Common Stock held by nonaffiliates of PepsiCo (assuming for these purposes, but without conceding, that all executive officers and directors of PepsiCo are affiliates of PepsiCo) as of June 11, 2010, the last day of business of our most recently completed second fiscal quarter, was \$101,306,369,191 (based on the closing sale price of PepsiCo's Common Stock on that date as reported on the New York Stock Exchange).

The number of shares of PepsiCo Common Stock outstanding as of February 11, 2011 was 1,586,503,366.

**Documents of Which Portions
Are Incorporated by Reference
Proxy Statement for PepsiCo's May 4, 2011
Annual Meeting of Shareholders**

**Parts of Form 10-K into Which Portion of
Documents Are Incorporated
III**

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PepsiCo, Inc.
Form 10-K Annual Report
For the Fiscal Year Ended December 25, 2010
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PART I

Item 1. Business.

PepsiCo, Inc. was incorporated in Delaware in 1919 and was reincorporated in North Carolina in 1986. When used in this report, the terms we, us, our, PepsiCo and the Company mean PepsiCo, Inc. and its divisions and subsidiaries.

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.

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 Divisions

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;

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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.

See Note 1 to our consolidated financial statements for financial information about our divisions and geographic areas.

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. FLNA's net revenue was \$13.4 billion, \$13.2 billion and \$12.5 billion in 2010, 2009 and 2008, respectively, and approximated 23%, 31% and 29% of our total net revenue in 2010, 2009 and 2008, respectively.

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. QFNA's net revenue was \$1.8 billion in 2010 and \$1.9 billion in both 2009 and 2008 and approximated 3% of our total net revenue in 2010 and 4% of our total net revenue in both 2009 and 2008.

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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. LAF's net revenue was \$6.3 billion, \$5.7 billion and \$5.9 billion in 2010, 2009 and 2008, respectively and approximated 11%, 13% and 14% of our total net revenue in 2010, 2009 and 2008, respectively.

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 net revenue was \$20.4 billion, \$10.1 billion and \$10.9 billion in 2010, 2009 and 2008, respectively, and approximated 35%, 23% and 25% of our total net revenue in 2010, 2009 and 2008, respectively.

See Note 15 for additional information about our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (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's net revenue was \$9.3 billion, \$6.7 billion and \$6.9 billion in 2010, 2009 and 2008,

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respectively and approximated 16% of our total net revenue in 2010, 2009 and 2008. See Note 15 for additional information about our acquisitions of PBG and PAS in 2010.

Also see *Acquisition of Wimm-Bill-Dann Foods OJSC* below and Note 15 for additional information about our acquisition of Wimm-Bill-Dann Foods OJSC.

Asia, Middle East & Africa

AMEA makes, markets and sells a number of leading snack food brands including Lay's, Chippy, 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's net revenue was \$6.6 billion, \$5.6 billion and \$5.1 billion in 2010, 2009 and 2008, respectively and approximated 12%, 13% and 12% of our total net revenue in 2010, 2009 and 2008, respectively.

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 Form 10-K reflect the management reporting that existed through the end of our 2010 fiscal year.

Acquisition of Wimm-Bill-Dann Foods OJSC

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 Wimm-Bill-Dann Foods OJSC, a company incorporated in the Russian Federation (WBD), 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

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billion. The acquisition increased PepsiCo's total ownership of WBD to approximately 77%. See Note 15 for additional information about our acquisition of WBD.

Our Distribution Network

Our products are brought to market through direct-store-delivery (DSD), customer warehouse and foodservice and vending distribution networks. The distribution system used depends on customer needs, product characteristics and local trade practices. These distribution systems are described under the heading "Our Distribution Network" contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Ingredients and Other Supplies

The principal ingredients we use in our food and beverage businesses are 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 resins 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. These ingredients, raw materials and commodities are purchased mainly in the open market. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages. The prices we pay for such items are subject to fluctuation. When prices increase, we may or may not pass on such increases to our customers. See Note 10 to our consolidated financial statements for additional information on how we manage our exposure to commodity costs.

