# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-K

(Mark One)

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

**For the fiscal year ended December 31, 2005**

**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**<br>*(State or Other Jurisdiction of Incorporation or Organization)* | **13-1584302**<br>*(I.R.S. Employer Identification No.)* |
| **700 Anderson Hill Road, Purchase, New York**<br>*(Address of Principal Executive Offices)* | **10577**<br>*(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 whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

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

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

Table of Contents

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 large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of PepsiCo Common Stock held by nonaffiliates of PepsiCo as of June 11, 2005, the last day of business of our most recently completed second fiscal quarter, was $98,905,247,548.40. The number of shares of PepsiCo Common Stock outstanding as of February 17, 2006 was 1,656,763,169.

| 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 3, 2006 Annual Meeting of Shareholders** | **III** |

**PepsiCo, Inc.**

**Form 10-K Annual Report**
**For the Fiscal Year Ended December 31, 2005**

**Table of Contents**

# 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” and the “Company” mean PepsiCo and its divisions and subsidiaries.

### Our Divisions

We are a leading, global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages and foods. We are organized into four divisions:

- Frito-Lay North America,
- PepsiCo Beverages North America,
- PepsiCo International, and
- Quaker Foods North America.

Our North American divisions operate in the United States and Canada. Our international divisions operate in over 200 countries, with our largest operations in Mexico and the United Kingdom. Financial information concerning our divisions and geographic areas is presented in Note 1 to our consolidated financial statements and additional information concerning our division operations, customers and distribution network is presented under the heading “ Our Business” contained in “ Item 7. Management’s Discussion and Analysis.”

***Frito-Lay North America***

Frito-Lay North America (FLNA) manufactures or uses contract manufacturers, markets, sells and distributes branded snacks. These snacks include Lay’s potato chips, Doritos tortilla chips, Cheetos cheese flavored snacks, Tostitos tortilla chips, Fritos corn chips, branded dips, Ruffles potato chips, Quaker Chewy granola bars, Rold Gold pretzels, Sun Chips multigrain snacks, Munchies snack mix, Grandma’s cookies, Lay’s Stax potato crisps, Quaker Quakes corn and rice snacks, Quaker Fruit & Oatmeal bars, Cracker Jack candy coated popcorn and Go Snacks. FLNA branded products are sold to independent distributors and retailers. FLNA’s net revenue was $10.3 billion in 2005, $9.6 billion in 2004 and $9.1 billion in 2003 and approximated 32% of our total division net revenue in 2005, 33% of our total division net revenue in 2004 and 34% of our total division net revenue in 2003.

### *PepsiCo Beverages North America*

PepsiCo Beverages North America (PBNA) manufactures or uses contract manufacturers, markets and sells beverage concentrates, fountain syrups and finished goods, under various beverage brands, including Pepsi, Mountain Dew, Gatorade, Tropicana Pure Premium, Sierra Mist, Tropicana juice drinks, Mug, Propel, SoBe, Tropicana Twister, Dole and Slice. PBNA also manufactures, markets and sells ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks. In addition, PBNA licenses the Aquafina water brand to its bottlers and markets this brand. PBNA sells concentrate and finished goods for some of these brands to bottlers licensed by us, and some of these branded products are sold directly by us to independent distributors and retailers. The franchise bottlers sell our brands as finished goods to independent distributors and retailers. PBNA's net revenue was $9.1 billion in 2005, $8.3 billion in 2004 and $7.7 billion in 2003 and approximated 28% of our total division net revenue in 2005, 28% of our total division net revenue in 2004 and 29% of our total division net revenue in 2003.

### *PepsiCo International*

PepsiCo International (PI) manufactures through consolidated businesses as well as through noncontrolled affiliates, a number of leading salty and sweet snack brands including Gamesa and Sabritas in Mexico, Walkers in the United Kingdom, and Smith's in Australia. Further, PI manufactures or uses contract manufacturers, markets and sells many Quaker brand snacks. PI also manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Gatorade, Mountain Dew and Tropicana. These brands are sold to franchise bottlers, independent distributors and retailers. However, in certain markets, PI operates its own bottling plants and distribution facilities. PI also licenses the Aquafina water brand to certain of its franchise bottlers. PI's net revenue was $11.4 billion in 2005, $9.9 billion in 2004 and $8.7 billion in 2003 and approximated 35% of our total division net revenue in 2005, 34% of our total division net revenue in 2004 and 32% of our total division net revenue in 2003.

### *Quaker Foods North America*

Quaker Foods North America (QFNA) manufactures or uses contract manufacturers, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Aunt Jemima mixes and syrups, Quaker grits, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers. QFNA's net revenue was $1.7 billion in 2005 and $1.5 billion in each of 2004 and 2003 and approximated 5% of our total division net revenue in each of 2005, 2004 and 2003.

### Our Distribution Network

Our products are brought to market through direct-store-delivery, broker-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 Business” contained in “ Item 7. Management’s Discussion and Analysis.”

### Ingredients and Other Supplies

The principal ingredients we use in our food and beverage businesses are aspartame, cocoa, corn, corn sweeteners, flavorings, flour, juice and juice concentrates, oats, oranges, grapefruits and other fruits, potatoes, rice, seasonings, sucralose, sugar, vegetable and essential oils and wheat. Our key packaging materials include aluminum used for cans, P.E.T. resin used for plastic bottles, film packaging used for snack foods and cardboard. Fuel and natural gas are also important commodities due to their use in our plants and in the trucks delivering our products. These ingredients, raw materials and commodities are purchased mainly in the open market. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages. The prices we pay for such items are subject to fluctuation. When prices increase, we may or may not pass on such increases to our customers. When we have decided to pass along price increases in the past, we have done so successfully. However, there is no assurance that we will be able to do so in the future.

### Our Brands

We own numerous valuable trademarks which are essential to our worldwide businesses, including Alegro, AMP, Aquafina, Aquafina Sparkling, Aunt Jemima, Cap’n Crunch, Cheetos, Cracker Jack, Diet Pepsi, Doritos, Frito Lay, Fritos, Gamesa, Gatorade, Grandma’s, Lay’s, Life, Mirinda, Mountain Dew, Mountain Dew Code Red, Mountain Dew MDX, Mug, Near East, Pasta Roni, Pepsi, Pepsi Max, Pepsi Lime, Pepsi One, Pepsi Twist, Pepsi-Cola, Pepsi Wild Cherry, Propel, Quaker, Quaker Chewy, Quaker Quakes, Rice-A-Roni, Rold Gold, Ruffles, Sabritas, 7UP and Diet 7UP (outside the United States), Sierra Mist, Simba, Slice, Smith’s, Snack a Jacks, SoBe, Sonric’s, Sun Chips, Tostitos, Tropicana, Tropicana Pure Premium, Tropicana Twister, Walkers and Wotsits. 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.

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

### Seasonality

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

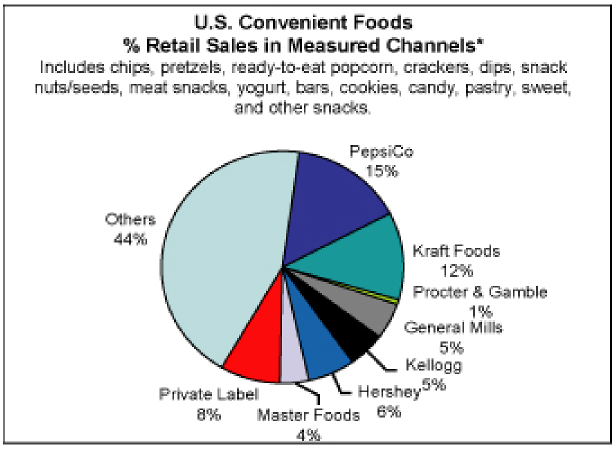
**Our Customers**

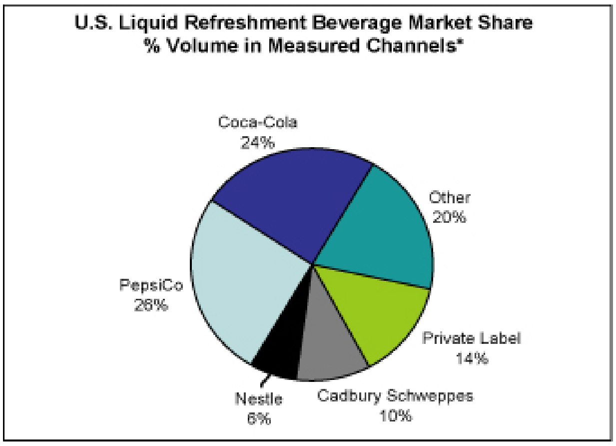
Our customers include franchise bottlers and independent distributors and retailers. We normally grant our bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements specify the amount to be paid by our bottlers for concentrate and finished goods and for Aquafina royalties, as well as the manufacturing process required for product quality.

Retail consolidation has increased the importance of major customers and further consolidation is expected. Sales to Wal-Mart Stores, Inc. represent approximately 9% of our total worldwide net revenue; and our top five retail customers currently represent approximately 26% of our 2005 North American net revenue, with Wal-Mart representing approximately 11%. These percentages include concentrate sales to our bottlers which are used in finished goods sold by them to these retailers. In addition, sales to The Pepsi Bottling Group (PBG) represent approximately 10% of our total net revenue. See " Our Customers", " Our Related Party Bottlers" and Note 8 to our consolidated financial statements for more information on our customers, including our anchor bottlers.

**Our Competition**

Our businesses operate in highly competitive markets. We compete against global, regional, local and private label manufacturers on the basis of price, quality, product variety and effective distribution. In measured channels, our chief beverage competitor, The Coca-Cola Company, has a slightly larger share of CSD consumption in the United States, while we have a larger share of chilled juices and isotonics. In addition, The Coca-Cola Company maintains a significant CSD share advantage in many markets outside North America. Further, our snack brands hold significant leadership positions in the snack industry worldwide. Our snack brands face local and regional competitors, as well as national and global snack competitors, and compete on issues related to price, quality, variety and distribution. Success in this competitive environment is dependent on effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allow us to compete effectively.




* The markets and market share information in the charts above are defined by the sources of the information: Information Resources, Inc. and A.C. Nielsen Corporation. The above charts exclude data from certain customers such as Wal-Mart that do not report data to these services.

**Regulatory Environment and Environmental Compliance**

The conduct of our businesses, and the production, distribution, sale, advertising, labeling, safety, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets where we operate. It is our policy to follow the laws and regulations around the world that apply to our businesses.

In the United States, we are required to comply with federal laws, such as the Food, Drug and Cosmetic Act, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Motor Carrier Safety Act, laws governing equal employment opportunity, customs and foreign trade laws and regulations, laws governing the sales of products in schools, and various other federal statutes and regulations. We are also subject to various state and local statutes and regulations, including California Proposition 65 which requires that a specific warning appear on any product that contains a component listed by the State of California as having been found to cause cancer or birth defects. Under Proposition 65, even trace amounts of listed components can expose affected products to the prospect of warning labels. As a result, many food and beverage producers who sell products in California, including PepsiCo, may be required to provide warning labels on their products.

In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions. We rely on legal and operational compliance programs, as well as local in-house and outside counsel, to guide our businesses in complying with applicable laws and regulations of the countries in which we do business.

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

We are subject to national and local environmental laws in the United States and in the foreign countries in which we do business. We have compliance programs in place designed to meet applicable environmental compliance requirements. Environmental compliance costs have not had, and are not expected to have, a material impact on our capital expenditures, earnings or competitive position.

### Employees

As of December 31, 2005, we employed, subject to seasonal variations, approximately 157,000 people worldwide, including approximately 62,000 people employed within the United States. We believe that relations with our employees are generally good.

### Available Information

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Information on 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 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, are also available free of charge on our internet website at http://www.pepsico.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission.

## Item 1A. Risk Factors

### *Forward-Looking and Cautionary Statements*

*We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. We undertake no obligation to update any forward-looking statement. The following discussion of risks is by no means all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our trends and future results.*

***Demand for our products may be adversely affected by changes in consumer preferences and tastes.***

We are a consumer products company operating in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Any significant changes in consumer preferences and our inability to anticipate and react to such changes could result in reduced demand for our products and erosion of our competitive and financial position. Our success depends on our ability to respond to consumer trends, such as consumer health concerns about obesity, product attributes and ingredients. In addition, changes in product category consumption and consumer demographics could result in reduced demand for our products. Consumer preferences may shift due to a variety of factors, including the aging of the general population, changes in social trends, changes in travel, vacation or leisure activity patterns or a downturn in economic conditions, which may reduce consumers' willingness to purchase premium branded products. Our continued success is also dependent on our product innovation, including maintaining a robust pipeline of new products, and the effectiveness of our advertising campaigns and marketing programs. 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.

***Any damage to our reputation could have an adverse effect on our business, financial condition and results of operations.***

Maintaining a good reputation globally is critical to selling our branded products. If we fail to maintain high standards for product quality, safety and integrity, our reputation could be jeopardized. Adverse publicity about these types of concerns, whether or not valid, may reduce demand for our products or cause production and delivery disruptions. If any of our products becomes unfit for consumption, misbranded or causes injury, we may have to engage in a product recall and/or be subject to liability. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time, which could further reduce consumer demand and brand equity. Failure to maintain high ethical, social and environmental standards for all of our operations and activities could also jeopardize our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these reasons 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.

***If we are not able to build and sustain proper information technology infrastructure, our business could suffer.***

We depend on information technology as an enabler to operating efficiently and interfacing with customers, as well as maintaining financial accuracy and efficiency. If we do not allocate, and effectively manage, the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breach.

We have embarked on a multiyear Business Process Transformation (BPT) initiative that includes the delivery of an SAP enterprise resource planning application, as well as the migration to common business processes across our North American operations. There can be no certainty that these programs will deliver the expected benefits. The failure to deliver our goals may impact our ability to (1) process transactions accurately and efficiently and (2) remain in step with the changing needs of the trade, which could result in the loss of customers. In addition, the failure to either deliver the application on time, or anticipate the necessary readiness and training needs, could lead to business disruption.

As with all large systems, our information systems could be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets.

***Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.***

Our ability to make, move and sell products is critical to our success. Damage or disruption to our manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemic, strikes or other reasons could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

***Trade consolidation or the loss of any key customer could adversely affect our financial performance.***

There is a greater concentration of our customer base around the world generally due to the continued consolidation of retail trade. As retail ownership becomes more concentrated, retailers demand lower pricing and increased promotional programs. Further, as larger retailers increase utilization of their own distribution networks and private label brands, the competitive advantages we derive from our go-to-market systems and brand equity may be eroded. Failure to appropriately respond to these trends or to offer effective sales incentives and marketing programs to our customers could reduce our ability to secure adequate shelf space at our retailers and adversely affect our financial performance.

In addition, retail consolidation has increased the importance of major customers and further consolidation is expected. Sales to Wal-Mart Stores, Inc. represent approximately 9% of our total worldwide net revenue; and our top five retail customers currently represent approximately 26% of our 2005 North American net revenue, with Wal-Mart representing approximately 11%. These percentages include concentrate sales to our bottlers which are used in finished goods sold by them to these retailers. We must maintain mutually beneficial relationships with our key customers, including our retailers and anchor bottlers, to effectively compete. Loss of any of our key customers could have an adverse effect on our business, financial condition and results of operations. See “ Our Customers,” “ Our Related Party Bottlers” and Note 8 to our consolidated financial statements for more information on our customers, including our anchor bottlers.

Table of Contents

***Our business may be adversely impacted by unfavorable economic or environmental conditions or political or other developments and risks in the countries in which we operate.***

Unfavorable global economic or environmental changes, political conditions or other developments may result in business disruption, supply constraints, foreign currency devaluation, inflation, deflation or decreased demand. Economic conditions in North America could also adversely impact growth. For example, rising fuel costs may impact the sales of our products in convenience stores where our products are generally sold in higher margin single serve packages. Our international operations accounted for over a third of our revenue for the period ended December 31, 2005. Unstable economic and political conditions or civil unrest in the countries in which we operate could have adverse impacts on our business results or financial condition.

***Regulatory decisions and changes in the legal and regulatory environment could increase our costs and liabilities or limit our business activities.***

The conduct of our businesses, and the production, distribution, sale, advertising, labeling, safety, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets in which we operate. In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events. Changes in laws, regulations or governmental policy and the related interpretations may alter the environment in which we do business and, therefore, may impact our results or increase our costs or liabilities. Such regulatory environment changes include changes in food and drug laws, laws related to advertising and deceptive marketing practices, accounting standards, taxation requirements, competition laws and environmental laws, including California Proposition 65 and the regulation of water consumption and treatment. In particular, governmental bodies in countries where we operate may impose new labeling, product or production requirements, or other restrictions. 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. See also “Regulatory Environment and Environmental Compliance.”

***If we are unable to hire or retain key employees, it could have a negative impact on our business.***

Our continued growth requires us to develop our leadership bench and to implement programs, such as our long-term incentive program, designed to retain talent. However, there is no assurance that we will continue to be able to hire or retain key employees. We compete to hire new employees, and then must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any unplanned turnover could deplete our institutional knowledge base and erode our competitive advantage.

***Our operating results may be adversely affected by increased costs or shortages of raw materials.***

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 income.

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

Our businesses operate in highly competitive markets. We compete against global, regional and private label manufacturers on the basis of price, quality, product variety and effective distribution. Increased competition and anticipated actions by our competitors could lead to downward pressure on prices and/or a decline in our market share, either of which could adversely affect our results. See "Our Competition" for more information about our competitors.

## Item 1B. Unresolved Staff Comments

Not applicable.

## Item 2. Properties

We own our corporate headquarters building in Purchase, New York and our data center in Plano, Texas. 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 leased for varying and usually shorter periods, with or without renewal options. 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***

Frito-Lay North America (FLNA) owns or leases approximately 40 food manufacturing and processing plants and approximately 1,950 warehouses, distribution centers and offices, including its headquarters building and a research facility in Plano, Texas.

### *PepsiCo Beverages North America*

PepsiCo Beverages North America (PBNA) utilizes approximately 45 plants and production processing facilities and approximately 25 warehouses, distribution centers and offices. We lease PBNA's headquarters building in downtown Chicago, Illinois, and own its Tropicana facility in Bradenton, Florida and its concentrate plants in Puerto Rico and Ireland. The other properties utilized by PBNA are owned or leased by us or our co-packers. In addition, licensed bottlers in which we have an ownership interest own or lease approximately 70 bottling plants.

### *PepsiCo International*

PepsiCo International (PI) owns or leases approximately 200 plants and approximately 1,700 warehouses, distribution centers and offices. We own PI's concentrate plant in Ireland and have a long-term lease on PI's snack plant in the United Kingdom. PI is headquartered in the corporate facility in Purchase, NY.

### *Quaker Foods North America*

Quaker Foods North America (QFNA) utilizes approximately 28 manufacturing plants in North America. QFNA owns its plant in Cedar Rapids, Iowa. The other properties utilized by QFNA are owned or leased by us or our co-packers. QFNA is headquartered in the same facility with PBNA in downtown Chicago, Illinois.

### *Shared Properties*

QFNA shares approximately 6 plants with FLNA, 1 plant with PBNA, 17 distribution centers with FLNA and PBNA, 8 warehouses and 9 offices with PBNA and FLNA, including a research and development laboratory in Barrington, Illinois. In addition, FLNA and PI share 1 plant.

## Item 3. Legal Proceedings

We are party to a variety of legal proceedings arising in the normal course of business, including the matters discussed below. While the results of proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows.

On April 30, 2004, we announced that Frito-Lay and Pepsi-Cola Company received notification from the Securities and Exchange Commission (the "SEC") indicating that the SEC staff was proposing to recommend that the SEC bring a civil action alleging that a non-executive employee at Pepsi-Cola and another at Frito-Lay signed documents in early 2001 prepared by Kmart acknowledging payments in the amount of $3 million from Pepsi-Cola and $2.8 million from Frito-Lay. Kmart allegedly used these documents to prematurely recognize the $3 million and $2.8 million in revenue. Frito-Lay and Pepsi-Cola have cooperated fully with this investigation and provided written responses to the

SEC staff notices setting forth the factual and legal bases for their belief that no enforcement actions should be brought against Frito-Lay or Pepsi-Cola.

Based on an internal review of the Kmart matters, no officers of PepsiCo, Pepsi-Cola or Frito-Lay are involved. Neither of these matters involves any allegations regarding PepsiCo's accounting for its transactions with Kmart or PepsiCo's financial statements.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Our Executive Officers**

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

***Steven S Reinemund***, 57, has been PepsiCo's Chairman and Chief Executive Officer since May 2001. He was elected a director of PepsiCo in 1996 and before assuming his current position, served as President and Chief Operating Officer from September 1999 until May 2001. Mr. Reinemund began his career with PepsiCo in 1984 as a senior operating officer of Pizza Hut, Inc. He became President and Chief Executive Officer of Pizza Hut in 1986, and President and Chief Executive Officer of Pizza Hut Worldwide in 1991. In 1992, Mr. Reinemund became President and Chief Executive Officer of Frito-Lay, Inc., and Chairman and Chief Executive Officer of the Frito-Lay Company in 1996. Mr. Reinemund is also a director of Johnson & Johnson.

***Peter A. Bridgman***, 53, has been our Senior Vice President and Controller since August 2000. Mr. Bridgman began his career with PepsiCo at Pepsi-Cola International in 1985 and became Chief Financial Officer for Central Europe in 1990. He became Senior Vice President and Controller for Pepsi-Cola North America in 1992 and Senior Vice President and Controller for The Pepsi Bottling Group, Inc. (PBG) in 1999.

***John C. Compton,*** 44, was appointed President and CEO of Quaker, Tropicana, Gatorade in March 2005 and also serves on PepsiCo's liquid refreshment beverage oversight council. Mr. Compton began his career at PepsiCo in 1983 as a Frito-Lay Production Supervisor in the Pulaski, Tennessee manufacturing plant. He has spent 22 years at PepsiCo in various Sales, Marketing, Operations and General Management assignments. 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.

***Dawn E. Hudson,*** 48, is President and Chief Executive Officer of Pepsi-Cola North America (PCNA) and also serves on PepsiCo's liquid refreshment beverage oversight council. Ms. Hudson was promoted to CEO of PCNA in March 2005 and has been president since 2002. Previously, as Senior Vice President, Strategy and Marketing, she led PCNA's brand strategy and marketing efforts, as well as channel strategy and marketing, product innovation, research and development, joint ventures and marketplace initiative development. She also oversaw corporate marketing synergies as a result of the merger with Quaker. Ms. Hudson began her PepsiCo career at Frito-Lay North America in 1996 as Executive Vice President, Marketing and New Business and joined PCNA a year later as Senior Vice President, responsible for flavors, new business, packaging and joint ventures.

***Matthew M. McKenna***, 55, has been our Senior Vice President of Finance since August 2001. Mr. McKenna began his career at PepsiCo as Vice President, Taxes in 1993. In 1998, he became Senior Vice President, Taxes and served as Senior Vice President and Treasurer from 1998 until 2001. Prior to joining PepsiCo, he was a partner with the law firm of Winthrop, Stimson, Putnam & Roberts in New York. Mr. McKenna is also a director of PepsiAmericas, Inc. and a member of the Management Committee of Pepsi Bottling Ventures LLC.

***Margaret D. Moore***, 58, is our Senior Vice President, Human Resources, a position she assumed at the end of 1999. From November 1998 to December 1999, she was Senior Vice President and Treasurer of PBG. Prior to joining PBG, Ms. Moore spent 25 years with PepsiCo in a number of senior financial and human resources positions. Ms. Moore is also a director of PBG.

***Indra K. Nooyi***, 50, was elected to PepsiCo's Board 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 Senior Vice President, Strategic Planning and Senior Vice President, Corporate Strategy and Development from 1994 until 2000. 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. Ms. Nooyi is also a director of Motorola, Inc.

***Lionel L. Nowell III***, 51, has been our Senior Vice President and Treasurer since August 2001. Mr. Nowell joined PepsiCo as Senior Vice President and Controller in 1999 and then became Senior Vice President and Chief Financial Officer of PBG. Prior to joining PepsiCo, he was Senior Vice President, Strategy and Business Development for RJR Nabisco, Inc. From 1991 to 1998, he served as Chief Financial Officer of Pillsbury North America, and its Pillsbury Foodservice and Haagen Dazs units, serving as Vice President and Controller of the Pillsbury Company, Vice President of Food and International Retailing Audit, and Director of Internal Audit.

***Irene B. Rosenfeld***, 52, was appointed Chairman and Chief Executive Officer of Frito-Lay, Inc. in September 2004. Prior to joining PepsiCo, Ms. Rosenfeld served as President of Kraft Foods North American Businesses. During her career at Kraft, she also served as Group Vice President responsible for Kraft's North American manufacturing, distribution, procurement, R&D and information systems and also served as President of Kraft Canada and Kraft Mexico. Prior to that, Ms. Rosenfeld served in various senior management positions with Kraft after joining Kraft in 1981.

***Larry D. Thompson***, 60, became PepsiCo's Senior Vice President, Government Affairs, General Counsel and Secretary in November 2004. Prior to joining PepsiCo, Mr. Thompson served as a Senior Fellow with the Brookings Institution in Washington, D.C.

and served as Deputy Attorney General in the U.S. Department of Justice. In 2002, he was named to lead the National Security Coordination Council and was also named by President Bush to head the Corporate Fraud Task Force. In April 2000, Mr. Thompson was selected by Congress to chair the bipartisan Judicial Review Commission on Foreign Asset Control. Prior to his government career, he was a partner in the law firm of King & Spalding, a position he held from 1986 to 2001.

***Michael D. White***, 54, was appointed Chairman and Chief Executive Officer of PepsiCo International in February 2003, after serving as President and Chief Executive Officer of Frito-Lay's Europe/Africa/Middle East division since 2000. From 1998 to 2000, Mr. White was Senior Vice President and Chief Financial Officer of PepsiCo. Mr. White has also served as Executive Vice President and Chief Financial Officer of PepsiCo Foods International and Chief Financial Officer of Frito-Lay North America. He joined Frito-Lay in 1990 as Vice President of Planning.

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 Amsterdam, Chicago and Swiss Stock Exchanges.

Stock Prices – The composite quarterly high, low and closing prices for PepsiCo Common Stock for each fiscal quarter of 2005 and 2004 are contained in our Selected Financial Data.

Shareholders – At December 31, 2005, there were approximately 197,500 shareholders of record of our common stock.

Dividends – We target an annual dividend payout of approximately 45% of prior year's net income from continuing operations. Dividends are usually declared in late January or early February, May, July and November and paid at the end of March, June and September and the beginning of January. The dividend record dates for these payments are, subject to approval of the Board of Directors, expected to be March 10, June 9, September 8, and December 8, 2006. We have paid quarterly cash dividends since 1965. The quarterly dividends declared in 2005 and 2004 are contained in our Selected Financial Data.

For information on securities authorized for issuance under our equity compensation plans see Item 12.

A summary of our common stock repurchases (in millions, except average price per share) during the fourth quarter under the $7 billion repurchase program authorized by our Board of Directors and publicly announced on March 29, 2004, and expiring on March 31, 2007, is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions.

**Issuer Purchases of Common Stock**

| Period | (a) Total Number of Shares Repurchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that may Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 9/3/05 | | | | $ 2,771 |
| 9/4/05 – 10/1/05 | 4.4 | $ 55.29 | 4.4 | (245) |
| | | | | 2,526 |
| 10/2/05 – 10/29/05 | 3.4 | 57.83 | 3.4 | (195) |
| | | | | 2,331 |
| 10/30/05 – 11/26/05 | 3.6 | 58.76 | 3.6 | (213) |
| | | | | 2,118 |
| 11/27/05 – 12/31/05 | 4.1 | 59.53 | 4.1 | (243) |
| | 15.5 | $ 57.77 | 15.5 | $ 1,875 |

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

Table of Contents

**Issuer Purchases of Convertible Preferred Stock**

| Period | (a) Total Number of Shares Repurchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that may Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 9/3/05 | | | | |
| 9/4/05 – 10/1/05 | 4,300 | $ 279.52 | N/A | N/A |
| 10/2/05 – 10/29/05 | 7,700 | 287.57 | N/A | N/A |
| 10/30/05 – 11/26/05 | 3,200 | 291.27 | N/A | N/A |
| 11/27/05 – 12/31/05 | 3,200 | 294.01 | N/A | N/A |
| | 18,400 | $ 287.45 | N/A | N/A |

**Item 6. Selected Financial Data**

Selected Financial Data is included on page 94.

Table of Contents

## Item 7. Management’s Discussion and Analysis

*Our discussion and analysis is an integral part of understanding our financial results. Definitions of key terms can be found in the glossary on page 96. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.*

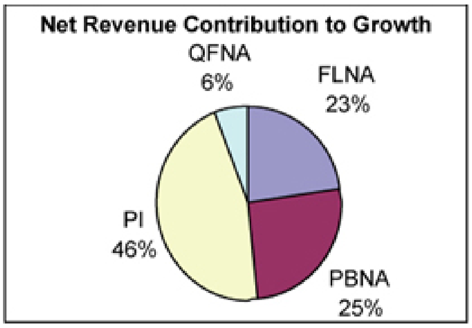
## OUR BUSINESS

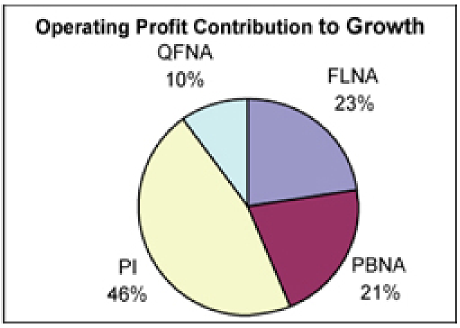
### Our Operations

We are a leading, global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages and foods. We are organized into four divisions:

- Frito-Lay North America,
- PepsiCo Beverages North America,
- PepsiCo International, and
- Quaker Foods North America.

Net revenue and operating profit contributions to growth from each of our divisions in 2005 are as follows:




Our North American divisions operate in the United States and Canada. Our international divisions operate in over 200 countries, with our largest operations in Mexico and the United Kingdom. Additional information concerning our divisions and geographic areas is presented in Note 1.

### *Frito-Lay North America*

Frito-Lay North America (FLNA) manufactures or uses contract manufacturers, markets, sells and distributes branded snacks. These snacks include Lay’s potato chips, Doritos tortilla chips, Cheetos cheese flavored snacks, Tostitos tortilla chips, Fritos corn chips, branded dips, Ruffles potato chips, Quaker Chewy granola bars, Rold Gold pretzels, Sun Chips multigrain snacks, Munchies snack mix, Grandma’s cookies, Lay’s Stax potato crisps, Quaker Quakes corn and rice snacks, Quaker Fruit & Oatmeal bars, Cracker Jack candy coated popcorn and Go Snacks. FLNA branded products are sold to independent distributors and retailers.

*PepsiCo Beverages North America*

PepsiCo Beverages North America (PBNA) manufactures or uses contract manufacturers, markets and sells beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mountain Dew, Gatorade, Tropicana Pure Premium, Sierra Mist, Tropicana juice drinks, Mug, Propel, SoBe, Tropicana Twister, Dole and Slice. PBNA also manufactures, markets and sells ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks. In addition, PBNA licenses the Aquafina water brand to its bottlers and markets this brand. PBNA sells concentrate and finished goods for some of these brands to bottlers licensed by us, and some of these branded products are sold directly by us to independent distributors and retailers. The franchise bottlers sell our brands as finished goods to independent distributors and retailers. PBNA's volume reflects sales to its independent distributors and retailers, and the sales of beverages bearing our trademarks that franchise bottlers have reported as sold to independent distributors and retailers.

*PepsiCo International*

PepsiCo International (PI) manufactures through consolidated businesses as well as through noncontrolled affiliates, a number of leading salty and sweet snack brands including Gamesa and Sabritas in Mexico, Walkers in the United Kingdom, and Smith's in Australia. Further, PI manufactures or uses contract manufacturers, markets and sells many Quaker brand snacks. PI also manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Gatorade, Mountain Dew and Tropicana. These brands are sold to franchise bottlers, independent distributors and retailers. However, in certain markets, PI operates its own bottling plants and distribution facilities. PI also licenses the Aquafina water brand to certain of its franchise bottlers. PI reports two measures of volume. Snack volume is reported on a system-wide basis, which includes our own volume and the volume sold by our noncontrolled affiliates. Beverage volume reflects company-owned and franchise bottler sales of beverages bearing our trademarks to independent distributors and retailers.

*Quaker Foods North America*

Quaker Foods North America (QFNA) manufactures or uses contract manufacturers, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Aunt Jemima mixes and syrups, Quaker grits, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers.

## Our Chairman and CEO Perspective

*The questions below reflect key questions shareholders most often ask about our businesses, and are followed by answers from our Chairman and CEO, Steve Reinemund.*

**There is a lot in the press about the "obesity epidemic." How urgent is the obesity issue, and does it pose a risk to PepsiCo's business?**

There is no question that obesity is a significant issue gaining increased attention and importance in many nations. Public health is a complex issue that requires partnerships across public and private sectors to find solutions that help consumers.

That's why, while we view this issue as a challenge, we also see the growing interest in health and wellness as a growth opportunity. Given that North America revenues from our Smart Spot eligible products – more than 250 products that contribute to healthier lifestyles – grew at more than two-and-one-half times the rate of the rest of our portfolio in 2005, it's clear that our strategy is aligned with the interests of our consumers and retail partners. And it's the right thing to do for our business. As a result, our commitment to health and wellness has never been stronger.

We believe the solution to consumers' health and wellness needs – and the obesity epidemic in particular – lies in the concept of energy balance; that is, finding balance between the calories consumed and the calories burned. It requires companies like PepsiCo to be part of the solution – a priority on which we will continue to take action.

Whether it's reformulating our products with lower sugar, fat or sodium, adding new or additional ingredients that deliver health benefits, or developing entirely new products, we've committed considerable resources to doing what we do best – giving consumers what they want. We've also committed to supporting active lifestyles and marketing responsibly.

**Your commitment to the International business seems to be paying off. What are the drivers of growth in your International business, and do you expect the growth to continue at the same pace?**

The outstanding growth achieved by our International business in 2005 is the result of years of investment and the implementation of a deliberate strategy to create scale in key international markets that will deliver profitable growth. As the fastest growing division at PepsiCo – and now the largest revenue generator – PepsiCo International's strategy clearly is delivering results.

To give more perspective on why we're encouraged about our international growth prospects, the portfolio of international markets is both broadening and strengthening, as we deliver exciting new products, tailored to local tastes, to consumers in more than 200 countries and territories. We're particularly pleased with our growing presence in key emerging markets such as Brazil, China, India and Russia.

We're very proud of the growth generated through our brands. Our performance is directly attributable to the passionate people who run our businesses in our international markets, each and every day of the year, adapting our products, packaging and distribution systems to a wide variety of tastes and market conditions.

We continue to expect our International business to grow at about twice the rate of our North American businesses, though favorable global macroeconomics clearly contributed to our 2005 performance which exceeded that expectation.

**What is the role of acquisitions in PepsiCo's future growth?**

We continue to believe that small, strategic, or "tuck in" acquisitions, will help propel our future growth. Our recent acquisitions of Sakata in Australia, Star Foods in Poland, Punica in Germany, P.J. Smoothies in the United Kingdom and Stacy's Pita Chips in the United States, are clear examples of how smaller acquisitions that offer considerable synergies with our existing businesses can help us grow in new geographies and new categories.

In each case, we exercise a disciplined approach to assessing any opportunity, carefully reviewing both strategic and financial criteria to ensure a fit with PepsiCo.

It's important to understand that while acquisitions have a role to play in our growth plans, we believe we'll continue to experience strong "organic" growth in our existing portfolio of businesses. They're equipped with big, muscular brands, they have room to grow, and they receive constant investment and attention.

**The carbonated soft drink category in North America has slowed in recent years. What does this trend mean for PepsiCo's growth prospects**?

While our carbonated soft drink business was down in North America in 2005, we're convinced that, over time, growth can be restored as we continue to invest in innovation for our carbonated beverages. Our diet carbonated soft drinks continue to grow in North America, an indication that consumers will remain engaged with the category if we offer carbonated soft drinks they desire.

Importantly, if you look at the total liquid refreshment beverage (LRB) category in North America – meaning all beverage occasions except for coffee, alcohol, tap and bulk water – you'll see it's growing at about 2.5% annually. This is consistent with historical growth rates for LRB, and PepsiCo is very well positioned to capture this growth.

That's because we have an advantaged portfolio of non-carbonated beverages, which is exactly where the growth in LRB is, and where we believe it continues to head. PepsiCo's line-up of waters, sports drinks, teas and energy drinks includes leading brands, and they illustrate how an advantaged portfolio of non-carbonated beverages can deliver great products for consumers, and solid returns for retailers and shareholders.

**How are you preparing to grow PepsiCo's top line?**

In a word, innovation – the lifeblood of any consumer products company. PepsiCo views this capability as a critical and sustainable competitive advantage. It is the reason we spend considerable time and dollars filling our pipeline with an array of consumer propositions to address needs for convenient foods and beverages.

We use a thoughtful and balanced approach to funding innovation and putting resources in place to support it. Some examples of that balance include balancing good-for-you and better-for-you product innovation with resources earmarked for our fun-for-you portfolio. In 2005, for example, our investment in new Aquafina FlavorSplash and new Gatorade Lemonade drove growth with our Smart Spot portfolio, while Lay's Cheddar and Sour Cream flavored potato chips contributed to solid growth with our Lay's brand.

But it also means balancing investment between carbonated and non-carbonated beverages, and balancing between "close-in" ideas like line extensions, and entirely new product platforms that don't exist today. We've implemented new ways of coordinating the collection of insights from consumers and retail partners so we can better share those insights across our businesses, and generate ideas that have a greater chance of success in the marketplace.

I think it's important to understand that innovation isn't limited to products. Across PepsiCo, we're constantly innovating to strengthen our go-to-market systems and to find structures that drive faster, more efficient and more cost-effective decision making. A current example is our Business Process Transformation, or BPT, a comprehensive, multi-year initiative that centers on moving all of PepsiCo to a common set of processes for key business activities, with current efforts focused on North America.

**More than a year ago, you announced PepsiCo's Business Process Transformation (BPT) initiative. What are the objectives of this program, and what is its status?**

Through larger acquisitions and mergers over the years, such as Tropicana and Quaker, we've recognized the need to seamlessly integrate formerly independent information systems. We are also committed to harmonizing key business processes such as Finance, Consumer Insights, Purchasing and Supply Chain and continuously improving our customer service.

We're supporting these processes with common Information Technology applications, linking our systems so that key pieces of data supporting all our businesses flow seemlessly from system to system. 2005 was a big year of preparation for the first deployment of our new, integrated system, which started its phased roll out in early 2006.

In fact, on January 16, the very first of these new capabilities began its roll out. Several of our North American plants, along with our Global Procurement team, now have streamlined tools and processes used for purchasing materials other than commodities, packaging and ingredients. Additional capabilities will be rolled out over the next several years.

When complete, we expect to have an infrastructure that will support better, faster decisions, allowing us to capture more growth opportunities, and better serve our customers. Importantly, it will also leverage PepsiCo's scale for efficiency and effectiveness.

**On the cost side, a number of key commodities have seen high rates of inflation. How is PepsiCo managing in an environment of increasing costs?**

There is no doubt that 2005 was a challenging year for input costs – especially energy and plastics resin. Between several major hurricanes hitting the United States and inflation, we saw some expected and some unexpected pressure on our margins, but we managed those cost pressures and met our financial targets.

And we expect 2006 to be challenging as well, largely reflecting increased energy and commodity costs. However, we have solid plans in place to offset these rising costs through productivity programs and hedging strategies, and expect to carefully manage pricing to help offset some of the inflation.

**PepsiCo's businesses generate a great deal of cash, and the Company's balance sheet is very conservative. Why don't you put more debt on the balance sheet and use the proceeds to increase the dividend or increase share repurchases?**

PepsiCo does generate considerable cash, and we are disciplined about how cash is reinvested in the business. Over the past three years, $5.7 billion has been reinvested in the businesses through capital expenditures and acquisitions, and $12.0 billion has been returned to shareholders through a combination of dividends and share repurchases. In essence, any cash we have not reinvested in the business has been returned to our shareholders. And, we are pleased with our current capital structure and debt ratings, which give us ready access to capital markets and keep our cost of borrowing down.

**PepsiCo's focus on people – specifically diversity and inclusion – has been a priority in previous reports. What results have you delivered through this focus and what changes have you made?**

In terms of the diversity of our workforce, we've seen a significant increase in the number of women and people of color who've joined PepsiCo in various functions and at various levels. Since 2000, the percentage of women in management positions in the United States, has risen from 20% to 25%. The number of people of color in management positions has climbed from 15% to almost 22% – we made a gain of about 2 points of growth in 2005 alone. This change in the workforce has contributed to our growth through product ideas, greater insights about consumers and connections into growing urban and ethnic communities.

While a diverse workforce is important, we must also create an inclusive environment where everyone – regardless of race, gender, physical ability or sexual orientation – feels valued, engaged, and wants to be part of our growth. It is only through inclusion that we will fully unleash innovation and growth for our business.

To capture this potential, we made some changes in 2005. For example, to put accountability for diversity and inclusion squarely in the hands of our people, and into our divisions, we formed the PepsiCo Diversity & Inclusion Governance Council. Representatives from each division and various functions comprise the council, and its chair reports directly to me.

I also asked each of my direct reports to take ownership for the development of specific employee groups. Whether it is African Americans, Latinos, white males, women, or other groups of PepsiCo employees, each has a voice at the most senior decision-making entity at your company.

