PEPSICO INC
Form 10-K
February 27, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

# FORM 10-K

(Mark One)

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

**For the fiscal year ended December 31, 2011**

**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 x 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 x

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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 x 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 x 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 x | Accelerated filer ¨ |
| Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | 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 x

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 10, 2011, the last day of business of our most recently completed second fiscal quarter, was $108,849,195,879 (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 15, 2012 was 1,570,641,730.

| Documents of Which Portions Are Incorporated by Reference | Parts of Form 10-K into Which Portion of Documents Are Incorporated |
|---|---|
| Proxy Statement for PepsiCo s May 2, 2012 Annual Meeting of Shareholders | III |

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**PepsiCo, Inc.**

**Form 10-K Annual Report**

**For the Fiscal Year Ended December 31, 2011**

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## Forward-Looking Statements

*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. These risks and uncertainties include, but are not limited to those described in Risk Factors in Item 1A. and Management s Discussion and Analysis of Financial Condition and Results of Operations Our Business Risks in Item 7. 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.*

## 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 subsidiarie

We are a leading global food and beverage company with hundreds of brands that are respected household names throughout the world. Either independently or through contract manufacturers or authorized bottlers, we make, market, sell and distribute a variety of convenient and enjoyable foods and beverages in more than 200 countries and territories.

We continue to be guided by Performance with Purpose our belief that what is good for business can and should be good for society. Our commitment to deliver sustainable growth by investing in a healthier future for people and our planet is as much of a financial decision as it is an ethical one. In 2011, PepsiCo earned a place on the prestigious Dow Jones Sustainability World Index for the fifth consecutive year, the North America Index for the sixth consecutive year and was ranked as the number one company in the Food and Beverage Supersector.

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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);

2) PepsiCo Americas Beverages (PAB), which includes all of our North American and Latin American beverage businesses;

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, SunChips multigrain snacks and Santitas tortilla chips. 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 $13.3 billion, $12.6 billion and $12.4 billion in 2011, 2010 and 2009, respectively, and approximated 20%, 22% and 29% of our total net revenue in 2011, 2010 and 2009, respectively.

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### *Quaker Foods North America*

Either independently or through contract manufacturers, QFNA makes, markets, sells and distributes cereals, rice, pasta and other branded products. QFNA s products include Quaker oatmeal, Aunt Jemima mixes and syrups, Quaker Chewy granola bars, Quaker grits, Cap n Crunch cereal, Life cereal, Rice-A-Roni side dishes, Quaker rice cakes, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers. QFNA s net revenue was $2.7 billion in 2011, 2010 and 2009 and approximated 4%, 4% and 6% of our total net revenue in 2011, 2010 and 2009, respectively.

### *Latin America Foods*

Either independently or through contract manufacturers, LAF makes, markets, sells and distributes a number of snack food brands including Marias Gamesa, Doritos, Cheetos, Ruffles, Saladitas, Emperador, Tostitos and Sabritas, as well as many Quaker-brand cereals and snacks. These branded products are sold to independent distributors and retailers. LAF s net revenue was $7.2 billion, $6.3 billion and $5.7 billion in 2011, 2010 and 2009, respectively, and approximated 11%, 11% and 13% of our total net revenue in 2011, 2010 and 2009, 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, Gatorade, Mountain Dew, Diet Pepsi, Aquafina, 7UP (outside the U.S.), Diet Mountain Dew, Tropicana Pure Premium, Sierra Mist 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. Furthermore, PAB manufactures and distributes certain brands licensed from Dr Pepper Snapple Group, Inc. (DPSG), including Dr Pepper and Crush. PAB operates its own bottling plants and distribution facilities. PAB also sells concentrate and finished goods for our brands to authorized bottlers, and some of these branded finished goods are sold directly by us to independent distributors and retailers. We and the independent bottlers sell our brands as finished goods to independent distributors and retailers. PAB s net revenue was $22.4 billion, $20.4 billion and $10.1 billion in 2011, 2010 and 2009, respectively, and approximated 34%, 35% and 23% of our total net revenue in 2011, 2010 and 2009, 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, sells and distributes a number of leading snack foods including Lay s, Walkers, Doritos,

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Chudo, 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, sells and distributes beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Pepsi Max, 7UP, Diet Pepsi 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 and markets this brand. 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 $13.6 billion, $9.6 billion and $7.0 billion in 2011, 2010 and 2009, respectively, and approximated 20% of our total net revenue in 2011 and 17% of our total net revenue in 2010 and 2009.

See Note 15 for additional information about our acquisitions of PBG and PAS in 2010. Also see Note 15 for additional information about our acquisition of Wimm-Bill-Dann Foods OJSC in 2011.

### *Asia, Middle East & Africa*

Either independently or through contract manufacturers, AMEA makes, markets, sells and distributes a number of leading snack food brands including Lay s, Chipsy, Kurkure, Doritos, Cheetos and Smith s through consolidated businesses as well as through noncontrolled affiliates. Further, either independently or through contract manufacturers, AMEA makes, markets and sells many Quaker-brand cereals and snacks. AMEA also makes, markets, sells and distributes beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mirinda, 7UP, Mountain Dew, Aquafina and Tropicana. 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 $7.4 billion, $6.3 billion and $5.3 billion in 2011, 2010 and 2009, respectively, and approximated 11%, 11% and 12% of our total net revenue in 2011, 2010 and 2009, respectively.

## 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.

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## Ingredients and Other Supplies

The principal ingredients we use in our food and beverage businesses are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit and other fruits, oats, oranges, potatoes, raw milk, 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 for us due to their use in our facilities and in the trucks delivering our products. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages. Many of these ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price purchase orders, pricing agreements and derivatives. In addition, risk to our supplies of certain raw materials is mitigated through purchases from multiple geographies and suppliers. 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. See also Item 1A. Risk Factors Our operating results may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.

## Our Brands

We own numerous valuable trademarks which are essential to our worldwide businesses, including Amp Energy, Aquafina, Aunt Jemima, Cap n Crunch, Cheetos, Chester s, Chipsy, Chudo, Cracker Jack, Diet Mountain Dew, Diet Pepsi, Doritos, Duyvis, Emperador, Frito-Lay, Fritos, Fruktovy Sad, Frustyle, Gamesa, Gatorade, G2, G Series, Grandma s, Imunele, Izze, Kurkure, Lay s, Life, Little House in the Village, Lubimy Sad, 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, 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, Vesely Molochnik, 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, 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.

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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 businesses are affected by seasonal variations. For instance, 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 financial results.

**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.

In 2011, sales to Wal-Mart Stores, Inc. (Wal-Mart), including Sam s Club (Sam s), represented approximately 11% of our total net revenue. Our top five retail customers represented approximately 30% of our 2011 North American net revenue, with Wal-Mart (including Sam s) representing approximately 18%. These percentages include concentrate sales to our independent bottlers which were used in finished goods sold by them to these retailers.

See Our Customers 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.

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

**Our Competition**

Our businesses operate in highly competitive markets. Our beverage, snack and food brands compete against global, regional, local and private label manufacturers and other value competitors.

In U.S. measured channels, our chief beverage competitor, The Coca-Cola Company, has a larger share of carbonated soft drinks (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.

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Our snack and food brands hold significant leadership positions in the snack and food industry worldwide.

Our beverage, snack and food brands 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, product packaging, pricing, increased efficiency in production techniques and brand and trademark development and protection. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allows us to compete effectively.