Our Brands

We own numerous valuable trademarks which are essential to our worldwide businesses, including Alegro, Amp Energy, Aquafina, Aunt Jemima, Cap'n Crunch, Cheetos, Chester's, Chippy, Cracker Jack, Diet Pepsi, Doritos, Duyvis, Emperador, Frito-Lay, Fritos, Fruktovy Sad, Frustyle, Gamesa, Gatorade, G2, G Series, Grandma's, Izze, Kurkure, Lay's, Life, Manzanita Sol, Marias Gamesa, Matutano, Mirinda, Miss Vickie's, Mother's, Mountain Dew, Mug, Munchies, Naked, Near East, Paso de los Toros, Pasta Roni, Pepsi, Pepsi Max, Pepsi One, Propel, Quaker, Quaker Chewy, Quakes, Red Rock Deli, Rice-A-Roni, Rold Gold, Ruffles, Sabritas, Saladitas, Sakata, Sandora, 7UP and Diet 7UP (outside the United States), Santitas, Sierra Mist, Simba, Smartfood, Smith's, Snack a Jacks, SoBe, SoBe Lifewater, Sonric's, Stacy's, SunChips, Tonus, Tostitos, Trop 50, Tropicana, Tropicana Pure Premium, Tropicana Twister, V Water, Walkers and Ya. We also hold long-term licenses to use valuable trademarks in connection with our products, including Dole and Ocean Spray. Joint ventures in which we participate either own or have the right to use certain trademarks, such as Lipton, Starbucks and Sabra. Trademarks remain valid so long as they are used properly for identification purposes,

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and we emphasize correct use of our trademarks. We have authorized, through licensing arrangements, the use of many of our trademarks in such contexts as snack food joint ventures and beverage bottling appointments. In addition, we license the use of our trademarks on promotional items for the primary purpose of enhancing brand awareness.

We either own or have licenses to use a number of patents which relate to some of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. Some of these patents are licensed to others.

Seasonality

Our beverage and food divisions are subject to seasonal variations. Our beverage sales are higher during the warmer months and certain food sales are higher in the cooler months. Weekly beverage and snack sales are generally highest in the third quarter due to seasonal and holiday-related patterns, and generally lowest in the first quarter. However, taken as a whole, seasonality does not have a material impact on our business.

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.

Retail consolidation and the current economic environment continue to increase the importance of major customers. In 2010, sales to Wal-Mart Stores, Inc. (Wal-Mart), including Sam's Club (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 *Our Customers* and *Our Related Party Bottlers* contained in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 8 to our consolidated financial statements for more information on our customers, including our independent bottlers and Note 15 to our consolidated financial statements for additional information about acquisitions of PBG and PAS in 2010.

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 (carbonated soft drinks) consumption,

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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.

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- (1) The categories and category share information in the charts above are as of December 2010 and are defined by the following source of the information: Information Resources, Inc. The above charts exclude data from certain customers such as Wal-Mart that do not report data to this service.

Research and Development

We engage in a variety of research and development activities and continue to invest to accelerate growth in these activities. These activities principally involve the development of new products and improvement in the quality of existing products. In 2010, we created our Global Nutrition Group, led by our Chief Scientific Officer, charged with collaborating with each of our divisions to grow our nutrition portfolio by focusing on four target platforms: fruits and vegetables, grains, dairy and functional nutrition. We also expanded our portfolio of products made with all-natural ingredients, increased the amount of whole grains, fruits, vegetables, nuts, seeds and low-fat dairy in certain of our products and took steps to reduce the average amount of sodium, saturated fat and added sugar per serving in certain of our products. We entered into a long-term collaboration agreement with Senomyx, Inc., a leading company focused on proprietary technologies, to discover and develop sweet enhancers and natural high-potency sweeteners with the intent to bring to the marketplace lower-calorie, great tasting PepsiCo beverages. We invested in agricultural development and the development and implementation of new technologies to both enhance the quality and value of current and proposed product lines and to minimize our impact on the environment, including by building facilities that conserve energy and raw materials and reduce waste and by reviewing our packaging process to continue to reduce total packaging volume, recycle containers, use renewable resources and remove environmentally sensitive materials. 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

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\$388 million in 2008 and are reported within selling, general and administrative expenses.

Regulatory Environment and Environmental Compliance

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 where we operate. It is our policy to abide by the laws and regulations around the world that apply to our businesses.

In the United States, we are required to comply with federal laws, such as the Food, Drug and Cosmetic Act, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Motor Carrier Safety Act, The Foreign Corrupt Practices Act, laws governing equal employment opportunity, customs and foreign trade laws and regulations, laws regulating the sales of products in schools, and various other federal statutes and regulations. We are also subject to various state and local statutes and regulations, including California Proposition 65 which requires that a specific warning appear on any product that contains a component listed by the State of California as having been found to cause cancer or birth defects. Many food and beverage producers who sell products in California, including PepsiCo, may be required to provide warning labels on their products. See also Item 1A. Risk Factors 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. Outside the United States, we are subject to numerous similar and other laws and regulations, including anti-corruption laws and regulations. In addition, in many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions. We rely on legal and operational compliance programs, as well as local in-house and outside counsel, to guide our businesses in complying with applicable laws and regulations of the countries in which we do business.