**In the context of people issues, corporate responsibility is a hot topic. How are you ensuring PepsiCo associates are acting in accordance with the law, and – beyond the law – doing the right thing?**

The need for trust between corporations and the general public is as big as ever, and investors rightly should ask this question of every company. PepsiCo's focus on values remains honed on a commitment to every shareholder – to deliver sustained growth, through empowered people, operating with responsibility and building trust.

This commitment, along with other guiding principles, is what we aspire to each and every day. It complements our approach to corporate governance, the strength of our financial controls, and the company's Worldwide Code of Conduct.

Our Values and our Worldwide Code of Conduct are known to every PepsiCo associate and are presented in 38 languages on our website (www.pepsico.com). But the strength of any such commitment is not in the words themselves, but in how they are lived every day.

We continuously remind our associates of the rewards that come with running the company in a legal, ethical and responsible way, along with the consequences of failing to do so. We want, and intend to be, a sustainable enterprise, and that demands our people act in responsible ways, and think about our businesses for the long term.

### Our Customers

Our customers include franchise bottlers and independent distributors and retailers. We normally grant our bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements specify the amount to be paid by our bottlers for concentrate and full goods and for Aquafina royalties, as well as 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 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, such as sweepstakes and other promotional offers. Advertising support is directed at advertising programs and supporting 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. The level of bottler funding is at our discretion because these incentives are not required by the terms of our bottling contracts.

Retail consolidation has increased the importance of major customers and further consolidation is expected. Sales to Wal-Mart Stores, Inc. represent approximately 9% of our total worldwide net revenue; and our top five retail customers currently represent approximately 26% of our 2005 North American net revenue, with Wal-Mart representing approximately 11%. These percentages include concentrate sales to our bottlers which are used in finished goods sold by them to these retailers. In addition, sales to The Pepsi Bottling Group (PBG) represent approximately 10% of our total net revenue. See “ Our Related Party Bottlers” and Note 8 for more information on our anchor bottlers.

#### *Our Related Party Bottlers*

We have ownership interests in certain of our bottlers. Our ownership is less than 50% and since we do not control these bottlers, we do not consolidate their results. We include our share of their net income based on our percentage of economic ownership in our income statement as bottling equity income. We have designated three related party bottlers, PBG, PepsiAmericas, Inc. (PAS) and Pepsi Bottling Ventures LLC (PBV), as our anchor bottlers. Our anchor bottlers distribute approximately 62% of our North American beverage volume and approximately 19% of our international beverage volume. Our anchor bottlers participate in the bottler funding programs described above. Approximately 8% of our total 2005 sales incentives are related to these bottlers. See Note 8 for additional information on these related parties and related party commitments and guarantees.

### Our Distribution Network

Our products are brought to market through direct-store-delivery, broker-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 and our bottlers operate direct-store-delivery systems that deliver snacks and beverages directly to retail stores where the products are merchandised by our employees or our bottlers. Direct-store-delivery enables us to merchandise with maximum visibility and appeal. Direct-store-delivery is especially well-suited to products that are restocked often and respond to in-store promotion and merchandising.

#### *Broker-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, and for certain beverages, distributes through our bottlers. This distribution system supplies our products to schools, businesses, stadiums, restaurants and similar locations.

### Our Competition

Our businesses operate in highly competitive markets. We compete against global, regional, local and private label manufacturers on the basis of price, quality, product variety and effective distribution. In measured channels, our chief beverage competitor, The Coca-Cola Company, has a slightly larger share of carbonated soft drink (CSD) consumption in the U.S., while we have a larger share of chilled juices and isotonics. In addition, The Coca-Cola Company maintains a significant CSD share advantage in many markets outside North America. Further, our snack brands hold significant leadership positions in the snack industry worldwide. Our snack brands face local and regional competitors, as well as national and global snack competitors, and compete on issues related to price, quality, variety and distribution. Success in this competitive environment is dependent on effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allow us to compete effectively.

### 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 our anchor bottlers and other affiliated companies and do not receive incremental compensation for their Board services.

### Our Business Risks

#### *Our Approach to Managing Risks*

We are subject to risks in the normal course of business due to adverse developments with respect to:

- product demand,
- our reputation,
- information technology,
- supply chain,
- retail consolidation and the loss of major customers,
- global economic and environmental conditions,
- the regulatory environment,
- workforce retention,
- raw materials and energy,
- competition, and
- market risks.

Please see " Risk Factors" in Item 1A. and " Market Risks" below for more information about these risks.

The achievement of our strategic and operating objectives will necessarily involve taking risks. Our risk management process is intended to ensure that risks are taken knowingly and purposefully. As such, we leverage an integrated risk management framework to identify, assess, prioritize, manage, monitor, and communicate risks across the company. This framework includes:

- the PepsiCo Executive Risk Council (PERC), comprised of a cross-functional, geographically diverse, senior management group which identifies, assesses, prioritizes and addresses primarily strategic and reputational risks;
- Division Risk Committees (DRCs), comprised of cross-functional senior management teams which meet regularly each year to identify, assess, prioritize and address division-specific operating risks;
- PepsiCo's Risk Management Office, which manages the overall process, provides ongoing guidance, tools and analytical support to the PERC and the DRCs, identifies and assesses potential risks, and facilitates ongoing communication between the parties, as well as to PepsiCo's Audit Committee; and

- PepsiCo Corporate Audit, which confirms the ongoing effectiveness of the risk management framework through periodic audit and review procedures.

In 2005, we continued our effort to drive risk mitigation focus to where risks can be most efficiently and effectively managed and reinforced ownership and accountability for risk management within the business. Some highlights include:

- With respect to product demand, we continued to focus on the development of products that respond to consumer trends, such as consumer health concerns about obesity, product attributes and ingredients, including reformulating products to lower sugar, fats, and sodium; adding ingredients that deliver health benefits; and expanding our offering of portion-controlled packages. Smart Spot eligible products continued to be the fastest growing part of our North American product portfolio. We continued to focus on marketing our products in ways that promote healthier lifestyles. We helped create and endorsed the American Beverage Association's new schools policy, which defines the types of products that may be sold in schools. We actively promoted healthy energy balance through our national sponsorship of America On the Move, a program designed to help families take simple steps to maintain a healthy energy balance.
- We enhanced the coordination of our Division-led product integrity efforts through the creation of the PepsiCo Product Integrity Council (PPIC), a cross-functional forum to share leading practices and confer about areas of potential risk.
- We continued to enhance our internal IT infrastructure, by consolidating and updating technology and retiring older technology, as well as improving our information security capabilities.
- We continued implementation of our BPT initiative, which we believe will enable us to remain in step with the changing needs of our customers. Overall BPT project governance is provided through steering committees headed by senior executives and a team is in place to drive effective risk management and quality processes and to build an internal control environment compliant with the Sarbanes-Oxley Act.
- We continue to assess our capability to mitigate potential business disruptions and evaluate an integrated approach to business disruption management, including disaster recovery, crisis management, and business continuity.
- We established a compliance and ethics leadership structure, appointing an SVP, Deputy General Counsel who is focusing on business practices and compliance, prioritizing projects to enhance the effectiveness of our compliance and ethics program, including developing a multilingual Code of Conduct training program that will be rolled out in 2006.
- We have implemented human resource programs which focus on diversity and inclusion, leadership development, succession planning, and employee work-life flexibility, and are aimed at hiring, developing, and retaining our talented and motivated workforce.

***Market Risks***

We are exposed to the market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange rates,
- interest rates,
- stock prices, and
- discount rates affecting the measurement of our pension and retiree medical liabilities.

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. Our hedging strategies involve 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. We do not use derivative instruments for trading or speculative purposes and we limit our exposure to individual counterparties to manage credit risk. 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 stock prices and discount rates.

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*

Our open commodity derivative contracts had a face value of $89 million at December 31, 2005 and $155 million at December 25, 2004. The open derivative contracts designated as accounting hedges resulted in net unrecognized gains of $39 million at December 31, 2005 and an unrecognized loss of $1 million at December 25, 2004. We estimate that a 10% decline in commodity prices would have reduced our unrecognized gains on open contracts to $35 million in 2005 and increased our unrecognized losses to $9 million in 2004. The open derivative contracts that were not designated as accounting hedges resulted in net recognized losses of $3 million in 2005 and $2 million in 2004. We estimate that a 10% decline in commodity prices would have increased our recognized losses on open contracts to $4 million in 2005 and to $5 million in 2004.

In 2006, we expect continued pricing pressures on our raw materials and energy costs. We expect to be able to mitigate the impact of these increased costs through our hedging strategies and ongoing productivity initiatives.

*Foreign Exchange*

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within shareholders' equity under the caption currency translation adjustment.

Our operations outside of the U.S. generate over a third of our net revenue of which Mexico, the United Kingdom and Canada comprise nearly 20%. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During 2005, net favorable foreign currency, primarily increases in the Mexican peso, Brazilian real, and Canadian dollar, contributed over 1 percentage point to net revenue growth. Currency declines which are not offset could adversely impact our future results.

Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in the income statement as incurred. We may enter into derivatives to manage our exposure to foreign currency transaction risk. Our foreign currency derivatives had a total face value of $1.1 billion at December 31, 2005 and $908 million at December 25, 2004. The contracts designated as accounting hedges resulted in net unrecognized losses of $9 million at December 31, 2005 and $27 million at December 25, 2004. We estimate that an unfavorable 10% change in the exchange rates would have resulted in unrecognized losses of $81 million in 2005 and $110 million in 2004. The contracts not designated as accounting hedges resulted in net recognized gains of $14 million and less than $1 million at December 31, 2005 and December 25, 2004, respectively. These gains were almost entirely offset by changes in the underlying hedged items, resulting in no net 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 may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our counterparty credit risk is considered low because these swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration.

Assuming year-end 2005 and 2004 variable rate debt and investment levels, a one point increase in interest rates would have decreased net interest expense by $8 million in 2005 and $11 million in 2004.

*Stock Prices*

A portion of our deferred compensation liability is tied to certain market indices and our stock price. We manage these market risks with mutual fund investments and prepaid forward contracts for the purchase of our stock. The combined gains or losses on these investments are substantially offset by changes in our deferred compensation liability.

## 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 stock-based compensation and pension plans, our critical accounting policies do not involve the choice between alternative methods of accounting. We applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented, and have discussed these policies with our Audit Committee.

In connection with our ongoing BPT initiative, we aligned certain accounting policies across our divisions in 2005. We conformed our methodology for calculating our bad debt reserves and modified our policy for recognizing revenue for products shipped to customers by third-party carriers. Additionally, we conformed our method of accounting for certain costs, primarily warehouse and freight. These changes reduced our net revenue by $36 million and our operating profit by $60 million in 2005. We also made certain reclassifications on our Consolidated Statement of Income in the fourth quarter of 2005 from cost of sales to selling, general and administrative expenses in connection with our BPT initiative. These reclassifications resulted in reductions to cost of sales of $556 million through the third quarter of 2005, $732 million in the full year 2004 and $688 million in the full year 2003, with corresponding increases to selling, general and administrative expenses in those periods. These reclassifications had no net impact on operating profit and have been made to all periods presented for comparability.

Our critical accounting policies arise in conjunction with the following:

- revenue recognition,
- brand and goodwill valuations,
- income tax expense and accruals,
- stock-based compensation expense, 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 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 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 warehouse distributed products is to replace damaged and out-of-date products. Based on our historical experience with this practice, we have reserved for anticipated damaged and out-of-date products. Our bottlers have a similar replacement policy and are responsible for the products they distribute.

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 limiting the quantity of product. For product delivered through our other distribution networks, customer inventory levels are monitored.

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 sales and totaled $8.9 billion in 2005, $7.8 billion in 2004 and $7.1 billion in 2003. 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 and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. The terms of most of our incentive arrangements do not exceed a year, and therefore do not require highly uncertain long-term estimates. For interim reporting, we estimate total annual sales incentives for most of our programs and record a pro rata share in proportion to revenue. Certain arrangements extend beyond one year. For example, fountain pouring rights may extend up to 15 years. The costs incurred to obtain these arrangements are recognized over the contract period as a reduction of revenue, and the remaining balances of $321 million at year-end 2005 and $337 million at year-end 2004 are included in current assets and other assets in our Consolidated Balance Sheet.

We estimate and reserve for our bad debt exposure based on our experience with past due accounts. In 2005, our method of determining the reserves was conformed across our divisions in connection with our BPT initiative, as discussed above. Bad debt expense is classified within selling, general and administrative expenses in our Consolidated Statement of Income.

### Brand and Goodwill Valuations

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 and goodwill in acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brands, based on estimated fair value, with any remaining purchase price recorded as goodwill.

We believe that a brand has an indefinite life if it has significant market share in a stable macroeconomic environment and a history of strong revenue and cash flow performance that we expect to continue 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 considerable management judgment and is based on an evaluation of a number of factors, including the competitive environment, market share, brand history and the macroeconomic environment of the countries in which the brand is sold.

Goodwill, including the goodwill that is part of our noncontrolled bottling investment balances, and perpetual brands are not amortized. Perpetual brands and goodwill are assessed for impairment at least annually to ensure that discounted future cash flows continue to exceed the related book value. A perpetual brand is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its fair value. A reporting unit can be a division or business within a division. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value based on its discounted future cash flows.

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

Considerable 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 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.

We did not recognize any impairment charges for perpetual brands or goodwill in the years presented. As of December 31, 2005, we had $5.2 billion of perpetual brands and goodwill, of which 70% related to Tropicana and Walkers.

### Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit. See Note 5 for additional information regarding our tax reserves.

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 benefits from the resolution of prior year tax matters to be 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 when we believe expected future taxable income is not likely to support the use of a deduction or credit in that tax jurisdiction. 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 we have not yet recognized as expense in our financial statements.

The American Jobs Creation Act of 2004 (AJCA) created a one-time incentive for U.S. corporations to repatriate undistributed international earnings by providing an 85% dividends received deduction. As approved by our Board of Directors in July 2005, we repatriated approximately $7.5 billion in earnings previously considered indefinitely reinvested outside the U.S. in the fourth quarter of 2005. In 2005, we recorded income tax expense of $460 million associated with this repatriation. Other than the earnings repatriated, we intend to continue to reinvest earnings outside the U.S. for the foreseeable future and therefore have not recognized any U.S. tax expense on these earnings. At December 31, 2005, we had approximately $7.5 billion of undistributed international earnings.

In 2005, our annual tax rate for continuing operations was 36.1% compared to 24.7% in 2004 as discussed in “ Other Consolidated Results.” The tax rate in 2005 increased 11.4 percentage points primarily as a result of the AJCA tax charge and the absence of the 2004 tax benefits related to the favorable resolution of certain open tax items. For 2006, our annual tax rate is expected to be 28.0%, primarily reflecting the absence of the AJCA tax charge and changes in our concentrate sourcing around the world.

**Stock-Based Compensation Expense**

We believe that we will achieve our best results if our employees act and are rewarded as business owners. Therefore, we believe stock ownership and stock-based incentive awards are the best way to align the interests of employees with those of our shareholders. Historically, following competitive market practices, we have used stock option grants as our primary form of long-term incentive compensation. These grants are made at the current stock price, meaning each employee’s exercise price is equivalent to our stock price on the date of grant. Employees must generally provide three additional years of service to earn the grant, referred to as the vesting period. Our options generally have a 10-year term, which means our employees would have up to seven years after the vesting period to elect to pay the exercise price to purchase one share of our stock for each option exercised. Employees benefit from stock options to the extent our stock price appreciates above the exercise price after vesting and during the term of the grant. There have been no reductions to the exercise price of previously issued awards, and any repricing of awards would require approval of our shareholders.

Our new executive compensation program, which became effective in 2004, strengthens the relationship between pay and individual performance through greater differentiation in the amount of base pay, bonus and stock-based compensation based on an employee's job level and performance. The new program results in a shift of both cash and stock-based compensation to our top performing executives. In addition, our new program provides executives, who are awarded long-term incentives based on their performance, with a choice of stock options or restricted stock units (RSUs). RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Each restricted stock unit can be settled in a share of our stock after the vesting period. Executives who elect RSUs receive one RSU for every four stock options that would have otherwise been granted. Senior officers do not have a choice and are granted 50% stock options and 50% RSUs. Vesting of RSU awards for senior officers is contingent upon the achievement of pre-established performance targets.

We also continued, as we have since 1989, to grant an annual award of stock options to all eligible employees, based on job level or classification under our broad-based stock option program, SharePower. As part of the new compensation program which began in 2004, the SharePower program grant was reduced by approximately 50% for employees in the U.S. and replaced with matching contributions of PepsiCo stock to our 401(k) savings plans. We did not reduce the SharePower award for international employees and continued using tenure, in addition to job level and classification, as a basis for the award. For additional information on our 401(k) savings plans, see Note 7.

***Method of Accounting***

We account for our employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. We adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, under the modified prospective method in the first quarter of 2006. We do not expect our adoption of SFAS 123R to materially impact our financial statements.

Our divisions are held accountable for stock-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost. The allocation of stock-based compensation expense is approximately 29% to FLNA, 22% to PBNA, 31% to PI, 4% to QFNA and 14% to corporate unallocated expenses. The expense allocated to our divisions excludes any impact of changes in our Black-Scholes assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

***Our Assumptions***

Our Black-Scholes model estimates the expected value our employees will receive from the options based on a number of assumptions, such as interest rates, employee exercises, our stock price and dividend yield. Our weighted-average fair value assumptions include:

| | Estimated 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Expected life | 6 yrs. | 6 yrs. | 6 yrs. | 6 yrs. |
| Risk free interest rate | 3.8% | 3.8% | 3.3% | 3.1% |
| Expected volatility | 21% | 23% | 26% | 27% |
| Expected dividend yield | 1.9% | 1.8% | 1.8% | 1.15% |

The expected life is a significant assumption as it determines the period for which the risk free interest rate, volatility and dividend yield must be applied. The expected life is the period over which our employee groups are expected to hold their options. It is based on our historical experience with similar grants. The risk free interest rate is based on the expected U.S. Treasury rate over the expected life. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Dividend yield is estimated over the expected life based on our stated dividend policy and forecasts of net income, share repurchases and stock price.

***2006 Estimated Expense and Sensitivity of Assumptions***

Our stock-based compensation expense, including RSUs, is as follows:

| | Estimated 2006 | 2005 | 2004 |
|---|---|---|---|
| Stock-based compensation expense | $296 | $311 | $368 |

If we assumed a 100 basis point change in the following assumptions, our estimated 2006 stock-based compensation expense would increase/(decrease) as follows:

| | 100 Basis Point Increase | 100 Basis Point Decrease |
|---|---|---|
| Risk free interest rate | $6 | $(6) |
| Expected volatility | $2 | $(2) |
| Expected dividend yield | $(9) | $10 |

If the expected life were assumed to be one year longer, our estimated 2006 stock-based compensation expense would increase by $12 million. If the expected life were assumed to be one year shorter, our estimated 2006 stock-based compensation expense would decrease by $7 million. As noted, changing the assumed expected life impacts all of the Black-Scholes valuation assumptions as the risk free interest rate, expected volatility and expected dividend yield are estimated over the expected life.

### Pension and Retiree Medical Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. 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 that vary based upon years of service, with retirees contributing the remainder of the cost.

#### *Our Assumptions*

The determination of pension and retiree medical plan obligations and associated expenses requires the use of assumptions to estimate the amount of the benefits that employees earn while working, as well as the present value of those benefits. Annual pension and retiree medical expense amounts are principally based on four components: (1) the value of benefits earned by employees for working during the year (service cost), (2) increase in the liability due to the passage of time (interest cost), and (3) other gains and losses as discussed below, reduced by (4) 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;
- for pension expense, the expected return on assets in our funded plans and 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. Some of these assumptions require significant management judgment and could have a material impact on the measurement of our pension and retiree medical benefit expenses and obligations. The assumptions used to measure our annual pension and retiree medical expenses are determined as of September 30 (measurement date) and all plan assets and liabilities are generally reported as of that date.

At each measurement date, the discount rate is based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to our liabilities. In the U.S., we utilize the Moody's AA Corporate Index yield and adjust for the differences between the average duration of the bonds in this Index and the average duration of our benefits liabilities based upon a published index.

The expected return on pension plan assets is based on our historical experience, our pension plan investment strategy and our expectations for long-term rates of return. Our pension plan investment strategy is reviewed annually and is based upon plan liabilities, an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. We use a third-party advisor to assist us in determining our investment allocation and modeling our long-term rate of return assumptions. Our current investment allocation target for our U.S. plans is 60% in equity securities, with the balance in fixed income securities and cash. Our expected long-term rate of return assumptions on U.S. plan assets is 7.8%, reflecting an estimated long-term return of 9.3%

from equity securities and an estimated 5.8% from fixed income securities. Approximately 80% of our pension plan assets relate to our U.S. plans. We use a market-related value method that recognizes each year's asset gain or loss over a five-year period. Therefore, it takes five years for the gain or loss from any one year to be fully included in the other gains and losses calculation described below.

Other gains and losses resulting from actual experience differing from our assumptions and from changes in our assumptions are also determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion of the net gain or loss is included in expense for the following year. The cost or benefit of plan changes which increase or decrease benefits for prior employee service (prior service cost) is included in expense on a straight-line basis over the average remaining service period of those expected to benefit, which is approximately 11 years for pension expense and approximately 13 years for retiree medical.

Weighted-average assumptions for pension and retiree medical expense are the following:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| ***Pension*** | | | |
| Expense discount rate | 5.6% | 6.1% | 6.1% |
| Expected rate of return on plan assets | 7.7% | 7.8% | 7.8% |
| Expected rate of compensation increases | 4.4% | 4.3% | 4.4% |
| ***Retiree medical*** | | | |
| Expense discount rate | 5.7% | 6.1% | 6.1% |
| Current health care cost trend rate | 10.0% | 11.0% | 12.0% |

***Future Expense***

An analysis of the estimated change in pension and retiree medical expense follows:

| | Pension | Retiree Medical |
|---|---|---|
| 2005 expense | $ 329 | $ 135 |
| Decrease in discount rate | 84 | 6 |
| Increase in experience loss/(gain) amortization | 69 | (3) |
| Impact of contributions | (63) | — |
| Other, including impact of 2003 Medicare Act | (14) | (12) |
| 2006 estimated expense | $ 405 | $ 126 |

Our 2006 pension expense is estimated to be approximately $405 million and retiree medical expense is estimated to be approximately $126 million. These estimates incorporate the 2006 assumptions, as well as the impact of the increased pension plan assets resulting from our discretionary contributions of $729 million in 2005 and the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) as discussed in Note 7. Changes in our 2006 assumptions include updates to the lump sum discount rate for the U.S. plans and to the mortality tables for certain international plans. The estimated increase of $69 million in net experience loss amortization included in estimated 2006 pension expense primarily reflects the recognition of lower than expected returns and past asset losses, which account for approximately $36 million of the increase, as well as assumption changes and demographic experience, which account for approximately $20 million of the increase.

Pension service costs, measured at a fixed discount rate but including the effect of demographic assumption changes, as well as the effects of gains and losses due to demographics, are reflected in division results. The effect of changes in discount and asset return rates, gains and losses other than those due to demographics, and the impact of funding are reflected in corporate unallocated expenses. Approximately $26 million of the increased pension and retiree medical expense in 2006 will be reflected in corporate unallocated expenses.

Based on our current assumptions which reflect our prior experience, current plan provisions, and expectations for future experience, and assuming the Board approves annual discretionary contributions of approximately $200 million, we expect our pension expense to remain relatively flat in 2007. In 2008, we expect our pension expense to begin to decline, with the expense dropping to approximately $305 million by 2011 as unrecognized experience losses are amortized. If our assumptions and our plan provisions for retiree medical remain unchanged and our experience mirrors these assumptions, we expect our annual retiree medical expense beyond 2006 to approximate $130 million.

***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 2006 pension expense is an increase of approximately $39 million. The estimated impact on 2006 pension expense of a 25 basis point decrease in the expected rate of return assumption is an increase of approximately $16 million. See Note 7 regarding the sensitivity of our retiree medical cost assumptions.

***Future 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 deductible.

Our pension contributions for 2005 were $803 million, of which $729 million was discretionary. In 2006, we expect contributions to be about $250 million with approximately $200 million expected to be discretionary. Our cash payments for retiree medical are estimated to be $85 million in 2006. As our retiree medical plans are not subject to regulatory funding requirements, we fund these plans on a pay-as-you-go basis.

For estimated future benefit payments, including our pay-as-you-go payments as well as those from trusts, see Note 7.

**Recent Accounting Pronouncements**

There have been no new accounting pronouncements issued or effective during 2005 that have had, or are expected to have, a material impact on our consolidated financial statements.

[Table of Contents](#)

## OUR FINANCIAL RESULTS

### Items Affecting Comparability

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

| | **2005** | 2004 |
|---|---|---|
| ***Net revenue*** | | |
| 53rd week | **$ 418** | — |
| ***Operating profit*** | | |
| 53rd week | **$ 75** | — |
| 2005 restructuring charges | **$ (83)** | — |
| 2004 restructuring and impairment charges | **—** | $ (150) |
| ***Net income*** | | |
| AJCA tax charge | **$ (460)** | — |
| 53rd week | **$ 57** | — |
| 2005 restructuring charges | **$ (55)** | — |
| 2004 restructuring and impairment charges | **—** | $ (96) |
| Net tax benefits – continuing operations | **—** | $ 266 |
| Tax benefit from discontinued operations | **—** | $ 38 |
| ***Net income per common share – diluted*** | | |
| AJCA tax charge | **$(0.27)** | — |
| 53rd week | **$ 0.03** | — |
| 2005 restructuring charges | **$(0.03)** | — |
| 2004 restructuring and impairment charges | **—** | $(0.06) |
| Net tax benefits – continuing operations | **—** | $ 0.15 |
| Tax benefit from discontinued operations | **—** | $ 0.02 |

For the items and accounting changes affecting our 2003 results, see Note 1 and our 2003 Annual Report.

***53rd week***

In 2005, 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.

***2005 Restructuring Charges***

In the fourth quarter of 2005, we incurred restructuring charges of $83 million to reduce costs in our operations, principally through headcount reductions.

***2004 Restructuring and Impairment Charges***

In the fourth quarter of 2004, we incurred restructuring and impairment charges of $150 million in conjunction with the consolidation of FLNA's manufacturing network in connection with its ongoing productivity program. Savings from this productivity program have been used to offset increased marketplace spending.

### *AJCA Tax Charge*

As approved by our Board of Directors in July 2005, in the fourth quarter of 2005 we repatriated approximately $7.5 billion in earnings previously considered indefinitely reinvested outside the U.S. in connection with the AJCA. In 2005, we recorded income tax expense of $460 million associated with this repatriation.

### *Net Tax Benefits – Continuing Operations*

In the fourth quarter of 2004, we recognized $45 million of tax benefits related to the completion of the U.S. Internal Revenue Service (IRS) audit for pre-merger Quaker open tax years. In the third quarter of 2004, we recognized $221 million of tax benefits related to a reduction in foreign tax accruals following the resolution of certain open tax issues with foreign tax authorities, and a refund claim related to prior U.S. tax settlements.

### *Tax Benefit from Discontinued Operations*

In the fourth quarter of 2004, we reached agreement with the IRS for an open issue related to our discontinued restaurant operations which resulted in a tax benefit of $38 million.

## Results of Continuing 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.

### *Servings*

Since our divisions each use different measures of physical unit volume (i.e., kilos, 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.

Total servings increased 7% in 2005 compared to 2004 as servings for beverages worldwide grew over 7% and servings for snacks worldwide grew 6%. All of our divisions positively contributed to the total servings growth. Total servings increased 6% in 2004 compared to 2003 as servings for beverages worldwide grew 7% and servings for snacks worldwide grew over 5%.

***Net Revenue and Operating Profit***

| | | | | Change | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 |
| Division net revenues | **$32,562** | $29,261 | $26,969 | **11%** | 8% |
| Divested businesses | **—** | — | 2 | | |
| Total net revenue | **$32,562** | $29,261 | $26,971 | **11%** | 8% |
| Division operating profit | **$ 6,710** | $ 6,098 | $ 5,463 | **10%** | 12% |
| Corporate unallocated | **(788)** | (689) | (502) | **14%** | 38% |
| Merger-related costs | **—** | — | (59) | | |
| Impairment and restructuring charges | **—** | (150) | (147) | | |
| Divested businesses | **—** | — | 26 | | |
| Total operating profit | **$ 5,922** | $ 5,259 | $ 4,781 | **13%** | 10% |
| Division operating profit margin | **20.6%** | 20.8% | 20.3% | **(0.2)** | 0.5 |
| Total operating profit margin | **18.2%** | 18.0% | 17.7% | **0.2** | 0.3 |

2005

Net revenue increased 11% reflecting, across all divisions, increased volume, favorable effective net pricing, and net favorable foreign currency movements. The volume gains contributed 6 percentage points, the effective net pricing contributed 3 percentage points and the net favorable foreign currency movements contributed over 1 percentage point. The 53rd week contributed over 1 percentage point to revenue growth and almost 1 percentage point to volume growth.

Total operating profit increased 13% and margin increased 0.2 percentage points. Division operating profit increased 10% and margin decreased 0.2 percentage points. The operating profit gains primarily reflect leverage from the revenue growth, partially offset by higher selling and distribution (S&D) expenses and increased cost of sales, largely due to higher raw materials, energy, and S&D labor costs, as well as higher advertising and marketing expenses. In 2005, division operating profit margin reflects our current year restructuring actions, while total operating profit margin benefited from a favorable comparison to prior year restructuring and impairment charges. The additional week in 2005 contributed over 1 percentage point to both total and division operating profit growth.

2004

Division net revenue increased 8%, primarily due to strong volume gains across all divisions, favorable product mix, primarily at PBNA and PI, and net favorable foreign currency movements. The volume gains contributed over 4 percentage points, the favorable mix contributed almost 2 percentage points, and the net favorable foreign currency contributed almost 2 percentage points to division net revenue growth.

Total operating profit increased 10% and margin increased 0.3 percentage points. Division operating profit increased 12% and division margin increased 0.5 percentage points. These gains reflect leverage from the revenue growth, partially offset by increased selling, general and administrative expenses, primarily corporate unallocated expenses. In addition, total operating profit growth reflects the absence of merger-related costs in 2004.

***Corporate Unallocated Expenses***

Corporate unallocated expenses include the costs of our corporate headquarters, centrally managed initiatives such as our BPT initiative, unallocated insurance and benefit programs, foreign exchange transaction and certain commodity derivative gains and losses, as well as profit-in-inventory elimination adjustments for our noncontrolled bottling affiliates and certain other items.

In 2005, corporate unallocated expenses increased 14%. This increase primarily reflects higher costs associated with our BPT initiative which contributed 7 percentage points, increased support behind health and wellness and innovation initiatives which contributed 5 percentage points, and Corporate departmental expenses and restructuring charges which each contributed 2 percentage points to the increase. In 2005, items of a non-recurring nature included charges of $55 million to conform our method of accounting across all divisions, primarily for warehouse and freight costs, and a gain of $25 million in connection with the settlement of a class action lawsuit related to our purchases of high fructose corn syrup from 1991 to 1995. In 2004, we recorded a charge of $50 million for the settlement of a contractual dispute with a former business partner.

In 2004, corporate unallocated expenses increased 38%. Higher employee-related costs contributed 18 percentage points of the increase, an accrual recognized in the fourth quarter for the settlement of a contractual dispute with a former business partner represented 10 percentage points of the increase and higher costs related to our BPT initiative contributed 4 percentage points of the increase. Corporate departmental expenses increased 2% compared to prior year.

***Other Consolidated Results***

| | 2005 | 2004 | 2003 | Change 2005 | Change 2004 |
|---|---|---|---|---|---|
| Bottling equity income | **$ 557** | $ 380 | $ 323 | **46%** | 18% |
| Interest expense, net | **$ (97)** | $ (93) | $ (112) | **4%** | (17)% |
| Annual tax rate | **36.1%** | 24.7% | 28.5% | | |
| Net income – continuing operations | **$4,078** | $4,174 | $3,568 | **(2)%** | 17% |
| Net income per common share – continuing operations – diluted | **$ 2.39** | $ 2.41 | $ 2.05 | **(1)%** | 18% |

Bottling equity income includes our share of the net income or loss of our noncontrolled bottling affiliates as described in " Our Customers." Our interest in these bottling investments may change from time to time. Any gains or losses from these changes, as well as other transactions related to our bottling investments, are also included on a pre-tax basis. We continue to sell shares of PBG stock to trim our ownership to the level at the time of PBG's initial public offering, since our ownership has increased as a result of PBG's share repurchase program. During 2005, we sold 7.5 million shares of PBG stock. The resulting lower ownership percentage reduces the equity income from PBG that we recognize.

2005

Bottling equity income increased 46% reflecting $126 million of pre-tax gains on our sales of PBG stock, as well as stronger bottler results. In the first quarter of 2006, PBG and PAS adopted SFAS 123R which will negatively impact our bottling equity income.

Net interest expense increased 4% reflecting the impact of higher debt levels, substantially offset by higher investment rates and cash balances.

The tax rate increased 11.4 percentage points reflecting the $460 million tax charge related to our repatriation of undistributed international earnings, as well as the absence of income tax benefits of $266 million recorded in the prior year related to a reduction in foreign tax accruals following the resolution of certain open tax items with foreign tax authorities and a refund claim related to prior U.S. tax settlements. This increase was partially offset by increased international profit which is taxed at a lower rate.

Net income from continuing operations decreased 2% and the related net income per common share from continuing operations decreased 1%. These decreases reflect the impact of the tax items discussed above, partially offset by our operating profit growth, increased bottling equity income, which includes the gain on our PBG stock sale, the impact of the 53rd week, a favorable comparison to prior year restructuring and impairment charges, and for net income per share, the impact of our share repurchases.

2004

Bottling equity income increased 18%, primarily reflecting increased earnings from our anchor bottlers and favorable comparisons from international bottling investments, primarily as a result of the nationwide strike in Venezuela in early 2003.

Net interest expense declined 17% primarily due to favorable interest rates and higher average cash balances, partially offset by higher average debt balances and lower gains in the market value of investments used to economically hedge a portion of our deferred compensation liability. The offsetting increase in deferred compensation costs is reported in corporate unallocated expenses.

The annual tax rate decreased 3.8 percentage points compared to the prior year, primarily as a result of tax benefits from the resolution of open items with tax authorities in both years, as discussed in “Items Affecting Comparability.” The tax benefits reduced our tax rate by 2.6 percentage points. Increased benefit from concentrate operations and favorable changes arising from agreements with the IRS in the fourth quarter of 2003 also contributed to the decline in rate.

Net income from continuing operations increased 17% and the related net income per common share from continuing operations increased 18%. These increases primarily reflect the solid operating profit growth and our lower annual tax rate. The absence of merger-related costs in 2004 and increased bottling equity income also contributed to the growth.

Table of Contents

**Results of Continuing Operations – Division Review**

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Prior year amounts exclude the results of divested businesses. For additional information on these items and our divisions, see Note 1.

| | FLNA | PBNA | PI | QFNA | Total |
|---|---|---|---|---|---|
| **Net Revenue, 2005** | **$10,322** | **$9,146** | **$11,376** | **$1,718** | **$32,562** |
| Net Revenue, 2004 | $ 9,560 | $8,313 | $ 9,862 | $1,526 | $29,261 |
| *% Impact of:* | | | | | |
| Volume | 4.5% | 4%[a] | 8%[a] | 9% | 6% |
| Effective net pricing | 3 | 5 | 2.5 | 3 | 3 |
| Foreign exchange | 0.5 | — | 3 | 1 | 1 |
| Acquisition/divestitures | — | — | 2 | — | 0.5 |
| *% Change[b]* | *8%* | *10%* | *15%* | *13%* | *11%* |

| | FLNA | PBNA | PI | QFNA | Divested Businesses | Total |
|---|---|---|---|---|---|---|
| Net Revenue, 2004 | $9,560 | $8,313 | $9,862 | $1,526 | — | $29,261 |
| Net Revenue, 2003 | $9,091 | $7,733 | $8,678 | $1,467 | $ 2 | $26,971 |
| *% Impact of:* | | | | | | |
| Volume | 3% | 3%[a] | 7%[a] | 3% | — | 4% |
| Effective net pricing | 2 | 4 | 2 | — | — | 2 |
| Foreign exchange | — | — | 4 | 1 | — | 2 |
| Acquisition/divestitures | — | — | 1 | — | — | — |
| *% Change[b]* | *5%* | *7%* | *14%* | *4%* | *N/A* | *8%* |

(a) For beverages sold to our bottlers, net revenue volume growth is based on our concentrate shipments and equivalents.
(b) Amounts may not sum due to rounding.

Table of Contents

**Frito-Lay North America**

| | | | | % Change | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 |
| Net revenue | **$10,322** | $9,560 | $9,091 | **8** | 5 |
| Operating profit | **$ 2,529** | $2,389 | $2,242 | **6** | 7 |

2005

Net revenue grew 8% reflecting volume growth of 4.5% and positive effective net pricing driven by salty snack pricing actions and favorable mix on both salty and convenience foods products. Pound volume grew primarily due to mid single-digit growth in trademark Lay’s potato chips, high single-digit growth in salty trademark Tostitos, double-digit growth in Santitas, mid single-digit growth in trademark Cheetos, high single-digit growth in Dips and Fritos, and double-digit growth in Sun Chips. These gains were partially offset by the discontinuance of Toastables and Doritos Rollitos. Overall, salty snacks revenue grew 8% with volume growth of 5%, and convenience foods products revenue grew 13% with volume growth of 1%. Convenience foods products revenue benefited from favorable mix. The additional week contributed 2 percentage points to volume and net revenue growth.

Operating profit grew 6% reflecting positive effective net pricing actions and volume growth. This growth was offset by higher S&D costs resulting from increased labor and benefit charges and fuel costs; higher cost of sales, driven by raw materials, natural gas and freight; and increased advertising and marketing costs. Operating profit was also negatively impacted by more than 1 percentage point as a result of fourth quarter charges to reduce costs in our operations, principally through headcount reductions. The additional week contributed 2 percentage points to operating profit growth.

Products qualifying for our new Smart Spot program represented approximately 13% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had high single-digit revenue growth. See our website at www.smartspot.com for additional information on our Smart Spot program.

2004

Net revenue grew 5% reflecting volume growth of 3% and positive effective net pricing due to salty snack pricing actions and favorable mix. Pound volume grew primarily due to new products, single-digit growth in Lay’s Classic potato chips, strong double-digit growth in Variety Pack and mid single-digit growth in Tostitos and Fried Cheetos. Lay’s Stax and Doritos Rollitos led the new product growth. These gains were partially offset by single-digit declines in Doritos and Fritos and double-digit declines in Rold Gold and Quaker Toastables.

Operating profit grew nearly 7% reflecting the positive pricing actions and volume growth. Higher commodity costs, driven by corn oil and energy costs were largely offset by cost leverage generated from ongoing productivity initiatives.

Smart Spot eligible products represented approximately 10% of 2004 FLNA net revenue. These products experienced high single-digit revenue growth and the balance of the portfolio had mid single-digit revenue growth.

**PepsiCo Beverages North America**

| | | | | % Change | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 |
| Net revenue | **$9,146** | $8,313 | $7,733 | **10** | 7 |
| Operating profit | **$2,037** | $1,911 | $1,690 | **7** | 13 |

2005

Net revenue grew 10% and volume grew 4%. The volume increase was driven by a 16% increase in non-carbonated beverages, partially offset by a 1% decline in CSDs. Within non-carbonated beverages, Gatorade, Trademark Aquafina, Tropicana juice drinks, Propel and SoBe all experienced double-digit growth. Above average summer temperatures across the country, as well as the launch of new products such as Aquafina FlavorSplash and Gatorade Lemonade earlier in the year, drove Gatorade and Trademark Aquafina growth. Tropicana Pure Premium experienced a low single-digit decline resulting from price increases taken in the first quarter. The decline in CSDs reflects low single-digit declines in Trademark Pepsi and Trademark Mountain Dew, slightly offset by low single-digit growth in Sierra Mist. Across the brands, a low single-digit decline in regular CSDs was partially offset by low single-digit growth in diet CSDs. The additional week in 2005 had no significant impact on volume growth as bottler volume is reported based on a calendar month.

Net revenue also benefited from 5 percentage points of favorable effective net pricing, reflecting the continued migration from CSDs to non-carbonated beverages and price increases taken in the first quarter, primarily on concentrate and Tropicana Pure Premium, partially offset by increased trade spending in the current year. The additional week in 2005 contributed 1 percentage point to net revenue growth.

Operating profit increased nearly 7%, primarily reflecting net revenue growth. This increase was partially offset by higher raw material, energy, and transportation costs, as well as increased advertising and marketing expenses. The additional week in 2005 contributed 1 percentage point to operating profit growth and was fully offset by a 1 percentage point decline related to charges taken in the fourth quarter of 2005 to reduce costs in our operations, principally through headcount reductions.

Smart Spot eligible products represented almost 70% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio grew in the low single-digit range.

2004

Net revenue increased 7% and volume increased 3%. The volume increase reflects non-carbonated beverage growth of 10% and a slight increase in CSDs. The non-carbonated beverage growth was fueled by double-digit growth in Gatorade, Aquafina and Propel, as well as the introduction of bottler-distributed Tropicana juice drinks. Tropicana Pure Premium increased slightly for the year. The carbonated soft drink performance reflects a low single-digit increase in Trademark Mountain Dew and a slight increase in Trademark Sierra Mist, offset by a slight decline in Trademark Pepsi. Across the trademarks, high single-digit diet CSD growth was substantially offset by a low single-digit decline in regular CSDs. The increase in Trademark Mountain Dew reflects growth in both Diet and regular Mountain Dew and the limited time only offering of Mountain Dew Pitch Black, substantially offset by declines in both Mountain Dew Code Red and LiveWire. The performance of Trademark Pepsi reflects declines in regular Pepsi, Pepsi Twist and Pepsi Blue, mostly offset by increases in Diet Pepsi and the introduction of Pepsi Edge. Favorable product mix contributed 3 percentage points to net revenue growth, primarily reflecting a migration to non-carbonated beverages. Additionally, concentrate and fountain price increases taken in the first quarter contributed 1 percentage point to net revenue growth.