(1) The categories and category share information in the charts above are as of December 25, 2011 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 and to drive innovation globally. These activities principally involve the development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines. Our Global Nutrition Group, led by our Chief Scientific Officer, oversees research and development efforts for the company, which are focused on identifying opportunities to transform and grow our product portfolio in the short- and long-term. Our research platforms are shared across specializations, countries and regions in order to generate innovation. In 2011, we continued to expand our

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portfolio of products made with nutritious ingredients, increasing the amount of whole grains, fruits, vegetables, nuts, seeds and low-fat dairy in certain of our products, and we continued to take steps to reduce the average amount of sodium, saturated fat and added sugar per serving in certain of our products. We also invested in agricultural development and the development and implementation of new technologies to both enhance the quality and value of our current and future product lines and to minimize our impact on the environment. We made investments to conserve energy and raw materials, and to reduce waste in our facilities, and to improve 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 $525 million in 2011, $488 million in 2010 and $414 million in 2009 and are reported within selling, general and administrative expenses.

### Regulatory Environment and Environmental Compliance

The conduct of our businesses, including the production, distribution, sale, advertising, marketing, 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 laws and regulations administered by government entities and agencies outside the United States in markets in which our products are made, manufactured or sold. 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 a variety of laws and regulations, including: 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; various federal and state laws and regulations governing equal employment opportunity and our employment relationships, including the Equal Employment Opportunity Act and the National Labor Relations Act; customs and foreign trade laws and regulations; and laws regulating the sale of certain of our products in schools. In our business dealings, we are also required to comply with the Foreign Corrupt Practices Act. We are also subject to various state and local statutes and regulations, including state consumer protection laws. For example, in California, Proposition 65 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. The State of California continues to evaluate various components and, consequently, 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 in-house and outside counsel, to guide our businesses in complying with applicable laws and regulations of the countries in which we do business.

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Legislation has been introduced in certain jurisdictions in which we operate that would impose special taxes or other limitations on certain products we sell. For example, certain federal, state and local governments in the United States, and in certain other countries in which we operate, have either imposed or are considering the imposition of taxes on the sale of certain beverages, including non-diet and diet soft drinks, fruit drinks, teas and flavored waters. In the United States, federal and state legislators are also debating proposals to restrict the use of Supplemental Nutrition Assistance Program benefits to purchase beverages and foods whose nutritional content exceeds certain levels of sodium, saturated fat and sugar. In addition, legislation has been enacted in certain U.S. states and in certain other 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.

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

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. In the United States, our facilities must comply with 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 31, 2011, we employed approximately 297,000 people worldwide, including approximately 107,000 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.

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**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.

**Item 1A. Risk Factors.**

***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 categories 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 anticipate and respond to shifts in consumer trends, including increased demand for products that meet the needs of consumers who are increasingly concerned with health and wellness; our product quality; our ability to extend our portfolio of convenient foods in growing markets; our ability to develop new products that are responsive to consumer preferences, including our fun-for-you , good-for-you and better-for-you products; and our ability to respond to competitive product and pricing pressures. For example, our growth rate may be adversely affected if we are unable to maintain or grow our current share of the liquid refreshment beverage market in North America, or our current share of the snack market globally, or if demand for our products does not grow in emerging and developing markets.

In general, 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; consumer concerns regarding the health effects of ingredients such as sodium, sugar or other product ingredients or attributes; changes in social trends that impact travel, vacation or leisure activity patterns; changes in weather patterns or seasonal consumption cycles; negative

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publicity (whether or not valid) resulting from regulatory action or litigation against us or other companies in our industry; a downturn in economic conditions; or taxes that would increase the cost of our products to consumers. Any of these changes may reduce consumers willingness to purchase our products. See also Our financial performance could suffer if we are unable to compete effectively. , Unfavorable economic conditions may have an adverse impact on our business results or financial condition. , Any damage to our reputation could have a material adverse effect on our business, financial condition and results of operations. and 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.

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 product packaging, advertising campaigns and marketing programs, including our ability to successfully adapt to a rapidly changing media environment, such as through use of social media and online advertising campaigns and marketing programs. Although we devote significant resources to the actions mentioned above, there can be no assurance as to our continued ability to develop and launch successful new products or variants of existing products 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 make the right strategic investments to drive innovation or successfully launch new products or variants of existing 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.

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

The food, snack and beverage industries in which we operate are highly competitive. We compete with major international food, snack 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 also compete with other large companies in each of the food, snack and beverage categories, including Nestlé S.A., Kraft Foods Inc. and Dr Pepper Snapple Group, Inc. We compete on the basis of brand recognition, taste, 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 grow or maintain 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 may have an adverse impact on our business results or financial condition.

***Unfavorable economic conditions may have an adverse impact on our business results or financial condition.***

Many of the countries in which we operate, including the United States and several of the members of the European Union, have experienced and continue to experience unfavorable economic conditions. Our business or financial results may be adversely impacted by these unfavorable economic conditions, including: adverse changes in interest rates, tax laws or tax rates; volatile commodity markets and inflation; contraction in the availability of credit in the marketplace, potentially impairing our ability to access the capital markets on terms commercially acceptable to us or at all; 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; impairment of assets; 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. In addition, some of the major financial institutions with which we execute transactions, including U.S. and non-U.S. commercial banks, insurance companies, investment banks, and other financial institutions, may be exposed to a ratings downgrade, bankruptcy, liquidity, default or similar risks as a result of unfavorable economic conditions. A ratings downgrade, bankruptcy, receivership, default or similar event involving a major financial institution may limit the availability of credit or willingness of financial institutions to extend credit on terms commercially acceptable to us or at all or, with respect to financial institutions who are parties to our financing arrangements, leave us with reduced borrowing capacity or unhedged against certain currencies or price risk associated with forecasted purchases of raw materials which could have an adverse impact on our business results or financial condition.

***Any damage to our reputation could have a material 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, the failure to maintain high standards for product quality, safety and integrity, including with respect to raw materials and ingredients obtained from suppliers, or allegations of product quality issues, mislabeling or contamination, even if untrue, may reduce demand for our products or cause production and delivery disruptions. If any of our products becomes unfit for consumption, causes injury or is mislabeled, we may have to engage in a product recall and/or be subject to liability. A widespread product recall or a significant product liability issue 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 goals with respect to sodium, saturated fat and added sugar reduction or the development of our global nutrition business; our research and development efforts; 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 and demand for water continues to increase. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to water use. Failure to

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comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial information could also hurt our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could have a material adverse effect on our business, financial condition and results of operations, as well as require additional resources to rebuild our reputation.

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

Our operations outside of the United States, particularly in Russia, Mexico, Canada and the United Kingdom, contribute significantly to our revenue and profitability, and we believe that our businesses in developing and emerging markets, particularly China and India, present important future growth opportunities for us. However, there can be no assurance that our existing products, variants of our existing products or new products that we make, manufacture, market or sell will be accepted or successful in any particular developing or emerging market, due to local competition, product price, cultural differences or otherwise. If we are unable to expand our businesses in developing and emerging markets, or achieve the return on capital we expect as a result of our investments, particularly in Russia, as a result of economic and political conditions, increased competition, reduced demand for our products, 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 our products are sold, including in Russia, 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: foreign ownership restrictions; nationalization of our assets; regulations on the transfer of funds to and from foreign countries, which, from time to time, result in significant cash balances in foreign countries such as Venezuela, and on the repatriation of funds; currency hyperinflation or devaluation; the lack of well-established or reliable legal systems; and increased costs of business due to compliance with complex foreign and United States laws and regulations that apply to our international operations, including the Foreign Corrupt Practices Act and the UK Bribery Act, and adverse consequences, such as the assessment of fines or penalties, for failing to comply with these laws and regulations. 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 Item 1. Business  Regulatory Environment and Environmental Compliance. ,  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. ,  Our financial performance could suffer if we are unable to compete effectively. ,  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.  and  Disruption of our supply chain could have an adverse impact on our business, financial condition and results of operations.