Legislation has been enacted in certain U.S. states and in certain of the countries in which our products are sold that requires collection and recycling of containers or that prohibits the sale of our beverages in certain non-refillable containers unless a deposit or other fee is charged. It is possible that similar or more restrictive legal requirements may be proposed or enacted in the future. In addition, proposals have been introduced in certain jurisdictions in which we operate which would impose special taxes on products we sell. For example, various federal, state and local government officials have raised the possibility of taxing the sale of certain sugared beverages, including non-diet soft drinks, fruit drinks, teas and flavored waters, to help pay for the cost of certain government programs.

The cost of compliance with U.S. and foreign laws does not have a material financial impact on our operations.

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We are also subject to national and local environmental laws in the United States and in foreign countries in which we do business, including laws related to water consumption and treatment, wastewater and air emissions, handling and disposal of waters, and, in the United States, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and other federal and state laws regarding handling, release and disposal of wastes at on-site and off-site locations. We are committed to meeting all applicable environmental compliance requirements. We and our subsidiaries are subject to environmental remediation obligations in the normal course of business, as well as remediation and related indemnification obligations in connection with certain historical activities and contractual obligations of businesses acquired by our subsidiaries. While neither the results of these proceedings nor any indemnification obligations or other liabilities of our subsidiaries in connection therewith can be predicted with certainty, environmental compliance costs have not had, and are not expected to have, a material impact on our capital expenditures, earnings or competitive position. See also

Item 1A. Risk Factors 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.

Employees

As of December 25, 2010, we employed approximately 294,000 people worldwide, including approximately 108,000 people within the United States. Our employment levels are subject to seasonal variations. We or our subsidiaries are a party to numerous collective bargaining agreements. We expect that we will be able to renegotiate these collective bargaining agreements on satisfactory terms when they expire. We believe that relations with our employees are generally good.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are also available free of charge on our Internet site at <http://www.pepsico.com> as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

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This Annual Report on Form 10-K contains statements reflecting our views about our future performance that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as believe, expect, intend, estimate, project, anticipate, will and variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. 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.

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

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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.

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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.

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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

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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. See also Item 1. Business Regulatory Environment and Environmental Compliance.

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

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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 slow-down 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** contained in **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations** 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.

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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. and Market Risks contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 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.

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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.

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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 The Pepsi Bottling Group, Inc. and PepsiAmericas, Inc., and we recently acquired approximately 77% of Wimm-Bill-Dann Foods OJSC (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.

Item 1B. Unresolved Staff Comments.

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2010 fiscal year and that remain unresolved.

Item 2. Properties.

Our most significant corporate properties include our corporate headquarters building in Purchase, New York and our data center in Plano, Texas, both of which are owned. Leases of plants in North America generally are on a long-term basis, expiring at various times, with options to renew for additional periods. Most international plants are owned or leased on a long-term basis. We believe that our properties are in good operating condition and are suitable for the purposes for which they are being used.

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Frito-Lay North America

FLNA's most significant properties include its headquarters building and a research facility in Plano, Texas, both of which are owned. FLNA also owns or leases approximately 40 food manufacturing and processing plants and approximately 1,755 warehouses, distribution centers and offices. In addition, FLNA also utilizes approximately 55 plants and production processing facilities that are owned or leased by our contract manufacturers or co-packers. FLNA's joint venture with Strauss Group also utilizes four plant facilities, two warehouses and distribution centers and one office, all of which are owned or leased by the joint venture.

Quaker Foods North America

QFNA owns a plant in Cedar Rapids, Iowa, which is its most significant property. QFNA also owns or leases two plants and production processing facilities in North America. In addition, QFNA utilizes approximately 25 manufacturing plants, production processing facilities and distribution centers that are owned or leased by our contract manufacturers or co-packers.

Latin America Foods

LAF's most significant properties include four snack manufacturing plants in the Mexican cities of Guadalajara, Vallejo, Celaya and Ixtaczoquitlan and the Brazilian city of Itu, all of which are owned. LAF also owns or leases approximately 50 food manufacturing and processing plants and approximately 645 warehouses, distribution centers and offices. In addition, LAF also utilizes five properties owned by contract manufacturers or co-packers. LAF also utilizes one plant facility and six distribution centers which are co-owned or co-leased by a joint venture partner.