Operating profit increased 13% reflecting the net revenue growth, partially offset by higher selling, general and administrative costs, as well as costs related to marketplace initiatives.

Smart Spot eligible products represented over 60% of net revenue. These products experienced high single-digit revenue growth, and the balance of the portfolio had mid single-digit revenue growth.

**PepsiCo International**

| | | | | % Change | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 |
| Net revenue | **$11,376** | $9,862 | $8,678 | **15** | 14 |
| Operating profit | **$ 1,607** | $1,323 | $1,061 | **21** | 25 |

2005

International snacks volume grew 7%, reflecting growth of 11% in the Europe, Middle East & Africa region, 5% in the Latin America region and 6% in the Asia Pacific region. Acquisition and divestiture activity, principally the divestiture last year of our interest in a South Korea joint venture, reduced Asia region volume by 11 percentage points. The acquisition of a business in Romania late in 2004 increased the Europe, Middle East & Africa region volume growth by 3 percentage points. Cumulatively, our divestiture and acquisition activities did not impact the reported total PepsiCo International snack volume growth rate. The overall gains reflected mid single-digit growth at Sabritas in Mexico, double-digit growth in India, Turkey, Russia, Australia and China, partially offset by a low single-digit decline at Walkers in the United Kingdom. The decline at Walkers is due principally to marketplace pressures. The additional week contributed 1 percentage point to international snack volume growth.

Beverage volume grew 11%, reflecting growth of 14% in the Europe, Middle East & Africa region, 11% in the Asia Pacific region and 6% in the Latin America region. Acquisitions had no significant impact on the reported total PepsiCo International beverage volume growth rate. Broad-based increases were led by double-digit growth in the Middle East, China, Argentina, Venezuela and Russia. Carbonated soft drinks and non-carbonated beverages both grew at a double-digit rate. The additional week had no impact on beverage volume growth as volume is reported based on a calendar month.

Net revenue grew 15%, primarily as a result of the broad-based volume growth and favorable effective net pricing. Foreign currency contributed almost 3 percentage points of growth reflecting the favorable Mexican peso and Brazilian real, partially offset by the unfavorable British pound. Acquisitions and divestitures contributed almost 2 percentage points of growth. The additional week contributed 1 percentage point to revenue growth. Cumulatively, the impact of foreign currency, acquisitions and divestitures, and the additional week on net revenue was 5 percentage points.

Operating profit grew 21% driven largely by the broad-based volume growth and favorable effective net pricing, partially offset by increased energy and raw material costs. Foreign currency contributed 4 percentage points of growth based on the favorable Mexican peso and Brazilian real. The net favorable impact from acquisition and divestiture activity, primarily the acquisition of General Mills' minority interest in Snack Ventures Europe in Q1 2005, contributed 2 percentage points of growth. The additional week contributed 1 percentage point to operating profit growth which was fully offset by a 1 percentage point decline in operating profit growth related to fourth quarter charges to reduce costs in our operations and rationalize capacity.

2004

International snacks volume grew 8%, comprised of 7% in our Latin America region, 8% in our Europe, Middle East & Africa region and 14% in our Asia Pacific region. These gains were driven by high single-digit growth at Sabritas in Mexico, strong double-digit growth in India, low single-digit growth at Gamesa in Mexico coupled with double-digit growth in Egypt, Venezuela, Turkey and Brazil.

Beverage volume grew 12%, comprised of 14% in our Europe, Middle East & Africa region, 15% in our Asia Pacific region and 8% in our Latin America region. Broad-based increases were led by double-digit growth in the Middle East and China, high single-digit growth in Mexico and double-digit growth in India, Germany, Russia and Venezuela.

Favorable comparisons as a result of the 2003 national strike in Venezuela and the German deposit law impact contributed to the growth in Venezuela and Germany. Both carbonated soft drinks and non-carbonated beverages grew at double-digit rates.

Net revenue grew 14% driven by the broad-based volume growth and favorable mix. Foreign currency impact contributed 4 percentage points of growth driven by the favorable British pound and euro, partially offset by the unfavorable Mexican peso. Acquisitions contributed less than 1 percentage point.

Operating profit grew 25% driven largely by the volume and favorable mix. The favorable comparison of certain reserve actions taken in 2003 on potentially unrecoverable beverage assets contributed 2 percentage points of growth. Foreign currency impact contributed almost 3 percentage points of growth driven by the favorable British pound and euro, partially offset by the unfavorable Mexican peso.

**Quaker Foods North America**

| | | | | % Change | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 |
| Net revenue | **$1,718** | $1,526 | $1,467 | **13** | 4 |
| Operating profit | **$ 537** | $ 475 | $ 470 | **13** | 1 |

2005

Net revenue increased 13% and volume increased 9%. The volume increase reflects double-digit growth in Oatmeal, Aunt Jemima syrup and mix, Rice-A-Roni and Pasta Roni, as well as high single-digit growth in Cap’n Crunch cereal and mid single-digit growth in Life cereal. Higher effective net pricing contributed nearly 3 percentage points of growth reflecting favorable product mix, the settlement of prior year trade spending accruals and price increases on ready-to-eat cereals taken in the third quarter of 2004. Favorable Canadian exchange rates contributed nearly 1 percentage point to net revenue growth. The additional week in 2005 contributed approximately 2 percentage points to both net revenue and volume growth.

Operating profit increased 13% reflecting the net revenue growth. This growth was partially offset by higher advertising and marketing costs behind programs for core brands and innovation, as well as an unfavorable cost of sales comparison primarily due to higher energy and raw materials costs in the latter part of 2005. The additional week in 2005 contributed approximately 2 percentage points to operating profit growth.

Smart Spot eligible products represented approximately half of net revenue and had double-digit revenue growth. The balance of the portfolio also experienced double-digit revenue growth.

2004

Net revenue increased 4% and volume increased 3%. The volume increase reflects high single-digit growth in Oatmeal and double-digit growth in Life cereal, partially offset by a mid single-digit decline in Cap'n Crunch cereal. The Life cereal growth was led by the introduction of Honey Graham Life. Favorable product mix, reflecting growth in higher revenue per pound brands, was offset by promotional spending behind new products. Favorable Canadian exchange rates contributed 1 percentage point to net revenue growth.

Operating profit increased 1% reflecting the net revenue growth, substantially offset by an unfavorable cost of sales comparison and higher advertising and marketing costs.

Smart Spot eligible products represented approximately half of net revenue and had high single-digit revenue growth. The balance of the portfolio was flat.

### Our Liquidity, Capital Resources and Financial Position

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world. Our principal source of liquidity is our operating cash flow. This cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating, investing and financing needs. In addition, we have revolving credit facilities that are further discussed in Note 9. Our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related sales patterns, and generally lowest in the first quarter.

#### *Operating Activities*

In 2005, our operations provided $5.9 billion of cash compared to $5.1 billion in the prior year. The increase reflects our solid business results, as well as lower taxes paid in the current year as 2004 tax payments included a $760 million tax payment related to our 2003 settlement with the IRS. This increase was partially offset by $803 million of pension plan contributions in the current year, of which $729 million was discretionary, compared to pension payments of $458 million in the prior year, of which $400 million was discretionary.

#### *Investing Activities*

In 2005, we used $3.5 billion, primarily reflecting capital spending of $1.7 billion, acquisitions of $1.1 billion, primarily the $750 million acquisition of General Mills' minority interest in Snack Ventures Europe, and net purchases of short-term investments of $1.0 billion. These amounts were partially offset by the proceeds from our sale of PBG stock of $214 million. In 2004, we used $2.3 billion for investing, primarily reflecting capital spending of $1.4 billion and short-term investments of almost $1.0 billion.

In the first quarter of 2006, we completed our acquisition of Stacy's Pita Chip Company which was funded with existing domestic cash. This acquisition will be included in the first quarter of 2006 as an investing activity in our Condensed Consolidated Statement of Cash Flows.

We anticipate net capital spending of approximately $2.2 billion in 2006, which is above our long-term target of approximately 5% of net revenue. Planned capital spending in 2006 includes increased investments in manufacturing capacity to support growth in our China snack and beverage operations and our North American Gatorade business, as well as increased investment in support of our ongoing BPT initiative. We expect capital spending to return to our long-term targeted rate following 2006.

***Financing Activities***

In 2005, we used $1.9 billion, primarily reflecting common share repurchases of $3.0 billion and dividend payments of $1.6 billion, partially offset by net proceeds from short-term borrowings of $1.8 billion and stock option proceeds of $1.1 billion. This compares to $2.3 billion used for financing in 2004, primarily reflecting share repurchases at a cost of $3.0 billion and dividend payments of $1.3 billion, partially offset by net issuances of short-term borrowings of $1.1 billion and proceeds from exercises of stock options of nearly $1.0 billion.

In 2004, our Board of Directors authorized a new $7.0 billion share repurchase program. Since inception of the new program, we have repurchased $5.1 billion of shares, leaving $1.9 billion of remaining authorization. We target an annual dividend payout of approximately 45% of prior year's net income from continuing operations. Each spring we review our capital structure with our Board, including our dividend policy and share repurchase activity.

***Management Operating Cash Flow***

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. The table below reconciles the net cash provided by operating activities as reflected in our Consolidated Statement of Cash Flows to our management operating cash flow.

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Net cash provided by operating activities | **$ 5,852** | $ 5,054 | $ 4,328 |
| Capital spending | **(1,736)** | (1,387) | (1,345) |
| Sales of property, plant and equipment | **88** | 38 | 49 |
| Management operating cash flow | **$ 4,204** | $ 3,705 | $ 3,032 |

Management operating cash flow was used primarily to repurchase shares and pay dividends. We expect to continue to return approximately all of our management operating cash flow to our shareholders through dividends and share repurchases. However, see " Risk Factors" in Item 1A. and " Our Business Risks" for certain factors that may impact our operating cash flows.

***Credit Ratings***

Our debt ratings of Aa3 from Moody's and A+ from Standard & Poor's contribute to our ability to access global capital markets. We have maintained strong investment grade ratings for over a decade. Our Moody's rating reflects an upgrade from A1 to Aa3 in 2004 due to the strength of our balance sheet and cash flows. Each rating is considered strong investment grade and is in the first quartile of their respective ranking systems. These ratings also reflect the impact of our anchor bottlers' cash flows and debt.

***Credit Facilities and Long-Term Contractual Commitments***

See Note 9 for a description of our credit facilities and long-term contractual commitments.

***Off-Balance Sheet Arrangements***

It is not our business practice to enter into off-balance sheet arrangements, other than in the normal course of business, nor is it our policy to issue guarantees to our bottlers, noncontrolled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. As of year-end 2005, we believe it is remote that these guarantees would require any cash payment. See Note 9 for a description of our off-balance sheet arrangements.

***Financial Position***

Significant changes in our Consolidated Balance Sheet from December 25, 2004 to December 31, 2005 not discussed above were as follows:

- Other assets increased primarily reflecting our increased pension contributions in the current year.
- Income taxes payable increased primarily reflecting $460 million of taxes accrued related to our repatriation of international earnings in connection with the AJCA to be paid in the first quarter of 2006.

Table of Contents

## OUR FINANCIAL RESULTS

### Consolidated Statement of Income

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003

| (in millions except per share amounts) | **2005** | 2004 | 2003 |
|---|---|---|---|
| **Net Revenue** | **$32,562** | $29,261 | $26,971 |
| Cost of sales | **14,176** | 12,674 | 11,691 |
| Selling, general and administrative expenses | **12,314** | 11,031 | 10,148 |
| Amortization of intangible assets | **150** | 147 | 145 |
| Restructuring and impairment charges | **—** | 150 | 147 |
| Merger-related costs | **—** | — | 59 |
| **Operating Profit** | **5,922** | 5,259 | 4,781 |
| Bottling equity income | **557** | 380 | 323 |
| Interest expense | **(256)** | (167) | (163) |
| Interest income | **159** | 74 | 51 |
| **Income from Continuing Operations before Income Taxes** | **6,382** | 5,546 | 4,992 |
| **Provision for Income Taxes** | **2,304** | 1,372 | 1,424 |
| **Income from Continuing Operations** | **4,078** | 4,174 | 3,568 |
| **Tax Benefit from Discontinued Operations** | **—** | 38 | — |
| **Net Income** | **$ 4,078** | $ 4,212 | $ 3,568 |
| **Net Income per Common Share – Basic** | | | |
| Continuing operations | **$ 2.43** | $ 2.45 | $ 2.07 |
| Discontinued operations | **—** | 0.02 | — |
| Total | **$ 2.43** | $ 2.47 | $ 2.07 |
| **Net Income per Common Share – Diluted** | | | |
| Continuing operations | **$ 2.39** | $ 2.41 | $ 2.05 |
| Discontinued operations | **—** | 0.02 | — |
| Total | **$ 2.39** | $ 2.44* | $ 2.05 |

* Based on unrounded amounts.

See accompanying notes to consolidated financial statements.

Table of Contents

**Consolidated Statement of Cash Flows**

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003

| (in millions) | **2005** | 2004 | 2003 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | **$ 4,078** | $ 4,212 | $ 3,568 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization | **1,308** | 1,264 | 1,221 |
| Stock-based compensation expense | **311** | 368 | 407 |
| Restructuring and impairment charges | **—** | 150 | 147 |
| Cash payments for merger-related costs and restructuring charges | **(22)** | (92) | (109) |
| Tax benefit from discontinued operations | **—** | (38) | — |
| Pension and retiree medical plan contributions | **(877)** | (534) | (605) |
| Pension and retiree medical plan expenses | **464** | 395 | 277 |
| Bottling equity income, net of dividends | **(411)** | (297) | (276) |
| Deferred income taxes and other tax charges and credits | **440** | (203) | (286) |
| Merger-related costs | **—** | — | 59 |
| Other non-cash charges and credits, net | **145** | 166 | 101 |
| Changes in operating working capital, excluding effects of acquisitions and divestitures | | | |
| Accounts and notes receivable | **(272)** | (130) | (220) |
| Inventories | **(132)** | (100) | (49) |
| Prepaid expenses and other current assets | **(56)** | (31) | 23 |
| Accounts payable and other current liabilities | **188** | 216 | (11) |
| Income taxes payable | **609** | (268) | 182 |
| Net change in operating working capital | **337** | (313) | (75) |
| Other | **79** | (24) | (101) |
| **Net Cash Provided by Operating Activities** | **5,852** | 5,054 | 4,328 |
| **Investing Activities** | | | |
| Snack Ventures Europe (SVE) minority interest acquisition | **(750)** | — | — |
| Capital spending | **(1,736)** | (1,387) | (1,345) |
| Sales of property, plant and equipment | **88** | 38 | 49 |
| Other acquisitions and investments in noncontrolled affiliates | **(345)** | (64) | (71) |
| Cash proceeds from sale of PBG stock | **214** | — | — |
| Divestitures | **3** | 52 | 46 |
| Short-term investments, by original maturity | | | |
| More than three months – purchases | **(83)** | (44) | (38) |
| More than three months – maturities | **84** | 38 | 28 |
| Three months or less, net | **(992)** | (963) | (940) |
| **Net Cash Used for Investing Activities** | **(3,517)** | (2,330) | (2,271) |

(Continued on following page)

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

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003

| (in millions) | **2005** | 2004 | 2003 |
|---|---|---|---|
| **Financing Activities** | | | |
| Proceeds from issuances of long-term debt | **$ 25** | $ 504 | $ 52 |
| Payments of long-term debt | **(177)** | (512) | (641) |
| Short-term borrowings, by original maturity | | | |
| More than three months – proceeds | **332** | 153 | 88 |
| More than three months – payments | **(85)** | (160) | (115) |
| Three months or less, net | **1,601** | 1,119 | 40 |
| Cash dividends paid | **(1,642)** | (1,329) | (1,070) |
| Share repurchases – common | **(3,012)** | (3,028) | (1,929) |
| Share repurchases – preferred | **(19)** | (27) | (16) |
| Proceeds from exercises of stock options | **1,099** | 965 | 689 |
| **Net Cash Used for Financing Activities** | **(1,878)** | (2,315) | (2,902) |
| Effect of exchange rate changes on cash and cash equivalents | **(21)** | 51 | 27 |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | **436** | 460 | (818) |
| **Cash and Cash Equivalents, Beginning of Year** | **1,280** | 820 | 1,638 |
| **Cash and Cash Equivalents, End of Year** | **$ 1,716** | $ 1,280 | $ 820 |

See accompanying notes to consolidated financial statements.

Table of Contents

**Consolidated Balance Sheet**

PepsiCo, Inc. and Subsidiaries
December 31, 2005 and December 25, 2004

| (in millions except per share amounts) | 2005 | 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 1,716** | $ 1,280 |
| Short-term investments | **3,166** | 2,165 |
| | **4,882** | 3,445 |
| Accounts and notes receivable, net | **3,261** | 2,999 |
| Inventories | **1,693** | 1,541 |
| Prepaid expenses and other current assets | **618** | 654 |
| **Total Current Assets** | **10,454** | 8,639 |
| **Property, Plant and Equipment, net** | **8,681** | 8,149 |
| **Amortizable Intangible Assets, net** | **530** | 598 |
| Goodwill | **4,088** | 3,909 |
| Other nonamortizable intangible assets | **1,086** | 933 |
| **Nonamortizable Intangible Assets** | **5,174** | 4,842 |
| **Investments in Noncontrolled Affiliates** | **3,485** | 3,284 |
| **Other Assets** | **3,403** | 2,475 |
| **Total Assets** | **$31,727** | $27,987 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Short-term obligations | **$ 2,889** | $ 1,054 |
| Accounts payable and other current liabilities | **5,971** | 5,599 |
| Income taxes payable | **546** | 99 |
| **Total Current Liabilities** | **9,406** | 6,752 |
| **Long-Term Debt Obligations** | **2,313** | 2,397 |
| **Other Liabilities** | **4,323** | 4,099 |
| **Deferred Income Taxes** | **1,434** | 1,216 |
| **Total Liabilities** | **17,476** | 14,464 |
| Commitments and Contingencies | | |
| **Preferred Stock, no par value** | **41** | 41 |
| **Repurchased Preferred Stock** | **(110)** | (90) |
| **Common Shareholders' Equity** | | |
| Common stock, par value 1 2/3¢ per share (issued 1,782 shares) | **30** | 30 |
| Capital in excess of par value | **614** | 618 |
| Retained earnings | **21,116** | 18,730 |
| Accumulated other comprehensive loss | **(1,053)** | (886) |
| | **20,707** | 18,492 |
| Less: repurchased common stock, at cost (126 and 103 shares, respectively) | **(6,387)** | (4,920) |
| **Total Common Shareholders' Equity** | **14,320** | 13,572 |
| **Total Liabilities and Shareholders' Equity** | **$31,727** | $27,987 |

See accompanying notes to consolidated financial statements.

Table of Contents

## Consolidated Statement of Common Shareholders' Equity

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003

| (in millions) | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| **Common Stock** | **1,782** | **$ 30** | 1,782 | $ 30 | 1,782 | $ 30 |
| **Capital in Excess of Par Value** | | | | | | |
| Balance, beginning of year | | **618** | | 548 | | 207 |
| Stock-based compensation expense | | **311** | | 368 | | 407 |
| Stock option exercises [(a)] | | **(315)** | | (298) | | (66) |
| Balance, end of year | | **614** | | 618 | | 548 |
| **Retained Earnings** | | | | | | |
| Balance, beginning of year | | **18,730** | | 15,961 | | 13,489 |
| Net income | | **4,078** | | 4,212 | | 3,568 |
| Cash dividends declared – common | | **(1,684)** | | (1,438) | | (1,082) |
| Cash dividends declared – preferred | | **(3)** | | (3) | | (3) |
| Cash dividends declared – RSUs | | **(5)** | | (2) | | — |
| Other | | **—** | | — | | (11) |
| Balance, end of year | | **21,116** | | 18,730 | | 15,961 |
| **Accumulated Other Comprehensive Loss** | | | | | | |
| Balance, beginning of year | | **(886)** | | (1,267) | | (1,672) |
| Currency translation adjustment | | **(251)** | | 401 | | 410 |
| Cash flow hedges, net of tax: | | | | | | |
| Net derivative gains/(losses) | | **54** | | (16) | | (11) |
| Reclassification of (gains)/losses to net income | | **(8)** | | 9 | | (1) |
| Minimum pension liability adjustment, net of tax | | **16** | | (19) | | 7 |
| Unrealized gain on securities, net of tax | | **24** | | 6 | | 1 |
| Other | | **(2)** | | — | | (1) |
| Balance, end of year | | **(1,053)** | | (886) | | (1,267) |
| **Repurchased Common Stock** | | | | | | |
| Balance, beginning of year | **(103)** | **(4,920)** | (77) | (3,376) | (60) | (2,524) |
| Share repurchases | **(54)** | **(2,995)** | (58) | (2,994) | (43) | (1,946) |
| Stock option exercises | **31** | **1,523** | 32 | 1,434 | 26 | 1,096 |
| Other | **—** | **5** | — | 16 | — | (2) |
| Balance, end of year | **(126)** | **(6,387)** | (103) | (4,920) | (77) | (3,376) |
| **Total Common Shareholders' Equity** | | **$ 14,320** | | $13,572 | | $11,896 |

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| **Comprehensive Income** | | | |
| Net Income | **$ 4,078** | $ 4,212 | $ 3,568 |
| Currency translation adjustment | **(251)** | 401 | 410 |
| Cash flow hedges, net of tax | **46** | (7) | (12) |
| Minimum pension liability adjustment, net of tax | **16** | (19) | 7 |
| Unrealized gain on securities, net of tax | **24** | 6 | 1 |
| Other | **(2)** | — | (1) |
| **Total Comprehensive Income** | **$ 3,911** | $ 4,593 | $ 3,973 |

(a) Includes total tax benefit of $125 million in 2005, $183 million in 2004 and $340 million in 2003.

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## Note 1 — Basis of Presentation and Our Divisions

### *Basis of Presentation*

Our financial statements include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates based on our economic ownership interest. We do not control these other affiliates, as our ownership in these other affiliates is generally less than 50%. Our share of the net income of noncontrolled bottling affiliates is reported in our income statement as bottling equity income. Bottling equity income also includes any changes in our ownership interests of these affiliates. In 2005, bottling equity income includes $126 million of pre-tax gains on our sales of PBG stock. See Note 8 for additional information on our noncontrolled bottling affiliates. Our share of other noncontrolled affiliates is included in division operating profit. Intercompany balances and transactions are eliminated. In 2005, 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.

In connection with our ongoing BPT initiative, we aligned certain accounting policies across our divisions in 2005. We conformed our methodology for calculating our bad debt reserves and modified our policy for recognizing revenue for products shipped to customers by third-party carriers. Additionally, we conformed our method of accounting for certain costs, primarily warehouse and freight. These changes reduced our net revenue by $36 million and our operating profit by $60 million in 2005. We also made certain reclassifications on our Consolidated Statement of Income in the fourth quarter of 2005 from cost of sales to selling, general and administrative expenses in connection with our BPT initiative. These reclassifications resulted in reductions to cost of sales of $556 million through the third quarter of 2005, $732 million in the full year 2004 and $688 million in the full year 2003, with corresponding increases to selling, general and administrative expenses in those periods. These reclassifications had no net impact on operating profit and have been made to all periods presented for comparability.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used in determining, among other items, sales incentives accruals, future cash flows associated with impairment testing for perpetual brands and goodwill, useful lives for intangible assets, tax reserves, stock-based compensation and pension and retiree medical accruals. Actual results could differ from these estimates.

See “ Our Divisions” below and for additional unaudited information on items affecting the comparability of our consolidated results, see “ Items Affecting Comparability” in Management’s Discussion and Analysis.

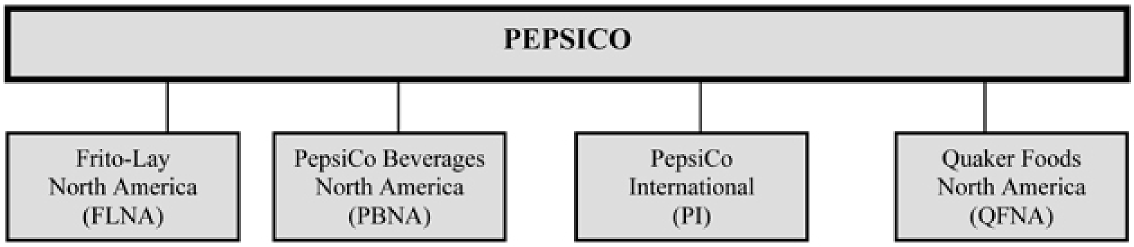
Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior years' amounts to conform to the 2005 presentation.

***Our Divisions***

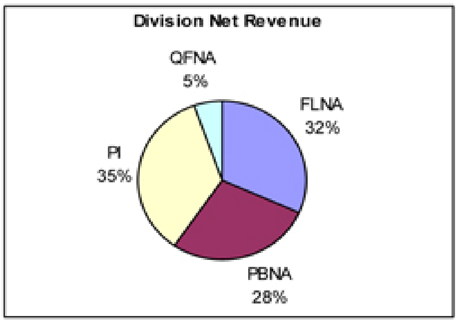
We manufacture or use contract manufacturers, market and sell a variety of salty, sweet and grain-based snacks, carbonated and non-carbonated beverages, and foods through our North American and international business divisions. Our North American divisions include the United States and Canada. The accounting policies for the divisions are the same as those described in Note 2, except for certain allocation methodologies for stock-based compensation expense and pension and retiree medical expense, as described in the unaudited information in "Our Critical Accounting Policies." Additionally, beginning in the fourth quarter of 2005, we began centrally managing commodity derivatives on behalf of our divisions. Certain of the commodity derivatives, primarily those related to the purchase of energy for use by our divisions, do not qualify for hedge accounting treatment. These derivatives hedge underlying commodity price risk and were not entered into for speculative purposes. Such derivatives are marked to market with the resulting gains and losses recognized as a component of corporate unallocated expense. These gains and losses are reflected in division results when the divisions take delivery of the underlying commodity. Therefore, division results reflect the contract purchase price of the energy or other commodities.

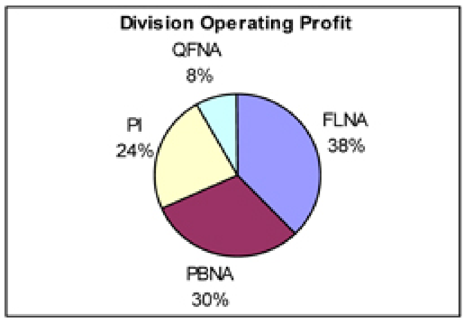
Division results are based on how our Chairman and Chief Executive Officer evaluates our divisions. Division results exclude certain Corporate-initiated restructuring and impairment charges, merger-related costs and divested businesses. For additional unaudited information on our divisions, see " Our Operations" in Management's Discussion and Analysis.

Table of Contents




| | Net Revenue | | | Operating Profit | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 | 2003 |
| FLNA | **$10,322** | $ 9,560 | $ 9,091 | **$2,529** | $2,389 | $2,242 |
| PBNA | **9,146** | 8,313 | 7,733 | **2,037** | 1,911 | 1,690 |
| PI | **11,376** | 9,862 | 8,678 | **1,607** | 1,323 | 1,061 |
| QFNA | **1,718** | 1,526 | 1,467 | **537** | 475 | 470 |
| Total division | **32,562** | 29,261 | 26,969 | **6,710** | 6,098 | 5,463 |
| Divested businesses | **—** | — | 2 | **—** | — | 26 |
| Corporate | **—** | — | — | **(788)** | (689) | (502) |
| | **32,562** | 29,261 | 26,971 | **5,922** | 5,409 | 4,987 |
| Restructuring and impairment charges | **—** | — | — | **—** | (150) | (147) |
| Merger-related costs | **—** | — | — | **—** | — | (59) |
| Total | **$32,562** | $29,261 | $26,971 | **$5,922** | $5,259 | $4,781 |




***Divested Businesses***

During 2003, we sold our Quaker Foods North America Mission pasta business. The results of this business are reported as divested businesses.

***Corporate***

Corporate includes costs of our corporate headquarters, centrally managed initiatives, such as our BPT initiative, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, and certain commodity derivative gains and losses, as well as profit-in-inventory elimination adjustments for our noncontrolled bottling affiliates and certain other items.

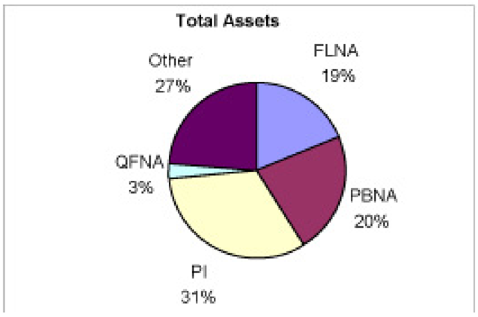
Table of Contents

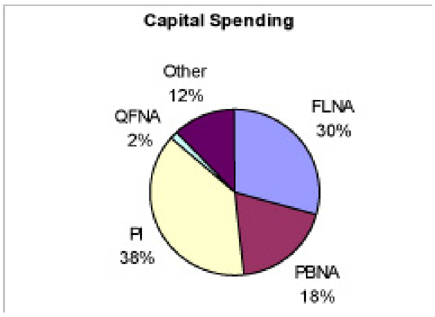
***Restructuring and Impairment Charges and Merger-Related Costs*** – See Note 3.

***Other Division Information***

| | Total Assets 2005 | Total Assets 2004 | Total Assets 2003 | Capital Spending 2005 | Capital Spending 2004 | Capital Spending 2003 |
|---|---|---|---|---|---|---|
| FLNA | **$ 5,948** | $ 5,476 | $ 5,332 | **$ 512** | $ 469 | $ 426 |
| PBNA | **6,316** | 6,048 | 5,856 | **320** | 265 | 332 |
| PI | **9,983** | 8,921 | 8,109 | **667** | 537 | 521 |
| QFNA | **989** | 978 | 995 | **31** | 33 | 32 |
| Total division | **23,236** | 21,423 | 20,292 | **1,530** | 1,304 | 1,311 |
| Corporate [(a)] | **5,331** | 3,569 | 2,384 | **206** | 83 | 34 |
| Investments in bottling affiliates | **3,160** | 2,995 | 2,651 | **—** | — | — |
| | **$31,727** | $27,987 | $25,327 | **$1,736** | $ 1,387 | $ 1,345 |

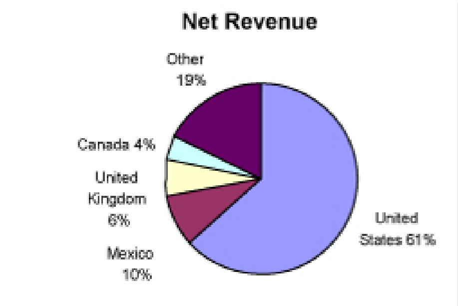
(a) Corporate assets consist principally of cash and cash equivalents, short-term investments, and property, plant and equipment.

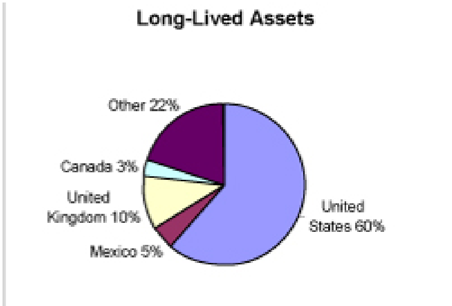



| | Amortization of Intangible Assets 2005 | Amortization of Intangible Assets 2004 | Amortization of Intangible Assets 2003 | Depreciation and Other Amortization 2005 | Depreciation and Other Amortization 2004 | Depreciation and Other Amortization 2003 |
|---|---|---|---|---|---|---|
| FLNA | **$ 3** | $ 3 | $ 3 | **$ 419** | $ 420 | $ 416 |
| PBNA | **76** | 75 | 75 | **264** | 258 | 245 |
| PI | **71** | 68 | 66 | **420** | 382 | 350 |
| QFNA | **—** | 1 | 1 | **34** | 36 | 36 |
| Total division | **150** | 147 | 145 | **1,137** | 1,096 | 1,047 |
| Corporate | **—** | — | — | **21** | 21 | 29 |
| | **$ 150** | $ 147 | $ 145 | **$1,158** | $ 1,117 | $ 1,076 |

| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|
| | ***Net Revenue*** [(a)] | | | ***Long-Lived Assets*** [(b)] | | |
| U.S. | **$19,937** | $18,329 | $17,377 | **$10,723** | $10,212 | $ 9,907 |
| Mexico | **3,095** | 2,724 | 2,642 | **902** | 878 | 869 |
| United Kingdom | **1,821** | 1,692 | 1,510 | **1,715** | 1,896 | 1,724 |
| Canada | **1,509** | 1,309 | 1,147 | **582** | 548 | 508 |
| All other countries | **6,200** | 5,207 | 4,295 | **3,948** | 3,339 | 3,123 |
| | **$32,562** | $29,261 | $26,971 | **$17,870** | $16,873 | $16,131 |




(a) Represents net revenue from businesses operating in these countries.

(b) Long-lived assets represent net property, plant and equipment, nonamortizable and net amortizable intangible assets and investments in noncontrolled affiliates. These assets are reported in the country where they are primarily used.

## Note 2 — Our Significant Accounting Policies

### *Revenue Recognition*

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 direct-store-delivery (DSD) and chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that our consumers receive the product quality and freshness that they expect. Similarly, our policy for warehouse distributed products is to replace damaged and out-of-date products. Based on our historical experience with this practice, we have reserved for anticipated damaged and out-of-date products. For additional unaudited information on our revenue recognition and related policies, including our policy on bad debts, see “ Our Critical Accounting Policies” in Management’s Discussion and Analysis. We are exposed to concentration of credit risk by our customers, Wal-Mart and PBG. Wal-Mart represents approximately 9% of our net revenue, including concentrate sales to our bottlers which are used in finished goods sold by them to Wal-Mart; and PBG represents approximately 10%. We have not experienced credit issues with these customers.

***Sales Incentives and Other Marketplace Spending***

We offer sales incentives and discounts through various programs to our customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled $8.9 billion in 2005, $7.8 billion in 2004 and $7.1 billion in 2003. While most of these incentive arrangements have terms of no more than one year, certain arrangements extend beyond one year. For example, fountain pouring rights may extend up to 15 years. Costs incurred to obtain these arrangements are recognized over the contract period and the remaining balances of $321 million at December 31, 2005 and $337 million at December 25, 2004 are included in current assets and other assets in our Consolidated Balance Sheet. For additional unaudited information on our sales incentives, see “ Our Critical Accounting Policies” in Management’s Discussion and Analysis.

Other marketplace spending includes the costs of advertising and other marketing activities and is reported as selling, general and administrative expenses. Advertising expenses were $1.8 billion in 2005, $1.7 billion in 2004 and $1.6 billion in 2003. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

Deferred advertising costs of $202 million and $137 million at year-end 2005 and 2004, respectively, are classified as prepaid expenses in our Consolidated Balance Sheet.

***Distribution Costs***

Distribution costs, including the costs of shipping and handling activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were $4.1 billion in 2005, $3.9 billion in 2004 and $3.6 billion in 2003.

***Cash Equivalents***

Cash equivalents are investments with original maturities of three months or less which we do not intend to rollover beyond three months.

***Software Costs***

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are included in property, plant and equipment on our Consolidated Balance Sheet and amortized on a straight-line basis over the estimated useful lives of the software, which generally do not exceed 5 years. Net capitalized software and development costs were $327 million at December 31, 2005 and $181 million at December 25, 2004.

***Commitments and Contingencies***

We are subject to various claims and contingencies related to lawsuits, taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional information on our commitments, see Note 9.

***Other Significant Accounting Policies***

Our other significant accounting policies are disclosed as follows:

- *Property, Plant and Equipment and Intangible Assets* – Note 4 and, for additional unaudited information on brands and goodwill, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.
- *Income Taxes* – Note 5 and, for additional unaudited information, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.
- *Stock-Based Compensation Expense* – Note 6 and, for additional unaudited information, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.
- *Pension, Retiree Medical and Savings Plans* – Note 7 and, for additional unaudited information, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.
- *Risk Management* – Note 10 and, for additional unaudited information, see " Our Business Risks" in Management's Discussion and Analysis.

There have been no new accounting pronouncements issued or effective during 2005 that have had, or are expected to have, a material impact on our consolidated financial statements.

**Note 3 — Restructuring and Impairment Charges and Merger-Related Costs**

***2005 Restructuring Charges***

In the fourth quarter of 2005, we incurred a charge of $83 million ($55 million after-tax or $0.03 per share) in conjunction with actions taken to reduce costs in our operations, principally through headcount reductions. Of this charge, $34 million related to FLNA, $21 million to PBNA, $16 million to PI and $12 million to Corporate (recorded in corporate unallocated expenses). Most of this charge related to the termination of approximately 700 employees. We expect the substantial portion of the cash payments related to this charge to be paid in 2006.

***2004 and 2003 Restructuring and Impairment Charges***

In the fourth quarter of 2004, we incurred a charge of $150 million ($96 million after-tax or $0.06 per share) in conjunction with the consolidation of FLNA's manufacturing network as part of its ongoing productivity program. Of this charge, $93 million related to asset impairment, primarily reflecting the closure of four U.S. plants. Production from these plants was redeployed to other FLNA facilities in the U.S. The remaining $57 million included employee-related costs of $29 million, contract termination costs of $8 million and other exit costs of $20 million. Employee-related costs primarily reflect the termination costs for approximately 700 employees. Through December 31, 2005, we have paid $47 million and incurred non-cash charges of $10 million, leaving substantially no accrual.

In the fourth quarter of 2003, we incurred a charge of $147 million ($100 million after-tax or $0.06 per share) in conjunction with actions taken to streamline our North American divisions and PepsiCo International. These actions were taken to increase focus and eliminate redundancies at PBNA and PI and to improve the efficiency of the supply chain at FLNA. Of this charge, $81 million related to asset impairment, reflecting $57 million for the closure of a snack plant in Kentucky, the retirement of snack manufacturing lines in Maryland and Arkansas and $24 million for the closure of a PBNA office building in Florida. The remaining $66 million included employee-related costs of $54 million and facility and other exit costs of $12 million. Employee-related costs primarily reflect the termination costs for approximately 850 sales, distribution, manufacturing, research and marketing employees. As of December 31, 2005, all terminations had occurred and substantially no accrual remains.

***Merger-Related Costs***

In connection with the Quaker merger in 2001, we recognized merger-related costs of $59 million ($42 million after-tax or $0.02 per share) in 2003.

**Note 4 — Property, Plant and Equipment and Intangible Assets**

| | Average Useful Life | **2005** | 2004 | 2003 |
|---|---|---|---|---|
| ***Property, plant and equipment, net*** | | | | |
| Land and improvements | 10 –30 yrs. | **$ 685** | $ 646 | |
| Buildings and improvements | 20 – 44 | **3,736** | 3,605 | |
| Machinery and equipment, including fleet and software | 5 – 15 | **11,658** | 10,950 | |
| Construction in progress | | **1,066** | 729 | |
| | | **17,145** | 15,930 | |
| Accumulated depreciation | | **(8,464)** | (7,781) | |
| | | **$ 8,681** | $ 8,149 | |
| Depreciation expense | | **$ 1,103** | $ 1,062 | $1,020 |
| ***Amortizable intangible assets, net*** | | | | |
| Brands | 5 – 40 | **$ 1,054** | $ 1,008 | |
| Other identifiable intangibles | 3 – 15 | **257** | 225 | |
| | | **1,311** | 1,233 | |
| Accumulated amortization | | **(781)** | (635) | |
| | | **$ 530** | $ 598 | |
| Amortization expense | | **$ 150** | $ 147 | $ 145 |

Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service. Amortization of intangible assets for each of the next five years, based on average 2005 foreign exchange rates, is expected to be $152 million in 2006, $35 million in 2007, $35 million in 2008, $34 million in 2009 and $33 million in 2010.

Depreciable and amortizable assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need for revision. For additional unaudited information on our amortizable brand policies, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.