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***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. The loss of any of our key customers, including Wal-Mart, could have an adverse effect on our financial performance. In addition, in the event that retail ownership becomes more concentrated, retailers may demand lower pricing and increased promotional programs. Further, should 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 any such actions or to offer effective sales incentives and marketing programs to our customers could reduce our ability to secure adequate shelf space at our retailers and adversely affect our financial performance.

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

The conduct of our businesses, including the production, distribution, sale, advertising, marketing, 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 laws and regulations administered by government entities and agencies outside the United States in markets in which our products are made, manufactured or sold, including in emerging and developing markets where legal and regulatory systems may be less developed. These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of political, economic or social events. Such changes may include changes in: food and drug laws; laws related to product labeling, advertising and marketing practices; laws regarding the import of ingredients used in our products; laws regarding the export of our products; laws and programs aimed at reducing ingredients present in certain of our products, such as sodium, saturated fat and added sugar; increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the effects on health of ingredients in, or attributes of, certain of our products; state consumer protection laws; taxation requirements, including taxes that would increase the cost of our products to consumers; competition laws; privacy laws; laws regulating the price we may charge for our products; laws regulating access to and use of water or utilities; and environmental laws, including laws relating to the regulation of water rights and treatment. New laws, regulations or governmental policy and their related interpretations, or changes in any of the foregoing, 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. Studies are underway by third parties to assess the health implications of consumption of carbonated soft drinks as well as certain ingredients present in some of our products. In addition, third-party studies are also underway 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

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chips, cereal, bread and coffee. Certain of these studies have found that it is probable that acrylamide causes cancer in laboratory animals when consumed in extraordinary amounts. If consumer concerns about the health implications of consumption of carbonated soft drinks, certain ingredients present in some of our products or acrylamide 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. Although we have policies and procedures in place that are designed to promote legal and regulatory compliance, our employees or suppliers could take actions that violate these policies and procedures or applicable laws or regulations. Violations of these laws or regulations could subject us to criminal or civil enforcement actions which could have a material adverse effect on our business.

In addition, we and our subsidiaries are party to a variety of legal and environmental remediation obligations arising in the normal course of business, as well as environmental remediation, product liability, toxic tort and related indemnification proceedings in connection with certain historical activities and contractual obligations of businesses acquired by our subsidiaries. Due to regulatory complexities, uncertainties inherent in litigation and the risk of unidentified contaminants on current and former properties of ours and our subsidiaries, the potential exists for remediation, liability and indemnification costs to differ materially from the costs we have estimated. We cannot assure you that our costs in relation to these matters will not exceed our established liabilities or otherwise have an adverse effect on our results of operations. See also Item 1. Business Regulatory Environment and Environmental Compliance. and 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 our products are sold. above.

***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, to interface with our customers, to maintain financial accuracy and efficiency, to comply with regulatory financial reporting, legal and tax requirements, and for digital

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marketing activities and electronic communication among our locations around the world and between our personnel and the personnel of our independent bottlers, contract manufacturers and suppliers. If we do not allocate and effectively manage the resources necessary to build and sustain the proper information 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, or the loss of sensitive or confidential data through security breach or otherwise.

We have embarked on multi-year business transformation initiatives to migrate certain of our financial processing systems to enterprise-wide systems solutions. 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 applications 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 or 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, litigation, or remediation costs and could have a negative impact on employee morale.

Our information systems could also be penetrated by outside parties intent on extracting confidential information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets, litigation, remediation costs, damage to our reputation and loss of revenue resulting from unauthorized use of confidential information or failure to retain or attract customers following such an event.

***Fluctuations in 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 subsidiaries outside the United States are translated into U.S. dollars. Our operations outside of the U.S. generate a significant portion of our net revenue. Fluctuations in 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.

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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. The principal ingredients we use include apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit and other fruits, oats, oranges, potatoes, raw milk, 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 facilities and in the trucks delivering our products. Some of these raw materials and supplies are sourced internationally and some 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 certain 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 may have an adverse impact on our business results or financial condition. , 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. , 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, manufacture, distribute and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to any of the following could impair our ability to make, manufacture, distribute or sell our products: adverse weather conditions or natural disaster, such as a hurricane, earthquake or flooding; government action; fire; terrorism; the outbreak or escalation of armed hostilities; pandemic; industrial accidents or other occupational health and safety issues; strikes and other labor disputes; or other reasons beyond our control or the control of our suppliers and business partners. 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 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. and 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, including our Chief Executive Officer, 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.

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

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

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

We regularly evaluate potential acquisitions, joint ventures and divestitures. Potential issues associated with these activities 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 an acquisition or the formation of a joint venture within the anticipated time frame, or at all; receipt of necessary consents, clearances and approvals in connection with an acquisition or joint venture; and diversion of management s attention from base strategies and objectives. In 2011, we acquired Wimm-Bill-Dann Foods OJSC (WBD), a Russian company. We continue to assess WBD s business practices, policies and procedures as well as its compliance with our Worldwide Code of Conduct and applicable laws and, as described under Item 9A. Controls and Procedures, we are in the process of integrating WBD into our overall internal control over financial reporting processes. With respect to acquisitions, including but not limited to the acquisition of WBD, the following also pose potential risks: our ability to successfully combine our businesses with the business of the acquired company, including integrating the manufacturing, distribution, sales and administrative support activities and information technology systems among our company and the acquired company and successfully operating in new categories; motivating, recruiting and retaining executives and key employees; conforming standards, controls (including internal control over financial reporting), 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. With respect to joint ventures, we share ownership and management responsibility of a company with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do and joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. In addition, acquisitions and joint ventures outside of the United States increase our exposure to risks associated with operations outside of the United States, including fluctuations in exchange rates and compliance with laws and regulations outside the United States. With respect to divestitures, we may not be able to complete proposed divestitures on terms commercially favorable to us. If an acquisition or joint venture is not successfully completed or integrated into our existing operations, or if a divestiture is not successfully completed, our business, financial condition and results of operations could be adversely impacted.

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***Failure to successfully implement our global operating model could have an adverse impact on our business, financial condition and results of operations.***

We recently created the Global Beverages Group and the Global Snacks Group, both of which are focused on innovation, research and development, brand management and best-practice sharing around the world, as well as collaborating with our Global Nutrition Group to grow our nutrition portfolio. If we are unable to successfully implement our global operating model, including retention of key employees, our business, financial condition and results of operations could be adversely impacted.