PepsiCo Americas Beverages

PAB's most significant properties include PBC's headquarters building in Somers, New York and the headquarters building PepsiCo Beverages Americas shares with QFNA in downtown Chicago, Illinois, both of which are leased, and its Tropicana facility in Bradenton, Florida, its concentrate plants in Cork, Ireland and its research and development facility in Valhalla, New York, all of which are owned. PAB also owns or leases approximately 115 bottling and production plants and production processing facilities and approximately 620 warehouses, distribution centers and offices. In addition, authorized bottlers in which we have an ownership interest own or lease approximately 15 bottling plants and 215 distribution centers. PAB also utilizes approximately 55 plants and production processing facilities and approximately 25 warehouses and distribution centers that are owned or leased by our contract manufacturers or co-packers. PAB also utilizes three plants that are co-owned by a joint venture partner.

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Europe's most significant properties are its snack manufacturing and processing plant located in Leicester, United Kingdom which is leased, and its snack research and development facility in Leicester, United Kingdom, and its beverage plant in Lebedyan, Russia, both of which are owned. Europe also owns or leases approximately 65 plants and approximately 660 warehouses, distribution centers and offices. In addition, authorized bottlers in which we have an ownership interest own or lease two plants and five distribution centers. Europe also utilizes approximately 20 properties owned by contract manufacturers or co-packers. In addition, Europe utilizes one plant and production processing facility and three distribution centers that are co-owned by or co-leased with a joint venture partner.

Asia, Middle East & Africa

AMEA's most significant properties are its beverage plants located in Shenzhen, China, Sixth of October City, Egypt and Amman, Jordan and its snack manufacturing and processing plants located in Sixth of October City, Egypt and Tingalpa, Australia, each of which are owned. AMEA also owns or leases approximately 80 plants and approximately 1,175 warehouses, distribution centers and offices. In addition, authorized bottlers in which we have an ownership interest own or lease approximately 25 plants and 100 distribution centers. AMEA also utilizes approximately 40 properties owned by contract manufacturers or co-packers. In addition, AMEA also utilizes approximately 25 plants and production processing facilities and approximately 15 distribution centers that are co-owned by or co-leased with our joint venture partners.

Shared Properties

QFNA shares two production facilities and two warehouses and distribution centers with FLNA, 12 warehouses and distribution centers with both FLNA and PAB, and 11 offices with both FLNA and PAB, including a research and development laboratory in Barrington, Illinois. FLNA shares one production facility with PAB and one production facility with LAF. PAB, Europe and AMEA share two production facilities. Europe and AMEA share a research and development facility. PAB and LAF share four beverage plants. PAB and AMEA share a concentrate plant.

Item 3. Legal Proceedings.

On December 22, 2009, Wojewodzka Inspekcja Ochrony Srodowiska, the Polish environmental control authority, began an audit of a bottling plant of our subsidiary, Pepsi-Cola General Bottlers Poland SP, z.o.o. (PCGB), in Michrow, Poland and alleged that the plant was not in compliance in 2007 and 2008 with applicable regulations requiring the use of approved laboratories for the analysis of the plant's waste. The Wojewodzka Inspekcja Ochrony Srodowiska sought monetary sanctions of \$1.2 million. PCGB appealed this decision and the appeal is pending. On January 6, 2011, Wojewodzka Inspekcja Ochrony Srodowiska began an audit alleging non-compliance in 2009 and PCGB expects it may

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seek monetary sanctions of \$900,000.

In addition, we and our subsidiaries are party to a variety of legal proceedings arising in the normal course of business. While the results of these proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows. See also Item 1. Business Regulatory Environment and Environmental Compliance.

Item 4. Removed and Reserved.

Executive Officers of the Registrant

The following is a list of names, ages and backgrounds of our current executive officers:

Zein Abdalla, 52, became Chief Executive Officer of PepsiCo Europe in November 2009. Mr. Abdalla joined PepsiCo in 1995 and has held a variety of senior positions. He has served as General Manager of Tropicana Europe and Franchise Vice President for Pakistan and the Gulf region. From 2005 to 2008 he led PepsiCo's continental Europe operations. In September 2008 he went on to lead the complete portfolio of PepsiCo businesses in Europe. Prior to joining PepsiCo, Mr. Abdalla worked for Mars Incorporated in engineering and manufacturing roles, as well as in sales, marketing, human resources and general management.