***Nonamortizable Intangible Assets***

Perpetual brands and goodwill are assessed for impairment at least annually to ensure that discounted future cash flows continue to exceed the related book value. A perpetual brand is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its fair value. A reporting unit can be a division or business within a division. If the fair value of an evaluated asset is less than its book value, the asset is written down based on its discounted future cash flows to fair value. No impairment charges resulted from the required impairment evaluations. The change in the book value of nonamortizable intangible assets is as follows:

| | Balance, Beginning 2004 | Acquisition | Translation and Other | Balance, End of 2004 | Acquisition | Translation and Other | **Balance, End of 2005** |
|---|---|---|---|---|---|---|---|
| ***Frito-Lay North America*** | | | | | | | |
| Goodwill | $ 130 | $ — | $ 8 | $ 138 | $ — | $ 7 | **$ 145** |
| ***PepsiCo Beverages North America*** | | | | | | | |
| Goodwill | 2,157 | — | 4 | 2,161 | — | 3 | **2,164** |
| Brands | 59 | — | — | 59 | — | — | **59** |
| | 2,216 | — | 4 | 2,220 | — | 3 | **2,223** |
| ***PepsiCo International*** | | | | | | | |
| Goodwill | 1,334 | 29 | 72 | 1,435 | 278 | (109) | **1,604** |
| Brands | 808 | — | 61 | 869 | 263 | (106) | **1,026** |
| | 2,142 | 29 | 133 | 2,304 | 541 | (215) | **2,630** |
| ***Quaker Foods North America*** | | | | | | | |
| Goodwill | 175 | — | — | 175 | — | — | **175** |
| ***Corporate*** | | | | | | | |
| Pension intangible | 2 | — | 3 | 5 | — | (4) | **1** |
| Total goodwill | 3,796 | 29 | 84 | 3,909 | 278 | (99) | **4,088** |
| Total brands | 867 | — | 61 | 928 | 263 | (106) | **1,085** |
| Total pension intangible | 2 | — | 3 | 5 | — | (4)) | **1** |
| | $ 4,665 | $ 29 | $ 148 | $ 4,842 | $ 541 | $ (209) | **$ 5,174** |

Table of Contents

**Note 5 — Income Taxes**

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| ***Income before income taxes – continuing operations*** | | | |
| U.S. | **$3,175** | $2,946 | $3,267 |
| Foreign | **3,207** | 2,600 | 1,725 |
| | **$6,382** | $5,546 | $4,992 |
| ***Provision for income taxes – continuing operations*** | | | |
| Current: U.S. Federal | **$1,638** | $1,030 | $1,326 |
| Foreign | **426** | 256 | 341 |
| State | **118** | 69 | 80 |
| | **2,182** | 1,355 | 1,747 |
| Deferred: U.S. Federal | **137** | 11 | (274) |
| Foreign | **(26)** | 5 | (47) |
| State | **11** | 1 | (2) |
| | **122** | 17 | (323) |
| | **$2,304** | $1,372 | $1,424 |
| ***Tax rate reconciliation – continuing operations*** | | | |
| U.S. Federal statutory tax rate | **35.0%** | 35.0% | 35.0% |
| State income tax, net of U.S. Federal tax benefit | **1.4** | 0.8 | 1.0 |
| Taxes on AJCA repatriation | **7.0** | — | — |
| Lower taxes on foreign results | **(6.5)** | (5.4) | (5.5) |
| Settlement of prior years' audit | **—** | (4.8) | (2.2) |
| Other, net | **(0.8)** | (0.9) | 0.2 |
| Annual tax rate | **36.1%** | 24.7% | 28.5% |
| ***Deferred tax liabilities*** | | | |
| Investments in noncontrolled affiliates | **$ 993** | $ 850 | |
| Property, plant and equipment | **772** | 857 | |
| Pension benefits | **863** | 669 | |
| Intangible assets other than nondeductible goodwill | **135** | 153 | |
| Zero coupon notes | **35** | 46 | |
| Other | **169** | 157 | |
| Gross deferred tax liabilities | **2,967** | 2,732 | |
| ***Deferred tax assets*** | | | |
| Net carryforwards | **608** | 666 | |
| Stock-based compensation | **426** | 402 | |
| Retiree medical benefits | **400** | 402 | |
| Other employee-related benefits | **342** | 379 | |
| Other | **520** | 460 | |
| Gross deferred tax assets | **2,296** | 2,309 | |
| Valuation allowances | **(532)** | (564) | |
| Deferred tax assets, net | **1,764** | 1,745 | |
| Net deferred tax liabilities | **$1,203** | $ 987 | |

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Deferred taxes included within: | | | |
| Prepaid expenses and other current assets | **$ 231** | $ 229 | |
| Deferred income taxes | **$1,434** | $1,216 | |
| ***Analysis of valuation allowances*** | | | |
| Balance, beginning of year | **$ 564** | $ 438 | $487 |
| (Benefit)/provision | **(28)** | 118 | (52) |
| Other (deductions)/additions | **(4)** | 8 | 3 |
| Balance, end of year | **$ 532** | $ 564 | $438 |

For additional unaudited information on our income tax policies, including our reserves for income taxes, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.

***Carryforwards, Credits and Allowances***

Operating loss carryforwards totaling $5.1 billion at year-end 2005 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: $0.1 billion in 2006, $4.1 billion between 2007 and 2025 and $0.9 billion may be carried forward indefinitely. In addition, certain tax credits generated in prior periods of approximately $39.4 million are available to reduce certain foreign tax liabilities through 2011. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit.

***Undistributed International Earnings***

The AJCA created a one-time incentive for U.S. corporations to repatriate undistributed international earnings by providing an 85% dividends received deduction. As approved by our Board of Directors in July 2005, we repatriated approximately $7.5 billion in earnings previously considered indefinitely reinvested outside the U.S. in the fourth quarter of 2005. In 2005, we recorded income tax expense of $460 million associated with this repatriation. Other than the earnings repatriated, we intend to continue to reinvest earnings outside the U.S. for the foreseeable future and, therefore, have not recognized any U.S. tax expense on these earnings. At December 31, 2005, we had approximately $7.5 billion of undistributed international earnings.

***Reserves***

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. During 2004, we recognized $266 million of tax benefits related to the favorable resolution of certain open tax issues. In addition, in 2004, we recognized a tax benefit of $38 million upon agreement with the IRS on an open issue related to our discontinued restaurant operations. At the end of 2003, we entered into agreements with the IRS for open years through

1997. These agreements resulted in a tax benefit of $109 million in the fourth quarter of 2003. As part of these agreements, we also resolved the treatment of certain other issues related to future tax years.

The IRS has initiated their audits of our tax returns for the years 1998 through 2002. Our tax returns subsequent to 2002 have not yet been examined. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution. Our tax reserves, covering all federal, state and foreign jurisdictions, are presented in the balance sheet within other liabilities (see Note 14), except for any amounts relating to items we expect to pay in the coming year which are included in current income taxes payable. For further unaudited information on the impact of the resolution of open tax issues, see "Other Consolidated Results."

**Note 6 — Stock-Based Compensation**

Our stock-based compensation program is a broad-based program designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. Employees at all levels participate in our stock-based compensation program. In addition, members of our Board of Directors participate in our stock-based compensation program in connection with their service on our Board. Stock options and RSUs are granted to employees under the shareholder-approved 2003 Long-Term Incentive Plan (LTIP), our only active stock-based plan. Stock-based compensation expense was $311 million in 2005, $368 million in 2004 and $407 million in 2003. Related income tax benefits recognized in earnings were $87 million in 2005, $103 million in 2004 and $114 million in 2003. At year-end 2005, 51 million shares were available for future executive and SharePower grants. For additional unaudited information on our stock-based compensation program, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.

***SharePower Grants***

SharePower options are awarded under our LTIP to all eligible employees, based on job level or classification, and in the case of international employees, tenure as well. All stock option grants have an exercise price equal to the fair market value of our common stock on the day of grant and generally have a 10-year term with vesting after three years.

***Executive Grants***

All senior management and certain middle management are eligible for executive grants under our LTIP. All stock option grants have an exercise price equal to the fair market value of our common stock on the day of grant and generally have a 10-year term with vesting after three years. There have been no reductions to the exercise price of previously issued awards, and any repricing of awards would require approval of our shareholders.

Beginning in 2004, executives who are awarded long-term incentives based on their performance are offered the choice of stock options or RSUs. RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Each restricted stock unit can be settled in a share of our stock after the vesting period. Executives who elect RSUs receive one RSU for every four stock options that would have otherwise been granted. Senior officers do not have a choice and are granted 50% stock options and 50% RSUs. Vesting of RSU awards for senior officers is contingent upon the achievement of pre-established performance targets. We granted 3 million RSUs in both 2005 and 2004 with weighted-average intrinsic values of $53.83 and $47.28, respectively.

***Method of Accounting and Our Assumptions***

We account for our employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. We adopted SFAS 123R, *Share-Based Payment*, under the modified prospective method in the first quarter of 2006. We do not expect our adoption of SFAS 123R to materially impact our financial statements.

Our weighted-average Black-Scholes fair value assumptions include:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Expected life | **6 yrs.** | 6 yrs. | 6 yrs. |
| Risk free interest rate | **3.8%** | 3.3% | 3.1% |
| Expected volatility | **23%** | 26% | 27% |
| Expected dividend yield | **1.8%** | 1.8% | 1.15% |

***Our Stock Option Activity[(a)]***

| | **2005** | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Options** | **Average Price[(b)]** | Options | Average Price[(b)] | Options | Average Price[(b)] |
| Outstanding at beginning of year | **174,261** | **$ 40.05** | 198,173 | $ 38.12 | 190,432 | $ 36.45 |
| Granted | **12,328** | **53.82** | 14,137 | 47.47 | 41,630 | 39.89 |
| Exercised | **(30,945)** | **35.40** | (31,614) | 30.57 | (25,833) | 26.74 |
| Forfeited/expired | **(5,495)** | **43.31** | (6,435) | 43.82 | (8,056) | 43.56 |
| Outstanding at end of year | **150,149** | **42.03** | 174,261 | 40.05 | 198,173 | 38.12 |
| Exercisable at end of year | **89,652** | **40.52** | 94,643 | 36.41 | 97,663 | 32.56 |

(a) Options are in thousands and include options previously granted under Quaker plans. No additional options or shares may be granted under the Quaker plans.

(b) Weighted-average exercise price.

Table of Contents

***Stock options outstanding and exercisable at December 31, 2005[(a)]***

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| | Options | Average Price[(b)] | Average Life[(c)] | Options | Average Price[(b)] | Average Life[(c)] |
| $14.40 to $21.54 | 905 | $ 20.01 | 3.56 yrs. | 905 | $ 20.01 | 3.56 yrs. |
| $23.00 to $33.75 | 14,559 | 30.46 | 3.07 | 14,398 | 30.50 | 3.05 |
| $34.00 to $43.50 | 82,410 | 39.44 | 5.34 | 48,921 | 39.19 | 4.10 |
| $43.75 to $56.75 | 52,275 | 49.77 | 7.17 | 25,428 | 49.48 | 6.09 |
| | 150,149 | 42.03 | 5.67 | 89,652 | 40.52 | 4.45 |

(a) Options are in thousands and include options previously granted under Quaker plans. No additional options or shares may be granted under the Quaker plans.

(b) Weighted-average exercise price.

(c) Weighted-average contractual life remaining.

***Our RSU Activity[(a)]***

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| | **RSUs** | **Average Intrinsic Value[(b)]** | **Average Life [(c)]** | RSUs | Average Intrinsic Value[(b)] | Average Life [(c)] |
| Outstanding at beginning of year | **2,922** | **$ 47.30** | | — | $ — | |
| Granted | **3,097** | **53.83** | | 3,077 | 47.28 | |
| Converted | **(91)** | **48.73** | | (18) | 47.25 | |
| Forfeited/expired | **(259)** | **50.51** | | (137) | 47.25 | |
| Outstanding at end of year | **5,669** | **50.70** | **1.8 yrs.** | 2,922 | 47.30 | 2.2 yrs. |

(a) RSUs are in thousands.

(b) Weighted-average intrinsic value.

(c) Weighted-average contractual life remaining.

***Other stock-based compensation data***

| | Stock Options | | | RSUs | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 |
| Weighted-average fair value of options granted | **$ 13.45** | $ 12.04 | $ 11.21 | | |
| Total intrinsic value of options/RSUs exercised/converted[(a)] | **$ 632,603** | $ 667,001 | $ 466,719 | **$ 4,974** | $ 914 |
| Total intrinsic value of options/RSUs outstanding[(a)] | **$2,553,594** | $2,062,153 | $1,641,505 | **$334,931** | $151,760 |
| Total intrinsic value of options exercisable[(a)] | **$1,662,198** | $1,464,926 | $1,348,658 | | |

(a) In thousands.

At December 31, 2005, there was $315 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation is expected to be recognized over a weighted-average period of 1.6 years.

**Note 7 — Pension, Retiree Medical and Savings Plans**

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. 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 costs. We use a September 30 measurement date and all plan assets and liabilities are generally reported as of that date. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost) is included in expense on a straight-line basis over the average remaining service period of employees expected to receive benefits.

The Medicare Act was signed into law in December 2003 and we applied the provisions of the Medicare Act to our plans in 2005 and 2004. The Medicare Act provides a subsidy for sponsors of retiree medical plans who offer drug benefits equivalent to those provided under Medicare. As a result of the Medicare Act, our 2005 and 2004 retiree medical costs were $11 million and $7 million lower, respectively, and our 2005 and 2004 liabilities were reduced by $136 million and $80 million, respectively. We expect our 2006 retiree medical costs to be approximately $18 million lower than they otherwise would have been as a result of the Medicare Act.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see " Our Critical Accounting Policies" in Management's Discussion and Analysis.

| | Pension | | | | | | Retiree Medical | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** | 2004 | 2003 | **2005** | 2004 | 2003 |
| | U.S. | | | International | | | | | |
| ***Weighted-average assumptions*** | | | | | | | | | |
| Liability discount rate | **5.7%** | 6.1% | 6.1% | **5.1%** | 6.1% | 6.1% | **5.7%** | 6.1% | 6.1% |
| Expense discount rate | **6.1%** | 6.1% | 6.7% | **6.1%** | 6.1% | 6.4% | **6.1%** | 6.1% | 6.7% |
| Expected return on plan assets | **7.8%** | 7.8% | 8.3% | **8.0%** | 8.0% | 8.0% | **—** | — | — |
| Rate of compensation increases | **4.4%** | 4.5% | 4.5% | **4.1%** | 3.9% | 3.8% | **—** | — | — |
| ***Components of benefit expense*** | | | | | | | | | |
| Service cost | **$ 213** | $ 193 | $ 153 | **$ 32** | $ 27 | $ 24 | **$ 40** | $ 38 | $ 33 |
| Interest cost | **296** | 271 | 245 | **55** | 47 | 39 | **78** | 72 | 73 |
| Expected return on plan assets | **(344)** | (325) | (305) | **(69)** | (65) | (54) | **—** | — | — |
| Amortization of prior service cost/(benefit) | **3** | 6 | 6 | **1** | 1 | — | **(11)** | (8) | (3) |
| Amortization of experience loss | **106** | 81 | 44 | **15** | 9 | 5 | **26** | 19 | 13 |
| Benefit expense | **274** | 226 | 143 | **34** | 19 | 14 | **133** | 121 | 116 |
| Settlement/curtailment loss | **—** | 4 | — | **—** | 1 | — | **—** | — | — |
| Special termination benefits | **21** | 19 | 4 | **—** | 1 | — | **2** | 4 | — |
| Total | **$ 295** | $ 249 | $ 147 | **$ 34** | $ 21 | $ 14 | **$135** | $125 | $116 |

| | Pension | | | | Retiree Medical | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | U.S. | | International | | | |
| ***Change in projected benefit liability*** | | | | | | |
| Liability at beginning of year | **$4,968** | $4,456 | **$ 952** | $ 758 | **$ 1,319** | $ 1,264 |
| Service cost | **213** | 193 | **32** | 27 | **40** | 38 |
| Interest cost | **296** | 271 | **55** | 47 | **78** | 72 |
| Plan amendments | **—** | (17) | **3** | 1 | **(8)** | (41) |
| Participant contributions | **—** | — | **10** | 9 | **—** | — |
| Experience loss/(gain) | **517** | 261 | **203** | 73 | **(45)** | 58 |
| Benefit payments | **(241)** | (205) | **(28)** | (29) | **(74)** | (76) |
| Settlement/curtailment loss | **—** | (9) | **—** | (2) | **—** | — |
| Special termination benefits | **21** | 18 | **—** | 1 | **2** | 4 |
| Foreign currency adjustment | **—** | — | **(68)** | 67 | **—** | — |
| Other | **(3)** | — | **104** | — | **—** | — |
| Liability at end of year | **$5,771** | $4,968 | **$1,263** | $ 952 | **$ 1,312** | $ 1,319 |
| Liability at end of year for service to date | **$4,783** | $4,164 | **$1,047** | $ 779 | | |
| ***Change in fair value of plan assets*** | | | | | | |
| Fair value at beginning of year | **$4,152** | $3,558 | **$ 838** | $ 687 | **$ —** | $ — |
| Actual return on plan assets | **477** | 392 | **142** | 77 | **—** | — |
| Employer contributions/funding | **699** | 416 | **104** | 37 | **74** | 76 |
| Participant contributions | **—** | — | **10** | 9 | **—** | — |
| Benefit payments | **(241)** | (205) | **(28)** | (29) | **(74)** | (76) |
| Settlement/curtailment loss | **—** | (9) | **—** | (2) | **—** | — |
| Foreign currency adjustment | **—** | — | **(61)** | 59 | **—** | — |
| Other | **(1)** | — | **94** | — | **—** | — |
| Fair value at end of year | **$5,086** | $4,152 | **$1,099** | $ 838 | **$ —** | $ — |
| ***Funded status as recognized in our Consolidated Balance Sheet*** | | | | | | |
| Funded status at end of year | **$ (685)** | $ (817) | **$ (164)** | $(113) | **$(1,312)** | $(1,319) |
| Unrecognized prior service cost/(benefit) | **5** | 9 | **17** | 13 | **(113)** | (116) |
| Unrecognized experience loss | **2,288** | 2,013 | **474** | 380 | **402** | 473 |
| Fourth quarter benefit payments | **5** | 5 | **4** | 7 | **19** | 19 |
| Net amounts recognized | **$1,613** | $1,210 | **$ 331** | $ 287 | **$(1,004)** | $ (943) |
| ***Net amounts as recognized in our Consolidated Balance Sheet*** | | | | | | |
| Other assets | **$2,068** | $1,572 | **$ 367** | $ 294 | **$ —** | $ — |
| Intangible assets | **—** | — | **1** | 5 | **—** | — |
| Other liabilities | **(479)** | (387) | **(41)** | (37) | **(1,004)** | (943) |
| Accumulated other comprehensive loss | **24** | 25 | **4** | 25 | **—** | — |
| Net amounts recognized | **$1,613** | $1,210 | **$ 331** | $ 287 | **$(1,004)** | $ (943) |
| ***Components of increase in unrecognized experience loss*** | | | | | | |
| Decrease in discount rate | **$ 365** | $ — | **$ 194** | $ 4 | **$ 61** | $ — |
| Employee-related assumption changes | **57** | 196 | **2** | 65 | **—** | 109 |
| Liability-related experience different from assumptions | **95** | 65 | **7** | 4 | **(54)** | 31 |
| Actual asset return different from expected return | **(133)** | (67) | **(73)** | (12) | **—** | — |
| Amortization of losses | **(106)** | (81) | **(15)** | (9) | **(26)** | (19) |
| Other, including foreign currency adjustments and 2003 Medicare Act | **(3)** | (5) | **(22)** | 26 | **(52)** | (82) |
| Total | **$ 275** | $ 108 | **$ 93** | $ 78 | **$ (71)** | $ 39 |

Table of Contents

| | Pension | | | | Retiree Medical | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | U.S. | | International | | | |
| ***Selected information for plans with liability for service to date in excess of plan assets*** | | | | | | |
| Liability for service to date | **$(374)** | $(320) | **$ (65)** | $ (191) | **$(1,312)** | $(1,319) |
| Projected benefit liability | **$(815)** | $(685) | **$ (84)** | $ (227) | **$(1,312)** | $(1,319) |
| Fair value of plan assets | **$ 8** | $ 11 | **$ 33** | $ 161 | **—** | — |

Of the total projected pension benefit liability at year-end 2005, $765 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.

***Future Benefit Payments***

Our estimated future benefit payments are as follows:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011-15 |
|---|---|---|---|---|---|---|
| Pension | $235 | $255 | $275 | $300 | $330 | $ 2,215 |
| Retiree medical | $ 85 | $ 90 | $ 90 | $ 95 | $100 | $ 545 |

These future benefits to beneficiaries include payments from both funded and unfunded pension plans.

***Pension Assets***

The expected return on pension plan assets is based on our historical experience, our pension plan investment guidelines, and our expectations for long-term rates of return. We use a market-related value method that recognizes each year's asset gain or loss over a five-year period. Therefore, it takes five years for the gain or loss from any one year to be fully included in the value of pension plan assets that is used to calculate the expected return. Our pension plan investment guidelines are established based upon 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 are due. Our investment strategy is to prudently invest plan assets in high-quality and diversified equity and debt securities to achieve our long-term return expectation. Our target allocation and actual pension plan asset allocations for the plan years 2005 and 2004, are as follows:

| Asset Category | Target Allocation | Actual Allocation **2005** | Actual Allocation 2004 |
|---|---|---|---|
| Equity securities | 60% | **60%** | 60% |
| Debt securities | 40% | **39%** | 39% |
| Other, primarily cash | — | **1%** | 1% |
| Total | 100% | **100%** | 100% |

Pension assets include approximately 5.5 million shares of PepsiCo common stock with a market value of $311 million in 2005, and 5.5 million shares with a market value of $267 million in 2004. Our investment policy limits the investment in PepsiCo stock at the time of investment to 10% of the fair value of plan assets.

### *Retiree Medical Cost Trend Rates*

An average increase of 10% in the cost of covered retiree medical benefits is assumed for 2006. This average increase is then projected to decline gradually to 5% in 2010 and thereafter. These assumed health care cost trend rates have an impact on the retiree medical plan expense and liability. However, the cap on our share of retiree medical costs limits the impact. A 1 percentage point change in the assumed health care trend rate would have the following effects:

| | 1% Increase | 1% Decrease |
|---|---|---|
| 2005 service and interest cost components | $ 3 | $ (2) |
| 2005 benefit liability | $ 38 | $ (33) |

### *Savings Plans*

Our U.S. employees are eligible to participate in 401(k) savings plans, which are voluntary defined contribution plans. The plans are designed to help employees accumulate additional savings for retirement. We make matching contributions on a portion of eligible pay based on years of service. In 2005 and 2004, our matching contributions were $52 million and $35 million, respectively.

## Note 8 — Noncontrolled Bottling Affiliates

Our most significant noncontrolled bottling affiliates are PBG and PAS. Approximately 10% of our net revenue in 2005, 2004 and 2003 reflects sales to PBG.

### *The Pepsi Bottling Group*

In addition to approximately 41% and 42% of PBG's outstanding common stock that we own at year-end 2005 and 2004, respectively, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 45% and 46% of PBG's combined operations at year-end 2005 and 2004, respectively. In 2005, bottling equity income includes $126 million of pre-tax gains on our sales of PBG stock.

PBG's summarized financial information is as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Current assets | **$ 2,412** | $ 2,183 | |
| Noncurrent assets | **9,112** | 8,754 | |
| Total assets | **$11,524** | $10,937 | |
| Current liabilities | **$ 2,598** | $ 1,725 | |
| Noncurrent liabilities | **6,387** | 6,818 | |
| Minority interest | **496** | 445 | |
| Total liabilities | **$ 9,481** | $ 8,988 | |
| Our investment | **$ 1,738** | $ 1,594 | |
| Net revenue | **$11,885** | $10,906 | $10,265 |
| Gross profit | **$ 5,632** | $ 5,250 | $ 5,050 |
| Operating profit | **$ 1,023** | $ 976 | $ 956 |
| Net income | **$ 466** | $ 457 | $ 416 |

Our investment in PBG, which includes the related goodwill, was $400 million and $321 million higher than our ownership interest in their net assets at year-end 2005 and 2004, respectively. Based upon the quoted closing price of PBG shares at year-end 2005 and 2004, the calculated market value of our shares in PBG, excluding our investment in Bottling Group, LLC, exceeded our investment balance by approximately $1.5 billion and $1.7 billion, respectively.

***PepsiAmericas***

At year-end 2005 and 2004, we owned approximately 43% and 41% of PepsiAmericas, respectively, and their summarized financial information is as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Current assets | **$ 598** | $ 530 | |
| Noncurrent assets | **3,456** | 3,000 | |
| Total assets | **$4,054** | $3,530 | |
| Current liabilities | **$ 722** | $ 521 | |
| Noncurrent liabilities | **1,763** | 1,386 | |
| Total liabilities | **$2,485** | $1,907 | |
| Our investment | **$ 968** | $ 924 | |
| Net revenue | **$3,726** | $3,345 | $3,237 |
| Gross profit | **$1,562** | $1,423 | $1,360 |
| Operating profit | **$ 393** | $ 340 | $ 316 |
| Net income | **$ 195** | $ 182 | $ 158 |

Our investment in PAS, which includes the related goodwill, was $292 million and $253 million higher than our ownership interest in their net assets at year-end 2005 and 2004, respectively. Based upon the quoted closing price of PAS shares at year-end 2005 and 2004, the calculated market value of our shares in PepsiAmericas exceeded our investment balance by approximately $364 million and $277 million, respectively.

In January 2005, PAS acquired a regional bottler, Central Investment Corporation. The table above includes the results of Central Investment Corporation from the transaction date forward.

***Related Party Transactions***

Our significant related party transactions involve our noncontrolled bottling affiliates. We sell concentrate to these affiliates, which is used in the production of carbonated soft drinks and non-carbonated beverages. We also sell certain finished goods to these affiliates and we receive royalties for the use of our trademarks for certain products. Sales of concentrate and finished goods are reported net of bottler funding. For further unaudited information on these bottlers, see " Our Customers" in Management's Discussion and Analysis. These transactions with our bottling affiliates are reflected in our consolidated financial statements as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Net revenue | **$4,633** | $4,170 | $3,699 |
| Selling, general and administrative expenses | **$ 143** | $ 114 | $ 128 |
| Accounts and notes receivable | **$ 178** | $ 157 | |
| Accounts payable and other current liabilities | **$ 117** | $ 95 | |

Such amounts are settled on terms consistent with other trade receivables and payables. See Note 9 regarding our guarantee of certain PBG debt.

In addition, we coordinate, on an aggregate basis, the negotiation and purchase of sweeteners and other raw materials requirements for certain of our bottlers with suppliers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, these transactions are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our bottlers, but we consider this exposure to be remote.

## Note 9 — Debt Obligations and Commitments

| | 2005 | 2004 |
|---|---|---|
| ***Short-term debt obligations*** | | |
| Current maturities of long-term debt | **$ 143** | $ 160 |
| Commercial paper (3.3% and 1.6%) | **3,140** | 1,287 |
| Other borrowings (7.4% and 6.6%) | **356** | 357 |
| Amounts reclassified to long-term debt | **(750)** | (750) |
| | **$2,889** | $1,054 |
| ***Long-term debt obligations*** | | |
| Short-term borrowings, reclassified | **$ 750** | $ 750 |
| Notes due 2006-2026 (5.4% and 4.7%) | **1,161** | 1,274 |
| Zero coupon notes, $475 million due 2006-2012 (13.4%) | **312** | 321 |
| Other, due 2006-2014 (6.3% and 6.2%) | **233** | 212 |
| | **2,456** | 2,557 |
| Less: current maturities of long-term debt obligations | **(143)** | (160) |
| | **$2,313** | $2,397 |

*The interest rates in the above table reflect weighted-average rates as of year-end.*

Short-term borrowings are reclassified to long-term when we have the intent and ability, through the existence of the unused lines of credit, to refinance these borrowings on a long-term basis. At year-end 2005, we maintained $2.1 billion in corporate lines of credit subject to normal banking terms and conditions. These credit facilities support short-term debt issuances and remained unused as of December 31, 2005. Of the $2.1 billion, $1.35 billion expires in May 2006 with the remaining $750 million expiring in June 2009.

In addition, $181 million of our debt was outstanding on various lines of credit maintained for our international divisions. These lines of credit are subject to normal banking terms and conditions and are committed to the extent of our borrowings.

***Interest Rate Swaps***

We entered into interest rate swaps in 2004 to effectively convert the interest rate of a specific debt issuance from a fixed rate of 3.2% to a variable rate. The variable weighted-average interest rate that we pay is linked to LIBOR and is subject to change. The notional amount of the interest rate swaps outstanding at December 31, 2005 and December 25, 2004 was $500 million. The terms of the interest rate swaps match the terms of the debt they modify. The swaps mature in 2007.

At December 31, 2005, approximately 78% of total debt, after the impact of the associated interest rate swaps, was exposed to variable interest rates, compared to 67% at December 25, 2004. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

***Cross Currency Interest Rate Swaps***

In 2004, we entered into a cross currency interest rate swap to hedge the currency exposure on U.S. dollar denominated debt of $50 million held by a foreign affiliate. The terms of this swap match the terms of the debt it modifies. The swap matures in 2008. The unrecognized gain related to this swap was less than $1 million at December 31, 2005, resulting in a U.S. dollar liability of $50 million. At December 25, 2004, the unrecognized loss related to this swap was $3 million, resulting in a U.S. dollar liability of $53 million. We have also entered into cross currency interest rate swaps to hedge the currency exposure on U.S. dollar denominated intercompany debt of $125 million. The terms of the swaps match the terms of the debt they modify. The swaps mature over the next two years. The net unrecognized gain related to these swaps was $5 million at December 31, 2005. The net unrecognized loss related to these swaps was less than $1 million at December 25, 2004.

***Long-Term Contractual Commitments***

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | 2006 | 2007 – 2008 | 2009 – 2010 | 2011 and beyond |
| Long-term debt obligations[(a)] | $2,313 | $ — | $1,052 | $ 876 | $ 385 |
| Operating leases | 769 | 187 | 253 | 132 | 197 |
| Purchasing commitments[(b)] | 4,533 | 1,169 | 1,630 | 775 | 959 |
| Marketing commitments | 1,487 | 412 | 438 | 381 | 256 |
| Other commitments | 99 | 82 | 10 | 6 | 1 |
| | $9,201 | $1,850 | $3,383 | $2,170 | $ 1,798 |

(a) Excludes current maturities of long-term debt of $143 million which are classified within current liabilities.

(b) Includes approximately $13 million of long-term commitments which are reflected in other liabilities in our Consolidated Balance Sheet.

*The above table reflects non-cancelable commitments as of December 31, 2005 based on year-end foreign exchange rates.*

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded in our Consolidated Balance Sheet. Non-cancelable operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for oranges and orange juices to be used for our Tropicana brand beverages. Non-cancelable marketing commitments primarily are for sports marketing and with our fountain customers. Bottler funding is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. See Note 7 regarding our pension and retiree medical obligations and discussion below regarding our commitments to noncontrolled bottling affiliates and former restaurant operations.

***Off-Balance Sheet Arrangements***

It is not our business practice to enter into off-balance sheet arrangements, other than in the normal course of business, nor is it our policy to issue guarantees to our bottlers, noncontrolled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. In connection with these transactions, we have guaranteed $2.3 billion of Bottling Group, LLC’s long-term debt through 2012 and $28 million of YUM! Brands, Inc. (YUM) outstanding obligations, primarily property leases, through 2020. The terms of our Bottling Group, LLC debt guarantee are intended to preserve the structure of PBG's separation from us and our payment obligation would be triggered if Bottling Group, LLC failed to perform under these debt obligations or the structure significantly changed. Our guarantees of certain obligations ensured YUM's continued use of certain properties. These guarantees would require our cash payment if YUM failed to perform under these lease obligations.

See " Our Liquidity, Capital Resources and Financial Position" in Management's Discussion and Analysis for further unaudited information on our borrowings.

**Note 10 — Risk Management**

We are exposed to the risk of loss arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange risks,
- interest rates,
- stock prices, and
- discount rates affecting the measurement of our pension and retiree medical liabilities.

In the normal course of business, we manage these risks through a variety of strategies, including 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. See " Our Business Risks" in Management's Discussion and Analysis for further unaudited information on our business risks.

For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. If the derivative instrument is terminated, we continue to defer the related gain or loss and include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss in net income in that period.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes and we limit our exposure to individual counterparties to manage credit risk.

### *Commodity Prices*

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivatives. We use derivatives, with terms of no more than two years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for natural gas and diesel fuel. For those derivatives that are designated as cash flow hedges, any ineffectiveness is recorded immediately. However, our commodity cash flow hedges have not had any significant ineffectiveness for all periods presented. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. During the next 12 months, we expect to reclassify gains of $24 million related to cash flow hedges from accumulated other comprehensive loss into net income.

### *Foreign Exchange*

Our operations outside of the U.S. generate over a third of our net revenue of which Mexico, the United Kingdom and Canada comprise nearly 20%. As a result, we are exposed to foreign currency risks from unforeseen economic changes and political unrest. On occasion, we enter into hedges, primarily forward contracts with terms of no more than two years, to reduce the effect of foreign exchange rates. Ineffectiveness on these hedges has not been material.

### *Interest Rates*

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. These swaps are entered into only with strong creditworthy counterparties, are settled on a net basis and are of relatively short duration.

### *Stock Prices*

The portion of our deferred compensation liability that is based on certain market indices and on our stock price is subject to market risk. We hold mutual fund investments and prepaid forward contracts to manage this risk. Changes in the fair value of these investments and contracts are recognized immediately in earnings and are offset by changes in the related compensation liability.

### *Fair Value*

All derivative instruments are recognized in our Consolidated Balance Sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices. Book and fair values of our derivative and financial instruments are as follows:

| | **2005** | | 2004 | |
|---|---|---|---|---|
| | **Book Value** | **Fair Value** | Book Value | Fair Value |
| ***Assets*** | | | | |
| Cash and cash equivalents[a] | **$ 1,716** | **$ 1,716** | $ 1,280 | $ 1,280 |
| Short-term investments [b] | **$ 3,166** | **$ 3,166** | $ 2,165 | $ 2,165 |
| Forward exchange contracts [c] | **$ 19** | **$ 19** | $ 8 | $ 8 |
| Commodity contracts [d] | **$ 41** | **$ 41** | $ 7 | $ 7 |
| Prepaid forward contracts [e] | **$ 107** | **$ 107** | $ 120 | $ 120 |
| Cross currency interest rate swaps [f] | **$ 6** | **$ 6** | — | — |
| ***Liabilities*** | | | | |
| Forward exchange contracts [c] | **$ 15** | **$ 15** | $ 35 | $ 35 |
| Commodity contracts [d] | **$ 3** | **$ 3** | $ 8 | $ 8 |
| Debt obligations | **$ 5,202** | **$ 5,378** | $ 3,451 | $ 3,676 |
| Interest rate swaps [g] | **$ 9** | **$ 9** | $ 1 | $ 1 |
| Cross currency interest rate swaps [f] | **$ —** | **$ —** | $ 3 | $ 3 |

Included in our Consolidated Balance Sheet under the captions noted above or as indicated below. In addition, derivatives are designated as accounting hedges unless otherwise noted below.

(a) Book value approximates fair value due to the short maturity.

(b) Principally short-term time deposits and includes $124 million at December 31, 2005 and $118 million at December 25, 2004 of mutual fund investments used to manage a portion of market risk arising from our deferred compensation liability.

(c) 2005 asset includes $14 million related to derivatives not designated as accounting hedges. Assets are reported within current assets and other assets and liabilities are reported within current liabilities and other liabilities.

(d) 2005 asset includes $2 million related to derivatives not designated as accounting hedges and the liability relates entirely to derivatives not designated as accounting hedges. Assets are reported within current assets and other assets and liabilities are reported within current liabilities and other liabilities.

(e) Included in current assets and other assets.

(f) Asset included within other assets and liability included in long-term debt.

(g) Reported in other liabilities.

This table excludes guarantees, including our guarantee of $2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of $47 million at December 31, 2005 and $46 million at December 25, 2004 based on an external estimate of the cost to us of transferring the liability to an independent financial institution. See Note 9 for additional information on our guarantees.

### Note 11 — Net Income per Common Share from Continuing Operations

Basic net income per common share is net income available to common shareholders divided by the weighted average of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted average of common shares outstanding adjusted to include the effect that would occur if in-the-money employee stock options were exercised and RSUs and preferred shares were converted into common shares. Options to purchase 3.0 million shares in 2005, 7.0 million shares in 2004 and 49.0 million shares in 2003 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. Out-of-the-money options had average exercise prices of $53.77 in 2005, $52.88 in 2004 and $48.27 in 2003.

The computations of basic and diluted net income per common share from continuing operations are as follows:

| | **2005** | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Income** | **Shares[a]** | Income | Shares[a] | Income | Shares[a] |
| Net income | **$ 4,078** | | $ 4,174 | | $ 3,568 | |
| Preferred shares: | | | | | | |
| Dividends | **(2)** | | (3) | | (3) | |
| Redemption premium | **(16)** | | (22) | | (12) | |
| Net income available for common shareholders | **$ 4,060** | **1,669** | $ 4,149 | 1,696 | $ 3,553 | 1,718 |
| Basic net income per common share | **$ 2.43** | | $ 2.45 | | $ 2.07 | |
| Net income available for common shareholders | **$ 4,060** | **1,669** | $ 4,149 | 1,696 | $ 3,553 | 1,718 |
| Dilutive securities: | | | | | | |
| Stock options and RSUs | **—** | **35** | — | 31 | — | 17 |
| ESOP convertible preferred stock | **18** | **2** | 24 | 2 | 15 | 3 |
| Unvested stock awards | **—** | **—** | — | — | — | 1 |
| Diluted | **$ 4,078** | **1,706** | $ 4,173 | 1,729 | $ 3,568 | 1,739 |
| Diluted net income per common share | **$ 2.39** | | $ 2.41 | | $ 2.05 | |

(a) Weighted-average common shares outstanding.

**Note 12 — Preferred and Common Stock**

As of December 31, 2005 and December 25, 2004, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized. The preferred stock was issued only for an employee stock ownership plan (ESOP) established by Quaker and these shares are redeemable for common stock by the ESOP participants. The preferred stock accrues dividends at an annual rate of $5.46 per share. At year-end 2005 and 2004, there were 803,953 preferred shares issued and 354,853 and 424,853 shares outstanding, respectively. Each share is convertible at the option of the holder into 4.9625 shares of common stock. The preferred shares may be called by us upon written notice at $78 per share plus accrued and unpaid dividends.

Table of Contents

As of December 31, 2005, 0.3 million outstanding shares of preferred stock with a fair value of $104 million and 17 million shares of common stock were held in the accounts of ESOP participants. As of December 25, 2004, 0.4 million outstanding shares of preferred stock with a fair value of $110 million and 18 million shares of common stock were held in the accounts of ESOP participants. Quaker made the final award to its ESOP plan in June 2001.

| | **2005** | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| ***Preferred stock*** | **0.8** | **$ 41** | 0.8 | $ 41 | 0.8 | $ 41 |
| ***Repurchased preferred stock*** | | | | | | |
| Balance, beginning of year | **0.4** | **$ 90** | 0.3 | $ 63 | 0.2 | $ 48 |
| Redemptions | **0.1** | **19** | 0.1 | 27 | 0.1 | 15 |
| Balance, end of year | **0.5** | **$ 110*** | 0.4 | $ 90 | 0.3 | $ 63 |

* *Does not sum due to rounding.*

**Note 13 — Accumulated Other Comprehensive Loss**

Comprehensive income is a measure of income which includes both net income and other comprehensive income or loss. Other comprehensive loss results from items deferred on the balance sheet in shareholders' equity. Other comprehensive (loss)/income was $(167) million in 2005, $381 million in 2004, and $405 million in 2003. The accumulated balances for each component of other comprehensive loss were as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Currency translation adjustment | **$ (971)** | $(720) | $(1,121) |
| Cash flow hedges, net of tax (a) | **27** | (19) | (12) |
| Minimum pension liability adjustment (b) | **(138)** | (154) | (135) |
| Unrealized gain on securities, net of tax | **31** | 7 | 1 |
| Other | **(2)** | — | — |
| Accumulated other comprehensive loss | **$(1,053)** | $(886) | $(1,267) |

(a) Includes net commodity gains of $55 million in 2005. Also includes no impact in 2005, $6 million gain in 2004 and $8 million gain in 2003 for our share of our equity investees' accumulated derivative activity. Deferred gains/(losses) reclassified into earnings were $8 million in 2005, $(10) million in 2004 and no impact in 2003.

(b) Net of taxes of $72 million in 2005, $77 million in 2004 and $67 million in 2003. Also, includes $120 million in 2005, $121 million in 2004 and $110 million in 2003 for our share of our equity investees' minimum pension liability adjustments.

Table of Contents

**Note 14 — Supplemental Financial Information**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| ***Accounts receivable*** | | | |
| Trade receivables | **$ 2,718** | $2,505 | |
| Other receivables | **618** | 591 | |
| | **3,336** | 3,096 | |
| Allowance, beginning of year | **97** | 105 | $ 116 |
| Net amounts (credited)/charged to expense | **(1)** | 18 | 32 |
| Deductions [a] | **(22)** | (25) | (43) |
| Other [b] | **1** | (1) | — |
| Allowance, end of year | **75** | 97 | $ 105 |
| Net receivables | **$ 3,261** | $2,999 | |
| ***Inventory*** [c] | | | |
| Raw materials | **$ 738** | $ 665 | |
| Work-in-process | **112** | 156 | |
| Finished goods | **843** | 720 | |
| | **$ 1,693** | $1,541 | |
| ***Accounts payable and other current liabilities*** | | | |
| Accounts payable | **$ 1,799** | $1,731 | |
| Accrued marketplace spending | **1,383** | 1,285 | |
| Accrued compensation and benefits | **1,062** | 961 | |
| Dividends payable | **431** | 387 | |
| Insurance accruals | **136** | 131 | |
| Other current liabilities | **1,160** | 1,104 | |
| | **$ 5,971** | $5,599 | |
| ***Other liabilities*** | | | |
| Reserves for income taxes | **$ 1,884** | $1,567 | |
| Other | **2,439** | 2,532 | |
| | **$ 4,323** | $4,099 | |
| ***Other supplemental information*** | | | |
| Rent expense | **$ 228** | $ 245 | $ 231 |
| Interest paid | **$ 213** | $ 137 | $ 147 |
| Income taxes paid, net of refunds | **$ 1,258** | $1,833 | $1,530 |
| Acquisitions[d] | | | |
| Fair value of assets acquired | **$ 1,089** | $ 78 | $ 178 |
| Cash paid and debt issued | **(1,096)** | (64) | (71) |
| SVE minority interest eliminated | **216** | — | — |
| Liabilities assumed | **$ 209** | $ 14 | $ 107 |

(a) Includes accounts written off.