***Failure to realize anticipated benefits from our productivity plan could have an adverse impact on our business, financial condition and results of operations.***

We are implementing a strategic plan that we believe will position our business for future success and growth, to allow us to achieve a lower cost structure and operate efficiently in the highly competitive food, snack and beverage industries. In order to capitalize on our cost reduction efforts, it will be necessary to make certain investments in our business, which may be limited due to capital constraints. In addition, it is critical that we have the appropriate personnel in place to continue to lead and execute our plan. Our future success and earnings growth depends in part on our ability to reduce costs and improve efficiencies. If we are unable to successfully implement our productivity plan or fail to implement it as timely as we anticipate, our business, financial condition and results of operations could be adversely impacted.

***Our borrowing costs and access to capital and credit markets may be adversely affected by a downgrade or potential downgrade of our credit ratings.***

Our objective is to maintain credit ratings that provide us with ready access to global capital and credit markets. Any downgrade of our current credit ratings by a credit rating agency, especially any downgrade to below investment grade, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. Our borrowing costs and access to the commercial paper market could also be adversely affected if a credit rating agency announces that our ratings are under review for a potential downgrade.

***Our intellectual property rights could be infringed or challenged and reduce the value of our products and brands and have an adverse impact on our business, financial condition and results of operations.***

We possess intellectual property rights that are important to our business. These intellectual property rights include ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets which are important to our business and 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. We protect our intellectual property rights globally through a combination of trademark, copyright, patent and trade secret laws, third-party assignment and nondisclosure agreements and monitoring of third-party misuses of our intellectual property. If we fail to obtain or adequately protect our ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets, or if there is a change in law that limits or removes the current legal protections of our intellectual property, the value of our products and brands could be reduced and there could be an adverse impact on our business, financial condition and results of operations. See also 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.

## 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 2011 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.

### *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 1,720 warehouses, distribution centers and offices. In addition, FLNA also utilizes approximately 40 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 three plant facilities, one warehouse/distribution center 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 four plants and production processing facilities and one office in North America. In addition, QFNA utilizes approximately 40 manufacturing plants, production processing facilities and distribution centers that are owned or leased by our contract manufacturers or co-packers.

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***Latin America Foods***

LAF s most significant properties include two snack manufacturing plants in the Mexican cities of Celaya and Guadalajara, both of which are owned. LAF also owns or leases approximately 60 food manufacturing and processing plants and approximately 665 warehouses, distribution centers and offices. In addition, LAF also utilizes three properties owned by contract manufacturers or co-packers. LAF also utilizes one plant facility that is co-owned by a joint venture partner.

***PepsiCo Americas Beverages***

PAB s most significant properties include an office building in Somers, New York and an office building it 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 85 bottling and production plants and production processing facilities and approximately 445 warehouses, distribution centers and offices. In addition, authorized bottlers in which we have an ownership interest own or lease approximately 15 bottling plants and 180 distribution centers. PAB also utilizes approximately 60 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 approximately 185 facilities that are co-owned by a joint venture partner.

***Europe***

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, its beverage plant in Lebedyan, Russia and its dairy plant in Moscow, Russia, all of which are owned. Europe also owns or leases approximately 120 plants and approximately 670 warehouses, distribution centers and offices. In addition, authorized bottlers in which we have an ownership interest own or lease one plant and four distribution centers. Europe also utilizes approximately 35 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, all of which are owned. AMEA also owns or leases approximately 80 plants and approximately 1,265 warehouses, distribution centers and offices. In addition, authorized bottlers in which we have an ownership interest own or lease approximately 20 plants and 90 distribution centers. AMEA also utilizes approximately 60 properties owned by contract manufacturers or co-packers. In addition, AMEA also utilizes approximately 25 plants and production processing facilities and approximately 10 distribution centers that are co-owned by or co-leased with our joint venture partners.

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*Shared Properties*

QFNA shares two offices with FLNA and approximately 20 warehouses and distribution centers and 5 offices with PAB, including a research and development laboratory in Barrington, Illinois. FLNA shares one production facility with LAF. PAB, Europe and AMEA share two production facilities. Europe and AMEA share a research and development facility and an office. PAB and LAF share four beverage plants and two offices. PAB and AMEA share two concentrate plants.

**Item 3. Legal Proceedings.**

We and our subsidiaries are party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. While the results of these proceedings, claims and inquiries cannot be predicted with certainty, management believes that the final outcome of the foregoing 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. Mine Safety Disclosures.**

Not applicable.

**Executive Officers of the Registrant**

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

**Zein Abdalla**, 53, 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 PepsiCo s European Beverage Business, General Manager 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**, 58, 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.

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**Albert P. Carey**, 60, has been Chief Executive Officer, PepsiCo Americas Beverages since September 2011. He served as President and Chief Executive Officer of Frito-Lay North America from June 2006 to September 2011. 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, 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**, 50, 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 29 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.

**Marie T. Gallagher**, 52, was appointed PepsiCo s Senior Vice President and Controller in May 2011. Ms. Gallagher joined PepsiCo in 2005 as Vice President and Assistant Controller. Prior to joining PepsiCo, Ms. Gallagher was Assistant Controller at Altria Corporate Services and, prior to that, a senior manager at Coopers & Lybrand.

**Thomas Greco**, 53, was appointed President of Frito-Lay North America in September 2011. Prior to that, Mr. Greco served as Executive Vice President and Chief Commercial Officer for Pepsi Beverages Company. Mr. Greco joined PepsiCo in Canada in 1986, and has served in a variety of positions, including Region Vice President, Midwest; President, Frito-Lay Canada; Senior Vice President, Sales, Frito-Lay North America; President, Global Sales, PepsiCo; and Executive Vice President, Sales, North America Beverages.

**Enderson Guimaraes**, 52, was appointed President of PepsiCo Global Operations in October 2011. Mr. Guimaraes most recently served as Executive Vice President of Electrolux and Chief Executive Officer of its major appliances business in Europe, Africa and the Middle East. Prior to this, Mr. Guimaraes spent 10 years at Philips Electronics, first as a regional marketing executive in Brazil and ultimately as Senior Vice President and head of Global Marketing Management and general manager of the WidiWall LED display business. He also served as CEO of Philips Lifestyle Incubator group, an innovation engine which created new businesses and developed them over several years. Earlier, Mr. Guimaraes worked in various marketing positions at Danone and Johnson & Johnson.

**Hugh F. Johnston**, 50, was appointed Chief Financial Officer of PepsiCo in March 2010. He previously held the position of Executive Vice President, Global Operations

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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**, 53, 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**, 56, has been PepsiCo s Chief Executive Officer since October 2006 and assumed the role of Chairman of PepsiCo s Board of Directors in 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 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.

**Maura Abeln Smith**, 56, became PepsiCo s Executive Vice President, Public Policy, Government Affairs, General Counsel and Corporate Secretary in May 2011. Prior to joining PepsiCo, Ms. Smith served for eight years as Senior Vice President, General Counsel, Corporate Secretary and Global Government Relations of International Paper Company. From 1998 to 2003, she was Senior Vice President, General Counsel and Secretary at Owens Corning. From 2000 to 2003, she also served as Chief Restructuring Officer and a member of the Board of Directors of Owens Corning. Ms. Smith also spent seven years at General Electric where she was Vice President and General Counsel at the GE Plastics Division. Earlier in her career, Ms. Smith was a partner at the law firm Baker & McKenzie.

**Cynthia M. Trudell**, 58, has been PepsiCo s Executive Vice President and Chief Human Resources Officer since April, 2011 and was PepsiCo s Senior Vice President, Chief Personnel Officer from February 2007 until April 2011. 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

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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.