Saad Abdul-Latif, 57, was appointed to the role of Chief Executive Officer of PepsiCo Asia, Middle East and Africa (AMEA) in November 2009. Mr. Abdul-Latif began his career with PepsiCo in 1982 where he held a wide range of international roles in PepsiCo's food and beverage businesses. In 1998, he was appointed General Manager for PepsiCo's beverage business in the MENAPAK Business Unit. In 2001, his region was expanded to include Africa and Central Asia. In 2004, the snacks business in his region was included under his leadership, forming the consolidated Middle East and Africa (MEA) Region. In September 2008, his responsibilities were extended to Asia, forming the new AMEA Division of PepsiCo International where he acted as President of AMEA.

Peter A. Bridgman, 58, has been PepsiCo's Senior Vice President and Controller since August 2000. Mr. Bridgman began his career with PepsiCo at Pepsi-Cola International in 1985 and became Chief Financial Officer for Central Europe in 1990. He became Senior Vice President and Controller for Pepsi-Cola North America in 1992 and Senior Vice President and Controller for The Pepsi Bottling Group, Inc. in 1999.

Albert P. Carey, 59, was appointed President and Chief Executive Officer of Frito-Lay North America in June 2006. Mr. Carey began his career with Frito-Lay in 1981 where he spent 20 years in a variety of roles. He served as President, PepsiCo Sales from February 2003 until June 2006. Prior to that, he served as Chief Operating Officer,

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PepsiCo Beverages & Foods North America from June 2002 to February 2003 and as PepsiCo's Senior Vice President, Sales and Retailer Strategies from August 1998 to June 2002.

John C. Compton, 49, has been Chief Executive Officer of PepsiCo Americas Foods since November 2007. Mr. Compton began his career at PepsiCo in 1983 as a Frito-Lay Production Supervisor in the Pulaski, Tennessee manufacturing plant. He has spent 26 years at PepsiCo in various Sales, Marketing, Operations and General Management assignments. From March 2005 until September 2006, he was President and Chief Executive Officer of Quaker, Tropicana, Gatorade, and from September 2006 until November 2007, he was Chief Executive Officer of PepsiCo North America. Mr. Compton served as Vice Chairman and President of the North American Salty Snacks Division of Frito-Lay from March 2003 until March 2005. Prior to that, he served as Chief Marketing Officer of Frito-Lay's North American Salty Snacks Division from August 2001 until March 2003.

Massimo Fasanella d Amore, 55, has been Chief Executive Officer of PepsiCo Beverages Americas since February 2010. Mr. d Amore was Chief Executive Officer of PepsiCo Americas Beverages from 2007 to February 2010 and was Executive Vice President, Commercial for PepsiCo International from 2005 to 2007. Prior to that, he served as President, Latin America Region for PepsiCo Beverages International from February 2002 until November 2005 and as PepsiCo's Senior Vice President of Corporate Strategy and Development from August 2000 until February 2002. Mr. d Amore began his career with the Company in 1995 as Vice President, Marketing for Pepsi-Cola International and was promoted to Senior Vice President and Chief Marketing Officer of Pepsi-Cola International in 1998. Before joining PepsiCo, he was with Procter & Gamble for 15 years in various international operations, marketing and general management positions.

Eric J. Foss, 52, has been Chief Executive Officer of Pepsi Beverages Company since February 2010. Mr. Foss was Chief Executive Officer of The Pepsi Bottling Group, Inc. from July 2006 until February 2010. Mr. Foss served as PBG's Chief Operating Officer from September 2005 to July 2006. He was named President, PBG North America in 2001 after serving as Executive Vice President and General Manager of PBG North America since 2000. He joined PBG as Senior Vice President, U.S. Sales and Field Marketing in 1999 when PBG was spun off from PepsiCo in an initial public offering. Mr. Foss joined Pepsi-Cola Company in 1982 and held a variety of positions with increasing responsibility in the areas of sales, marketing and general management in the field and at headquarters. In 1990, Mr. Foss was named Vice President, Retail Strategy for Pepsi-Cola North America (PCNA). From 1994 to 1996, he served as General Manager of PCNA's Great West Business Unit. In 1996, he was named General Manager of Pepsi-Cola's Central Europe business.