(b) Includes collections of previously written-off accounts and currency translation effects.

(c) Inventories are valued at the lower of cost or market. Cost is determined using the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. Approximately 17% in 2005 and 15% in 2004 of the inventory cost was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories were not material.

(d) In 2005, these amounts include the impact of our acquisition of General Mills, Inc.'s 40.5% ownership interest in SVE for $750 million. The excess of our purchase price over the fair value of net assets acquired is $250 million and is included in Goodwill. We also reacquired rights to distribute global brands for $263 million which is included in Other nonamortizable intangible assets.

## Management's Responsibility for Financial Reporting

To Our Shareholders:

At PepsiCo, our actions – the actions of all our associates – are governed by our Worldwide Code of Conduct. This code is clearly aligned with our stated values – a commitment to sustained growth, through empowered people, operating with responsibility and building trust. Both the code and our core values enable us to operate with integrity – both within the letter and the spirit of the law. Our code of conduct is reinforced consistently at all levels and in all countries. We have maintained strong governance policies and practices for many years.

The management of PepsiCo is responsible for the objectivity and integrity of our consolidated financial statements. The Audit Committee of the Board of Directors has engaged independent registered public accounting firm, KPMG LLP, to audit our consolidated financial statements and they have expressed an unqualified opinion.

We are committed to providing timely, accurate and understandable information to investors. Our commitment encompasses the following:

**Maintaining strong controls over financial reporting.** Our system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, *Internal Control – Integrated Framework*. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the U.S. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified time periods. We monitor these internal controls through self-assessments and an ongoing program of internal audits. Our internal controls are reinforced through our Worldwide Code of Conduct, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law.

**Exerting rigorous oversight of the business.** We continuously review our business results and strategies. This encompasses financial discipline in our strategic and daily business decisions. Our Executive Committee is actively involved – from understanding strategies and alternatives to reviewing key initiatives and financial performance. The intent is to ensure we remain objective in our assessments, constructively challenge our approach to potential business opportunities and issues, and monitor results and controls.

**Engaging strong and effective Corporate Governance from our Board of Directors.** We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight as a representative of our shareholders. Our Audit Committee comprises independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. We review our critical accounting policies, financial reporting and internal control matters with them and encourage their direct communication with KPMG LLP, with our General Auditor, and with our General Counsel. In 2005, we named a senior compliance officer to lead and coordinate our compliance policies and practices.

**Providing investors with financial results that are complete, transparent and understandable.** The consolidated financial statements and financial information included in this report are the responsibility of management. This includes preparing the financial statements in accordance with accounting principles generally accepted in the U.S., which require estimates based on management's best judgment.

**PepsiCo has a strong history of doing what's right.** We realize that great companies are built on trust, strong ethical standards and principles. Our financial results are delivered from that culture of accountability, and we take responsibility for the quality and accuracy of our financial reporting.

/S/ PETER A. BRIDGMAN
Peter A. Bridgman
Senior Vice President and Controller

/S/ INDRA K. NOOYI
Indra K. Nooyi
President and Chief Financial Officer

/S/ STEVEN S REINEMUND
Steven S Reinemund
Chairman of the Board and Chief Executive Officer

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 31, 2005 and December 25, 2004 and the related Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 31, 2005. We have also audited management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that PepsiCo, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). PepsiCo, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements, an opinion on management's assessment, and an opinion on the effectiveness of PepsiCo, Inc.'s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 31, 2005 and December 25, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with United States generally accepted accounting principles. Also, in our opinion, management's assessment that PepsiCo, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by COSO. Furthermore, in our opinion, PepsiCo, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

/s/ KPMG LLP
New York, New York
February 24, 2006

Table of Contents

**Selected Financial Data**
(in millions except per share amounts, unaudited)

| **Quarterly** | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| ***Net revenue*** | | | | |
| 2005 | $ 6,585 | $ 7,697 | $ 8,184 | $10,096 |
| 2004 | $ 6,131 | $ 7,070 | $ 7,257 | $ 8,803 |
| ***Gross profit*** [(a)] | | | | |
| 2005 | $ 3,715 | $ 4,383 | $ 4,669 | $ 5,619 |
| 2004 | $ 3,466 | $ 4,039 | $ 4,139 | $ 4,943 |
| **2005 restructuring charges** [(b)] | | | | |
| 2005 | — | — | — | $ 83 |
| ***2004 restructuring and impairment charges*** [(c)] | | | | |
| 2004 | — | — | — | $ 150 |
| ***AJCA tax charge*** [(d)] | | | | |
| 2005 | — | — | $ 468 | $ (8) |
| ***Net income*** [(e)] | | | | |
| 2005 | $ 912 | $ 1,194 | $ 864 | $ 1,108 |
| 2004 | $ 804 | $ 1,059 | $ 1,364 | $ 985 |
| ***Net income per common share – basic*** [(e)] | | | | |
| 2005 | $ 0.54 | $ 0.71 | $ 0.52 | $ 0.66 |
| 2004 | $ 0.47 | $ 0.62 | $ 0.80 | $ 0.58 |
| ***Net income per common share – diluted*** [(e)] | | | | |
| 2005 | $ 0.53 | $ 0.70 | $ 0.51 | $ 0.65 |
| 2004 | $ 0.46 | $ 0.61 | $ 0.79 | $ 0.58 |
| ***Cash dividends declared per common share*** | | | | |
| 2005 | $ 0.23 | $ 0.26 | $ 0.26 | $ 0.26 |
| 2004 | $ 0.16 | $ 0.23 | $ 0.23 | $ 0.23 |
| ***2005 stock price per share*** [(f)] | | | | |
| High | $ 55.71 | $ 57.20 | $ 56.73 | $ 60.34 |
| Low | $ 51.34 | $ 51.78 | $ 52.07 | $ 53.55 |
| Close | $ 52.62 | $ 55.52 | $ 54.65 | $ 59.08 |
| ***2004 stock price per share*** [(f)] | | | | |
| High | $ 53.00 | $ 55.48 | $ 55.71 | $ 53.00 |
| Low | $ 45.30 | $ 50.28 | $ 48.41 | $ 47.37 |
| Close | $ 50.93 | $ 54.95 | $ 50.84 | $ 51.94 |

*The first, second, and third quarters consist of 12 weeks and the fourth quarter consists of 16 weeks in 2004 and 17 weeks in 2005.*

(a) Reflects net reclassifications in all periods from cost of sales to selling, general and administrative expenses related to the alignment of certain accounting policies in connection with our ongoing BPT initiative. See Note 1.

(b) The 2005 restructuring charges were $83 million ($55 million or $0.03 per share after-tax). See Note 3.

(c) The 2004 restructuring and impairment charges were $150 million ($96 million or $0.06 per share after-tax). See Note 3.

(d) Represents income tax expense associated with the repatriation of earnings in connection with the AJCA. See Note 5.

(e) Fourth quarter 2004 net income reflects a tax benefit from discontinued operations of $38 million or $0.02 per share. See Note 5.

(f) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo common stock.

Table of Contents

**Five–Year Summary**

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Net revenue | **$32,562** | $29,261 | $26,971 |
| Income from continuing operations | **$ 4,078** | $ 4,174 | $ 3,568 |
| Net income | **$ 4,078** | $ 4,212 | $ 3,568 |
| Income per common share – basic, continuing operations | **$ 2.43** | $ 2.45 | $ 2.07 |
| Income per common share – diluted, continuing operations | **$ 2.39** | $ 2.41 | $ 2.05 |
| Cash dividends declared per common share | **$ 1.01** | $ 0.850 | $ 0.630 |
| Total assets | **$31,727** | $27,987 | $25,327 |
| Long-term debt | **$ 2,313** | $ 2,397 | $ 1,702 |
| Return on invested capital[(a)] | **22.7%** | 27.4% | 27.5% |

| | 2002 | 2001 |
|---|---|---|
| Net revenue | $25,112 | $23,512 |
| Net income | $ 3,000 | $ 2,400 |
| Income per common share – basic | $ 1.69 | $ 1.35 |
| Income per common share – diluted | $ 1.68 | $ 1.33 |
| Cash dividends declared per common share | $ 0.595 | $ 0.575 |
| Total assets | $23,474 | $21,695 |
| Long-term debt | $ 2,187 | $ 2,651 |
| Return on invested capital[(a)] | 25.7% | 22.1% |

(a) Return on invested capital is defined as adjusted net income divided by the sum of average shareholders' equity and average total debt. Adjusted net income is defined as net income plus net interest expense after tax. Net interest expense after tax was $62 million in 2005, $60 million in 2004, $72 million in 2003, $93 million in 2002, and $99 million in 2001.

- As a result of the adoption of SFAS 142, *Goodwill and Other Intangible Assets*, and the consolidation of SVE in 2002, the data provided above is not comparable.
- Includes restructuring and impairment charges of:

| | **2005** | 2004 | 2003 | 2001 |
|---|---|---|---|---|
| Pre-tax | **$ 83** | $ 150 | $ 147 | $ 31 |
| After-tax | **$ 55** | $ 96 | $ 100 | $ 19 |
| Per share | **$0.03** | $0.06 | $0.06 | $0.01 |

- Includes Quaker merger-related costs of:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Pre-tax | $ 59 | $ 224 | $ 356 |
| After-tax | $ 42 | $ 190 | $ 322 |
| Per share | $0.02 | $0.11 | $0.18 |

- The 2005 fiscal year consisted of fifty-three weeks compared to fifty-two weeks in our normal fiscal year. The 53rd week increased 2005 net revenue by an estimated $418 million and net income by an estimated $57 million (or $0.03 per share).
- Cash dividends per common share in 2001 are those of pre-merger PepsiCo prior to the effective date of the merger.
- In the fourth quarter of 2004, we reached agreement with the IRS for an open issue related to our discontinued restaurant operations which resulted in a tax benefit of $38 million or $0.02 per share.

## GLOSSARY

**Anchor bottlers**: The Pepsi Bottling Group (PBG), PepsiAmericas, Inc. (PAS) and Pepsi Bottling Ventures (PBV).

**Bottler**: customers who we have granted exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographical area.

**Bottler funding**: financial incentives we give to our bottlers to assist in the distribution and promotion of our beverage products.

**Business Process Transformation (BPT)**: our comprehensive multi-year effort to drive efficiencies. It includes efforts to physically consolidate, or integrate, key business functions to take advantage of our scale. It also includes moving to a common set of processes that underlie our key activities, and supporting them with common technology application. And finally, it includes our SAP installation, the computer system that will link all of our systems and processes.

**Concentrate Shipments and Equivalents (CSE)**: measure of our physical beverage volume to our customers. This measure is reported on our fiscal year basis.

**Consumers**: people who eat and drink our products.

**Customers**: franchise bottlers and independent distributors and retailers.

**CSD**: carbonated soft drinks.

**Derivatives**: financial instruments that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates and stock prices.

**Direct-Store-Delivery (DSD)**: delivery system used by us and our bottlers to deliver snacks and beverages directly to retail stores where our products are merchandised.

**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.

**Management operating cash flow**: net cash provided by operating activities less capital spending plus sales of property, plant and equipment. It is our primary measure used to monitor cash flow performance.

**Marketplace spending**: sales incentives offered through various programs to our customers and consumers, as well as advertising and other marketing activities.

**Servings**: common metric reflecting our consolidated physical unit volume. Our divisions' physical unit measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

**Smart Spot**: our initiative that helps consumers find our products that can contribute to healthier lifestyles.

**Transaction gains and losses**: the impact on our consolidated financial statements of exchange rate changes arising from specific transactions.

**Translation adjustments**: the impact of the conversion of our foreign affiliates' financial statements to U.S. dollars for the purpose of consolidating our financial statements.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Included in Item 7. Management's Discussion and Analysis – Our Business Risks.

## Item 8. Financial Statements and Supplementary Data

See Item 15. Exhibits and Financial Statement Schedules.

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

## Item 9A. Controls and Procedures

***Disclosure Controls and Procedures.*** As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to information required to be included in our submissions and filings with the SEC.

***Management's Report on Internal Control over Financial Reporting.*** Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2005.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, (1) on our management's assessment of the effectiveness of our internal controls over financial reporting and (2) on the effectiveness of our internal control over financial reporting.

***Changes in Internal Control over Financial Reporting.*** There were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during our fourth fiscal quarter of 2005.

## Item 9B. Other Information

Not applicable.

# PART III

## Item 10. Directors and Executive Officers of the Registrant

The name, age and background of each of our directors nominated for election are contained under the caption "Election of Directors" in our Proxy Statement for our 2006 Annual Meeting of Shareholders and are incorporated herein by reference. Pursuant to Item 401(b) of Regulation S-K, our executive officers are reported under the caption " Our Executive Officers" in Part I of this report.

Information on the beneficial ownership reporting for our directors and executive officers is contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our 2006 Annual Meeting of Shareholders and is incorporated herein by reference.

Information on our audit committee financial experts is contained in our Proxy Statement for our 2006 Annual Meeting of Shareholders under the caption "Corporate Governance at PepsiCo" and is incorporated herein by reference.

We have a written code of conduct that applies to all of our employees, including our directors, Chief Executive Officer, Chief Financial Officer and Controller. Our Worldwide Code of Conduct was distributed to all employees, is available on our website at http://www.pepsico.com and is included as Exhibit 14 to our 2003 Annual Report on Form 10-K. A copy of our Worldwide Code of Conduct may be obtained free of charge by writing to Investor Relations, 700 Anderson Hill Road, Purchase, New York 10577.

Our business and affairs are overseen by our Board of Directors pursuant to the North Carolina Business Corporation Act and our By-Laws. The Board of Directors has three standing committees: Audit, Compensation and Nominating and Corporate Governance. The charters of these committees are available free of charge on our website at http://www.pepsico.com. The names of each of our Audit Committee members are contained in our Proxy Statement for our 2006 Annual Meeting of Shareholders under the caption "The Audit Committee" and are incorporated herein by reference.

## Item 11. Executive Compensation

Information on compensation of our directors and executive officers is contained in our Proxy Statement for our 2006 Annual Meeting of Shareholders under the captions "Directors' Compensation" and "Executive Compensation," respectively, and is incorporated herein by reference.

Table of Contents

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of December 31, 2005 with respect to the shares of PepsiCo Common Stock that may be issued under our equity compensation plans.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | **(a)** | **(b)** | **(c)** |
| **Equity compensation plans approved by security holders** (2) | **104,581,274**(3) | **$ 42.77**(6) | **51,357,897**(1) |
| **Equity compensation plans not approved by security holders** (4) | **48,642,912** | **$ 41.63**(6) | **—** |
| **Total** (5) | **153,224,186** | **$ 42.39**(6) | **51,357,897** |

(1) As of May 7, 2003, the shareholder-approved 2003 Long-Term Incentive Plan (the "2003 LTIP") superseded all of our other equity compensation plans and is the only equity compensation plan under which future awards are permitted. All of our other equity compensation plans were terminated on May 7, 2003. The 2003 LTIP permits the award of stock options, stock appreciation rights, restricted shares, and restricted stock and/or performance units, which may be settled in shares of PepsiCo Common Stock. As approved by shareholders, the 2003 LTIP authorizes a number of shares for issuance equal to 70,000,000 plus the number of shares underlying awards issued under the Company's other equity compensation plans which are canceled or expire after May 7, 2003; provided, however, that the number of shares authorized under the 2003 LTIP will not exceed 85,000,000.

(2) Includes the 2003 LTIP, the 1994 Long-Term Incentive Plan, and the 1987 Incentive Plan.

(3) This amount includes 5,669,113 restricted stock units that, if and when vested, will be settled in shares of PepsiCo Common Stock.

(4) Includes the 1995 Stock Option Incentive Plan, the SharePower Stock Option Plan, and the Director Stock Plan, each of which is described below.

(5) The table does not include information for equity compensation plans assumed by PepsiCo in connection with PepsiCo's merger with The Quaker Oats Company. Those plans include the Quaker Long Term Incentive Plan of 1990, the Quaker Long Term Incentive Plan of 1999 and the Quaker Stock Compensation Plan for Outside Directors (collectively, the "Quaker Plans"). As of December 31, 2005, a total of 2,593,962 shares of PepsiCo Common Stock were issuable upon the exercise of outstanding options which were granted under the Quaker Plans prior to the merger with PepsiCo. The weighted-average exercise price of those options is $23.26 per share. An additional 50,136 shares of PepsiCo Common Stock which are related to awards issued under the Quaker Plans prior to the merger have been deferred and will be issued in the future. No additional options or shares may be granted under the Quaker Plans.

(6) For options only.

***1995 Stock Option Incentive Plan ("SOIP").*** The SOIP was adopted by the Board of Directors on July 27, 1995. Under the SOIP, stock options were granted to middle management employees generally based on a multiple of base salary. SOIP options were granted with an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant. SOIP options generally become exercisable at the end of three years and have a ten-year term. At year-end 2005, options covering 20,919,909 shares of PepsiCo Common Stock were outstanding under the SOIP. As of May 7, 2003 the SOIP was terminated. The SOIP is included as Exhibit 10.14 in our 2002 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2003.

***SharePower Stock Option Plan.*** SharePower was adopted by the Board of Directors on July 1, 1989. Under SharePower, options were generally granted each year to virtually all of our full-time employees based on a formula tied to annual earnings and tenure. Each year, the Board of Directors authorized the number of shares required to grant options under the SharePower formula. SharePower options were granted with an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant. SharePower options generally become exercisable after three years and have a ten-year term. At year-end 2005, options covering 27,242,216 shares of PepsiCo Common Stock were outstanding under SharePower. As of May 7, 2003, the SharePower plan was terminated and superseded by the 2003 LTIP, from which all future SharePower awards will be made. The SharePower plan is included as Exhibit 10.13 in our 2002 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2003.

***Director Stock Plan.*** The Director Stock Plan was adopted by the disinterested members of the Board of Directors on July 28, 1988. Under the Director Stock Plan, stock options were granted and shares of PepsiCo Common Stock were issued to non-employee directors. Options granted under the plan were immediately exercisable and have a ten-year term. As of year-end 2005, options covering 480,787 shares of PepsiCo Common Stock with exercise prices ranging from $30.125 to $51.50 were outstanding under the Director Stock Plan. The Director Stock Plan is included in Post-Effective Amendment No. 6 to the Form S-8 related to such plan, filed with the Securities and Exchange Commission on September 4, 2002. As of May 7, 2003, the Director Stock Plan was terminated and superseded by the 2003 LTIP, from which all future Director stock options will be granted.

Information on the number of shares of PepsiCo Common Stock beneficially owned by each director and by all directors and officers as a group is contained under the caption “Ownership of PepsiCo Common Stock by Directors and Executive Officers” in our Proxy Statement for our 2006 Annual Meeting of Shareholders and is incorporated herein by reference. As far as we know, no person beneficially owns more than 5% of the outstanding shares of PepsiCo Common or Convertible Preferred Stock.

**Item 13. Certain Relationships and Related Transactions**

Not applicable.

**Item 14. Principal Accountant Fees and Services**

Information on our audit committee’s pre-approval policy for audit services, and information on our principal accountant fees and services is contained in our Proxy Statement for our 2006 Annual Meeting of Shareholders under the captions “Audit Committee Report” and “Audit and Non-Audit Fees,” and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a)1. and 2. Financial Statements

The following consolidated financial statements of PepsiCo, Inc. and its affiliates are included herein by reference to the pages indicated on the index appearing in Item 7. Management's Discussion and Analysis:

Consolidated Statement of Income – Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003,

Consolidated Statement of Cash Flows – Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003,

Consolidated Balance Sheet – December 31, 2005 and December 25, 2004,

Consolidated Statement of Common Shareholders' Equity – Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003,

Notes to the Consolidated Financial Statements, and

Report of Independent Registered Public Accounting Firm.

3. Exhibits

See Index to Exhibits.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, PepsiCo has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 27, 2006

PepsiCo, Inc.

By: /s/ Steven S Reinemund

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of PepsiCo and in the capacities and on the date indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ Steven S Reinemund<br>Steven S Reinemund | Chairman of the Board and<br>Chief Executive Officer | February 27, 2006 |
| /s/ Indra K. Nooyi<br>Indra K. Nooyi | President and<br>Chief Financial Officer | February 27, 2006 |
| /s/ Peter A. Bridgman<br>Peter A. Bridgman | Senior Vice President and Controller<br>(Principal Accounting Officer) | February 27, 2006 |
| /s/ John F. Akers<br>John F. Akers | Director | February 27, 2006 |
| /s/ Robert E. Allen<br>Robert E. Allen | Director | February 27, 2006 |

Table of Contents

| | | |
|---|---|---|
| /s/ Dina Dublon | Director | February 27, 2006 |
| Dina Dublon | | |
| /s/ Victor J. Dzau | Director | February 27, 2006 |
| Victor J. Dzau, M. D. | | |
| /s/ Ray L. Hunt | Director | February 27, 2006 |
| Ray L. Hunt | | |
| /s/ Alberto Ibargüen | Director | February 27, 2006 |
| Alberto Ibargüen | | |
| /s/ Arthur C. Martinez | Director | February 27, 2006 |
| Arthur C. Martinez | | |
| /s/ Sharon Percy Rockefeller | Director | February 27, 2006 |
| Sharon Percy Rockefeller | | |
| /s/ James J. Schiro | Director | February 27, 2006 |
| James J. Schiro | | |
| /s/ Franklin A. Thomas | Director | February 27, 2006 |
| Franklin A. Thomas | | |
| /s/ Cynthia M. Trudell | Director | February 27, 2006 |
| Cynthia M. Trudell | | |
| /s/ Daniel Vasella | Director | February 27, 2006 |
| Daniel Vasella | | |

Table of Contents

## INDEX TO EXHIBITS
## ITEM 15(a)(3)

The following is a list of the exhibits filed as part of this Form 10-K. The documents incorporated by reference are located in the Securities and Exchange Commission's Public Reference Room in Washington, D.C. in the Securities and Exchange Commission's file no. 1-1183.

| EXHIBIT | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of PepsiCo, Inc., which are incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Registration Statement on Form S-8 (Registration No. 333-66632). |
| 3.2 | By-laws of PepsiCo, Inc., as amended on October 1, 2005 which are incorporated herein by reference to Exhibit 3.2 of PepsiCo's Quarterly Report on Form 10-Q for the fiscal quarter ended September 3, 2005. |
| 4 | PepsiCo, Inc. agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument defining the rights of holders of long-term debt of PepsiCo, Inc. and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Securities and Exchange Commission. |
| 10.1 | Description of PepsiCo, Inc. 1988 Director Stock Plan, which is incorporated herein by reference to Post-Effective Amendment No. 6 to PepsiCo's Registration Statement on Form S-8 (Registration No. 33-22970).* |
| 10.2 | PepsiCo, Inc. 1987 Incentive Plan (the "1987 Plan"), as amended and restated, effective as of October 1, 1999, which is incorporated herein by reference to Exhibit 10.2 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.* |
| 10.3 | PepsiCo, Inc. 1994 Long-Term Incentive Plan, as amended and restated, effective as of October 1, 1999, which is incorporated herein by reference to Exhibit 10.6 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.* |
| 10.4 | PepsiCo, Inc. Executive Incentive Compensation Plan, which is incorporated herein by reference to Exhibit B to PepsiCo's Proxy Statement for its 1994 Annual Meeting of Shareholders.* |
| 10.5 | Amended and Restated PepsiCo Executive Income Deferral Program which is incorporated herein by reference to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.* |
| 10.6 | Restated PepsiCo Pension Equalization Plan, which is incorporated herein by reference to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.* |

Table of Contents

| | |
|---|---|
| 10.7 | PepsiCo SharePower Stock Option Plan (as amended and restated, effective August 3, 2001), which is incorporated herein by reference to PepsiCo's Registration Statement on Form S-8 (Registration No. 333-109513).* |
| 10.8 | PepsiCo, Inc. 1995 Stock Option Incentive Plan (as amended and restated, effective August 2, 2001), which is incorporated herein by reference to PepsiCo's Registration Statement on Form S-8 (Registration No. 333-109514).* |
| 10.9 | The Quaker Long Term Incentive Plan of 1990, which is incorporated herein by reference to PepsiCo's Registration Statement on Form S-8 (Registration No. 333-66632).* |
| 10.10 | The Quaker Long Term Incentive Plan of 1999, which is incorporated herein by reference to PepsiCo's Registration Statement on Form S-8 (Registration No. 333-66632).* |
| 10.11 | PepsiCo, Inc. 2003 Long-Term Incentive Plan which is incorporated herein by reference to PepsiCo's Form S-8 (Registration Statement No. 333-109509) filed with the Securities and Exchange Commission on October 6, 2003.* |
| 10.12 | Agreement between PepsiCo, Inc. and Abelardo E. Bru dated September 3, 2004, which is incorporated herein by reference to Exhibit 10 to PepsiCo's Quarterly Report on Form 10-Q for the fiscal quarter ended September 4, 2004.* |
| 10.13 | 2004 Executive Incentive Compensation Plan, which is incorporated herein by reference to Exhibit D to PepsiCo's Proxy Statement for its 2004 Annual Meeting of Shareholders.* |
| 10.14 | Form of Regular Performance-Based Long-Term Incentive Award Agreement, which is incorporated herein by reference to Exhibit 99.1 to PepsiCo's Current Report on Form 8-K dated as of January 28, 2005.* |
| 10.15 | Form of Regular Long-Term Incentive Award, which is incorporated herein by reference to Exhibit 99.2 to PepsiCo's Current Report on Form 8-K dated as of January 28, 2005.* |
| 10.16 | Form of Special Long-Term Incentive Award (Restricted Stock Units Terms and Conditions), which is incorporated herein by reference to Exhibit 99.3 to PepsiCo's Current Report on Form 8-K dated as of January 28, 2005.* |
| 10.17 | Form of Special Long-Term Incentive Award (Stock Option Agreement), which is incorporated herein by reference to Exhibit 99.4 to PepsiCo's Current Report on Form 8-K dated as of January 28, 2005.* |

| | |
|---|---|
| 10.18 | Form of Non-Employee Director Restricted Stock Unit Agreement, which is incorporated herein by reference to Exhibit 99.5 to PepsiCo's Current Report on Form 8-K dated as of January 28, 2005.* |
| 10.19 | Form of Non-Employee Director Stock Option Agreement, which is incorporated herein by reference to Exhibit 99.6 to PepsiCo's Current Report on Form 8-K dated as of January 28, 2005.* |
| 10.20 | Form of PepsiCo, Inc. Director Indemnification Agreement, which is incorporated herein by reference to Exhibit 10.20 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 25, 2004.* |
| 10.21 | Severance Plan for Executive Employees of PepsiCo, Inc. and Affiliates, which is incorporated herein by reference to Exhibit 10.21 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 25, 2004. * |
| 10.22 | Agreement between PepsiCo, Inc. and Gary M. Rodkin effective April 8, 2005, which is incorporated herein by reference to Exhibit 10 to PepsiCo's Quarterly Report on Form 10-Q for the fiscal quarter ended June 11, 2005. |
| 10.23 | PepsiCo, Inc. 2003 Long-Term Incentive Plan (as amended as of October 1, 2005), which is incorporated herein by reference to Exhibit 10 to PepsiCo's Quarterly Report on Form 10-Q for the fiscal quarter ended September 3, 2005.* |
| 10.24 | Form of Annual Long-Term Incentive Award Agreement, which is incorporated by reference to Exhibit 99.1 to PepsiCo's Current Report on Form 8-K dated as of February 2, 2006.* |
| 10.25 | Form of Performance-Based Long-Term Incentive Award Agreement, which is incorporated herein by reference to Exhibit 99.2 to PepsiCo's Current Report on Form 8-K dated as of February 2, 2006.* |
| 10.26 | Form of Pro Rata Long-Term Incentive Award Agreement, which is incorporated herein by reference to Exhibit 99.3 to PepsiCo's Current Report on Form 8-K dated as of February 2, 2006.* |
| 10.27 | Form of Stock Option Retention Award Agreement, which is incorporated herein by reference to Exhibit 99.4 to PepsiCo's Current Report on Form 8-K dated as of February 2, 2006.* |
| 10.28 | Form of Restricted Stock Unit Retention Award Agreement, which is incorporated herein by reference to Exhibit 99.5 to PepsiCo's Current Report on Form 8-K dated as of February 2, 2006.* |
| 10.29 | PepsiCo Executive Income Deferral Program, effective as of January 1, 2005.* |
| 10.30 | PepsiCo Director Deferral Program, effective as of January 1, 2005.* |

| | |
|---|---|
| 10.31 | Amendments to the PepsiCo, Inc. 2003 Long-Term Incentive Plan, effective as of December 31, 2005.* |
| 10.32 | Summary and Letter to Irene Rosenfeld dated July 30, 2004.* |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 14 | Worldwide Code of Conduct, which is incorporated herein by reference to Exhibit 14 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 27, 2003. |
| 21 | Subsidiaries of PepsiCo, Inc. |
| 23 | Consent of KPMG LLP. |
| 24 | Power of Attorney executed by Steven S Reinemund, Indra K. Nooyi, Peter A. Bridgman, John F. Akers, Robert E. Allen, Dina Dublon, Victor J. Dzau, M.D., Ray L. Hunt, Alberto Ibargüen, Arthur C. Martinez, Sharon Percy Rockefeller, James J. Schiro, Franklin A. Thomas, Cynthia M. Trudell, and Daniel Vasella. |
| 31 | Certification of our Chief Executive Officer and our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification of our Chief Executive Officer and our Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management contracts and compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(c) of this report.

# PEPSICO

# EXECUTIVE INCOME

# DEFERRAL PROGRAM

**Plan Document for the 409A Program**
**Effective as of January 1, 2005**

## TABLE OF CONTENTS

TABLE OF CONTENTS

## TABLE OF CONTENTS

## ARTICLE I – INTRODUCTION

PepsiCo, Inc. (the “Company”) established the PepsiCo Executive Income Deferral Program (the “Plan”) in 1972 to permit Eligible Executives to defer certain cash awards made under its executive compensation programs. Subsequently, the Plan has been amended and expanded from time to time.

This document is effective as of January 1, 2005 (the “Effective Date”). It sets forth the terms of the Plan that are applicable to deferrals that are subject to Section 409A, *i.e.*, generally, deferred amounts that are earned or vested after December 31, 2004 (the “409A Program”). Other deferrals under the Plan shall be governed by a separate set of documents that set forth the pre-Section 409A terms of the Plan (the “Pre-409A Program”). Together, this document and the documents for the Pre-409A Program describe the terms of a single plan. However, amounts subject to the terms of this 409A Program and amounts subject to the terms of the Pre-409A Program shall be tracked separately at all times. The preservation of the terms of the Pre-409A Program, without material modification, and the separation between the 409A Program amounts and the Pre-409A Program amounts are intended to be sufficient to permit the pre-409A Program to remain exempt from Section 409A.

With respect to deferrals covered by this document, this document specifies the group of executives of the Company and certain affiliated employers that are eligible to make deferrals, the procedures for electing to defer compensation and the Plan’s provisions for maintaining and paying out amounts that have been deferred.

The Plan is unfunded and unsecured. Amounts deferred by an executive are a liability and an obligation of that executive’s individual employer. With respect to his or her employer, the executive has the rights of a general creditor.

## ARTICLE II – DEFINITIONS

When used in this Plan, the following underlined terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

2.01 Account:

The account maintained for a Participant on the books of his or her Employer to determine, from time to time, the Participant's interest under this Plan. The balance in such Account shall be determined by the Recordkeeper pursuant to any guidelines established by the Plan Administrator. Each Participant's Account shall consist of at least one Deferral Subaccount for each separate deferral under Section 4.01. In accordance with Section 5.05, some or all of a separate deferral may be held in a Risk of Forfeiture Subaccount. The Recordkeeper may also establish such additional Deferral Subaccounts as it deems necessary for the proper administration of the Plan. Except as provided in Section 5.05, the Recordkeeper may also combine Deferral Subaccounts to the extent it deems separate accounts are not needed for sound recordkeeping. Where appropriate, a reference to a Participant's Account shall include a reference to each applicable Deferral Subaccount that has been established thereunder.

2.02 Act:

The Securities Exchange Act of 1934, as amended.

2.03 Base Compensation:

An Eligible Executive's adjusted base salary, as determined by the Plan Administrator and to the extent paid in U.S. dollars from an Employer's U.S. payroll. Subject to the next sentence, for any applicable payroll period, an Eligible Executive's adjusted base salary shall be determined after reductions for applicable tax withholdings, tax levies, garnishments, other legally required deductions, and Executive authorized deductions that are (i) for charitable contributions, or (ii) made under any Code Section 401(k) or Code Section 125 plans sponsored by the Executive's Employer or the Company. Notwithstanding the preceding sentence, an Eligible Executive's Base Compensation may be reduced by an item described in the preceding sentence only to the extent such reduction does not violate Section 409A.

2.04 Beneficiary:

The person or persons (including a trust or trusts) properly designated by a Participant, as determined by the Plan Administrator, to receive the amounts in one or more of the Participant's Deferral Subaccounts in the event of the Participant's death, provided such person or persons are living (or in existence, in the case of a trust) at the Participant's death. To be effective, any Beneficiary designation must be in writing, signed by the Participant, and must meet such other standards (including any requirement for spousal consent) as the Plan Administrator or the Recordkeeper shall require from time to time. The Beneficiary designation must also be filed with the Recordkeeper (or the Plan Administrator for periods prior to June 3, 2002) prior to the Participant's death. An incomplete Beneficiary designation, as determined by the Recordkeeper or Plan Administrator, shall be void and of no effect. If some but not all of the persons designated by a Participant to receive his or her Account at death predecease the Participant, the Participant's surviving Beneficiaries shall be entitled to the portion of the Participant's Account intended for such pre-deceased persons in proportion to the surviving Beneficiaries' respective shares. If no designation is in effect at the time of a Participant's death (as determined by the Plan Administrator) or if all persons designated as Beneficiaries have predeceased the Participant, then the Participant's Beneficiary shall be his or her estate. In determining whether a Beneficiary designation that relates to the Plan is in effect, unrevoked designations that were received prior to the Effective Date of the 409A Program shall be considered. A Beneficiary designation of an individual by name remains in effect regardless of any change in the designated individual's relationship to the Participant. Solely for periods prior to June 3, 2002, a Beneficiary designation solely by relationship (for example, a designation of "spouse," that does not give the name of the spouse) shall designate whoever is the person in that relationship to the Participant at his or her death. However, any Beneficiary designation submitted to the Recordkeeper from and after June 3, 2002 that only specifies a Beneficiary by relationship shall not be considered an effective Beneficiary designation and shall be void and of no effect. An individual who is otherwise a Beneficiary with respect to a Participant's Account ceases to be a Beneficiary when all payments have been made from the Account.

2.05 Bonus Compensation:

An Eligible Executive's adjusted annual incentive award under his or her Employer's annual incentive plan or the Executive Incentive Compensation Plan, as determined and adjusted by the Plan Administrator and to the extent paid in U.S. dollars from an Employer's U.S. payroll. Subject to the next sentence, an Eligible Executive's annual incentive awards shall be adjusted to reduce them for applicable tax withholdings, tax levies, garnishments, other legally required deductions, and Executive authorized deductions that are (i) for charitable contributions, or (ii) made under any Code Section 401(k) or Code Section 125 plans sponsored by the Executive's Employer or the Company. Notwithstanding the preceding sentence, (a) an Eligible Executive's Bonus Compensation may be reduced by an item described in the preceding sentence only to the extent such reduction does not violate Section 409A, and (b) an Eligible Executive's premium bonuses (a term that will have its normal meaning under the compensation practices of the Employer) shall not be included in the definition of Bonus Compensation and shall not be eligible for deferral hereunder.

2.06 Code:

The Internal Revenue Code of 1986, as amended from time to time.

2.07 Company:

PepsiCo, Inc., a corporation organized and existing under the laws of the State of North Carolina, or its successor or successors.

2.08 Deferral Subaccount:

A subaccount of a Participant's Account maintained to reflect his or her interest in the Plan attributable to each deferral (or separately tracked portion of a deferral) of Base Compensation and Bonus Compensation, and earnings or losses credited to such subaccount in accordance with Section 5.01(b).

2.09 Disability:

A Participant shall be considered to suffer from a Disability or be Disabled hereunder if – (i) the Participant is considered to be "disabled" under the PepsiCo Long Term Disability Plan, and (ii) the Participant's disability meets the duration requirements to qualify for a distribution on account of Disability in accordance with Section 6.06(a).

2.10 Distribution Valuation Date:

Each date as specified by the Plan Administrator from time to time as of which Participant Accounts are valued for purposes of a distribution from a Participant's Account. The current Distribution Valuation Dates are January 1, April 1, July 1 and October 1. Any current Distribution Valuation Date may be changed by the Plan Administrator, provided that such change does not result in a change in when deferrals are paid out that is impermissible under Section 409A. Values are determined as of the close of a Distribution Valuation Date or, if such date is not a business day, as of the close of the following business day.

2.11 Election Form:

The form prescribed by the Plan Administrator on which a Participant specifies the amount of his or her Base Compensation and Bonus Compensation to be deferred and the timing and form of his or her deferral payout, pursuant to the provisions of Article IV. An Election Form need not exist in a paper format, and it is expressly contemplated that the Plan Administrator may make available for use such technologies, including voice response systems and electronic forms, as it deems appropriate from time to time.

2.12 Eligible Executive:

The term, Eligible Executive, shall have the meaning given to it in Section 3.01(c).

2.13 Employer:

The Company, and each division, subsidiary or affiliate of the Company (if any) that are currently designated as an Employer by the Plan Administrator. An entity shall be an Employer hereunder only for the period that it is (i) so designated by the Plan Administrator, and (ii) a member of the PepsiCo Organization.

2.14 ERISA:

Public Law 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.15 Executive:

Any person in a salaried classification of an Employer who (i) is receiving remuneration for personal services rendered in the employment of the Employer, and (ii) is paid in U.S. dollars from the Employer's U.S. payroll. Notwithstanding the foregoing sentence, any person meeting the requirements of the foregoing sentence who is working outside the U.S. shall not be included as an Executive hereunder, if applicable local law of the country in which the person is working (*e.g.*, local law relating to the payment of compensation) does not permit the person to defer the receipt of compensation that is eligible for deferral hereunder.

2.16 409A Program:

The program described in this document. The term "409A Program" is used to identify the portion of the Plan that is subject to Section 409A.

2.17 Key Employee:

The individuals identified in accordance with principles set forth in Subsection (a), as modified by the following provisions of this Section.

(a) In General. Any Eligible Executive or former Eligible Executive who at any time during the applicable year is –

(1) An officer of an Employer having annual compensation greater than $130,000 (as adjusted under Code Section 416(i)(1));

(2) A 5-percent owner of an Employer; or

(3) A 1-percent owner of an Employer having annual compensation of more than $150,000.

For purposes of (1) above, no more than 50 employees identified in the order of their annual compensation (or, if lesser, the greater of 3 employees or 10 percent of the employees) shall be treated as officers. For purposes of this Section, annual compensation means compensation as defined in Code Section 415(c)(3). The Plan Administrator shall determine who is a Key Employee in accordance with Code Section 416(i) and the applicable regulations and other guidance of general applicability issued thereunder or in connection therewith (including the provisions of Code Section 416(i)(3) that treat self employed individuals as employees for purposes of this definition); provided, that Code Section 416(i)(5) shall not apply in making such determination, and provided further that the applicable year shall be determined in accordance with Section 409A and that any modification of the foregoing definition that applies under Section 409A shall be taken into account.

(b) Operating Rules for 2005. To ensure that the Company does not fail to identify any Key Employees based on the provisions of Subsection (a), in the case of Separation from Service distributions during the 2005 Plan Year, the Company shall treat as Key Employees all Eligible Executives (and former Eligible Executives) that are classified (or grandfathered) for any portion of the 2005 Plan Year as Band IV and above.

(c) Operating Rules for 2006 and Later. To ensure that the Company does not fail to identify any Key Employees based on the provisions of Subsection (a), in the case of Separation from Service distributions from and after January 1, 2006, the Company shall treat as Key Employees for the Plan Year of their Separation from Service those individuals who meet the provisions of Paragraph (1) or (2) below (or both).

(1) The Company shall treat as Key Employees all Eligible Executives (and former Eligible Executives) that are classified (or grandfathered) for any portion of the Plan Year of their Separation from Service as Band IV and above; and

(2) The Company shall treat as a Key Employee any Eligible Executive who would be a Key Employee as of his or her Separation from Service date based on the standards in this Paragraph (2). For purposes of this Paragraph (2), the Company shall determine Key Employees under Subsection (a)(1) and (3) above based on compensation (as defined in Code Section 415(c)(3)) that is taken into account as follows –

(i) If the determination is in connection with a Separation from Service in the first calendar quarter of a Plan Year, the determination shall be made using compensation earned in the calendar year that is two years prior to the current calendar year (*e.g.*, for a determination made in the first quarter of 2006, compensation earned in the 2004 calendar year shall be used); and

(ii) If the determination is in connection with a Separation from Service in the second, third or fourth calendar quarter of a Plan Year, the determination shall be made using the compensation earned in the prior calendar year (*e.g.*, for a determination made in the second quarter of 2006, compensation earned in the 2005 calendar year shall be used).

In addition, a Participant shall be considered an officer for purposes of Subsection (a)(1), a 5-percent owner for purposes of Subsection (a)(2) or a 1-percent owner for purposes of Subsection (a)(3) with respect to a Separation from Service distribution, if the Participant was an officer, a 5-percent owner or a 1-percent owner at some point during the calendar year that applies, in accordance with Subparagraphs (i) and (ii) above, in determining the Participant's compensation for purposes of that Separation from Service.