## 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 2011 and 2010 are contained in our Selected Financial Data included on page 121.

Shareholders At February 15, 2012, there were approximately 159,980 shareholders of record of our common stock.

Dividends Dividends are usually declared in late January or early to mid-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 2, June 1, September 7 and December 7, 2012. We have paid consecutive quarterly cash dividends since 1965. Information with respect to the quarterly dividends declared in 2011 and 2010 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.

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A summary of our common stock repurchases (in millions, except average price per share) during the fourth quarter of 2011 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.

**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 |
|---|---|---|---|---|
| 9/3/11 | | | | $ 11,567 |
| 9/4/11 10/1/11 | 4.3 | $ 61.39 | 4.3 | (268) |
| | | | | 11,299 |
| 10/2/11 10/29/11 | 3.0 | $ 61.52 | 3.0 | (185) |
| | | | | 11,114 |
| 10/30/11 11/26/11 | 1.1 | $ 62.46 | 1.1 | (67) |
| | | | | 11,047 |
| 11/27/11 12/31/11 | | | | |
| Total | 8.4 | $ 61.57 | 8.4 | $ 11,047 |

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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.

**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 |
|---|---|---|---|---|
| 9/3/11 | | | | |
| 9/4/11 10/1/11 | 1,200 | $ 299.68 | N/A | N/A |
| 10/2/11 10/29/11 | 1,700 | $ 309.46 | N/A | N/A |
| 10/30/11 11/26/11 | | | N/A | N/A |
| 11/27/11 12/31/11 | 2,600 | $ 321.87 | N/A | N/A |
| Total | 5,500 | $ 313.19 | N/A | N/A |

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**Item 6. Selected Financial Data.**

Selected Financial Data is included on page 121.

**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 124. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.*

## OUR BUSINESS

### Executive Overview

We are a leading global food and beverage company with hundreds of brands that are respected household names throughout the world. Either independently or through contract manufacturers or authorized bottlers, we make, market, sell and distribute a variety of convenient and enjoyable foods and beverages in more than 200 countries and territories.

We continue to be guided by Performance with Purpose   our belief that what is good for business can and should be good for society. Our commitment to deliver sustainable growth by investing in a healthier future for people and our planet is as much of a financial decision as it is an ethical one. In 2011, PepsiCo earned a place on the prestigious Dow Jones Sustainability World Index for the fifth consecutive year, the North America Index for the sixth consecutive year and was ranked as the number one company in the index  s Food and Beverage Supersector.

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

***Strategies to Drive Our Growth into the Future***

We made important strides in 2011. In 2012, our journey continues. We are pursuing specific strategic investment and productivity initiatives to build a stronger, more successful company. This includes an increased investment in our iconic, global brands, bringing innovation to market and increasing our advertising and marketing spending by approximately $500 to $600 million in 2012, the majority in North America. In addition, we have begun to implement a multi-year productivity program that we believe will further strengthen our complementary food and beverage businesses. These initiatives support our five strategic imperatives on which we continue to be focused.

***Our first imperative is to build and extend our macrosnacks portfolio globally.***

PepsiCo is the undisputed leader in macrosnacks around the world. We will work to grow our core salty snack brands  Lay  s, Doritos, Cheetos and SunChips  while continuing to expand into adjacent categories like whole grain-based snacks. We will continue to create new flavors in tune with local tastes and leverage our go-to-market expertise to ensure our products are easily accessible in consumers   lives.

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***Our second imperative is to sustainably and profitably grow our beverage business worldwide.***

Our beverage business remains large and highly profitable, accounting for approximately 52 percent of our net revenues in 2011. Our goal is to grow our developed market beverage business while building on promising gains in emerging and developing markets. We intend to continue to invest in and strengthen our most powerful and iconic beverage brands Pepsi, Mountain Dew, Sierra Mist, 7UP (outside of the U.S.), Gatorade, Tropicana, Mirinda and Lipton (through our joint venture with Unilever).

***Our third imperative is to build and expand our nutrition business.***

Today, PepsiCo has three of the top brands in the category Quaker, Tropicana and Gatorade in a global market for health and wellness in consumer packaged goods that exceeds $500 billion, driven by strong demographic and consumer trends. Building from our core brands, we believe that we are well-positioned to grow our global nutrition portfolio.

***Our fourth imperative is to increase and capitalize on the already high coincidence of snack and beverage consumption.***

Snacks and beverages are complementary categories. When people reach for a salty snack, about 30 percent of the time, they reach for a carbonated beverage. Our ability to use that combined power goes beyond marketing to innovation, production, distribution and brand management. We intend to increasingly capitalize on our cross-category presence to grow our positions in both snacks and beverages.

***Our fifth imperative is to ensure prudent and responsible financial management.***

Prudent financial management has always been a hallmark of PepsiCo. In 2012, we are bringing renewed focus to value creation in everything we do. We intend to continue to deliver attractive cash returns for shareholders by scrutinizing every capital expenditure, expense and working capital investment.

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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);

2) PepsiCo Americas Beverages (PAB), which includes all of our North American and Latin American beverage businesses;

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, SunChips multigrain snacks and Santitas tortilla chips. 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, sells and distributes cereals, rice, pasta and other branded products. QFNA s products include Quaker oatmeal, Aunt Jemima mixes and syrups, Quaker Chewy granola bars, Quaker grits, Cap n Crunch cereal, Life cereal, Rice-A-Roni side dishes, Quaker rice cakes, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers.

***Latin America Foods***

Either independently or through contract manufacturers, LAF makes, markets, sells and distributes a number of snack food brands including Marias Gamesa, Doritos, Cheetos, Ruffles, Saladitas, Emperador, Tostitos and Sabritas, 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, Gatorade, Mountain Dew, Diet Pepsi, Aquafina, 7UP (outside the U.S.), Diet Mountain Dew, Tropicana Pure Premium, Sierra Mist 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. Furthermore, PAB manufactures and distributes certain brands licensed from Dr Pepper Snapple Group, Inc. (DPSG), including Dr Pepper and Crush. PAB operates its own bottling plants and distribution facilities. PAB also sells concentrate and finished goods for our brands to authorized bottlers, and some of these branded finished goods are sold directly by us to independent distributors and retailers. We and the independent bottlers sell our brands as finished goods to independent distributors and retailers.

PAB s volume reflects sales to its independent distributors and retailers, as well as the sales of beverages bearing our trademarks that bottlers have reported as sold to independent distributors and retailers. Bottler case sales (BCS) and concentrate shipments and equivalents (CSE) are not necessarily equal during any given period due to seasonality, timing of product launches, product mix, bottler inventory practices and other factors. However, the difference between BCS and CSE measures has been greatly reduced since our acquisitions of our anchor bottlers, 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, sells and distributes a number of leading snack foods including Lay s, Walkers, Doritos, Chudo, 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, sells and distributes beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Pepsi Max, 7UP, Diet Pepsi 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 and markets this brand. 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). In 2011, we acquired Wimm-Bill-Dann Foods OJSC, Russia s leading branded food and beverage company. WBD s portfolio of products is included within Europe s snacks or beverage reporting, depending on product type.

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See Note 15 for additional information about our acquisition of WBD in 2011.