Richard Goodman, 62, has been PepsiCo's Executive Vice President, Operations since March 2010. From 2006 until 2010, Mr. Goodman was PepsiCo's Chief Financial Officer and from 2003 until October 2006 Mr. Goodman was Senior Vice President and Chief Financial Officer of PepsiCo International. Prior to that, he served as Senior Vice

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President and Chief Financial Officer of PepsiCo Beverages International from 2001 to 2003 and as Vice President and General Auditor of PepsiCo from 2000 to 2001. Mr. Goodman joined PepsiCo in 1992 as Vice President of Corporate Strategic Planning, International and held a number of senior financial positions with PepsiCo and its affiliates until 1997 when he left PepsiCo to pursue other opportunities. Before joining PepsiCo, Mr. Goodman was with W.R. Grace & Co. in a variety of global chief financial officer positions.

Hugh F. Johnston, 49, was appointed Chief Financial Officer in March 2010. He previously held the position of Executive Vice President, Global Operations since November 2009 and the position of President of Pepsi-Cola North America since November 2007. He was formerly PepsiCo's Executive Vice President, Operations, a position he held from October 2006 until November 2007. From April 2005 until October 2006, Mr. Johnston was PepsiCo's Senior Vice President, Transformation. Prior to that, he served as Senior Vice President and Chief Financial Officer of PepsiCo Beverages and Foods from November 2002 through March 2005, and as PepsiCo's Senior Vice President of Mergers and Acquisitions from March 2002 until November 2002. Mr. Johnston joined PepsiCo in 1987 as a Business Planner and held various finance positions until 1999 when he left to join Merck & Co., Inc. as Vice President, Retail, a position which he held until he rejoined PepsiCo in 2002. Prior to joining PepsiCo in 1987, Mr. Johnston was with General Electric Company in a variety of finance positions.

Dr. Mehmood Khan, 52, has been Chief Executive Officer of PepsiCo's Global Nutrition Group since November 2010 and PepsiCo's Chief Scientific Officer since 2008. Prior to joining PepsiCo, Dr. Khan served for five years at Takeda Pharmaceuticals in various leadership roles including President of Research and Development and Chief Medical Officer. Dr. Khan also served at the Mayo Clinic until 2003 as the director of the Diabetes, Endocrinology and Nutrition Clinical Unit and as Consultant Physician in Endocrinology.

Indra K. Nooyi, 55, has been PepsiCo's Chief Executive Officer since October 2006 and assumed the role of Chairman of PepsiCo's Board of Directors on May 2, 2007. She was elected to PepsiCo's Board of Directors and became President and Chief Financial Officer in May 2001, after serving as Senior Vice President and Chief Financial Officer since February 2000. Ms. Nooyi also served as PepsiCo's Senior Vice President, Corporate Strategy and Development from 1996 until February 2000, and as PepsiCo's Senior Vice President, Strategic Planning from 1994 until 1996. Prior to joining PepsiCo, Ms. Nooyi spent four years as Senior Vice President of Strategy, Planning and Strategic Marketing for Asea Brown Boveri, Inc. She was also Vice President and Director of Corporate Strategy and Planning at Motorola, Inc.

Larry D. Thompson, 65, became PepsiCo's Senior Vice President, Government Affairs, General Counsel and Secretary in November 2004. Prior to joining PepsiCo, Mr. Thompson served as a Senior Fellow with the Brookings Institution in Washington, D.C. and served as Deputy Attorney General in the U.S. Department of Justice. In 2002, he was named to lead the Department of Justice's National Security Coordination Council and was also named by President Bush to head the Corporate Fraud Task Force. In April

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2000, Mr. Thompson was selected by Congress to chair the bipartisan Judicial Review Commission on Foreign Asset Control. Prior to his government career, he was a partner in the law firm of King & Spalding, a position he held from 1986 to 2001.

Cynthia M. Trudell, 57, has been PepsiCo's Senior Vice President, Chief Personnel Officer since February 2007. Ms. Trudell served as a director of PepsiCo from January 2000 until her appointment to her current position. She was formerly Vice President of Brunswick Corporation and President of Sea Ray Group from 2001 until 2006. From 1999 until 2001, Ms. Trudell served as General Motors' Vice President, and Chairman and President of Saturn Corporation, a wholly owned subsidiary of GM. Ms. Trudell began her career with the Ford Motor Co. as a chemical process engineer. In 1981, she joined GM and held various engineering and manufacturing supervisory positions. In 1995, she became plant manager at GM's Wilmington Assembly Center in Delaware. In 1996, she became President of IBC Vehicles in Luton, England, a joint venture between General Motors and Isuzu.