2.18 NAV:

The net asset value of a phantom unit in one of the phantom funds offered for investment under the Plan, determined as of any date in the same manner as applies on that date under the actual fund that is the basis of the phantom fund offered by the Plan.

2.19 Participant:

Any Executive who is qualified to participate in this Plan in accordance with Section 3.01 and who has an Account. An active Participant is one who is currently deferring under Section 4.01.

2.20 PepsiCo Organization:

The controlled group of organizations of which the Company is a part, as defined by Code section 414(b) and (c) and the regulations issued thereunder. An entity shall be considered a member of the PepsiCo Organization only during the period it is one of the group of organizations described in the preceding sentence.

2.21 Performance Period:

The 52/53 week fiscal year of the Employer for which Bonus Compensation is calculated and determined. A Performance Period shall be deemed to relate to the Plan Year in which the Performance Period ends.

2.22 Plan:

The PepsiCo Executive Income Deferral Program, the plan set forth herein and in the Pre-409A Program documents, as it may be amended and restated from time to time (subject to the limitations on amendment that are applicable hereunder and under the Pre-409A Program).

2.23 Plan Administrator:

The Compensation Committee of the Board of Directors of the Company (Compensation Committee) or its delegate or delegates, which shall have the authority to administer the Plan as provided in Article VII. As of the Effective Date, the Company's Senior Vice President, Compensation and Benefits is delegated the responsibility for the operational administration of the Plan. In turn, the Senior Vice President, Compensation and Benefits has the authority to re-delegate operational responsibilities to other persons or parties. As of the Effective Date, the Senior Vice President, Compensation and Benefits has re-delegated certain operational responsibilities to the Recordkeeper. However, references in this document to the Plan Administrator shall be understood as referring to the Compensation Committee, the Senior Vice President, Compensation and Benefits and those delegated by the Senior Vice President, Compensation and Benefits other than the Recordkeeper. All delegations made under the authority granted by this Section are subject to Section 7.06.

2.24 Plan Year:

The 12-consecutive month period beginning on January 1 and ending on December 31.

2.25 Pre-409A Program:

The portion of the Plan that governs deferrals that are not subject to Section 409A. The terms of the Pre-409A Program are set forth in a separate set of documents.

2.26 Prohibited Misconduct:

Any of the following activities engaged in, directly or indirectly, by a Participant shall constitute Prohibited Misconduct –

(a) The Participant accepting any employment, assignment, position or responsibility, or acquiring any ownership interest, which involves the Participant's participation in a business entity that markets, sells, distributes or produces "Covered Products" (as defined below), unless such business entity makes retail sales or consumes Covered Products without in any way competing with the PepsiCo Organization.

(b) The Participant, directly or indirectly (including through someone else acting on the Participant's recommendation, suggestion, identification or advice), soliciting any PepsiCo Organization employee to leave the PepsiCo Organization's employment or to accept any position with any other entity.

(c) The Participant using or disclosing to anyone any confidential information regarding the PepsiCo Organization other than as necessary in his or her position with the PepsiCo Organization. Such confidential information shall include all non-public information the Participant acquired as a result of his or her positions with the PepsiCo

Organization which might be of any value to a competitor of the PepsiCo Organization, or which might cause any economic loss or substantial embarrassment to the PepsiCo Organization or its customers, bottlers, distributors or suppliers if used or disclosed. Examples of such confidential information include non-public information about the PepsiCo Organization's customers, suppliers, distributors and potential acquisition targets; its business operations and structure; its product lines, formulas and pricing; its processes, machines and inventions; its research and know-how; its financial data; and its plans and strategies.

(d) The Participant engaging in any acts that are considered to be contrary to the PepsiCo Organization's best interests, including violating the Company's Code of Conduct, engaging in unlawful trading in the securities of the Company or of any other company based on information gained as a result of his or her employment with the PepsiCo Organization, or engaging in any other activity which constitutes gross misconduct.

(e) The Participant engaging in any activity that constitutes fraud.

For purposes of this Section, Covered Products shall mean any produce that falls into one or more of the following categories, so long as the PepsiCo Organization is producing, marketing, selling or licensing such product anywhere in the world – beverages, including carbonated soft drinks, tea, water, juice drinks, sports drinks and coffee drinks; juices; snacks, including salty snacks, sweet snacks and cookies; or any product or service that the Participant had reason to know was under development by the PepsiCo Organization during the Participant's employment with the PepsiCo Organization.

2.27 Recordkeeper:

For any designated period of time, the party that is delegated the responsibility, pursuant to the authority granted in the definition of Plan Administrator, to maintain the records of Participant Accounts, process Participant transactions and perform other duties in accordance with any procedures and rules established by the Plan Administrator.

2.28 Retirement:

Separation from Service after attaining eligibility for retirement. A Participant attains eligibility for retirement when he or she attains (whichever of the following occurs earliest) while employed by a member of the PepsiCo Organization:

(a) At least age 55 with 10 or more years of service,

(b) At least age 65 with 5 or more years of service, or

(c) If permissible under Section 409A, such other eligibility requirement for special early retirement under the PepsiCo Salaried Employees Retirement Plan or the PepsiCo Pension Equalization Plan as may apply to the Participant.

For purposes of this Section, a Participant's years of service is determined by reference to the definition of "years of service" for purposes of vesting under the PepsiCo Salaried Employees Retirement Plan (with such definition being applicable whether or not the Participant is actually eligible for the PepsiCo Salaried Employees Retirement Plan).

2.29 Risk of Forfeiture Subaccount:

The Deferral Subaccount provided for by Section 5.05 to contain the portion of each separate deferral that is subject to forfeiture.

2.30 Second Look Election:

The term, Second Look Election, shall have the meaning given to it in Section 4.05.

2.31 Section 409A:

Section 409A of the Code and the applicable regulations and other guidance of general applicability that is issued thereunder.

2.32 Separation from Service:

A Participant's separation from service with the PepsiCo Organization, within the meaning of Section 409A(a)(2)(A)(i). The term may also be used as a verb (*i.e.*, "Separates from Service") with no change in meaning. Notwithstanding the preceding sentence, a Participant's transfer to the Pepsi Bottling Group, Inc. or Pepsi Americas, Inc. shall not be a Separation from Service, if Section 409A expressly provides that a transfer to a pre-designated affiliate is not a Separation from Service.

2.33 Specific Payment Date:

A specific date selected by an Eligible Executive that triggers a lump sum payment of a deferral or the start of installment payments for a deferral, as provided in Section 4.03. The Specific Payment Dates that are available to be selected by Eligible Executives shall be determined by the Plan Administrator, and the currently available Specific Payment Dates shall be reflected on the Election Forms that are made available from time to time by the Plan Administrator. In the event that an Election Form only provides for selecting a month and a year as the Specific Payment Date, the first day of the month that is selected shall be the Specific Payment Date.

2.34 Unforeseeable Emergency:

A severe financial hardship to the Participant resulting from –

(a) An illness or accident of the Participant, the Participant's spouse or a dependent (as defined in Code Section 152(a)) of the Participant;

(b) Loss of the Participant's property due to casualty; or

(c) Any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

The Recordkeeper shall determine the occurrence of an Unforeseeable Emergency in accordance with Section 409A(a)(2)(B)(ii) and any guidelines established by the Plan Administrator.

2.35 Valuation Date:

Each business day, as determined by the Recordkeeper, as of which Participant Accounts are valued in accordance with Plan procedures that are currently in effect. In accordance with procedures that may be adopted by the Plan Administrator, any current Valuation Date may be changed.

## ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.01 Eligibility to Participate:

(a) In General.

(1) Subject to the special rules for 2005 in Subsection (b), an Executive shall be eligible to defer compensation under the Plan 30 days after (i) being hired by an Employer as an Executive classified as Band II or above (and while he or she remains so classified or grandfathered) or (ii) being promoted by an Employer from below Band II into a Band II or above position (and while he or she remains so classified or grandfathered).

(2) Notwithstanding Paragraph (1) above, from time to time the Plan Administrator may modify, limit or expand the class of Executives eligible to defer hereunder, pursuant to criteria for eligibility that need not be uniform among all or any group of Executives.

(b) Special Rules for 2005. The following special rules shall apply to Executives during 2005 –

(1) If an Executive was an eligible executive under the Pre-409A Program immediately prior to January 1, 2005, the Executive shall be eligible to defer 2005 Base Compensation beginning January 1, 2005 (subject to the election requirements of Section 4.02(a)).

(2) If an Executive is hired into a Band II or above position or promoted from below Band II into a Band II or above position from and after January 1, 2005 and by May 31, 2005, the Executive shall become eligible to defer 2005 Base Compensation under Sections 4.01 and 4.02(b) beginning June 1, 2005.

(3) If an Executive is hired into a Band II or above position or promoted from below Band II into a Band II or above position from and after June 1, 2005 and before October 1, 2005, the Executive shall become eligible to defer 2005 Base Compensation under Sections 4.01 and 4.02(b) 30 days after hire or promotion.

(4) If an Executive is hired into a Band II or above position or promoted from below Band II into a Band II or above position from and after October 1, 2005, the Executive shall not be eligible to defer 2005 Base Compensation.

(5) If an Executive is hired into a Band II or above position after January 1, 2005, the Executive shall not be eligible to defer any portion of 2005 Bonus Compensation. If an Executive becomes an Eligible Executive during 2005 as a result of a promotion from below Band II into a Band II or above position, such

Eligible Executive shall not be eligible to defer 2005 Bonus Compensation, unless he or she meets the rules under Section 4.01(b)(2) and 4.02(b) and he or she was a bonus-eligible Executive for the entire Performance Period for which the 2005 Bonus Compensation is paid.

(c) During the period an individual satisfies all of the eligibility requirements of this Section, he or she shall be referred to as an Eligible Executive.

(d) Each Eligible Executive becomes an active Participant on the date an amount is first withheld from his or her compensation pursuant to an Election Form submitted by the Executive to the Recordkeeper (or, if authorized, the Plan Administrator) under Section 4.01.

3.02 <u>Termination of Eligibility to Defer</u>:

(a) <u>General</u>. Subject to Subsections (b) and (c) below, an individual's eligibility to participate actively by making deferrals (or a deferral election) under Article IV shall cease upon the "Election Termination Date" (as defined below) occurring after the earliest of:

(1) The date he or she ceases to be an Executive who is described in Section 3.01(a)(1) and Section 3.01(b) above (unless a less restrictive eligibility standard has been adopted in accordance with Section 3.01(a)(2), in which case only Paragraph (2) below shall apply);

(2) The date the Executive ceases to be eligible under criteria described in Section 3.01(a)(2) above; or

(3) The date that the Executive ceases to actively perform services for his or her Employer.

For purposes of Paragraph (3) above, an Executive who is receiving disability benefits from the PepsiCo Short-Term Disability Plan (or other short-term disability plan of his or her Employer) shall be deemed to be actively performing services for the period he or she is receiving such disability benefits (referred to later in this Section as a "Period of STD Leave"). For purposes of this Section 3.02(a), an individual's Election Termination Date shall be a date as soon as administratively practicable following the cessation of the individual's eligibility (or such other date as may be determined in accordance with rules of the Plan Administrator).

(b) <u>Termination of Deferral Eligibility in Cases of Severance</u>. Notwithstanding Subsection (a) above, an Executive's eligibility to make deferrals and deferral elections under Article IV shall terminate on the date that he or she begins a period of severance. However, if an Eligible Executive made a valid deferral election prior to the beginning of his or her period of severance pursuant to the rules in Article IV, such valid election to defer shall apply to Base Compensation and Bonus Compensation to be paid during the Eligible Executive's period of severance.

(c) Eligibility to Defer in Cases of a Leave of Absence: Notwithstanding Subsection (a) above, this Subsection (c) shall apply to Executives who begin and end a “Leave of Absence” (as determined by the Plan Administrator for this purpose) other than a Period of STD Leave.

(1) Termination of Eligibility to Defer. An Executive’s eligibility to make deferrals and deferral elections under Article IV shall terminate on the date that he or she begins a Leave of Absence. However, if an Eligible Executive made a valid deferral election prior to the beginning of his or her Leave of Absence pursuant to the rules in Article IV, such valid election to defer shall apply to any Base Compensation and Bonus Compensation to be paid during the period of his or her Leave of Absence.

(2) Eligibility to Defer Upon a Return from a Leave of Absence. Subject to the next sentence, if an Eligible Executive returns from a Leave of Absence and begins to actively perform services for an Employer, such Eligible Executive shall not be eligible to defer Base Compensation or Bonus Compensation for the Plan Year that he or she returns from a Leave of Absence. However, if the Eligible Executive returns from a Leave of Absence and he or she made a valid deferral election for the Plan Year of his or her return prior to beginning the Leave of Absence, such valid deferral election will apply to any Base Compensation and Bonus Compensation to be paid for the remainder of such Plan Year.

3.03 Termination of Participation:

An individual, who has been an active Participant under the Plan, ceases to be a Participant on the date his or her Account is fully paid out.

## ARTICLE IV – DEFERRAL OF COMPENSATION

4.01 Deferral Election:

(a) Deferrals of Base Compensation. Each Eligible Executive may make an election to defer under the Plan any whole percentage (up to 100%) of his or her Base Compensation in the manner described in Section 4.02. A newly Eligible Executive may only defer the portion of his or her eligible Base Compensation that is earned for services performed after the date of his or her election. Subject to the foregoing sentence, any Base Compensation deferred by an Eligible Executive for a Plan Year shall will be deducted each pay period during the Plan Year for which he or she has Base Compensation and is an Eligible Executive.

(b) Deferrals of Bonus Compensation.

(1) General Rules. Each Eligible Executive may make an election to defer under the Plan any whole percentage (up to 100%) of his or her Bonus Compensation in the manner described in Section 4.02. An Eligible Executive that is hired during a Plan Year may not defer any portion of his or her Bonus Compensation earned for the Performance Period relating to the Plan Year in which he or she is hired. The percentage of Bonus Compensation deferred by an Eligible Executive for a Plan Year will be deducted from his or her payment under the applicable compensation program at the time it would otherwise be paid, provided he or she satisfies all conditions for payment that would apply in the absence of a deferral. In addition, for the Plan Year in which the Participant incurs a Separation from Service, the Participant shall be eligible to defer Bonus Compensation paid for the Performance Period that relates to the Plan Year in which the Participant incurred the Separation from Service, if the Participant makes a valid and irrevocable deferral election prior to his or her Separation from Service.

(2) Special Rules for Promoted Eligible Executives. An Eligible Executive that becomes an Eligible Executive during a Plan Year as a result of a promotion from below Band II into a position that is in Band II or above shall only be eligible to defer Bonus Compensation earned for the Performance Period relating to the Plan Year in which he or she is promoted, if the Eligible Executive (i) is a bonus-eligible Executive for all of such Plan Year and (ii) is promoted by May 15th of the Plan Year in which the promotion occurs. If a promoted Eligible Executive does not satisfy the requirements of the previous sentence, he or she shall not be eligible to defer Bonus Compensation earned for the Performance Period relating to the Plan Year in which he or she is promoted.

(3) Performance Criteria. Notwithstanding Subsections (b)(1) and (b)(2) above, an Eligible Executive shall not be eligible to defer Bonus Compensation for a Plan Year unless the Bonus Compensation is contingent on the satisfaction of organizational or individual performance criteria for the Performance Period that relates to the Plan Year and unless such criteria have been established in writing by not later than 90 days after the beginning of the applicable Performance Period.

(c) Election Form Rules. To be effective in deferring Base or Bonus Compensation, an Eligible Executive's Election Form must set forth the percentage of Base/Bonus Compensation (whichever applies) to be deferred, the deferral period under Section 4.03, the form of payment under Section 4.04, and any other information that may be required by the Plan Administrator from time to time. In addition, the Election Form must meet the requirements of Section 4.02. It is contemplated that an Eligible Executive will specify the investment choice under Section 5.02 (in multiples of 1%) for the Eligible Executive's deferral. However, this is not a condition for making an effective election.

4.02 Time and Manner of Deferral Election:

(a) Deferrals of Base Compensation. Ordinarily an Eligible Executive must make a deferral election for a Plan Year with respect to Base Compensation no later than December 31 of the year prior to the Plan Year in which the Base Compensation would otherwise be paid (although the Plan Administrator may adopt policies that encourage earlier submission of election forms). If December 31 is not a business day, the deadline shall be the preceding day that is a business day. However, an individual who newly becomes an Eligible Executive will have 30 days from the date the individual becomes an Eligible Executive to make a deferral election with respect to Base Compensation that is earned for services performed after the election is received (the 30-Day Election Period). The 30-Day Election Period may be used to make an election for Base Compensation that otherwise would be paid in the Plan Year in which the individual becomes an Eligible Executive. In addition, the 30-Day Election Period may be used to make an election for Base Compensation that would otherwise be paid in the next Plan Year (*i.e.*, the Plan Year following when the individual becomes an Eligible Executive), if the individual becomes an Eligible Executive not later than December 31 of a Plan Year. Thus, if a Base Compensation deferral election for a Plan Year is made in reliance on the 30-day rule, then the Plan Administrator shall apply the restriction that the election may only apply to Base Compensation earned for services performed after the date the election is received.

(b) Deferrals of Bonus Compensation. An Eligible Executive must make a deferral election with respect to his or her Bonus Compensation at least six months prior to the end of the Performance Period for which the applicable Bonus Compensation is paid, and this election will be the Eligible Executive's bonus deferral election for the Plan Year to which the Performance Period relates. This applies to both continuing Eligible Executives and individuals who newly become Eligible Executives. Accordingly, if an individual becomes an Eligible Executive during a Plan Year as a result of a promotion and is eligible to defer Bonus Compensation under Section 4.01(b) for such Plan Year, such Eligible Executive must make a deferral election for Bonus Compensation that is earned for the Performance Period that relates to the Plan Year in which he or she is promoted at least six months prior to the end of the applicable Performance Period.

(c) General Provisions. A separate deferral election under (a) or (b) above must be made by an Eligible Executive for each category of a Plan Year's compensation that is eligible for deferral. If a properly completed and executed Election Form is not actually received by the Recordkeeper (or, if authorized, the Plan Administrator) by the prescribed time in (a) and (b) above, the Eligible Executive will be deemed to have elected not to defer any Base Compensation or Bonus Compensation, as the case may be, for the applicable Plan Year. An election is irrevocable once received and determined by the Plan Administrator to be properly completed. Increases or decreases in the amount or percentage a Participant elects to defer shall not be permitted during a Plan Year.

(d) Beneficiaries. A Participant may designate on the Election Form (or in some other manner authorized by the Plan Administrator) one or more Beneficiaries to receive payment, in the event of his or her death, of the amounts credited to his or her Account. If more than one Beneficiary is specified and the Participant fails to indicate the respective percentage applicable to two or more Beneficiaries, then each Beneficiary for whom a percentage is not designated will be entitled to an equal share of the portion of the Account (if any) for which percentages have not been designated. At any time, a Participant may change a Beneficiary designation for his or her Account in a writing that is signed by the Participant and filed with the Recordkeeper prior to the Participant's death, and that meets such other standards as the Plan Administrator shall require from time to time.

4.03 Period of Deferral:

An Eligible Executive making a deferral election shall specify a deferral period on his or her Election Form by designating either a Specific Payment Date or the date he or she incurs a Separation from Service. In no event shall an Eligible Executive's deferral period end later than his or her 80th birthday, regardless of whether the Participant chose a single lump sum or installments as the form of payment. Notwithstanding an Eligible Executive's actual election of a Specific Payment Date, an Eligible Executive shall be deemed to have elected a period of deferral of not less than:

(a) For Base Compensation, at least until six months after the end of the Plan Year during which the Base Compensation would have been paid absent the deferral; and

(b) For Bonus Compensation, at least one year after the date the Bonus Compensation would have been paid absent the deferral.

In the case of a deferral to a Specific Payment Date, if an Eligible Executive's Election Form either fails to specify a period of deferral or specifies a period less than the applicable minimum, the Eligible Executive shall be deemed to have selected a Specific Payment Date equal to the minimum period of deferral as provided in Subsections (a) and (b) above.

4.04 Form of Deferral Payout:

An Eligible Executive making a deferral election shall specify a form of payment on his or her Election Form by designating either a lump sum payment or installment payments to be paid over a period of no more than 20 years, and not later than the Executive's $80^{th}$ birthday. Any election for installment payments shall also specify (a) the frequency for which installment payments shall be paid, which shall be quarterly, semi-annually and annually and (b) whether the installment payments shall be paid in a fixed dollar amount or a fixed number of years. If an Eligible Executive elects installments for a period extending beyond the Eligible Executive's $80^{th}$ birthday, such election shall be treated as an election for installments over a period of whole and partial years that ends on the Eligible Executive's $80^{th}$ birthday.

4.05 Second Look Election:

(a) In General. Subject to Subsection (b) below, a Participant who has made a valid initial deferral in accordance with the foregoing provisions of this Article may subsequently make another one-time election regarding the time and/or form of payment of his or her deferral. This opportunity to modify the Participant's initial election is referred to as a "Second Look Election."

(b) Requirements for Second Look Elections. A Second Look Election must comply with all of the following requirements:

(1) If a Participant's initial election specified payment based on a Specific Payment Date, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's original Specific Payment Date. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a new Specific Payment Date that is at least 5 years after the original Specific Payment Date.

(2) If a Participant's initial election specified payment based on the Participant's Separation from Service, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's Separation from Service. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a new Specific Payment Date that turns out to be at least 5 years after the Participant's Separation from Service. If the Specific Payment Date selected in a Second Look Election turns out to be less than 5 years after the Participant's Separation from Service, the Second Look Election is void.

(3) A Separation from Service may not be specified as the payout date resulting from a Second Look Election.

(4) A Participant may make only one Second Look Election for each individual deferral, and all Second Look Elections must comply with all of the requirements of this Section 4.05.

(5) A Participant who changes the form of his or her payment election from lump sum to installments will be subject to the provisions of the Plan regarding installment payment elections in Section 4.04, and such installment payments must begin no earlier than 5 years after when the lump sum payment would have been paid based upon the Participant's initial election. Accordingly, a Participant may not make a Second Look Election if the election would provide for installment payments to be made after the Participant's 80th birthday.

(6) If a Participant's initial election specified payment in the form of installments and the Participant wants to elect installment payments over a greater or lesser number of years or wants to elect a different frequency of installment payments (*e.g.,* change from annual installments to quarterly installments), the election will be subject to the provisions of the Plan regarding installment payment elections in Section 4.04, and the first payment date of the new installment payment schedule must be no earlier than 5 years after the first payment date that applied under the Participant's initial installment election. Accordingly, a Participant may not make a Second Look Election if the election would provide for installment payments to be made after the Participant's 80th birthday.

(7) If a Participant's initial election specified payment in the form of installments and the Participant wants to elect instead payment in a lump sum, the earliest payment date of the lump sum must be no earlier than 5 years after the first payment date that applied under the Participant's initial installment election.

(8) For purposes of this Section, all of a Participant's installment payments related to a specific deferral election shall be treated as a single payment.

A Second Look Election will be void and payment will be made based on the Participant's original election under Sections 4.03 and 4.04 if all of the provisions of the foregoing Paragraphs of this Subsection are not satisfied in full. However, if a Participant's Second Look Election becomes effective in accordance with the provisions of this Subsection, the Participant's original election shall be superseded (including any Specific Payment Date specified therein), and this original election shall not be taken into account with respect to the deferral that is subject to the Second Look Election.

(c) Plan Administrator's Role. Each Participant has the sole responsibility to elect a Second Look Election by contacting the Recordkeeper (or, if authorized, the Plan Administrator) and to comply with the requirements of this Section. The Plan Administrator or the Recordkeeper may provide a notice of a Second Look Election opportunity to some or all Participants, but the Recordkeeper and Plan Administrator is under no obligation to provide such notice (or to provide it to all Participants, in the event a notice is provided only to some Participants). The Recordkeeper and the Plan Administrator have no discretion to waive or otherwise modify any requirement for a Second Look Election set forth in this Section or in Section 409A.

## ARTICLE V – INTERESTS OF PARTICIPANTS

5.01 Accounting for Participants' Interests:

(a) Deferral Subaccounts. Each Participant shall have at least one separate Deferral Subaccount for each separate deferral of Base Compensation or Bonus Compensation made by the Participant under this Plan. A Participant's deferral shall be credited to his or her Account as soon as practicable following the date the compensation would be paid in the absence of a deferral. A Participant's Account is a bookkeeping device to track the value of the Participant's deferrals (and his or her Employer's liability therefor). No assets shall be reserved or segregated in connection with any Account, and no Account shall be insured or otherwise secured.

(b) Account Earnings or Losses. As of each Valuation Date, a Participant's Account shall be credited with earnings and gains (and shall be debited for expenses and losses) determined as if the amounts credited to his or her Account had actually been invested as directed by the Participant in accordance with this Article (as modified by Section 5.05, if applicable). The Plan provides only for "phantom investments," and therefore such earnings, gains, expenses and losses are hypothetical and not actual. However, they shall be applied to measure the value of a Participant's Account and the amount of his or her Employer's liability to make deferred payments to or on behalf of the Participant.

5.02 Investment Options:

(a) General. Each of a Participant's Deferral Subaccounts shall be invested on a phantom basis in any combination of phantom investment options specified by the Participant (or following the Participant's death, by his or her Beneficiary) from those offered by the Plan Administrator for this purpose from time to time. The Plan Administrator may discontinue any phantom investment option with respect to some or all Accounts, and it may provide rules for transferring a Participant's phantom investment from the discontinued option to a specified replacement option (unless the Participant selects another replacement option in accordance with such requirements as the Plan Administrator may apply).

(b) Phantom Investment Options. The basic phantom investment options offered under the Plan are as follows:

(1) Phantom PepsiCo Common Stock Fund. Participant Accounts invested in this phantom option are adjusted to reflect an investment in the PepsiCo Common Stock Fund, which is offered under the PepsiCo 401(k) Plan for Salaried Employees. An amount deferred or transferred into this option is converted to phantom units in the PepsiCo Common Stock Fund by dividing such amount by the NAV of the fund on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. A Participant's interest in the Phantom

PepsiCo Common Stock Fund is valued as of a Valuation Date (or a Distribution Valuation Date) by multiplying the number of phantom units credited to the Participant's Account on such date by the NAV of a unit in the PepsiCo Common Stock Fund on such date. If shares of PepsiCo Common Stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other any other corporate change treated as subject to this provision by the Plan Administrator, such equitable adjustment shall be made in the number and kind of phantom units credited to an Account or subaccount as the Plan Administrator may determine to be necessary or appropriate. In no event will shares of PepsiCo Stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of PepsiCo Common Stock on account of an interest in this phantom option.

(2) Phantom Prime Rate Fund. Participant Accounts invested in this phantom option accrue a return based upon the prime rate of interest as reported from time to time by The Wall Street Journal (or another source designated by the Plan Administrator from time to time). Returns accrue for each month based on the prime rate in effect on the first business day of each month and are compounded annually. An amount deferred or transferred into this option is credited with the applicable rate of return beginning with the date as of which the amount is treated as invested in this option by the Plan Administrator.

(3) Other Funds. From time to time, the Plan Administrator shall designate which (if any) other investment options shall be available as phantom investment options under this Plan. These phantom investment options shall be described in materials provided to Participants from time to time. Any of these phantom investment options shall be administered under procedures implemented from time to time by the Plan Administrator. Unless otherwise specified in these materials or procedures, in the case of any such phantom investment option that is based on a unitized fund, an amount deferred or transferred into such option is converted to phantom units in the applicable fund of equivalent value by dividing such amount by the NAV of a unit in such fund on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. Thereafter, a Participant's interest in each such phantom option is valued as of a Valuation Date (or a Distribution Valuation Date) by multiplying the number of phantom units credited to his or her Account on such date by the NAV of a unit in such fund on such date.

5.03 Method of Allocation:

With respect to any deferral election by a Participant, the Participant may use his or her Election Form to allocate the deferral in 1 percent increments among the phantom investment options then offered by the Plan Administrator. Thereafter, a Participant may reallocate previously deferred amounts in a Deferral Subaccount by properly completing and submitting a fund transfer form provided by the Plan Administrator or Recordkeeper and specifying, in 1 percent increments, the reallocation of his or her Deferral Subaccount among the phantom investment options then offered by the Plan Administrator for this purpose. If an Election Form related to an original deferral election specifies phantom investment options for less than 100% of the Participant's deferral, the Recordkeeper shall allocate the Participant's deferrals to the Phantom Prime Rate Fund to the extent necessary to provide for investment of 100% of the Participant's deferral. If an Election Form related to an original deferral election specifies phantom investment options for more than 100% of the Participant's deferral, the Recordkeeper shall prorate all of the Participant's investment allocations to the extent necessary to reduce (after rounding to whole percents) the Participant's aggregate investment percentages to 100%. If a fund transfer form provides for investing less than or more than 100% of the Participant's Account, it will be void and disregarded. Any transfer form that is not void under the preceding sentence shall be effective as of the Valuation Date next occurring after its receipt by the Recordkeeper, but the Plan Administrator or Recordkeeper may also specify a minimum number of days in advance of which such transfer form must be received in order for the form to become effective as of such next Valuation Date. Notwithstanding the preceding provisions of this Section, the Plan Administrator may at any time alter the effective date of any allocation pursuant to Section 7.03(j) (relating to safeguards against insider trading). If more than one transfer form is received on a timely basis for a Deferral Subaccount, the transfer form that the Plan Administrator or Recordkeeper determines to be the most recent shall be followed. In the case of a Participant who is determined by the Plan Administrator to be subject to Section 16 of the Act, the reallocation of any Subaccount of the Participant will be delayed to the extent the Plan Administrator determines it is necessary to satisfy Rule 16b-3(f) promulgated under the Act. The preceding sentence shall apply notwithstanding any provision of the Plan to the contrary except Section 7.07 (relating to compliance with Section 409A).

5.04 <u>Vesting of a Participant's Account</u>:

Except as provided in Section 5.05, a Participant's interest in the value of his or her Account shall at all times be 100 percent vested, which means that it will not forfeit as a result of his or her Separation from Service.

5.05 <u>Risk of Forfeiture Subaccounts</u>:

(a) In the case of compensation earned on or after the Effective Date, a Participant may no longer elect to defer Base Compensation or Bonus Compensation to a Risk of Forfeiture Subaccount. However, if a Participant had, as of December 31, 2004, a deferred compensation subaccount maintained under a forfeiture agreement (as defined below), and the Participant has not yet attained eligibility for Retirement or terminated as of December 31, 2004, then the amounts in such subaccount shall be held in a Risk of Forfeiture Subaccount under this 409A Program. (A "forfeiture agreement" is an agreement with any Employer, or one of their predecessors providing that the subaccount would be forfeited if the Participant terminated employment voluntarily or on account of misconduct prior to Retirement. "Misconduct" solely for purposes of this Section shall have the definition provided for this term in the forfeiture agreement or other written document applicable for this purpose as determined by the Plan Administrator.) A Participant who meets these requirements may continue to invest (his or her compensation that was earned prior to the Effective Date) in his or her Risk of Forfeiture Subaccount and this Subaccount will be maintained in accordance with the terms of this Section. However, such Participant shall not be eligible to transfer into or contribute to his or her Risk of Forfeiture Subaccount any compensation earned on or after the Effective Date. (The date when a Participant attains eligibility for Retirement is specified in the definition of "Retirement.")

(b) A Risk of Forfeiture Subaccount will be terminated and forfeited in the event that the Participant has a Separation from Service that is voluntary or because of his or her misconduct prior to the earliest of:

(1) The end of the deferral period designated in his or her Election Form for such deferral (or if later, the end of such minimum period as may be required under Section 4.03);

(2) The date the Participant attains eligibility for Retirement; or

(3) The date indicated on his or her Election Form as the end of the risk of forfeiture condition (but not before completing the minimum risk of forfeiture period required by the Plan Administrator from time to time).

(c) A Risk of Forfeiture Subaccount shall become fully vested (and shall cease to be a Risk of Forfeiture Subaccount) when:

(1) The Participant reaches any of the dates in Subsection (b) above while still employed by the Company or one of its affiliates (as defined by the Plan Administrator for this purpose), or

(2) On the date the Participant terminates involuntarily from his or her Employer, including death and termination because of the Participant's disability (whether or not this constitutes a Disability), provided that such termination is not for his or her misconduct.

(d) No amounts credited to a Risk of Forfeiture Subaccount may be transferred to a Subaccount of the Participant that is not a Risk of Forfeiture Subaccount. No amounts credited to a Subaccount of the Participant that is not a Risk of Forfeiture Subaccount may be transferred to a Risk of Forfeiture Subaccount.

(e) A Participant may reallocate his or her Risk of Forfeiture Subaccount to any of the phantom investment options under the Plan that are currently available for such direction or reallocation. During the period before a Risk of Forfeiture Subaccount ceases to be a Risk of Forfeiture Subaccount, the return under any such phantom investment option shall be supplemented as follows:

(1) In the case of the Phantom PepsiCo Common Stock Fund, the Participant's interest in the Phantom PepsiCo Common Stock Fund shall be increased in value by 2% as of the end of the Plan Year. If the Participant's Subaccount was not a Risk of Forfeiture Subaccount for the entire year (or if the Participant reallocated amounts to the Phantom PepsiCo Common Stock Fund after the beginning of the year), the above additional investment return for the year will be prorated down appropriately, as determined by the Plan Administrator.

(2) In the case of any other available phantom investment option for the Plan Year, the return on each such option shall be supplemented with an additional 2% annual return for the period that it is held within a Risk of Forfeiture Subaccount (but prorated for periods of such investment of less than a year).

(f) Any deferrals allocated to a Risk of Forfeiture Subaccount as of December 31, 2004, will be subject to the requirements of Section 409A.

5.06 Forfeiture of Earnings for Prohibited Misconduct:

Effective beginning with deferrals for Bonus Compensation for the 2006 Plan Year and deferrals for Base Compensation for the 2007 Plan Year, and notwithstanding any other provision of this Plan to the contrary, if the Plan Administrator determines that a Participant has engaged in Prohibited Misconduct, the Participant shall forfeit all current and future net earnings and gains that have been or will be credited to his or her Account under the provisions of Sections 5.01(b) and/or 6.08, and his or her Account balance shall be adjusted to reflect such forfeiture. Accordingly, a Participant who has engaged in Prohibited Misconduct shall only be eligible to receive a distribution of the lesser of: (a) the aggregate amount of his or her Base Compensation and Bonus Compensation deferrals under this Plan that relate to elections made for and after the 2006 Plan Year for Bonus Compensation and the 2007 Plan Year for Base Compensation (the “Affected Deferrals”), or (b) the net value of the Participant’s Affected Deferrals as of the date the Plan Administrator determines that the Participant has engaged in Prohibited Misconduct.

## ARTICLE VI – DISTRIBUTIONS

6.01 General:

A Participant's Deferral Subaccount(s) that are governed by the terms of this 409A Program shall be distributed as provided in this Article, subject in all cases to Section 7.03(j) (relating to safeguards against insider trading) and Section 7.06 (relating to compliance with Section 16 of the Act). All Deferral Subaccount balances (including those hypothetically invested in the Phantom PepsiCo Common Stock Fund) shall be distributed in cash. In no event shall any portion of a Participant's Account be distributed earlier or later than is allowed under Section 409A.

The following general rules shall apply for purposes of interpreting the provisions of this Article VI.

(a) Section 6.02 (Distributions Based on a Specific Payment Date) applies when a Participant has elected to defer until a Specific Payment Date and the Specific Payment Date is reached before the Participant's – (i) Separation from Service (other than for Retirement), (ii) Disability, or (iii) death. However, if such a Participant Separates from Service (other than for Retirement or death) prior to the Specific Payment Date (or prior to processing of the first installment or Second Look Election payment due in connection with the Specific Payment Date), Section 6.03 shall apply. If such a Participant dies prior to the Specific Payment Date, Section 6.04 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account. If such a Participant becomes Disabled prior to the Specific Payment Date, Section 6.06 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account.

(b) Section 6.03 (Distributions on Account of a Separation from Service) applies – (i) when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service (other than for Retirement or death), or (ii) when applicable under Subsection (a) above.

(c) Section 6.04 (Distributions on Account of Death) applies when the Participant dies. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 (see below) at the time of his death, Section 6.04 shall take precedence over those sections to the extent Section 6.04 would result in an earlier distribution of all or part of a Participant's Account.

(d) Section 6.05 (Distributions on Account of Retirement) applies when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service on account of his or her Retirement. Subsections (c) and (e) of this Section provide for when Section 6.04 or 6.06 take precedence over Section 6.05.

(e) Section 6.06 (Distributions on Account of Disability) applies when the Participant becomes Disabled. If a Participant who becomes Disabled dies, Section 6.04 shall take precedence over Section 6.06 to the extent it would result in an earlier distribution of all or part of a Participant's Account. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 at the time of his Disability, Section 6.06 shall take precedence over those sections to the extent Section 6.06 would result in an earlier distribution of all or part of a Participant's Account.

(f) Section 6.07 (Distributions on Account of Unforeseeable Emergency) applies when the Participant incurs an Unforeseeable Emergency prior to when a Participant's Account is distributed under Sections 6.02 through 6.06. In this case, the provisions of Section 6.07 shall take precedence over Sections 6.02 through 6.06 to the extent Section 6.07 would result in an earlier distribution of all or part of the Participant's Account.

6.02 <u>Distributions Based on a Specific Payment Date</u>:

This Section shall apply to distributions that are to be made upon the occurrence of a Specific Payment Date. In the event a Participant's Specific Payment Date for a Deferral Subaccount is reached before (i) the Participant's Disability, (ii) the Participant's Separation from Service (other than for Retirement), or (iii) the Participant's death, such Deferral Subaccount shall be distributed based on the occurrence of such Specific Payment Date in accordance with the following terms and conditions:

(a) If a Participant's Deferral Subaccount is to be paid in the form of a lump sum pursuant to Section 4.04 or 4.05, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that occurs on or immediately precedes the Participant's Specific Payment Date, and the resulting amount shall be paid in a single lump sum as soon as administratively practicable after the Specific Payment Date.

(b) If a Participant's Deferral Subaccount is to be paid in the form of installments pursuant to Section 4.04 or 4.05, whichever is applicable, the Participant's first installment payment shall be paid as soon as administratively practicable following the Specific Payment Date. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant, except as provided in Sections 6.04, 6.06 and 6.07 (relating to distributions upon death, Disability or Unforeseeable Emergency). The amount of each installment shall be determined under Section 6.08. Notwithstanding the preceding provisions of this Subsection, if before the date the first installment distribution is processed for payment the Participant Separates from Service (other than for Retirement) or the Participant would be entitled to a distribution in accordance with Section 6.04 or 6.06 (relating to distributions on account of death or Disability), the Participant's Deferral Subaccounts that would otherwise be distributed based on such Specific Payment Date shall instead be distributed in accordance with Section 6.03, 6.04 or 6.06 (relating to distributions on account of Separation from Service, death or Disability), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04 or Section 6.06.

6.03 Distributions on Account of a Separation from Service:

A Participant's total Account shall be distributed upon the occurrence of a Participant's Separation from Service (other than for Retirement, Disability or death) in accordance with the terms and conditions of this Section. When used in this Section, the phrase "Separation from Service" shall only refer to a Separation from Service that is not for Retirement, Disability or death.

(a) Subject to Subsections (c) and (d), for those Deferral Subaccounts that have a Specific Payment Date that is after the Participant's Separation from Service, such Deferral Subaccounts shall be distributed in a single lump sum payment as soon as administratively practicable following the first day of the calendar quarter that follows the Participant's Separation from Service.

(b) Subject to Subsections (c) and (d), if the Participant's Separation from Service is on or after the Specific Payment Date applicable to a Participant's Deferral Subaccount and the Participant has selected installment payments as the form of distribution for the Deferral Subaccount, then such Deferral Subaccount shall be distributed as follows:

(1) If the first installment payment has been processed prior to the Participant's Separation from Service, then installment payments will continue (subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency) based upon the Participant's installment payment election; and

(2) If the first installment payment has not yet been processed prior to the Participant's Separation from Service, then the Participant's installment payment election shall be void and the Participant shall be paid a single lump sum distribution for the Deferral Subaccount based upon the provisions of Subsection (a) above.

(c) If the Participant incurs a Separation from Service after making a valid Second Look Election (and before the first payment has been processed in accordance with such Second Look Election), each Deferral Subaccount to which the Second Look Election applies shall be distributed in a single lump sum payment as soon as administratively practicable following the latest of the following: (1) the first day of the calendar quarter beginning on or after the fifth anniversary of the payment date selected in the Participant's original deferral election under Section 4.03, (2) the first day of the calendar quarter following the Separation from Service, or (3) the date applicable under Subsection (d). However, if the Plan Administrator determines that Section 409A would permit a lump sum payment to be made earlier than the date specified in clause (1) of the preceding sentence, then the preceding sentence shall be applied by substituting the earliest date permissible under Section 409A for the date in clause (1). If the Participant's Separation from Service occurs on or after the date the first payment is processed, payment will be made in accordance with the Second Look Election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).

(d) If the Participant is classified as a Key Employee at the time of the Participant's Separation from Service (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Separation from Service, earlier than as soon as administratively practicable following the first day of the calendar quarter that is at least 6 months after the Participant's Separation from Service.

6.04 Distributions on Account of Death:

(a) Upon a Participant's death, the value of the Participant's Account under the Plan shall be distributed in a single lump sum payment as soon as administratively practicable following the first day of the calendar quarter beginning after the first anniversary of the Participant's death. If the Participant is receiving installment payments at the time of the Participant's death, such installment payments shall continue in accordance with the terms of the applicable deferral election that governs such payments until the time that the lump sum payment is due to be paid under the preceding sentence of this Subsection. Immediately prior to the time that such lump sum payment is scheduled to be paid, all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at such scheduled payment time in a single lump sum. Amounts paid following a Participant's death, whether a lump sum or continued installments, shall be paid to the Participant's Beneficiary.