### *Asia, Middle East & Africa*

Either independently or through contract manufacturers, AMEA makes, markets, sells and distributes a number of leading snack food brands including Lay s, Chipsy, Kurkure, Doritos, Cheetos and Smith s through consolidated businesses as well as through noncontrolled affiliates. Further, either independently or through contract manufacturers, AMEA makes, markets and sells many Quaker-brand cereals and snacks. AMEA also makes, markets, sells and distributes beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mirinda, 7UP, Mountain Dew, Aquafina and Tropicana. 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).

## 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.

In 2011, sales to Wal-Mart (including Sam s) represented approximately 11% of our total net revenue. Our top five retail customers represented approximately 30% of our 2011 North American net revenue, with Wal-Mart (including Sam s) representing approximately 18%. These percentages include concentrate sales to our independent bottlers which were used in finished goods sold by them to these retailers.

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## 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. Our beverage, snack and food brands compete against global, regional, local and private label manufacturers and other value competitors.

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.

Our snack and food brands hold significant leadership positions in the snack and food industry worldwide.

Our beverage, snack and food brands 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, product packaging, pricing, increased efficiency in production techniques and brand and trademark development and protection. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allows us to compete effectively.

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### 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 Pepsi Bottling Ventures LLC and other affiliated companies of PepsiCo and do not receive incremental compensation for their Board services.

### Our Business Risks

We are subject to risks in the normal course of business. During 2011, the economic environment in Europe deteriorated and certain countries experienced debt and credit issues as well as currency fluctuations. We are identifying actions to potentially mitigate the unfavorable impact, if any, on our 2012 financial results. See also Risk Factors in Item 1A., Executive Overview above and Market Risks below for more information about these risks.

#### *Risk Management Framework*

The achievement of our strategic and operating objectives necessarily involves 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, address, manage, monitor and communicate risks across the Company. This framework includes:

- PepsiCo s Board of Directors, which is responsible for overseeing the Company s risk assessment and mitigation, receives updates on key risks throughout the year. The Audit Committee of the Board of Directors helps define PepsiCo s risk management processes and assists the Board in its oversight of strategic, financial, operating, business, compliance, safety, reputational and other risks facing PepsiCo. The Compensation Committee of the Board of Directors assists the Board in overseeing potential risks that may be associated with the Company s compensation programs.

- The PepsiCo Risk Committee (PRC), comprised of a cross-functional, geographically diverse, senior management group which meets regularly to identify, assess, prioritize and address our key risks;

- Division Risk Committees (DRCs), comprised of cross-functional senior management teams which meet regularly to identify, assess, prioritize and address division-specific business 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 with 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.

***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. See Unfavorable economic conditions may have an adverse impact on our business results or financial condition. in Risk Factors in Item 1A.

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. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for metals, energy and agricultural products.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $598 million as of December 31, 2011 and $590 million as of December 25, 2010. At the end of 2011, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses in 2011 by $52 million.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $630 million as of December 31, 2011 and $266 million as of December 25, 2010. At the end of 2011, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net losses in 2011 by $58 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.

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Our operations outside of the U.S. generate approximately 50% of our net revenue, with Russia, Mexico, Canada and the United Kingdom comprising approximately 23% of our net revenue. As a result, we are exposed to foreign currency risks. During 2011, favorable foreign currency contributed 1 percentage point to net revenue growth, primarily due to appreciation of the euro, Canadian dollar and Mexican peso. 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. 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. We continue to use all available options to obtain U.S. dollars to meet our operational needs. In 2011 and 2010, the majority of our transactions were remeasured at the 4.3 exchange rate, and as a result of the change to hyperinflationary accounting and the devaluation of the bolivar, we recorded a one-time net charge of $120 million in the first quarter of 2010. In 2011 and 2010, our operations in Venezuela comprised 8% and 4% of our cash and cash equivalents balance, respectively, 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 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 $2.3 billion as of December 31, 2011 and $1.7 billion as of December 25, 2010. At the end of 2011, we estimate that an unfavorable 10% change in the exchange rates would have decreased our net unrealized gains by $105 million. For foreign currency derivatives that do not qualify for hedge accounting treatment, 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.

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Assuming year-end 2011 variable rate debt and investment levels, a 1-percentage-point increase in interest rates would have increased net interest expense by $55 million in 2011.

## 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 a choice between alternative methods of accounting. We applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented, and have discussed these policies with our Audit Committee.

Our critical accounting policies arise in conjunction with the following:

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

### Revenue Recognition

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

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

As discussed in Our Customers, we offer sales incentives and discounts through various programs to customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled $34.6 billion in 2011, $29.1 billion in 2010 and $12.9 billion in 2009. 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. Certain arrangements, such as fountain pouring rights and sponsorship contracts, may extend beyond one year. Payments made to obtain these rights are recognized over the shorter of the economic or contractual life, as a reduction of revenue, and the remaining balances of $288 million as of December 31, 2011 and $296 million as of December 25, 2010 are included in current assets and other assets on our balance sheet.

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period s actual gross revenue to our forecasted annual gross revenue. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized in the interim period as they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for other marketplace spending, which includes the costs of advertising and other marketing activities. See Note 2 for additional information on our sales incentives and other marketplace spending. Our annual financial statements are not impacted by this interim allocation methodology.

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. In a business combination, the consideration is first assigned to identifiable assets and liabilities, including brands, based on estimated fair values, with any excess 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 are not amortized and 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

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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, if any. In the second step, we determine an implied fair value of the reporting unit s goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of that goodwill.

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

In connection with our acquisitions of PBG and PAS, we reacquired certain franchise rights which provided PBG and PAS with the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. In determining the useful life of these reacquired franchise rights, we considered many factors, including the pre-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, are not amortized, but instead are tested for impairment at least annually. Certain reacquired and acquired franchise rights are amortized 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 was capitalized and is not amortized, but instead is 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 goodwill in the years presented. In addition, as of December 31, 2011, we did not have any reporting units that were at risk of failing the first step of the goodwill impairment test. In connection with the merger and integration of WBD in 2011, we recorded a $14 million impairment charge for discontinued brands. We did not recognize any impairment charges for other nonamortizable intangible assets in 2010 and 2009. As of December 31, 2011, we had $31.4 billion of goodwill and other nonamortizable intangible assets, of which approximately 70% related to the acquisitions of PBG, PAS and WBD.

**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,

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despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit.

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

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

In 2011, our annual tax rate was 26.8% compared to 23.0% in 2010, as discussed in Other Consolidated Results. The tax rate in 2011 increased 3.8 percentage points primarily reflecting the prior year non-taxable gain and reversal of deferred taxes attributable to our previously held equity interests in connection with our acquisitions of PBG and PAS.

**Pension and Retiree Medical Plans**

Our pension plans cover certain 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. Certain 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.

As of February 2012, certain U.S. employees earning a benefit under one of our defined benefit pension plans will no longer be eligible for Company matching contributions on their 401(k) contributions.

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) the increase in the liability due to the passage of time (interest cost), and (3) other gains and losses as discussed below, reduced by (4) the expected return on plan assets for our funded plans.

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

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

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

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

The expected return on pension plan assets is based on our pension plan investment strategy, our expectations for long-term rates of return by asset class, taking into account volatility 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 periodically in conjunction with 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 2011 target investment allocation was 40% for U.S. equity, 20% for international equity and 40% for fixed income. For 2012, our target allocations are as follows: 40% for fixed income, 33% for U.S. equity, 22% for international equity and 5% for real estate. The change to the 2012 target asset allocations was made to increase diversification. 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, our market-related value of assets for fixed income is the actual fair value. For all other asset categories, we use a method that recognizes investment gains or losses (the difference between the expected and actual return based on the market-related value of assets) over a five-year period. This has the effect of reducing year-to-year volatility.