Executive officers are elected by our Board of Directors, and their terms of office continue until the next annual meeting of the Board or until their successors are elected and have qualified. There are no family relationships among our executive officers.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Stock Trading Symbol PEP

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

Stock Prices The composite quarterly high, low and closing prices for PepsiCo common stock for each fiscal quarter of 2010 and 2009 are contained in our Selected Financial Data included on page 127.

Shareholders At February 11, 2011, there were approximately 165,000 shareholders of record of our common stock.

Dividends 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 of 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. Information with respect to the quarterly dividends declared in 2010 and 2009 is contained in our Selected Financial Data.

For information on securities authorized for issuance under our equity compensation plans, see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

A summary of our common stock repurchases (in millions, except average price per share) during the fourth quarter of 2010 under the \$15.0 billion repurchase program authorized by our Board of Directors and publicly announced on March 15, 2010 and expiring on June 30, 2013, is set forth in the table below. All such shares of common stock were repurchased pursuant to open market transactions, other than 5,478,800 shares which were repurchased from the trust holding assets of PepsiCo's U.S. qualified pension plans at market value.

Table of Contents**Issuer Purchases of Common Stock**

| Period | Total Number of Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------|--|------------------------------------|--|---|
| 9/4/10 | | | | \$ 14,097 |
| 9/5/10 10/2/10 | | \$ | | 14,097 |
| 10/3/10 10/30/10 | 5.3 | \$ 65.48 | 5.3 | (346) |
| 10/31/10 11/27/10 | 3.3 | \$ 65.24 | 3.3 | (215) |
| 11/28/10 12/25/10 | | \$ | | 13,536 |
| Total | 8.6 | \$ 65.39 | 8.6 | \$ 13,536 |

PepsiCo also repurchases shares of its convertible preferred stock from an employee stock ownership plan (ESOP) fund established by Quaker in connection with share redemptions by ESOP participants. The following table summarizes our convertible preferred share repurchases during the fourth quarter.

Table of Contents**Issuer Purchases of Convertible Preferred Stock**

| Period | Total Number of Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------|--|------------------------------------|--|--|
| 9/4/10 | | | | |
| 9/5/10 10/2/10 | 2,100 | \$ 329.71 | N/A | N/A |
| 10/3/10 10/30/10 | 600 | \$ 325.14 | N/A | N/A |
| 10/31/10 11/27/10 | 3,400 | \$ 322.64 | N/A | N/A |
| 11/28/10 12/25/10 | 700 | \$ 325.49 | N/A | N/A |
| Total | 6,800 | \$ 325.34 | N/A | N/A |

Table of Contents**Item 6. Selected Financial Data.**

Selected Financial Data is included on page 127.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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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 beginning on page 131. 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.

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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 snacks 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 snacks 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

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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.

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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.

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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. BCS and 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, PBG and 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

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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 Acquisition of Wimm-Bill-Dann Foods OJSC in Business in Item 1. and 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, Chippy, 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 Form 10-K reflect the management reporting that existed through the end of our 2010 fiscal year.

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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

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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,

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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

We are subject to risks in the normal course of business. See **Risk Factors** in Item 1A. and **Executive Overview** above and **Market Risks** below for more information about these risks.

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.

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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. See *Risk Factors* in Item 1A. for further discussion.

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

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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

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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.

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

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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

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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

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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 [Risk Factors](#) in Item 1A. and [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.

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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

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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

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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 8 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 |
|--|------|------|------|
| <i>Pension</i> | | | |
| 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% |
| <i>Retiree medical</i> | | | |
| 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.

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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.

Table of Contents**OUR FINANCIAL RESULTS****Items Affecting Comparability**

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

| | 2010 | 2009 | 2008 |
|---|-----------|-----------|-----------|
| <i>Operating profit</i> | | | |
| 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) | | |
| <i>Bottling equity income</i> | | | |
| PepsiCo share of PBG restructuring and impairment charges | | | \$ (138) |
| Gain on previously held equity interests | \$ 735 | | |
| Merger and integration charges | \$ (9) | \$ (11) | |
| <i>Interest expense</i> | | | |
| Merger and integration charges | \$ (30) | | |
| Debt repurchase | \$ (178) | | |
| <i>Net income attributable to PepsiCo</i> | | | |
| 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) | | |
| <i>Net income attributable to PepsiCo per common share diluted</i> | | | |
| 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) | | |

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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

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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.