(b) Prior to the time the value of the Participant's Account is distributed under Subsection (a), the Participant's Beneficiary may apply for a distribution under Section 6.07 (relating to a distribution on account of an Unforeseeable Emergency).

(c) Any claim to be paid any amounts standing to the credit of a Participant in connection with the Participant's death must be received by the Recordkeeper or the Plan Administrator at least 14 days before any such amount is paid out by the Recordkeeper. Any claim received thereafter is untimely, and it shall be unenforceable against the Plan, the Company, the Plan Administrator, the Recordkeeper or any other party acting for one or more of them.

6.05 Distributions on Account of Retirement:

If a Participant incurs a Separation from Service on account of his or her Retirement, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

(a) If the Participant's Retirement is prior to the Specific Payment Date that is applicable to a Deferral Subaccount, the Participant's deferral election pursuant to Sections 4.03, 4.04 or 4.05 (*i.e.*, time and form of payment) shall continue to be given effect, and the Deferral Subaccount shall be distributed based upon the provisions of Subsections (a) and (b) under Section 6.02, whichever applies (relating to distributions based on a Specific Payment Date).

(b) If the Participant has selected payment of his or her deferral on account of Separation from Service, distribution of the related Deferral Subaccount shall commence as soon as administratively practicable after the first day of the calendar quarter following Retirement. Such distribution shall be made in either a single lump sum payment or in installment payments depending upon the Participant’s deferral election under Sections 4.04 or 4.05. If the Participant is entitled to installment payments, such payments shall be made in accordance with the Participant’s installment election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency) and with the installment payment amounts determined under Section 6.08. However, if the Participant is classified as a Key Employee at the time of the Participant’s Retirement (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant’s Account shall not be paid, as a result of the Participant’s Retirement, earlier than as soon as administratively practicable following the first day of the calendar quarter that is at least 6 months after the Participant’s Retirement.

(c) If the Participant is receiving installment payments in accordance with Section 6.02 (relating to distributions on account of a Specific Payment Date) for one or more Deferral Subaccounts at the time of his or her Retirement, such installment payments shall continue to be paid based upon the Participant’s deferral election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).

6.06 Distributions on Account of Disability:

If a Participant incurs a Disability, the Participant’s Account shall be distributed in accordance with the terms and conditions of this Section.

(a) The value of the Participant’s Account under the Plan as of the most recent Distribution Valuation Date shall be distributed in a single lump sum payment as soon as administratively practicable following the first date – (i) on which the Participant is Disabled (determined without regard the duration requirement of the next clause), (ii) that is at least 12 months following the first date the Participant was Disabled from the cause of the current Disability, and (iii) that is after the Participant has received payments from a PepsiCo disability plan (including the PepsiCo Short Term Disability Plan and the PepsiCo Long Term Disability Plan) for 12-months for the current cause of Disability (determined without regard the duration requirement of this clause).

(b) If the Participant is receiving installment payments at the time of the Participant’s Disability, such installment payments shall continue to be paid in accordance with the provisions of the Participant’s applicable deferral election until the time that the lump sum payment is due to be paid under the provisions of Subsection (a). Immediately prior to the time that such lump sum payment is scheduled to be paid, all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at the time specified in Subsection (a) in a single lump sum.

6.07 <u>Distributions on Account of Unforeseeable Emergency</u>:

Prior to the time that an amount would become distributable under Sections 6.02 through 6.06, a Participant or Beneficiary may file a written request with the Recordkeeper for accelerated payment of all or a portion of the amount credited to the Participant's Account based upon an Unforeseeable Emergency. After an individual has filed a written request pursuant to this Section, along with all supporting material that may be required by the Recordkeeper from time to time, the Recordkeeper shall determine within 60 days (or such other number of days that is necessary if special circumstances warrant additional time) whether the individual meets the criteria for an Unforeseeable Emergency. If the Recordkeeper determines that an Unforeseeable Emergency has occurred, the Participant or Beneficiary shall receive a distribution from his or her Account as soon as administratively practicable. However, such distribution shall not exceed the dollar amount necessary to satisfy the Unforeseeable Emergency (plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution) after taking into account the extent to which the Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

6.08 <u>Valuation</u>:

In determining the amount of any individual distribution pursuant to this Article, the Participant's Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that is used in determining the amount of the distribution under this Article. If a particular Section in this Article does not specify a Distribution Valuation Date to be used in calculating the distribution, the Participant's Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that precedes such distribution. In determining the value of a Participant's remaining Deferral Subaccount following an installment distribution from the Deferral Subaccount (or a partial distribution under Section 6.07 relating to a distribution on account of an Unforeseeable Emergency), such distribution shall reduce the value of the Participant's Deferral Subaccount as of the close of the Distribution Valuation Date preceding the payment date for such installment (or partial distribution). The amount to be distributed in connection with any installment payment shall be determined by dividing the value of a Participant's Deferral Subaccount as of such preceding Distribution Valuation Date (determined before reduction of the Deferral Subaccount as of such Distribution Valuation Date in accordance with the preceding sentence) by the remaining number of installments to be paid with respect to the Deferral Subaccount.

6.09 Section 162(m) Compliance:

If a Participant has elected to defer income, which would qualify as performance-based compensation under Code Section 162(m), into a Risk of Forfeiture Subaccount, then such Deferral Subaccount may not be paid out at any time while the Participant is a covered employee under Code Section 162(m)(3), to the extent it would result in compensation being paid to the Participant in such year that would not be deductible under Code Section 162(m). The payout of any such amount shall be deferred until a year when its payout will not result in the payment of non-performance-based compensation that exceeds the $1 million cap in Code Section 162(m)(1) (and then only such portion that will not exceed such cap shall be paid out in the year). However, the total amount (1) which stands to the credit of the Participant in Risk of Forfeiture Subaccounts, and (2) which would be currently or previously distributed from the Plan but for this Section, shall be paid out in the first year when the Participant is no longer a Code Section 162(m) covered employee. This Section shall apply notwithstanding the fact that a Participant would otherwise be entitled to an earlier distribution under the foregoing provisions of this Article, except that a Participant may receive an earlier distribution with respect to deferrals subject to this Section to the extent the Participant qualifies for such an earlier distribution under Section 6.07.

6.10 Impact of Section 16 of the Act on Distributions:

The provisions of Section 7.06 shall apply in determining whether a Participant’s distribution shall be delayed beyond the date applicable under the preceding provisions of this Article VI.

## ARTICLE VII – PLAN ADMINISTRATION

7.01 Plan Administrator:

The Plan Administrator is responsible for the administration of the Plan. The Plan Administrator has the authority to name one or more delegates to carry out certain responsibilities hereunder, as specified in the definition of Plan Administrator. Any such delegation shall state the scope of responsibilities being delegated and is subject to Section 7.06 below.

7.02 Action:

Action by the Plan Administrator may be taken in accordance with procedures that the Plan Administrator adopts from time to time or that the Company's Law Department determines are legally permissible.

7.03 Powers of the Plan Administrator:

The Plan Administrator shall administer and manage the Plan and shall have (and shall be permitted to delegate) all powers necessary to accomplish that purpose, including the following:

(a) To exercise its discretionary authority to construe, interpret, and administer this Plan;

(b) To exercise its discretionary authority to make all decisions regarding eligibility, participation and deferrals, to make allocations and determinations required by this Plan, and to maintain records regarding Participants' Accounts;

(c) To compute and certify to the Employers the amount and kinds of payments to Participants or their Beneficiaries, and to determine the time and manner in which such payments are to be paid;

(d) To authorize all disbursements by the Employer pursuant to this Plan;

(e) To maintain (or cause to be maintained) all the necessary records for administration of this Plan;

(f) To make and publish such rules for the regulation of this Plan as are not inconsistent with the terms hereof;

(g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;

(h) To establish or to change the phantom investment options or arrangements under Article V;

(i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan; and

(j) Notwithstanding any other provision of this Plan except Section 7.07 (relating to compliance with Section 409A), the Plan Administrator or the Recordkeeper may take any action the Plan Administrator deems is necessary to assure compliance with any policy of the Company respecting insider trading as may be in effect from time to time. Such actions may include altering the effective date of intra-fund transfers or the distribution date of Deferral Subaccounts. Any such actions shall alter the normal operation of the Plan to the minimum extent necessary.

The Plan Administrator has the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, and its decisions on such matters will be final and conclusive on all parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the Plan Administrator, even if (1) such discretion is not expressly granted by the Plan provisions in question, or (2) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. As a result, benefits under this Plan will be paid only if the Plan Administrator decides in its discretion that the applicant is entitled to them. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the Plan Administrator's discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious.

7.04 Compensation, Indemnity and Liability:

The Plan Administrator will serve without bond and without compensation for services hereunder. All expenses of the Plan and the Plan Administrator will be paid by the Employers. To the extent deemed appropriate by the Plan Administrator, any such expense may be charged against specific Participant Accounts, thereby reducing the obligation of the Employers. No member of the Committee (which serves as the Plan Administrator), and no individual acting as the delegate of the Committee, shall be liable for any act or omission of any other member or individual, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Employers (other than the Company) will indemnify and hold harmless each member of the Committee and any employee of the Company (or a Company affiliate, if recognized as an affiliate for this purpose by the Plan Administrator) acting as the delegate of the Committee against any and all expenses and liabilities, including reasonable legal fees and expenses, arising in connection with this Plan out of his or her membership on the Committee (or his or her serving as the delegate of the Committee), excepting only expenses and liabilities arising out of his or her own willful misconduct or bad faith.

7.05 Taxes:

If the whole or any part of any Participant's Account becomes liable for the payment of any estate, inheritance, income, employment, or other tax which the Company may be required to pay or withhold, the Company will have the full power and authority to withhold and pay such tax out of any moneys or other property in its hand for the account of the Participant. To the extent practicable, the Company will provide the Participant notice of such withholding. Prior to making any payment, the Company may require such releases or other documents from any lawful taxing authority as it shall deem necessary. In addition, pursuant to Section 409A amounts deferred under this Plan shall be reported on the Participants' Forms W-2. Also, any amounts that become taxable hereunder shall be reported as taxable wages on a Participant's Form W-2.

7.06 Section 16 Compliance:

(a) In General. This Plan is intended to be a formula plan for purposes of Section 16 of the Act. Accordingly, in the case of a deferral or other action under the Plan that constitutes a transaction that could be covered by Rule 16b-3(d) or (e), if it were approved by the Company's Board or Compensation Committee ("Board Approval"), it is intended that the Plan shall be administered by delegates of the Compensation Committee, in the case of a Participant who is subject to Section 16 of the Act, in a manner that will permit the Board Approval of the Plan to avoid any additional Board Approval of specific transactions to the maximum possible extent.

(b) Approval of Distributions: This Subsection shall govern the distribution of a deferral that (i) is wholly or partly invested in the Phantom PepsiCo Common Stock Fund at the time the deferral would be valued to determine the amount of cash to be distributed to a Participant, (ii) either was the subject of a Second Look Election or was not covered by an agreement, made at the time of the Participant's original deferral election, that any investments in the Phantom PepsiCo Common Stock Fund would, once made, remain in that fund until distribution of the deferral, and (iii) is made to a Participant who is subject to Section 16 of the Act at the time the interest in the Phantom PepsiCo Common Stock Fund would be liquidated in connection with the distribution ("Covered Distributions"). In the case of a Covered Distribution, if the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution has not received Board Approval by the time the distribution would be made if it were not a Covered Distribution, then the actual distribution to the Participant shall be delayed until a date that is as soon as practicable after the earlier of:

(1) Board Approval of the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution, and

(2) The date the distribution is no longer a Covered Distribution, *i.e.*, when the Participant is no longer subject to Section 16 of the Act or when the Deferral Subaccount related to the distribution is no longer invested in the Phantom PepsiCo Common Stock Fund.

7.07 Conformance with Section 409A:

At all times during each Plan Year, this Plan shall be operated (i) in accordance with the requirements of Section 409A, and (ii) to preserve the status of deferrals under the Pre-409A Program as being exempt from Section 409A, *i.e.*, to preserve the grandfathered status of the Pre-409A Program. Any action that may be taken (and, to the extent possible, any action actually taken) by the Plan Administrator, the Recordkeeper or the Company shall not be taken (or shall be void and without effect), if such action violates the requirements of Section 409A or if such action would adversely affect the grandfather of the Pre-409A Program. If the failure to take an action under the Plan would violate Section 409A, then to the extent it is possible thereby to avoid a violation of section 409A, the rights and effects under the Plan shall be altered to avoid such violation. A corresponding rule shall apply with respect to a failure to take an action that would adversely affect the grandfather of the Pre-409A Program. Any provision in this Plan document that is determined to violate the requirements of Section 409A or to adversely affect the grandfather of the Pre-409A Program shall be void and without effect. In addition, any provision that is required to appear in this Plan document to satisfy the requirements of Section 409A, but that is not expressly set forth, shall be deemed to be set forth herein, and the Plan shall be administered in all respects as if such provision were expressly set forth. A corresponding rule shall apply with respect to a provision that is required to preserve the grandfather of the Pre-409A Program. In all cases, the provisions of this Section shall apply notwithstanding any contrary provision of the Plan that is not contained in this Section.

8.01 Claims for Benefits:

If a Participant, Beneficiary or other person (hereafter, "Claimant") does not receive timely payment of any benefits which he or she believes are due and payable under the Plan, he or she may make a claim for benefits to the Plan Administrator. The claim for benefits must be in writing and addressed to the Plan Administrator. If the claim for benefits is denied, the Plan Administrator will notify the Claimant within 90 days after the Plan Administrator initially received the benefit claim. However, if special circumstances require an extension of time for processing the claim, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 90-day period and such extension may not exceed one additional, consecutive 90-day period. Any notice of a denial of benefits shall advise the Claimant of the basis for the denial, any additional material or information necessary for the Claimant to perfect his or her claim, and the steps which the Claimant must take to appeal his or her claim for benefits.

8.02 Appeals of Denied Claims:

Each Claimant whose claim for benefits has been denied may file a written appeal for a review of his or her claim by the Plan Administrator. The request for review must be filed by the Claimant within 60 days after he or she received the notice denying his or her claim. The decision of the Plan Administrator will be communicated to the Claimant within 60 days after receipt of a request for appeal. The notice shall set forth the basis for the Plan Administrator's decision. However, if special circumstances require an extension of time for processing the appeal, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 60-day period and such extension may not exceed one additional, consecutive 60-day period. In no event shall the Plan Administrator's decision be rendered later than 120 days after receipt of a request for appeal.

8.03 Special Claims Procedures for Disability Determinations:

Notwithstanding Sections 8.01 and 8.02, if the claim or appeal of the Claimant relates to Disability benefits, such claim or appeal shall be processed pursuant to the applicable provisions of Department of Labor Regulation Section 2560.503-1 relating to Disability benefits, including Sections 2560.503-1(d), 2560.503-1(f)(3), 2560.503-1(h)(4) and 2560.503-1(i)(3).

## ARTICLE IX – AMENDMENT AND TERMINATION

9.01 <u>Amendment of Plan</u>:

The Compensation Committee of the Board of Directors of the Company has the right in its sole discretion to amend this Plan in whole or in part at any time and in any manner, including the manner of making deferral elections, the terms on which distributions are made, and the form and timing of distributions. However, except for mere clarifying amendments necessary to avoid an inappropriate windfall, no Plan amendment shall reduce the amount credited to the Account of any Participant as of the date such amendment is adopted. Any amendment shall be in writing and adopted by the Committee. All Participants and Beneficiaries shall be bound by such amendment. Any amendments made to the Plan shall be subject to any restrictions on amendment that are applicable to ensure continued compliance under Section 409A.

9.02 <u>Termination of Plan</u>:

(a) The Company expects to continue this Plan, but does not obligate itself to do so. The Company, acting by the Compensation Committee of the Board of Directors, or through its entire Board of Directors, reserves the right to discontinue and terminate the Plan at any time, in whole or in part, for any reason (including a change, or an impending change, in the tax laws of the United States or any State). Termination of the Plan will be binding on all Participants (and a partial termination shall be binding upon all affected Participants) and their Beneficiaries, but in no event may such termination reduce the amounts credited at that time to any Participant's Account. If this Plan is terminated (in whole or in part), the termination resolution shall provide for how amounts theretofore credited to affected Participants' Accounts will be distributed.

(b) This Section is subject to the same restrictions related to compliance with Section 409A that apply to Section 9.01. In accordance with these restrictions, the Company intends to have the maximum discretionary authority to terminate the Plan and make distributions in connection with a Change in Control (as defined in Section 409A), and the maximum flexibility with respect to how and to what extent to carry this out following a Change in Control (as defined in Section 409A) as is permissible under Section 409A. The previous sentence contains the exclusive terms under which a distribution may be made in connection with any change in control with respect to deferrals made under this 409A Program. No distributions shall be made under this 409A Program for any change in control unless the distribution satisfies the provisions of a Change in Control (as defined in Section 409A), and no distributions shall be made under this 409A Program with respect to a "Non-Qualifying Change in Control."

(c) For purposes of this Section, a "Non-Qualifying Change in Control" shall include any of the following –

(1) A change in the ownership or effective control of the Company,

(2) A change in the ownership of a substantial portion of the assets of the Company,

(3) Company shareholders approve a merger or consolidation of the Company with another entity and the Company is not the surviving entity, or if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of the Company,

(4) Company shareholders approve a plan of complete liquidation of the Company or the sale or disposition of all or substantially all of the Company’s assets, and

(5) Any other event, circumstance, offer or proposal occurs or is made which is intended to effect a change in the control of the Company and which results in the occurrence of one or more of the events listed in paragraphs (1) through (4) above.

## ARTICLE X – MISCELLANEOUS

10.01 Limitation on Participant's Rights:

Participation in this Plan does not give any Participant the right to be retained in the Employer's employ (or any right or interest in this Plan or any assets of the Employer other than as herein provided). The Employer reserves the right to terminate the employment of any Participant without any liability for any claim against the Employer under this Plan, except for a claim for payment of deferrals as provided herein.

10.02 Unfunded Obligation of Individual Employer:

The benefits provided by this Plan are unfunded. All amounts payable under this Plan to Participants are paid from the general assets of the Participant's individual Employer. Nothing contained in this Plan requires an Employer to set aside or hold in trust any amounts or assets for the purpose of paying benefits to Participants. Neither a Participant, Beneficiary, nor any other person shall have any property interest, legal or equitable, in any specific Employer asset. This Plan creates only a contractual obligation on the part of a Participant's individual Employer, and the Participant has the status of a general unsecured creditor of this Employer with respect to amounts of compensation deferred hereunder. Such a Participant shall not have any preference or priority over, the rights of any other unsecured general creditor of the Employer. No other Employer guarantees or shares such obligation, and no other Employer shall have any liability to the Participant or his or her Beneficiary. In the event, a Participant transfers from the employment of one Employer to another, the former Employer shall transfer the liability for deferrals made while the Participant was employed by that Employer to the new Employer (and the books of both Employers shall be adjusted appropriately).

10.03 Other Plans:

This Plan shall not affect the right of any Eligible Executive or Participant to participate in and receive benefits under and in accordance with the provisions of any other employee benefit plans which are now or hereafter maintained by any Employer, unless the terms of such other employee benefit plan or plans specifically provide otherwise or it would cause such other plan to violate a requirement for tax favored treatment.

10.04 Receipt or Release:

Any payment to a Participant in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan Administrator, the Recordkeeper, the Company, and all Employers, and the Plan Administrator may require such Participant, as a condition precedent to such payment, to execute a receipt and release to such effect.

10.05 Governing Law:

This Plan shall be construed, administered, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by federal law, in accordance with the laws of the State of North Carolina. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

10.06 Adoption of Plan by Related Employers:

The Plan Administrator may select as an Employer (other than the Company, which is automatically an Employer hereunder) any division of the Company, as well as any subsidiary or affiliate related to the Company by ownership (and that is a member of the PepsiCo Organization), and permit or cause such division, subsidiary or affiliate to adopt the Plan. The selection by the Plan Administrator shall govern the effective date of the adoption of the Plan by such related Employer. The requirements for Plan adoption are entirely within the discretion of the Plan Administrator and, in any case where the status of an entity as an Employer is at issue, the determination of the Plan Administrator shall be absolutely conclusive.

10.07 Gender, Tense and Examples:

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine, or neuter gender shall be deemed to include the other. Whenever an example is provided or the text uses the term “including” followed by a specific item or items, or there is a passage having a similar effect, such passage of the Plan shall be construed as if the phrase “without limitation” followed such example or term (or otherwise applied to such passage in a manner that avoids limitation on its breadth of application).

10.08 Successors and Assigns; Nonalienation of Benefits:

This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to the Account of a Participant are not (except as provided in Sections 5.06 and 7.05) subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, including, without limitation, any assignment or alienation in connection with a separation, divorce, child support or similar arrangement, will be null and void and not binding on the Plan or the Company or any Employer. Notwithstanding the foregoing, the Plan Administrator reserves the right to make payments in accordance with a divorce decree, judgment or other court order as and when cash payments are made in accordance with the terms of this Plan from the Deferral Subaccount of a Participant. Any such payment shall be charged against and reduce the Participant’s Account.

10.09 Facility of Payment:

Whenever, in the Plan Administrator’s opinion, a Participant or Beneficiary entitled to receive any payment hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the Employer to make payments to such person or to the legal representative of such person for his or her benefit, or to apply the payment for the benefit of such person in such manner as the Plan Administrator considers advisable. Any payment in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment to the Participant or Beneficiary under the Plan.

ARTICLE XI – AUTHENTICATION

This 409A Program document has been authorized, adopted and approved to be effective as stated herein by the Compensation Committee of the Company's Board of Directors at the Compensation Committee's duly authorized meeting on November 18, 2005.

## APPENDIX

This Appendix modifies particular terms of the Plan as it may apply to certain groups and situations. Except as specifically modified in this Appendix, the foregoing main provisions of the Plan shall fully apply in determining the rights and benefits of Participants. In the event of a conflict between this Appendix and the foregoing main provisions of the Plan, the Appendix shall govern.

Pursuant to Q&A-20(a) of IRS Notice 2005-1, each Eligible Executive shall have the right to cancel his or her election to defer 2005 Base Compensation and each Eligible Executive whose 2004 Bonus Compensation is subject to Section 409A shall have the right to cancel his or her election to defer such 2004 Bonus Compensation. Such election to cancel must be filed with the Plan Administrator pursuant to the procedures and timing requirements established by the Plan Administrator for this purpose (such procedures and timing requirements to be consistent with the requirements of Q&A-20(a)). Any Eligible Executive who makes an election to cancel such deferral election shall have the 2005 Base Compensation and/or the 2004 Bonus Compensation related to such deferral election paid to him or her (plus any applicable earnings or minus any applicable losses) and such amount shall be reported as taxable income to the Eligible Executive for the 2005 calendar year.

EXHIBIT 10.30

# PEPSICO

# DIRECTOR

# DEFERRAL PROGRAM

**Plan Document for the 409A Program,**
**Effective as of January 1, 2005**

## TABLE OF CONTENTS

## TABLE OF CONTENTS

## ARTICLE I – INTRODUCTION

PepsiCo, Inc. (the "Company") established the PepsiCo Director Deferral Program (the "Plan") to permit Eligible Directors to defer certain compensation paid to them as Directors.

This document is effective as of January 1, 2005 (the "Effective Date"). It sets forth the terms of the Plan that are applicable to deferrals that are subject to Section 409A, *i.e.*, deferred amounts that are earned or vested beginning from and after the 2004-2005 Board Year (the "409A Program"). Other deferrals under the Plan shall be governed by a separate set of documents that set forth the pre-Section 409A terms of the Plan (the "Pre-409A Program"). Together, this document and the documents for the Pre-409A Program describe the terms of a single plan. However, amounts subject to the terms of this 409A Program and amounts subject to the terms of the Pre-409A Program shall be tracked separately at all times. The preservation of the terms of the Pre-409A Program, without material modification, and the separation between the 409A Program amounts and the Pre-409A Program amounts are intended to be sufficient to permit the pre-409A Program to remain exempt from Section 409A.

With respect to deferrals covered by this document, this document specifies the group of Directors of the Company that are eligible to make deferrals, the procedures for electing to defer compensation and the Plan's provisions for maintaining and paying out amounts that have been deferred.

The Plan is unfunded and unsecured. Amounts deferred by a Director are a liability and an obligation of the Company, and Directors have the rights of a general creditor.

## ARTICLE II – DEFINITIONS

When used in this Plan, the following underlined terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

2.01 Account:

The account maintained for a Participant on the books of the Company to determine, from time to time, the Participant's interest under this Plan. The balance in such Account shall be determined by the Plan Administrator. Each Participant's Account shall consist of at least one Deferral Subaccount for each separate deferral under Section 4.01. The Recordkeeper may also establish such additional Deferral Subaccounts as it deems necessary for the proper administration of the Plan. The Recordkeeper may also combine Deferral Subaccounts to the extent it deems separate accounts are not needed for sound recordkeeping. Where appropriate, a reference to a Participant's Account shall include a reference to each applicable Deferral Subaccount that has been established thereunder.

2.02 Act:

The Securities Exchange Act of 1934, as amended.

2.03 Beneficiary:

The person or persons (including a trust or trusts) properly designated by a Participant, as determined by the Plan Administrator, to receive the amounts in one or more of the Participant's Deferral Subaccounts in the event of the Participant's death, provided such person or persons are living (or in existence, in the case of a trust) at the Participant's death. To be effective, any Beneficiary designation must be in writing, signed by the Participant, and must meet such other standards (including any requirement for spousal consent) as the Plan Administrator shall require from time to time. The Beneficiary designation must also be filed with the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose) prior to the Participant's death. An incomplete Beneficiary designation, as determined by the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose), shall be void and of no effect. If some but not all of the persons designated by a Participant to receive his or her Account at death predecease the Participant, the Participant's surviving Beneficiaries shall be entitled to the portion of the Participant's Account intended for such pre-deceased persons in proportion to the surviving Beneficiaries' respective shares. If no designation is in effect at the time of a Participant's death (as determined by the Plan Administrator) or if all persons designated as Beneficiaries have predeceased the Participant, then the Participant's Beneficiary shall be his or her estate. A Beneficiary designation of an individual by name remains in effect regardless of any change in the designated individual's relationship to the Participant. Any Beneficiary designation submitted to the Plan Administrator (or Recordkeeper, if designated by the Plan Administrator for this purpose) that only specifies a Beneficiary by relationship shall not be considered an effective Beneficiary designation and shall be void and of no effect. An individual who is otherwise a Beneficiary with respect to a Participant's Account ceases to be a Beneficiary when all payments have been made from the Account.

2.04 Board Year:

The 12-month period of time for which Directors are elected to the Board of Directors of the Company.

2.05 Code:

The Internal Revenue Code of 1986, as amended from time to time.

2.06 Company:

PepsiCo, Inc., a corporation organized and existing under the laws of the State of North Carolina, or its successor or successors.

2.07 Deferral Subaccount:

A subaccount of a Participant's Account maintained to reflect his or her interest in the Plan attributable to each deferral (or separately tracked portion of a deferral) of Director Compensation, and earnings or losses credited to such subaccount in accordance with Section 5.01(b).

2.08 Director:

Any person who is a member of the Board of Directors of the Company and who is not currently an employee of the PepsiCo Organization.

2.09 Director Compensation:

Direct monetary remuneration to the extent paid in cash in U.S. dollars to the Eligible Director by the Company. Director Compensation shall not include the amount of any reimbursement by the Company for expenses incurred by the Eligible Director in the discharge of his or her duties as a member of the Board of Directors. Subject to the next sentence, the Director Compensation shall be limited to the amount due an Eligible Director for the discharge of his or her duties as a member of the Board of Directors of the Company, and shall be reduced for any applicable tax levies, garnishments and other legally required deductions. Notwithstanding the preceding sentence, an Eligible Director's Director Compensation may be reduced by an item described in the preceding sentence only to the extent such reduction does not violate Section 409A.

2.10 Disability:

A Participant shall be considered to suffer from a Disability, if, in the judgment of the Recordkeeper (based on the provisions of Section 409A and any guidelines established by the Plan Administrator for this purpose), the Participant –

(a) Is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

(b) By reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, is receiving income replacement benefits for a period of not less than 3 months under an accident and health plan of the Company.

Solely for those Participants who are otherwise eligible for Social Security, a Participant who has received a Social Security disability award will be deemed to satisfy the requirements of Subsection (a), and a Participant who has not received a Social Security disability award will be deemed to not meet the requirements of Subsection (a).

2.11 Distribution Valuation Date:

Each date as specified by the Plan Administrator from time to time as of which Participant Accounts are valued for purposes of a distribution from a Participant's Account. The current Distribution Valuation Dates are January 1, April 1, July 1 and October 1. Any current Distribution Valuation Date may be changed by the Plan Administrator, provided that such change does not result in a change in when deferrals are paid out that is impermissible under Section 409A. Values are determined as of the close of a Distribution Valuation Date or, if such date is not a business day, as of the close of the following business day.

2.12 Election Form:

The form prescribed by the Plan Administrator on which a Participant specifies the amount of his or her Director Compensation to be deferred and the timing and form of his or her deferral payout, pursuant to the provisions of Article IV. An Election Form need not exist in a paper format, and it is expressly contemplated that the Plan Administrator may make available for use such technologies, including voice response systems and electronic forms, as it deems appropriate from time to time.

2.13 Eligible Director:

The term, Eligible Director, shall have the meaning given to it in Section 3.01(b).

2.14 ERISA:

Public Law 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.15 Fair Market Value:

For purposes of converting a Participant's deferrals to phantom PepsiCo Common Stock as of any date, the Fair Market Value of such stock is the closing price on such date (or if such date is not a trading date, the date immediately following such date that is a trading date) for PepsiCo Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places. For purposes of determining the value of a Plan distribution, the Fair Market Value of phantom PepsiCo Common Stock is determined as the closing price on the applicable Distribution Valuation Date for PepsiCo Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places.

2.16 409A Program:

The program described in this document. The term "409A Program" is used to identify the portion of the Plan that is subject to Section 409A.

2.17 Key Employee:

The individuals identified in accordance with the principles set forth in Subsection (a), as modified by the following provisions of this Section.

(a) General. Any Eligible Director or former Eligible Director who at any time during the applicable year is –

(1) An officer of the Company having annual compensation greater than $130,000 (as adjusted under Code Section 416(i)(1));

(2) A 5-percent owner of the Company; or

(3) A 1-percent owner of the Company having annual compensation of more than $150,000.

For purposes of (1) above, no more than 50 employees identified in the order of their annual compensation (or, if lesser, the greater of 3 employees or 10 percent of the employees) shall be treated as officers. For purposes of this Section, annual compensation means compensation as defined in Code Section 415(c)(3). The Plan Administrator shall determine who is a Key Employee in accordance with Code Section 416(i) and the applicable regulations and other guidance of general applicability issued thereunder or in connection therewith (including the provisions of Code Section 416(i)(3) that treat self employed individuals as employees for purposes of this definition); provided, that Code Section 416(i)(5) shall not apply in making such determination, and provided further that the applicable year shall be determined in accordance with Section 409A and that any modification of the foregoing definition that applies under Section 409A shall be taken into account.

(b) Operating Rules for 2005 and Later. To ensure that the Company does not fail to identify any Key Employees based on the provisions of Subsection (a) above, in the case of Separation from Service distributions from and after January 1, 2005, the Company shall determine Key Employees under Subsections (a)(1), (2) and (3) above based on the following determination periods:

(1) If, in connection with a Separation from Service, the determination of a Key Employee is being made in the first calendar quarter of a Plan Year, the determination shall be made using data for the Plan Year that is two years prior to the current Plan Year (*e.g.*, for a determination made in the first quarter of the 2005 Plan Year, data for the 2003 Plan Year shall be used); and

(2) If, in connection with a Separation from Service, the determination of a Key Employee is being made in the second, third or fourth calendar quarter of a Plan Year, the determination shall be made using data for the prior Plan Year (*e.g.*, for a determination made in the second quarter of the 2005 Plan Year, data for the 2004 Plan Year shall be used).

In addition, a Participant shall be considered an officer for purposes of Subsection (a)(1), a 5-percent owner for purposes of Subsection (a)(2) or a 1-percent owner for purposes of Subsection (a)(3) with respect to a Separation from Service distribution, if the Participant was an officer, a 5-percent owner or a 1-percent owner at some point during the Plan Year that applies, in accordance with Paragraphs (1) and (2) above.

2.18 Participant:

Any Director who is qualified to participate in this Plan in accordance with Section 3.01 and who has an Account. An active Participant is one who is currently deferring under Section 4.01.

2.19 PepsiCo Organization:

The controlled group of organizations of which the Company is a part, as defined by Code section 414(b) and (c) and the regulations issued thereunder. An entity shall be considered a member of the PepsiCo Organization only during the period it is one of the group of organizations described in the preceding sentence.

2.20 Plan:

The PepsiCo Director Deferral Program, the plan set forth herein and in the Pre-409A Program documents, as it may be amended and restated from time to time (subject to the limitations on amendment that are applicable hereunder and under the Pre-409A Program).

2.21 Plan Administrator:

The Board of Directors of the Company or its delegate or delegates, which shall have the authority to administer the Plan as provided in Article VII. As of the Effective Date, the Company’s Senior Vice President, Compensation and Benefits is delegated the responsibility for the operational administration of the Plan. In turn, the Senior Vice President, Compensation and Benefits has the authority to re-delegate operational responsibilities to other persons or parties. As of the Effective Date, the Senior Vice President, Compensation and Benefits has re-delegated certain operational responsibilities to the Recordkeeper. However, references in this document to the Plan Administrator shall be understood as referring to the Board of Directors, the Senior Vice President, Compensation and Benefits and those delegated by the Senior Vice President, Compensation and Benefits other than the Recordkeeper. All delegations made under the authority granted by this Section are subject to Section 7.06.

2.22 Plan Year:

The 12-consecutive month period beginning on January 1 and ending on December 31.

2.23 Pre-409A Program:

The portion of the Plan that governs deferrals that are not subject to Section 409A. The terms of the Pre-409A Program are set forth in a separate set of documents.

2.24 Recordkeeper:

For any designated period of time, the party (which may include the Company’s Compensation Department) that is delegated the responsibility, pursuant to the authority granted in the definition of Plan Administrator, to maintain the records of Participant Accounts, process Participant transactions and perform other duties in accordance with any procedures and rules established by the Plan Administrator.

2.25 Retirement:

Separation from Service after attaining eligibility for retirement. A Participant attains eligibility for retirement when he or she attains age 55 while serving as a director on the Board of Directors of the Company.

2.26 Second Look Election:

The term, Second Look Election, shall have the meaning given to it in Section 4.04.

2.27 Section 409A:

Section 409A of the Code and the applicable regulations and other guidance of general applicability that is issued thereunder.

2.28 Separation from Service:

A Participant's separation from service with the PepsiCo Organization, within the meaning of Section 409A(a)(2)(A)(i). The term may also be used as a verb (*i.e.*, "Separates from Service") with no change in meaning.

2.29 Specific Payment Date:

A specific date selected by an Eligible Director that triggers a lump sum payment of a deferral or the start of installment payments for a deferral, as specified in Section 4.03 or 4.04. The Specific Payment Dates that are available to be selected by Eligible Directors shall be determined by the Plan Administrator. With respect to any deferral, the currently available Specific Payment Date(s) shall be the date or dates reflected on the Election Form or the Second Look Election form that is made available by the Plan Administrator for the deferral. In the event that an Election Form or Second Look Election form only provides for selecting a month and a year as the Specific Payment Date, the first day of the month that is selected shall be the Specific Payment Date. As of the Effective Date, the Specific Payment Date is January 1 of the year specified by the Eligible Director.

2.30 Unforeseeable Emergency:

A severe financial hardship to the Participant resulting from –

(a) An illness or accident of the Participant, the Participant's spouse or a dependent (as defined in Code Section 152(a)) of the Participant;

(b) Loss of the Participant's property due to casualty; or

(c) Any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

The Recordkeeper shall determine the occurrence of an Unforeseeable Emergency in accordance with Section 409A(a)(2)(B)(ii) and any guidelines that may be established by the Plan Administrator.

2.31 Valuation Date:

Each business day, as determined by the Recordkeeper, as of which Participant Accounts are valued in accordance with Plan procedures that are currently in effect. In accordance with procedures that may be adopted by the Plan Administrator, any current Valuation Date may be changed.

## ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.01 <u>Eligibility to Participate</u>:

(a) An individual shall be eligible to defer compensation under the Plan during the period that he or she is a Director hereunder.

(b) During the period an individual satisfies the eligibility requirements of this Section, he or she shall be referred to as an Eligible Director.

(c) Each Eligible Director becomes an active Participant on the date an amount is first withheld from his or her compensation pursuant to an Election Form submitted by the Director to the Plan Administrator under Section 4.01.

3.02 <u>Termination of Eligibility to Defer</u>:

An individual's eligibility to participate actively by making deferrals under Section 4.01 shall cease as soon as administratively practicable following the date he or she ceases to be a Director.

3.03 <u>Termination of Participation</u>:

An individual, who has been an active Participant under the Plan, ceases to be a Participant on the date his or her Account is fully paid out.

ARTICLE IV – DEFERRAL OF COMPENSATION

4.01 Deferral Election:

(a) Each Eligible Director may make an election to defer under the Plan in 10% increments up to 100% of his or her Director Compensation in the manner described in Section 4.02. Such election to defer shall apply to Director Compensation that is earned for services performed in the Board Year. A newly Eligible Director may only defer the portion of his or her eligible Director Compensation for a Board Year that is earned for services performed after the date of his or her election. For this purpose, if a valid Election Form is received prior to becoming a Director and the Election Form is effective as of becoming a Director under Section 4.02(a), then the Director shall be deemed to receive all of his or her Director Compensation for the year after the date of the election. Any Director Compensation deferred by an Eligible Director for a Board Year will be deducted for each payment period during the Board Year for which he or she has Director Compensation and is an Eligible Director.

(b) To be effective, an Eligible Director's Election Form must set forth the percentage of Director Compensation, the deferral period under Section 4.03, and any other information that may be requested by the Plan Administrator from time to time. In addition, the Election Form must meet the requirements of Section 4.02.

4.02 Time and Manner of Deferral Election:

(a) Deferral Election Deadlines. Ordinarily an Eligible Director must make a deferral election for a Board Year with respect to Director Compensation no later than December 31 of the calendar year prior to the beginning of the Board Year in which the Director Compensation would otherwise be paid (although the Plan Administrator may adopt policies that encourage earlier submission of election forms). If December 31 of such year is not a business day, then the deadline for deferral elections will be the first business day preceding December 31 of such year. In addition, an individual, who has been nominated for Director status, must submit an Election Form prior to becoming an Eligible Director or otherwise prior to rendering services as an Eligible Director, and such Election Form will be effective immediately upon commencement of the individual's status as an Eligible Director or otherwise upon commencement of his or her services as an Eligible Director.

(b) General Provisions. A separate deferral election under subsection (a) above must be made by an Eligible Director for each Board Year's compensation that is eligible for deferral. If a properly completed and executed Election Form is not actually received by the Recordkeeper (or, if authorized, the Plan Administrator) by the prescribed time in subsection (a) above, the Eligible Director will be deemed to have elected not to defer any Director Compensation for the applicable Board Year. An election is irrevocable once received and determined by the Plan Administrator to be properly completed. Increases or decreases in the amount or percentage a Participant elects to defer shall not be permitted after the beginning of the calendar year during which the applicable Board Year begins.

(c) Beneficiaries. A Participant may designate on the Election Form (or in some other manner authorized by the Plan Administrator) one or more Beneficiaries to receive payment, in the event of his or her death, of the amounts credited to his or her Account. If more than one Beneficiary is specified and the Participant fails to indicate the respective percentage applicable to two or more Beneficiaries, then each Beneficiary for whom a percentage is not designated will be entitled to an equal share of the portion of the Account (if any) for which percentages have not been designated. At any time, a Participant may change a Beneficiary designation for his or her Account in a writing that is signed by the Participant and filed with the Plan Administrator (or Recordkeeper, if authorized by the Plan Administrator for this purpose) prior to the Participant's death, and that meets such other standards as the Plan Administrator shall require from time to time.

4.03 Period of Deferral; Form of Payment:

(a) Period of Deferral. An Eligible Director making a deferral election shall specify a deferral period on his or her Election Form by designating either a Specific Payment Date or the date he or she incurs a Separation from Service. Notwithstanding an Eligible Director's actual election of a Specific Payment Date, an Eligible Director shall be deemed to have elected a period of deferral of not less than the first day of the Plan Year after the end of the Plan Year during which the Director Compensation would have been paid absent the deferral. If the period of deferral elected by an Eligible Director is less than the minimum, the Eligible Director shall be deemed to have selected a Specific Payment Date equal to the minimum period of deferral as provided in the preceding sentence.

(b) Form of Payment. The default form of payment for all initial deferral elections under the Plan is a single lump sum that shall be paid at the time applicable under Article VI. A Participant may only change the default payment from a lump sum to installments by means of a Second Look Election that meets all of the requirements of Section 4.04.

4.04 Second Look Election:

(a) General. Subject to Subsection (b) below, a Participant who has made a valid initial deferral in accordance with the foregoing provisions of this Article may subsequently make another one-time election regarding the time and/or form of payment of his or her deferral. This opportunity to modify the Participant's initial election is referred to as a "Second Look Election."