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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 10 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:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| ***Pension*** | | | |
| Expense discount rate | 4.6% | 5.6% | 6.0% |
| Expected rate of return on plan assets | 7.6% | 7.6% | 7.6% |
| Expected rate of salary increases | 3.8% | 4.1% | 4.4% |
| ***Retiree medical*** | | | |
| Expense discount rate | 4.4% | 5.2% | 5.8% |
| Expected rate of return on plan assets | 7.8% | 7.8% | |
| Current health care cost trend rate | 6.8% | 7.0% | 7.5% |

Based on our assumptions, we expect our pension and retiree medical expenses to increase in 2012 primarily driven by lower discount rates, partially offset by expected asset returns on contributions and changes to other actuarial assumptions.

***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 2012 pension expense is an increase of approximately $62 million. The estimated impact on 2012 pension expense of a 25-basis-point decrease in the expected rate of return is an increase of approximately $31 million.

See Note 7 for information about 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.

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Our pension contributions for 2011 were $239 million, of which $61 million was discretionary. Our retiree medical contributions for 2011 were $110 million, none of which was discretionary.

In 2012, we expect to make pension and retiree medical contributions of approximately $1.3 billion, with up to approximately $1 billion expected to be discretionary. Our cash payments for retiree medical benefits are estimated to be approximately $124 million in 2012. Our pension and retiree medical contributions are subject to change as a result of many factors, such as changes in interest rates, deviations between actual and expected asset returns and changes in tax or other benefit laws. For estimated future benefit payments, including our pay-as-you-go payments as well as those from trusts, see Note 7.

## OUR FINANCIAL RESULTS

### Items Affecting Comparability

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| ***Net revenue*** | | | |
| 53rd week | **$ 623** | | |
| ***Operating profit*** | | | |
| 53rd week | **$ 109** | | |
| Mark-to-market net impact (losses)/gains | **$ (102)** | $ 91 | $ 274 |
| Restructuring and impairment charges | **$ (383)** | | $ (36) |
| Merger and integration charges | **$ (313)** | $ (769) | $ (50) |
| Inventory fair value adjustments | **$ (46)** | $ (398) | |
| Venezuela currency devaluation | | $ (120) | |
| Asset write-off | | $ (145) | |
| Foundation contribution | | $ (100) | |
| ***Bottling equity income*** | | | |
| Gain on previously held equity interests | | $ 735 | |
| Merger and integration charges | | $ (9) | $ (11) |
| ***Interest expense*** | | | |
| 53rd week | **$ (16)** | | |
| Merger and integration charges | **$ (16)** | $ (30) | |
| Debt repurchase | | $ (178) | |
| ***Net income attributable to PepsiCo*** | | | |
| 53rd week | **$ 64** | | |
| Mark-to-market net impact (losses)/gains | **$ (71)** | $ 58 | $ 173 |
| Restructuring and impairment charges | **$ (286)** | | $ (29) |
| Gain on previously held equity interests | | $ 958 | |
| Merger and integration charges | **$ (271)** | $ (648) | $ (44) |
| Inventory fair value adjustments | **$ (28)** | $ (333) | |
| Venezuela currency devaluation | | $ (120) | |
| Asset write-off | | $ (92) | |
| Foundation contribution | | $ (64) | |
| Debt repurchase | | $ (114) | |

| ***Net income attributable to PepsiCo per common share diluted*** | | | |
|---|---|---|---|
| 53rd week | **$ 0.04** | | |
| Mark-to-market net impact (losses)/gains | **$ (0.04)** | $ 0.04 | $ 0.11 |
| Restructuring and impairment charges | **$ (0.18)** | | $ (0.02) |
| Gain on previously held equity interests | | $ 0.60 | |
| Merger and integration charges | **$ (0.17)** | $ (0.40) | $ (0.03) |
| Inventory fair value adjustments | **$ (0.02)** | $ (0.21) | |
| Venezuela currency devaluation | | $ (0.07) | |
| Asset write-off | | $ (0.06) | |
| Foundation contribution | | $ (0.04) | |
| Debt repurchase | | $ (0.07) | |

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***53rd Week***

In 2011, we had an additional week of results (53rd week). Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years. The 53rd week increased 2011 net revenue by $623 million and operating profit by $109 million ($64 million after-tax or $0.04 per share).

***Mark-to-Market Net Impact***

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include metals, energy and agricultural products. 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 2011, we recognized $102 million ($71 million after-tax or $0.04 per share) of mark-to-market net losses on commodity hedges 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.

***Restructuring and Impairment Charges***

In 2011, we incurred restructuring charges of $383 million ($286 million after-tax or $0.18 per share) in conjunction with our multi-year productivity plan (Productivity Plan), including $76 million recorded in the FLNA segment, $18 million recorded in the QFNA segment, $48 million recorded in the LAF segment, $81 million recorded in the PAB segment, $77 million recorded in the Europe segment, $9 million recorded in the AMEA segment and $74 million recorded in corporate unallocated expenses. The Productivity Plan includes actions in every aspect of our business that we believe will strengthen our complementary food, snack and beverage businesses by leveraging new technologies and processes across PepsiCo s operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The Productivity Plan is expected to enhance PepsiCo s cost-competitiveness, provide a source of funding for future brand-building and innovation initiatives, and serve as a financial cushion for potential macroeconomic uncertainty beyond 2012. As a result, we expect to incur pre-tax charges of approximately $910 million, $383 million of which was reflected in our 2011 results, approximately $425 million of which will be reflected in our 2012 results and the balance of which will be reflected in our 2013, 2014 and 2015 results. These charges will be comprised of approximately $500 million of severance and other employee-related costs; approximately $325 million for other costs, including consulting-related costs and the termination of leases and other contracts; and approximately $85 million for asset impairments (all non-cash) resulting from plant closures and related actions. These charges resulted in cash expenditures of $30 million in 2011, and we anticipate approximately $550 million of related cash expenditures during 2012, with the balance of approximately $175 million of related cash expenditures in 2013 through 2015. The Productivity Plan will be substantially completed by the end of 2012 with incremental productivity initiatives continuing through the end of 2015.

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 included actions in all divisions of the business, including the closure of six plants, to increase cost competitiveness across the supply chain, upgrade and streamline our product portfolio, and simplify the organization for more effective and timely decision-making. This program was completed in the second quarter of 2009.

***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 was 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 2011, we incurred merger and integration charges of $329 million ($271 million after-tax or $0.17 per share) related to our acquisitions of PBG, PAS and WBD, including $112 million recorded in the PAB segment, $123 million recorded in the Europe segment, $78 million recorded in corporate unallocated expenses and $16 million recorded in interest expense. These charges also include closing costs and advisory fees related to our acquisition of WBD.

In 2010, we incurred merger and integration charges of $799 million related to our acquisitions of PBG and PAS, as well as advisory fees in connection with our acquisition of WBD. $467 million of these charges were recorded in the PAB segment, $111 million recorded in the Europe segment, $191 million recorded in corporate unallocated expenses and $30 million recorded in interest expense. The merger and integration charges related to our acquisitions of PBG and PAS were 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 2011, we recorded $46 million ($28 million after-tax or $0.02 per share) of incremental costs in cost of sales related to fair value adjustments to the acquired inventory included in WBD s balance sheet at the acquisition date and hedging contracts included in PBG s and PAS s balance sheets at the acquisition date.