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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 Form 10-K 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.

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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

| | 2010 | 2009 | 2008 | Change | |
|--------------------------------------|-----------|-----------|-----------|--------|------|
| | | | | 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.

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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.

Table of Contents**Other Consolidated Results**

| | 2010 | 2009 | 2008 | Change | |
|---|-----------|----------|-----------|----------|---------|
| | | | | 2010 | 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

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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.

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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.

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| | 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 |
| <i>% Impact of:</i> | | | | | | | |
| Volume ^(a) | % | (1)% | 3% | * | * | 12% | * |
| Effective net pricing ^(b) | | (3) | 6 | * | * | 3 | * |
| Foreign exchange | 1 | 1 | 1 | | (2) | 4 | 1 |
| Acquisitions | | | | * | * | 1 | * |
| <i>% Change^(c)</i> | <i>1%</i> | <i>(3)%</i> | <i>11%</i> | <i>102%</i> | <i>38%</i> | <i>19%</i> | <i>34%</i> |

| | 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 |
| <i>% Impact of:</i> | | | | | | | |
| 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 |
| <i>% Change^(c)</i> | <i>6%</i> | <i>(1)%</i> | <i>(3)%</i> | <i>(8)%</i> | <i>(2)%</i> | <i>9%</i> | <i>%</i> |

- (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.

Table of Contents**Frito-Lay North America**

| | | | | % Change | |
|---|-----------|-----------|-----------|----------|------|
| | 2010 | 2009 | 2008 | 2010 | 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.

Table of Contents**Quaker Foods North America**

| | 2010 | 2009 | 2008 | % Change | |
|---|----------|----------|----------|----------|------|
| | 2010 | 2009 | 2008 | 2010 | 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.

Table of Contents**Latin America Foods**

| | | | | % Change | |
|---|----------|----------|----------|----------|------|
| | 2010 | 2009 | 2008 | 2010 | 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.

Table of Contents**PepsiCo Americas Beverages**

| | | | | % Change | |
|--|-----------|-----------|-----------|----------|-------|
| | 2010 | 2009 | 2008 | 2010 | 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.

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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

| | | | | % Change | |
|--|----------|----------|----------|----------|------|
| | 2010 | 2009 | 2008 | 2010 | 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.

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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.

Table of Contents**Asia, Middle East & Africa**

| | | | | % Change | |
|--|----------|----------|----------|----------|------|
| | 2010 | 2009 | 2008 | 2010 | 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.

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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 Unfavorable economic conditions in the countries in which we operate may have an adverse impact on our business results or financial condition. in Risk Factors in Item 1A.

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.

Table of Contents***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 *Acquisition of Wimm-Bill-Dann Foods OJSC* in Item 1. and 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.

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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 Risk Factors in Item 1A. and Our Business Risks for certain factors that may impact our operating cash flows.

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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.

Table of Contents**Consolidated Statement of Income**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008

(in millions except per share amounts)

| | 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.

Table of Contents**Consolidated Statement of Cash Flows**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008

(in millions)

| | 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)

Table of Contents**Consolidated Statement of Cash Flows (continued)**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008

(in millions)

| | 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 non-controlling 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.

Table of Contents**Consolidated Balance Sheet**

PepsiCo, Inc. and Subsidiaries

December 25, 2010 and December 26, 2009

(in millions except per share amounts)

| | 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 | 31 | 30 |

| | | |
|---|------------------|------------------|
| Common stock, par value $1\frac{2}{3}\text{¢}$ per share (authorized 3,600 shares, issued 1,865 and 1,782 shares, respectively) | | |
| 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.

Table of Contents**Consolidated Statement of Equity**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008

(in millions)

| | 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 |
| 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 |

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

Table of Contents**Consolidated Statement of Equity (continued)**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008

(in millions)

| | 2010 | 2009 | 2008 |
|--|-----------------|----------|----------|
| 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.

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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

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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.

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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.

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| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
|--|--------------------|-----------|-----------|---------------------------------------|----------|----------|
| | <i>Net Revenue</i> | | | <i>Operating Profit^(a)</i> | | |
| 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.

Table of Contents***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 |
|------|---------------------|----------|----------|-------------------------|--------|--------|
| | <i>Total Assets</i> | | | <i>Capital Spending</i> | | |
| FLNA | \$ 6,284 | \$ 6,337 | \$ 6,284 | \$ 526 | \$ 490 | \$ 553 |
| QFNA | | | | | | |