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

***Venezuela Currency Devaluation***

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

***Asset Write-Off***

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

***Foundation Contribution***

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

***Debt Repurchase***

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

***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. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior year average foreign exchange rates. 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.

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

***Servings***

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

In 2011, total servings increased 6% compared to 2010. Excluding the impact of the 53rd week, total servings increased 5% compared to 2010. In 2010, total servings increased 7% compared to 2009. 2011 servings growth reflects an adjustment to the base year (2010) for divestitures that occurred in 2011, as applicable.

***Total Net Revenue and Operating Profit***

| | | | | Change | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** | 2010 |
| Total net revenue | **$ 66,504** | $ 57,838 | $ 43,232 | **15%** | 34% |
| Operating profit | | | | | |
| FLNA | **$ 3,621** | $ 3,376 | $ 3,105 | **7%** | 9% |
| QFNA | **797** | 741 | 781 | **8%** | (5)% |
| LAF | **1,078** | 1,004 | 904 | **7%** | 11% |
| PAB | **3,273** | 2,776 | 2,172 | **18%** | 28% |
| Europe | **1,210** | 1,054 | 948 | **15%** | 11% |
| AMEA | **887** | 708 | 700 | **25%** | 1% |
| Corporate Unallocated | | | | | |
| 53rd week | **(18)** | | | **n/m** | |
| Mark-to-market net impact (losses)/gains | **(102)** | 91 | 274 | **n/m** | (67)% |
| Restructuring and impairment charges | **(74)** | | | **n/m** | |
| Merger and integration charges | **(78)** | (191) | (49) | **(59)%** | 284% |
| Venezuela currency devaluation | | (129) | | **n/m** | n/m |
| Asset write-off | | (145) | | **n/m** | n/m |
| Foundation contribution | | (100) | | **n/m** | n/m |
| Other | **(961)** | (853) | (791) | **13%** | 8% |
| Total operating profit | **$ 9,633** | $ 8,332 | $ 8,044 | **16%** | 4% |
| Total operating profit margin | **14.5%** | 14.4% | 18.6% | **0.1** | (4.2) |

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

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2011

On a reported basis, total operating profit increased 16% and operating margin increased 0.1 percentage points. Operating profit growth was primarily driven by the net revenue growth, partially offset by higher commodity costs. Items affecting comparability (see Items Affecting Comparability ) contributed 10 percentage points to the total operating profit growth and 1.2 percentage points to the total operating margin increase.

2010

On a reported basis, 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.

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***Other Consolidated Results***

| | | | | Change | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** | 2010 |
| Bottling equity income | | $ 735 | $ 365 | **$ (735)** | $ 370 |
| Interest expense, net | **$ (799)** | $ (835) | $ (330) | **$ 36** | $ (505) |
| Annual tax rate | **26.8%** | 23.0% | 26.0% | | |
| Net income attributable to PepsiCo | **$ 6,443** | $ 6,320 | $ 5,946 | **2%** | 6% |
| Net income attributable to PepsiCo per common share diluted | **$ 4.03** | $ 3.91 | $ 3.77 | **3%** | 4% |
| 53rd week | **(0.04)** | | | | |
| Mark-to-market net impact losses/(gains) | **0.04** | (0.04) | (0.11) | | |
| Restructuring and impairment charges | **0.18** | | 0.02 | | |
| Gain on previously held equity interests | | (0.60) | | | |
| Merger and integration charges | **0.17** | 0.40 | 0.03 | | |
| Inventory fair value adjustments | **0.02** | 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* | **$ 4.40** | $ 4.13** | $ 3.71 | **7%** | 12% |
| Impact of foreign currency translation | | | | **(1)** | 1 |
| Growth in net income attributable to PepsiCo per common share diluted, excluding above items, on a constant currency basis* | | | | **5%**** | 12%** |

* See Non-GAAP Measures

** Does not sum due to rounding

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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.

2011

Bottling equity income decreased $735 million, reflecting the gain in the prior year on our previously held equity interests in connection with our acquisitions of PBG and PAS.

Net interest expense decreased $36 million, primarily reflecting interest expense in the prior year in connection with our cash tender offer to repurchase debt in 2010, partially offset by higher average debt balances in 2011.

The reported tax rate increased 3.8 percentage points compared to 2010, primarily reflecting the prior year non-taxable gain and reversal of deferred taxes attributable to our previously held equity interests in connection with our acquisitions of PBG and PAS.

Net income attributable to PepsiCo increased 2% and net income attributable to PepsiCo per common share increased 3%. Items affecting comparability (see Items Affecting Comparability ) decreased net income attributable to PepsiCo by 3 percentage points and net income attributable to PepsiCo per common share by 3.5 percentage points.

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.

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**Results of Operations Division Review**

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Accordingly, 2011 volume growth measures reflect an adjustment to the base year (2010) for divestitures that occurred in 2011. See Items Affecting Comparability for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

| | FLNA | QFNA | LAF | PAB | Europe | AMEA | Total |
|---|---|---|---|---|---|---|---|
| **Net Revenue, 2011** | **$ 13,322** | **$ 2,656** | **$ 7,156** | **$ 22,418** | **$ 13,560** | **$ 7,392** | **$ 66,504** |
| Net Revenue, 2010 | $ 12,573 | $ 2,656 | $ 6,315 | $ 20,401 | $ 9,602 | $ 6,291 | $ 57,838 |
| *% Impact of:* | | | | | | | |
| Volume[(a)] | 2% | (5)% | 3.5% | * | * | 10% | * |
| Effective net pricing[(b)] | 3 | 4 | 8 | * | * | 6 | * |
| Foreign exchange | | 1 | 2 | 1 | 3 | 2 | 1 |
| Acquisitions and divestitures | | | | * | * | | * |
| *% Change[(c)]* | *6%* | *%* | *13%* | *10%* | *41%* | *17%* | *15%* |

| | FLNA | QFNA | LAF | PAB | Europe | AMEA | Total |
|---|---|---|---|---|---|---|---|
| Net Revenue, 2010 | $ 12,573 | $ 2,656 | $ 6,315 | $ 20,401 | $ 9,602 | $ 6,291 | $ 57,838 |
| Net Revenue, 2009 | $ 12,421 | $ 2,687 | $ 5,703 | $ 10,116 | $ 7,028 | $ 5,277 | $ 43,232 |
| *% Impact of:* | | | | | | | |
| Volume[(a)] | % | % | 3% | * | * | 12% | * |
| Effective net pricing[(b)] | | (2) | 6 | * | * | 3 | * |
| Foreign exchange | 1 | 1 | 1 | | (1) | 3 | 1 |
| Acquisitions and divestitures | | | | * | * | 1 | * |
| *% Change[(c)]* | *1%* | *(1)%* | *11%* | *102%* | *37%* | *19%* | *34%* |

(a) Excludes the impact of acquisitions and divestitures. 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.

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**Frito-Lay North America**

| | | | | % Change | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** | 2010 |
| Net revenue | **$ 13,322** | $ 12,573 | $ 12,421 | **6** | 1 |
| 53rd week | **(260)** | | | | |