(b) Requirements for Second Look Elections. A Second Look Election must comply with all of the following requirements:

(1) If a Participant's initial election specified payment based on a Specific Payment Date, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's original Specific Payment Date. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a new Specific Payment Date that is at least 5 years after the original Specific Payment Date.

(2) If a Participant's initial election specified payment based on the Participant's Separation from Service, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's Separation from Service. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a Specific Payment Date that turns out to be at least 5 years after the Participant's Separation from Service. If the Specific Payment Date selected in a Second Look Election turns out to be less than 5 years after the Participant's Separation from Service or the Second Look Election is filed less than 12 months before the Participant's Separation from Service, the Second Look Election is void.

(3) A Separation from Service may not be specified as the payout date resulting from a Second Look Election.

(4) A Participant may make only one Second Look Election for each individual deferral, and each Second Look Election must comply with all of the requirements of this Section.

(5) A Participant who uses a Second Look Election to change the form of the Participant's payment from a lump sum to installments shall be subject to the provisions of Subsection (c) below regarding installment payment elections, and such installment payments must begin no earlier than 5 years after when the lump sum payment would have been paid based upon the Participant's initial election.

(6) For purposes of this Section, all of a Participant's installment payments related to a specific deferral election shall be treated as a single payment.

A Second Look Election will be void and payment will be made based on the Participant's original election under Section 4.03 if all of the provisions of the foregoing Paragraphs of this Subsection are not satisfied in full. However, if a Participant's Second Look Election becomes effective in accordance with the provisions of this Subsection, the Participant's original election shall be superseded (including any Specific Payment Date specified therein), and the original election shall not be taken into account with respect to the deferral that is subject to the Second Look Election.

(c) Installment Payments. A Participant making a Second Look Election may make an election to change the payment of the deferral subject to the Second Look

Election from a lump sum payment to installment payments. Participants are allowed to choose installment payments by designating that payments shall be paid annually over five years or ten years.

(d) Plan Administrator's Role. Each Participant has the sole responsibility to elect a Second Look Election by contacting the Recordkeeper (or, if authorized, the Plan Administrator) and to comply with the requirements of this Section. The Plan Administrator or the Recordkeeper may provide a notice of a Second Look Election opportunity to some or all Participants, but the Recordkeeper and Plan Administrator is under no obligation to provide such notice (or to provide it to all Participants, in the event a notice is provided only to some Participants). The Recordkeeper and the Plan Administrator have no discretion to waive or otherwise modify any requirement for a Second Look Election set forth in this Section or in Section 409A.

## ARTICLE V – INTERESTS OF PARTICIPANTS

5.01 Accounting for Participants' Interests:

(a) Deferral Subaccounts. Each Participant shall have at least one separate Deferral Subaccount for each separate deferral of Director Compensation made by the Participant under this Plan. A Participant's deferral shall be credited to his or her Account as soon as practicable following the date the compensation would be paid in the absence of a deferral. A Participant's Account is a bookkeeping device to track the value of the Participant's deferrals and the Company's liability therefor. No assets shall be reserved or segregated in connection with any Account, and no Account shall be insured or otherwise secured.

(b) Account Earnings or Losses. As of each Valuation Date, a Participant's Account shall be credited with earnings and gains (and shall be debited for expenses and losses) determined as if the amounts credited to the Participant's Account had actually been invested in accordance with this Article. The Plan provides only for "phantom investments," and therefore such earnings, gains, expenses and losses are hypothetical and not actual. However, they shall be applied to measure the value of a Participant's Account and the amount of the Company's liability to make deferred payments to or on behalf of the Participant.

5.02 Phantom Investment of Account:

(a) General. Each of a Participant's Deferral Subaccounts shall be invested on a phantom basis in phantom PepsiCo Common Stock as provided in Subsection (b) below.

(b) Phantom PepsiCo Common Stock. Participant Accounts invested in this phantom option are adjusted to reflect an investment in PepsiCo Common Stock. An amount deferred into this option is converted to phantom shares (or units) of PepsiCo Common Stock of equivalent value by dividing such amount by the Fair Market Value of a share of PepsiCo Common Stock (or of a unit in the Account) on the date as of which the amount is treated as invested in this option by the Plan Administrator. The Plan Administrator shall adopt a fair valuation methodology for valuing a phantom investment in this option, such that the value shall reflect the complete value of an investment in PepsiCo Common Stock in accordance with the following Paragraphs below.

(1) The Plan Administrator shall value a phantom investment in PepsiCo Common Stock pursuant to an accounting methodology which unitizes partial shares as well as any amounts that would be received by the Account as dividends (if dividends were paid on phantom shares/units of PepsiCo Common Stock as they are on actual shares of equivalent value). For the time period this methodology is chosen, partial shares and the above dividends shall be converted to units and credited to the Participant's investment in the phantom PepsiCo Common Stock.

(2) A Participant's interest in the phantom PepsiCo Common Stock is valued as of a Valuation Date by multiplying the number of phantom shares (or units) credited to his or her Account on such date by the Fair Market Value of a share of PepsiCo Common Stock (or of a unit in the Account) on such date.

(3) If shares of PepsiCo Common Stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or any other corporate change treated as subject to this provision by the Plan Administrator, such equitable adjustment shall be made in the number and kind of phantom shares/units credited to an Account or Deferral Subaccount as the Plan Administrator may determine to be necessary or appropriate.

(4) In no event will shares of PepsiCo Common Stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of PepsiCo Common Stock on account of an interest in this phantom option.

Any valuation or other determination that is required to be made under this Section by the Plan Administrator may also be made by the Recordkeeper, if the Recordkeeper has been authorized by the Plan Administrator to make such valuation or determination.

5.03 Vesting of a Participant's Account:

A Participant's interest in the value of his or her Account shall at all times be 100% vested, which means that it will not forfeit as a result of his or her Separation from Service.

## ARTICLE VI – DISTRIBUTIONS

6.01 General:

A Participant's Deferral Subaccount(s) that are governed by the terms of this 409A Program shall be distributed as provided in this Article, subject in all cases to Section 7.03(j) (relating to safeguards against insider trading) and Section 7.06 (relating to compliance with Section 16 of the Act). All Deferral Subaccount balances shall be distributed in cash. In no event shall any portion of a Participant's Account be distributed earlier or later than is allowed under Section 409A.

The following general rules shall apply for purposes of interpreting the provisions of this Article VI.

(a) Section 6.02 (Distributions Based on a Specific Payment Date) applies when a Participant has elected to defer until a Specific Payment Date and the Specific Payment Date is reached before the Participant's – (i) Separation from Service (other than for Retirement), (ii) Disability, or (iii) death. However, if such a Participant Separates from Service (other than for Retirement or death) prior to the Specific Payment Date (or prior to processing of the first installment payment due in connection with the Specific Payment Date), Section 6.03 shall apply. If such a Participant dies prior to the Specific Payment Date, Section 6.04 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account. If such a Participant becomes Disabled prior to the Specific Payment Date, Section 6.06 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account.

(b) Section 6.03 (Distributions on Account of a Separation from Service) applies – (i) when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service (other than for Retirement or death), or (ii) when applicable under Subsection (a) above.

(c) Section 6.04 (Distributions on Account of Death) applies when the Participant dies. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 (see below) at the time of his or her death, Section 6.04 shall take precedence over those sections to the extent Section 6.04 would result in an earlier distribution of all or part of a Participant's Account.

(d) Section 6.05 (Distributions on Account of Retirement) applies when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service on account of his or her Retirement. Subsections (c) and (e) of this Section provide for when Section 6.04 or 6.06 take precedence over Section 6.05.

(e) Section 6.06 (Distributions on Account of Disability) applies when the Participant becomes Disabled. If a Participant who becomes Disabled dies, Section 6.04 shall take precedence over Section 6.06 to the extent it would result in an earlier distribution of all or part of a Participant's Account. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 at the time of his Disability, Section 6.06 shall take precedence over those sections to the extent Section 6.06 would result in an earlier distribution of all or part of a Participant's Account.

(f) Section 6.07 (Distributions on Account of Unforeseeable Emergency) applies when the Participant incurs an Unforeseeable Emergency prior to when a Participant's Account is distributed under Sections 6.02 through 6.06. In this case, the provisions of Section 6.07 shall take precedence over Sections 6.02 through 6.06 to the extent Section 6.07 would result in an earlier distribution of all or part of the Participant's Account.

6.02 <u>Distributions Based on a Specific Payment Date</u>:

This Section shall apply to distributions that are to be made upon the occurrence of a Specific Payment Date. In the event a Participant's Specific Payment Date for a Deferral Subaccount is reached before (i) the Participant's Disability, or (ii) the Participant's Separation from Service (other than for Retirement) or (iii) the Participant's death, such Deferral Subaccount shall be distributed based on the occurrence of such Specific Payment Date in accordance with the following terms and conditions:

(a) If the Participant has not made a valid Second Look Election that includes installment payments, the Deferral Subaccount shall be valued as of the Distribution Valuation Date that corresponds to the Participant's Specific Payment Date, and the resulting amount shall be paid in a single lump sum as soon as administratively practicable thereafter.

(b) If the Participant has made a valid Second Look Election that includes installment payments, the first installment payment shall be paid (based upon the schedule elected in the Participant's Second Look Election) as soon as administratively practicable following the Specific Payment Date. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant, except as provided in Sections 6.03, 6.04, 6.06 and 6.07 (relating to distributions on account of a Separation from Service, death, Disability and Unforeseeable Emergency). The amount of each installment shall be determined under Section 6.08. Notwithstanding the preceding provisions of this Subsection, if before the date the first installment distribution is processed for payment the Participant Separates from Service (other than for Retirement) or the Participant would be entitled to a distribution in accordance with Sections 6.04 or 6.06 (relating to a distribution on account of death or Disability), the Participant's Deferral Subaccounts that would otherwise be distributed based on such Specific Payment Date shall instead be distributed in accordance with Section 6.03, 6.04 or 6.06 (relating to distributions on account of Separation from Service, death or Disability), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04 or 6.06.

6.03 Distributions on Account of a Separation from Service:

A Participant's total Account shall be distributed upon the occurrence of a Participant's Separation from Service (other than for Retirement, Disability or death) in accordance with the terms and conditions of this Section. When used in this Section, the phrase "Separation from Service" shall only refer to a Separation from Service that is not for Retirement, Disability or death.

(a) Subject to subsections (b) and (c), a Participant's total Account balance, shall be distributed in a single lump sum payment as soon as administratively practicable following the end of the Plan Year in which the Participant's Separation from Service occurs.

(b) If the Participant incurs a Separation from Service after making a valid Second Look Election (and before the first payment has been processed in accordance with such Second Look Election), each Deferral Subaccount to which the Second Look Election applies shall be distributed in a single lump sum payment as soon as administratively practicable following the latest of the following: (1) the first day of the calendar quarter beginning on or after the fifth anniversary of the payment date selected in the Participant's original deferral election under Section 4.03, (2) the first day of the Plan Year following the Separation from Service, or (3) the date applicable under Subsection (c). However, if the Plan Administrator determines that Section 409A would permit a lump sum payment to be made earlier than the date specified in clause (1) of the preceding sentence, then the preceding sentence shall be applied by substituting the earliest date permissible under Section 409A for the date in clause (1). If the Participant's Separation from Service occurs on or after the date the first payment is processed, payment will be made in accordance with the Second Look Election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).

(c) If the Participant is classified as a Key Employee at the time of the Participant's Separation from Service (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Separation from Service, earlier than the date that is at least 6 months after the Participant's Separation from Service.

6.04 Distributions on Account of Death:

(a) Upon a Participant's death, the value of the Participant's Account under the Plan shall be distributed in a single lump sum payment as soon as administratively practicable following the first day of the Plan Year following the Participant's death. If the Participant is receiving installment payments at the time of the Participant's death, such installment payments shall continue in accordance with the terms of the Participant's Second Look Election until the time that the lump sum payment is due to be paid under the provisions of the preceding sentence of this Subsection. Immediately prior to the time that such lump sum payment is to be paid all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at such scheduled payment time in a single lump sum. Amounts paid following a Participant's death, whether a lump sum or continued installments shall be paid to the Participant's Beneficiary.

(b) Prior to the time the value of the Participant's Account is distributed under Subsection (a), the Participant's Beneficiary may apply for a distribution under Section 6.07 (relating to a distribution on account of an Unforeseeable Emergency).

(c) Any claim to be paid any amounts standing to the credit of a Participant in connection with the Participant's death must be received by the Recordkeeper or the Plan Administrator at least 14 days before any such amount is paid out by the Recordkeeper. Any claim received thereafter is untimely, and it shall be unenforceable against the Plan, the Company, the Plan Administrator, the Recordkeeper or any other party acting for one or more of them.

6.05 Distributions on Account of Retirement:

If a Participant incurs a Separation from Service on account of his or her Retirement, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

(a) If the Participant's Retirement is prior to the Specific Payment Date that is applicable to a Deferral Subaccount, the Participant's deferral election pursuant to Sections 4.03 or 4.04 (*i.e.*, time and form of payment) shall continue to be given effect, and the Deferral Subaccounts shall be distributed based upon the provisions of Section 6.02.

(b) If the Participant has selected payment of his or her deferral on account of Separation from Service, distribution of the related Deferral Subaccount shall commence as soon as administratively practicable after the end of the Plan Year in which the Separation from Service occurs. Such distribution shall be made in a single lump sum payment under Section 4.03. However, if the Participant is classified as a Key Employee at the time of the Participant's Retirement (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Retirement, earlier than as soon as administratively practicable following the date that is at least 6 months after the Participant's Retirement.

(c) If the Participant is receiving installment payments for one or more Deferral Subaccounts in accordance with Section 6.02 at the time of his or her Retirement, such installment payments shall continue to be paid based upon the Participant's Second Look Election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).

6.06 Distributions on Account of Disability:

If a Participant incurs a Disability, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

(a) Prior to the time that an amount would become distributable under this Article, if a Participant believes he or she is suffering from a Disability, the Participant may file a written request with the Recordkeeper for payment of the entire amount credited to his or her Account in connection with Disability. After a Participant has filed a written request pursuant to this Section, along with all supporting material that may be required by the Recordkeeper from time to time, the Recordkeeper shall determine within 45 days (or such other number of days as allowed by applicable law if special circumstances warrant additional time) whether the Participant meets the criteria for a Disability. In addition, to the extent required under Section 409A, if the Company becomes aware that the Participant appears to meet the criteria for a Disability, the Company shall advise the Recordkeeper and the Recordkeeper shall proceed to determine if the Participant meets the criteria for a Disability under this Plan, even if the Participant has yet not applied for payment from this Plan. To the extent practicable, the Participant shall be expected to permit whatever medical examinations are necessary for the Recordkeeper to make its determination. If the Recordkeeper determines that the Participant has satisfied the criteria for a Disability, the Participant's Account shall be distributed in a single lump sum payment as soon as administratively practicable following the end of the Plan Year in which the Disability determination is made.

(b) If the Participant is receiving installment payments at the time of the Participant's Disability, such installment payments shall continue to be paid in accordance with the provisions of the Participant's applicable deferral election until the time that the lump sum payment is due to be paid under the provisions of Subsection (a). Immediately prior to the time that such lump sum payment is scheduled to be paid, all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at the time specified in Subsection (a) in a single lump sum.

6.07 Distributions on Account of Unforeseeable Emergency:

Prior to the time that an amount would become distributable under Sections 6.02 through 6.06, a Participant or Beneficiary may file a written request with the Recordkeeper for accelerated payment of all or a portion of the amount credited to the Participant's Account based upon an Unforeseeable Emergency. After an individual has filed a written request pursuant to this Section, along with all supporting material that may be required by the Recordkeeper from time to time, the Recordkeeper shall determine within 60 days (or such other number of days that is necessary if special circumstances warrant additional time) whether the individual meets the criteria for an Unforeseeable Emergency. If the Recordkeeper determines that an Unforeseeable Emergency has occurred, the Participant or Beneficiary shall receive a distribution from his or her Account as soon as administratively practicable. However, such distribution shall not exceed the dollar amount necessary to satisfy the Unforeseeable Emergency (plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution) after taking into account the extent to which the Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant’s assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

6.08 <u>Valuation</u>:

In determining the amount of any individual distribution pursuant to this Article, the Participant’s Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that is used in determining the amount of the distribution under this Article. If a particular Section in this Article does not specify a Distribution Valuation Date to be used in calculating the distribution, the Participant’s Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that is on or before such distribution. In determining the value of a Participant’s remaining Deferral Subaccount following an installment distribution from the Deferral Subaccount (or a partial distribution under Section 6.07 relating to a distribution on account of an Unforeseeable Emergency), such distribution shall reduce the value of the Participant’s Deferral Subaccount as of the close of the Distribution Valuation Date that is on or before the payment date for such installment (or partial distribution). The amount to be distributed in connection with any installment payment shall be determined by dividing the value of a Participant’s Deferral Subaccount as of such Distribution Valuation Date (determined before reduction of the Deferral Subaccount as of such Distribution Valuation Date in accordance with the preceding sentence) by the remaining number of installments to be paid with respect to the Deferral Subaccount.

6.09 <u>Impact of Section 16 of the Act on Distributions</u>:

The provisions of Section 7.06 shall apply in determining whether a Participant’s distribution shall be delayed beyond the date applicable under the preceding provisions of this Article VI.

## ARTICLE VII – PLAN ADMINISTRATION

7.01 Plan Administrator:

The Plan Administrator is responsible for the administration of the Plan. The Plan Administrator has the authority to name one or more delegates to carry out certain responsibilities hereunder, as specified in the definition of Plan Administrator. To the extent not already set forth in the Plan, any such delegation shall state the scope of responsibilities being delegated and is subject to Section 7.06 below.

7.02 Action:

Action by the Plan Administrator may be taken in accordance with procedures that the Plan Administrator adopts from time to time or that the Company's Law Department determines are legally permissible.

7.03 Powers of the Plan Administrator:

The Plan Administrator shall administer and manage the Plan and shall have (and shall be permitted to delegate) all powers necessary to accomplish that purpose, including the following:

(a) To exercise its discretionary authority to construe, interpret, and administer this Plan;

(b) To exercise its discretionary authority to make all decisions regarding eligibility, participation and deferrals, to make allocations and determinations required by this Plan, and to maintain records regarding Participants' Accounts;

(c) To compute and certify to the Company the amount and kinds of payments to Participants or their Beneficiaries, and to determine the time and manner in which such payments are to be paid;

(d) To authorize all disbursements by the Company pursuant to this Plan;

(e) To maintain (or cause to be maintained) all the necessary records for administration of this Plan;

(f) To make and publish such rules for the regulation of this Plan as are not inconsistent with the terms hereof;

(g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;

(h) To change the phantom investment under Article V;

(i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan; and

(j) Notwithstanding any other provision of this Plan except Section 7.07 (relating to compliance with Section 409A), the Plan Administrator or the Recordkeeper may take any action the Plan Administrator determines is necessary to assure compliance with any policy of the Company respecting insider trading as may be in effect from time to time. Such actions may include altering the distribution date of Deferral Subaccounts. Any such actions shall alter the normal operation of the Plan to the minimum extent necessary.

The Plan Administrator has the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, and its decisions on such matters will be final and conclusive on all parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the Plan Administrator, even if (1) such discretion is not expressly granted by the Plan provisions in question, or (2) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. As a result, benefits under this Plan will be paid only if the Plan Administrator decides in its discretion that the applicant is entitled to them. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the Plan Administrator's discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious.

7.04 Compensation, Indemnity and Liability:

The Plan Administrator will serve without bond and without compensation for services hereunder. All expenses of the Plan and the Plan Administrator will be paid by the Company. To the extent deemed appropriate by the Plan Administrator, any such expense may be charged against specific Participant Accounts, thereby reducing the obligation of the Company. No member of the Board of Directors (who serves as the Plan Administrator), and no individual acting as the delegate of the Board of Directors, shall be liable for any act or omission of any other member or individual, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Company will indemnify and hold harmless each member of the Board of Directors and any employee of the Company (or a Company affiliate, if recognized as an affiliate for this purpose by the Plan Administrator) acting as the delegate of the Board of Directors against any and all expenses and liabilities, including reasonable legal fees and expenses, arising in connection with this Plan out of his or her membership on the Board of Directors (or his or her serving as the delegate of the Board of Directors), excepting only expenses and liabilities arising out of his or her own willful misconduct or bad faith.

7.05 Taxes:

If the whole or any part of any Participant's Account becomes liable for the payment of any estate, inheritance, income, employment, or other tax which the Company may be required to pay or withhold, the Company will have the full power and authority to withhold and pay such tax out of any moneys or other property in its hand for the account of the Participant. To the extent practicable, the Company will provide the Participant notice of such withholding. Prior to making any payment, the Company may require such releases or other documents from any lawful taxing authority as it shall deem necessary. In addition, pursuant to Section 409A amounts deferred under this Plan shall be reported to the Internal Revenue Service as provided by Section 409A. Also, any amounts that become taxable hereunder shall be reported as taxable compensation to the Participant as provided by Section 409A.

7.06 Section 16 Compliance:

(a) In General. This Plan is intended to be a formula plan for purposes of Section 16 of the Act. Accordingly, in the case of a deferral or other action under the Plan that constitutes a transaction that could be covered by Rule 16b-3(d) or (e), if it were approved by the Company's Board or Compensation Committee ("Board Approval"), it is intended that the Plan shall be administered by delegates of the Board, in the case of a Participant who is subject to Section 16 of the Act, in a manner that will permit the Board Approval of the Plan to avoid any additional Board Approval of specific transactions to the maximum possible extent.

(b) Approval of Distributions: This Subsection shall govern the distribution of a deferral that (i) was the subject of a Second Look Election, and (ii) is made to a Participant who is subject to Section 16 of the Act at the time the interest in the Phantom PepsiCo Common Stock Fund would be liquidated in connection with the distribution ("Covered Distributions"). In the case of a Covered Distribution, if the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution has not received Board Approval by the time the distribution would be made if it were not a Covered Distribution, then the actual distribution to the Participant shall be delayed until a date that is as soon as practicable after the earlier of:

(1) Board Approval of the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution, or

(2) The date the distribution is no longer a Covered Distribution, *i.e.*, when the Participant is no longer subject to Section 16 of the Act.

7.07 Conformance with Section 409A:

At all times during each Plan Year, this Plan shall be operated (i) in accordance with the requirements of Section 409A, and (ii) to preserve the status of deferrals under the Pre-

409A Program as being exempt from Section 409A, *i.e.*, to preserve the grandfathered status of the Pre-409A Program. Any action that may be taken (and, to the extent possible, any action actually taken) by the Plan Administrator, the Recordkeeper or the Company shall not be taken (or shall be void and without effect), if such action violates the requirements of Section 409A or if such action would adversely affect the grandfather of the Pre-409A Program. If the failure to take an action under the Plan would violate Section 409A, then to the extent it is possible thereby to avoid a violation of section 409A, the rights and effects under the Plan shall be altered to avoid such violation. A corresponding rule shall apply with respect to a failure to take an action that would adversely affect the grandfather of the Pre-409A Program. Any provision in this Plan document that is determined to violate the requirements of Section 409A or to adversely affect the grandfather of the Pre-409A Program shall be void and without effect. In addition, any provision that is required to appear in this Plan document to satisfy the requirements of Section 409A, but that is not expressly set forth, shall be deemed to be set forth herein, and the Plan shall be administered in all respects as if such provision were expressly set forth. A corresponding rule shall apply with respect to a provision that is required to preserve the grandfather of the Pre-409A Program. In all cases, the provisions of this Section shall apply notwithstanding any contrary provision of the Plan that is not contained in this Section.

## ARTICLE VIII – CLAIMS PROCEDURE

8.01 Claims for Benefits:

If a Participant, Beneficiary or other person (hereafter, "Claimant") does not receive timely payment of any benefits which he or she believes are due and payable under the Plan, he or she may make a claim for benefits to the Plan Administrator. The claim for benefits must be in writing and addressed to the Plan Administrator. If the claim for benefits is denied, the Plan Administrator will notify the Claimant within 90 days after the Plan Administrator initially received the benefit claim. However, if special circumstances require an extension of time for processing the claim, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 90-day period and such extension may not exceed one additional, consecutive 90-day period. Any notice of a denial of benefits shall advise the Claimant of the basis for the denial, any additional material or information necessary for the Claimant to perfect his or her claim, and the steps which the Claimant must take to appeal his or her claim for benefits.

8.02 Appeals of Denied Claims:

Each Claimant whose claim for benefits has been denied may file a written appeal for a review of his or her claim by the Plan Administrator. The request for review must be filed by the Claimant within 60 days after he or she received the notice denying his or her claim. The decision of the Plan Administrator will be communicated to the Claimant within 60 days after receipt of a request for appeal. The notice shall set forth the basis for the Plan Administrator's decision. If special circumstances require an extension of time for processing the appeal, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 60-day period and such extension may not exceed one additional, consecutive 60-day period. In no event shall the Plan Administrator's decision be rendered later than 120 days after receipt of a request for appeal.

8.03 Special Claims Procedures for Disability Determinations:

Notwithstanding Sections 8.01 and 8.02 to the contrary, if the claim or appeal of the Claimant relates to Disability benefits, such claim or appeal shall be processed pursuant to the applicable provisions of Department of Labor Regulation Section 2560.503-1 relating to Disability benefits, including Sections 2560.503-1(d), 2560.503-1(f)(3), 2560.503-1(h)(4) and 2560.503-1(i)(3).

## ARTICLE IX – AMENDMENT AND TERMINATION

9.01 Amendment of Plan:

The Compensation Committee of the Board of Directors of the Company has the right in its sole discretion to amend this Plan in whole or in part at any time and in any manner, including the manner of making deferral elections, the terms on which distributions are made, and the form and timing of distributions. However, except for mere clarifying amendments necessary to avoid an inappropriate windfall, no Plan amendment shall reduce the amount credited to the Account of any Participant as of the date such amendment is adopted. Any amendment shall be in writing and adopted by the Committee. All Participants and Beneficiaries shall be bound by such amendment. Any amendments made to the Plan shall be subject to any restrictions on amendment that are applicable to ensure continued compliance under Section 409A.

9.02 Termination of Plan:

(a) The Company expects to continue this Plan, but does not obligate itself to do so. The Company, acting by the Compensation Committee of the Board of Directors, or through its entire Board of Directors, reserves the right to discontinue and terminate the Plan at any time, in whole or in part, for any reason (including a change, or an impending change, in the tax laws of the United States or any State). Termination of the Plan will be binding on all Participants (and a partial termination shall be binding upon all affected Participants) and their Beneficiaries, but in no event may such termination reduce the amounts credited at that time to any Participant's Account. If this Plan is terminated (in whole or in part), the termination resolution shall provide for how amounts theretofore credited to affected Participants' Accounts will be distributed.

(b) This Section is subject to the same restrictions related to compliance with Section 409A that apply to Section 9.01. In accordance with these restrictions, the Company intends to have the maximum discretionary authority to terminate the Plan and make distributions in connection with a Change in Control (as defined in Section 409A), and the maximum flexibility with respect to how and to what extent to carry this out following a Change in Control (as defined in Section 409A) as is permissible under Section 409A. The previous sentence contains the exclusive terms under which a distribution may be made in connection with any change in control with respect to deferrals made under this 409A Program. No distributions shall be made under this 409A Program for any change in control unless the distribution satisfies the provisions of a Change in Control (as defined in Section 409A), and no distributions shall be made under this 409A Program with respect to a "Non-Qualifying Change in Control."

(c) For purposes of this Section, a “Non-Qualifying Change in Control” shall include any of the following –

(1) A change in the ownership or effective control of the Company,

(2) A change in the ownership of a substantial portion of the assets of the Company,

(3) Company shareholders approve a merger or consolidation of the Company with another entity and the Company is not the surviving entity, or if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of the Company,

(4) Company shareholders approve a plan of complete liquidation of the Company or the sale or disposition of all or substantially all of the Company’s assets, and

(5) Any other event, circumstance, offer or proposal occurs or is made which is intended to effect a change in the control of the Company and which results in the occurrence of one or more of the events listed in Paragraphs (1) through (4) above.

ARTICLE X – MISCELLANEOUS

10.01 Limitation on Participant's Rights:

Participation in this Plan does not give any Participant the right to be retained in the service of the Company. The Company reserves the right to terminate the service of any Participant without any liability for any claim against the Company under this Plan, except for a claim for payment of deferrals as provided herein.

10.02 Unfunded Obligation of the Company:

The benefits provided by this Plan are unfunded. All amounts payable under this Plan to Participants are paid from the general assets of the Company. Nothing contained in this Plan requires the Company to set aside or hold in trust any amounts or assets for the purpose of paying benefits to Participants. Neither a Participant, Beneficiary, nor any other person shall have any property interest, legal or equitable, in any specific Company asset. This Plan creates only a contractual obligation on the part of the Company, and the Participant has the status of a general unsecured creditor of the Company with respect to amounts of compensation deferred hereunder. Such a Participant shall not have any preference or priority over, the rights of any other unsecured general creditor of the Company. No other Company affiliate guarantees or shares such obligation, and no other Company affiliate shall have any liability to the Participant or his or her Beneficiary.

10.03 Other Plans:

This Plan shall not affect the right of any Eligible Director or Participant to participate in and receive benefits under and in accordance with the provisions of any other Director compensation plans which are now or hereafter maintained by the Company, unless the terms of such other plan or plans specifically provide otherwise or it would cause such other plan to violate a requirement for tax favored treatment.

10.04 Receipt or Release:

Any payment to a Participant in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan Administrator, the Recordkeeper and the Company, and the Plan Administrator may require such Participant, as a condition precedent to such payment, to execute a receipt and release to such effect.

10.05 Governing Law:

This Plan shall be construed, administered, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by federal law, in accordance with the laws of the State of North Carolina. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

10.06 Gender, Tense and Examples:

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine, or neuter gender shall be deemed to include the other. Whenever an example is provided or the text uses the term “including” followed by a specific item or items, or there is a passage having a similar effect, such passage of the Plan shall be construed as if the phrase “without limitation” followed such example or term (or otherwise applied to such passage in a manner that avoids limitation on its breadth of application).

10.07 Successors and Assigns; Nonalienation of Benefits:

This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to the Account of a Participant are not (except as provided in Section 7.05) subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, including, without limitation, any assignment or alienation in connection with a separation, divorce, child support or similar arrangement, will be null and void and not binding on the Plan or the Company. Notwithstanding the foregoing, the Plan Administrator reserves the right to make payments in accordance with a divorce decree, judgment or other court order as and when cash payments are made in accordance with the terms of this Plan from the Deferral Subaccount of a Participant. Any such payment shall be charged against and reduce the Participant’s Account.

10.08 Facility of Payment:

Whenever, in the Plan Administrator’s opinion, a Participant or Beneficiary entitled to receive any payment hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the Company to make payments to such person or to the legal representative of such person for his or her benefit, or to apply the payment for the benefit of such person in such manner as the Plan Administrator considers advisable. Any payment in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment to the Participant or Beneficiary under the Plan.

## ARTICLE XI – AUTHENTICATION

This 409A Program has been authorized, adopted and approved to be effective as stated herein by the Company's Board of Directors at its duly authorized meeting held on November 18, 2005.

## APPENDIX

This Appendix modifies particular terms of the Plan as it may apply to certain groups and situations. Except as specifically modified in this Appendix, the foregoing main provisions of the Plan shall fully apply in determining the rights and benefits of Participants. In the event of a conflict between this Appendix and the foregoing main provisions of the Plan, the Appendix shall govern.

Pursuant to Q&A-20(a) of IRS Notice 2005-1, each Eligible Director shall have the right to cancel his or her election to defer Director Compensation for the 2004-2005 Board Year. Such election to cancel must be filed with the Plan Administrator prior to the end of the 2004-2005 Board Year and must follow any other procedures and timing requirements established by the Plan Administrator for this purpose (such procedures and timing requirements to be consistent with the requirements of Q&A-20(a)). Any Eligible Director who makes an election to cancel such deferral election shall have the Director Compensation related to such deferral election paid to him or her (plus any applicable earnings or minus any applicable losses) from his or her Account by December 31, 2005 and such amount shall be reported as taxable income to the Eligible Director for the 2005 calendar year.

**EXHIBIT 10.31**

# AMENDMENTS TO THE PEPSICO, INC. 2003 LONG-TERM INCENTIVE PLAN, EFFECTIVE AS OF DECEMBER 31, 2005

## A. Amendments to Long-Term Incentive Plans

The following amendments are effective as of December 31, 2005.

The text of Section 7(a)(vi) in the PepsiCo, Inc. 2003 Long-Term Incentive Plan (the "2003 LTIP") and the text of any similar provision in any of the "Prior Plans" (as defined in the 2003 LTIP) are hereby entirely replaced with the following:

> Buy Out of Option Gains. At any time after any Option becomes exercisable, the Committee shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option and to cause PepsiCo to pay to the Participant the excess of the Fair Market Value of the shares of Common Stock covered by such Option over the Option Exercise Price of such Option at the date the Committee provides written notice (the "Buy Out Notice") of its intention to exercise such right. Buy outs pursuant to this provision shall be effected by PepsiCo as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts shall be made in shares of Common Stock. The number of shares shall be determined by dividing the amount of the payment to be made by the Fair Market Value of a share of Common Stock at the date of the Buy Out Notice, and by rounding up any fractional share to a whole share. The rights provided by this provision are the exclusive rights that are available with respect to any Option in the event of a buy out, notwithstanding the terms of any outstanding agreement.

The text of Section 11 in the 2003 LTIP and the text of any similar provision in any of the Prior Plans are hereby entirely replaced with the following:

> Change in Control.
>
> Upon a Change in Control, the following shall occur.
>
> (a) Options. Effective on the date of such Change in Control, all outstanding and unvested Options granted under the Plan shall immediately vest and become exercisable, and all Options then outstanding under the Plan shall remain outstanding in accordance with their terms. Notwithstanding anything to the contrary in this Plan, in the event that any Option granted under the Plan becomes unexercisable during its term on or after a Change in Control because: (i) the individual who holds such Option is involuntarily terminated (other than for cause) within two (2) years after the Change in Control; (ii) such Option is terminated or adversely modified; or (iii) Common Stock is no longer issued and outstanding, or no longer traded on a national securities exchange, then the holder of such Option shall immediately be entitled to receive equity (e.g., common stock) of the "Acquiring Entity" (as defined below) with a fair market value (taking into account any marketability limitations) equal to (A) the gain on such Option or (B) only if greater than the gain and only with respect to NQSOs the Black-Scholes value of such Option (as determined by a nationally recognized independent investment banker chosen by PepsiCo), in either case calculated on the date such Option becomes unexercisable. For purposes of the preceding sentence, the gain on an Option shall be calculated as the difference between the closing price per share of Common Stock as of the date such Option becomes unexercisable less the Option Exercise Price.

(b) Stock Appreciation Rights. Effective on the date of such Change in Control, all outstanding and unvested SARs granted under the Plan shall immediately vest and become exercisable, and all SARs then outstanding under the Plan shall remain outstanding in accordance with their terms. In the event that any SAR granted under the Plan becomes unexercisable during its term on or after a Change in Control because: (i) the individual who holds such SAR is involuntarily terminated (other than for cause) within two (2) years after the Change in Control; (ii) such SAR is terminated or adversely modified; or (iii) Common Stock is no longer issued and outstanding, or no longer traded on a national securities exchange, then the holder of such SAR shall immediately be entitled to receive equity (e.g., common stock) of the Acquiring Entity with a fair market value (taking into account any marketability limitations) equal to the gain on such SAR. For purposes of the preceding sentence, the gain on a SAR shall be calculated as the difference between the closing price per share of Common Stock as of the date such SAR becomes unexercisable and the purchase price per share of Common Stock covered by the SAR.

(c) Restricted Shares/Restricted Share Units. Upon a Change of Control all Restricted Shares and Restricted Share Units shall immediately vest and be distributed to Participants, effective as of the date of the Change of Control.

(d) Performance Awards. Each Performance Award granted under the Plan that is outstanding on the date of the Change in Control shall immediately vest and the holder of such Performance Award shall be entitled to a lump sum cash payment equal to the amount of such Performance Award payable at the end of the Performance Period as if 100% of the Performance Goals have been achieved.

(e) Timing of Payment. Any amount required to be paid pursuant to this Section 11 shall be paid as soon as practical after the date such amount becomes payable.

(f) Definition. “Change in Control” means the occurrence of any of the following events: (i) acquisition of 20% or more of the outstanding voting securities of PepsiCo, Inc. by another entity or group; excluding, however, the following (A) any acquisition by PepsiCo, Inc., or (B) any acquisition by an employee benefit plan or related trust sponsored or maintained by PepsiCo, Inc.; (ii) during any consecutive two-year period, persons who constitute the Board of Directors of PepsiCo, Inc. (the “Board”) at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period); (iii) PepsiCo, Inc. shareholders approve a merger or consolidation of PepsiCo, Inc. with another company, and PepsiCo, Inc. is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of PepsiCo, Inc.; (iv) PepsiCo, Inc. shareholders approve a plan of complete liquidation of PepsiCo, Inc. or the sale or disposition of all or substantially all of PepsiCo, Inc.’s assets; or (v) any other event, circumstance, offer or proposal occurs or is made, which is intended to effect a change in the control of PepsiCo, Inc., and which results in the occurrence of one or more of the events set forth in clauses (i) through (iv) of this paragraph. For purposes of the Plan, the group or entity that triggers a Change in Control under cause (i), that is directly or indirectly responsible for the change in the Board under clause (ii), that survives the merger or consolidation referred to in clause (iii), or that acquires the assets under clause (iv) is referred to as the “Acquiring Entity.”

(g) Exclusive Rights. The rights provided by this Section are the exclusive rights that are available with respect to any Award in the event of a Change in Control, notwithstanding the terms of any outstanding agreement.

Adopted and Approved. PepsiCo, Inc.

by: /s/ Margaret D. Moore

Margaret D. Moore
Senior Vice President, Human Resources

Date: 12-31-05

## B. Amendment to SharePower Plan

The following amendments are effective as of December 31, 2005.

Section 2(b) in the PepsiCo SharePower Stock Option Plan ("SharePower Plan") is hereby entirely replaced with the following:

(b) "Change in Control" means the occurrence of any of the following events: (i) acquisition of 10% or more of the outstanding voting securities of PepsiCo, Inc. by another entity or group; excluding, however, the following (A) any acquisition by PepsiCo, Inc., or (B) any acquisition by an employee benefit plan or related trust sponsored or maintained by PepsiCo, Inc.; (ii) during any consecutive two-year period, persons who constitute the Board of Directors of PepsiCo, Inc. (the "Board") at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period); (iii) PepsiCo, Inc. shareholders approve a merger or consolidation of PepsiCo, Inc. with another company, and PepsiCo, Inc. is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of PepsiCo, Inc.; (iv) PepsiCo, Inc. shareholders approve a plan of complete liquidation of PepsiCo, Inc. or the sale or disposition of all or substantially all of PepsiCo, Inc.'s assets; or (v) any other event, circumstance, offer or proposal occurs or is made, which is intended to effect a change in the control of PepsiCo, Inc., and which results in the occurrence of one or more of the events set forth in clauses (i) through (iv) of this Section 2(b). For purposes of the Plan, the group or entity that triggers a Change in Control under clause (i), that is directly or indirectly responsible for the change in the Board under clause (ii), that survives the merger or consolidation referred to in clause (iii), or that acquires the assets under clause (iv) is referred to as the "Acquiring Entity."

Section 6(h) in the SharePower Plan is hereby entirely replaced with the following:

(h) Effect of a Change in Control. Notwithstanding anything to the contrary in this Plan, at the date of a Change in Control, all outstanding and unvested Options granted under the Plan shall immediately vest and become exercisable, and all Options then outstanding under the Plan shall remain outstanding in accordance with their terms. In the event that any Option granted under the Plan becomes unexercisable during its term on or after a Change in Control because: (i) the individual who holds such Option is involuntarily terminated (other than for cause) within two (2) years after the Change in Control; (ii) such Option is terminated or adversely modified; or (iii) Common Stock is no longer issued and outstanding, or no longer traded on a national securities exchange, then the holder of such Option shall immediately be entitled to receive equity (e.g., common stock) of the Acquiring Entity with a fair market value (taking into account any marketability limitations) equal to the greater of (x) the gain on such Option or (B) the Black-Scholes value of such Option (as determined by a nationally recognized independent investment banker chosen by PepsiCo), in either case calculated on the date such Option becomes unexercisable. For purposes of the preceding sentence, the gain on an Option shall be calculated as the difference between the closing price per share of PepsiCo Common Stock as of the date such Option becomes unexercisable less the Option Exercise Price of such Option. Any equity required to be provided pursuant to this Section 6(h) shall be delivered within twenty (20) days after the date the Option holder becomes entitled to receive such equity. The rights provided by this Section 6(h) are the exclusive rights that are available with respect to any Option in the event of a Change in Control, notwithstanding anything to the contrary.

Section 10 in the SharePower Plan is hereby entirely replaced with the following:

10. Buy Out of Option Gains. At any time after any Stock Option becomes exercisable, the Committee shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option and to cause PepsiCo to pay to the Optionee the excess of the Fair Market Value of the shares of Common Stock covered by such Option over the Option Exercise Price of such Option at the date the Committee provides written notice (the "Buy Out Notice") of its intention to exercise such right. Buy outs pursuant to this provision shall be effected by PepsiCo as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts shall be made in shares of Common Stock. The number of shares shall be determined by dividing the amount of the payment to be made by the Fair Market Value of a share of Common Stock at the date of the Buy Out Notice. In no event shall PepsiCo be required to deliver a fractional share of Common Stock in satisfaction of this buy out provision. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes.

Adopted and Approved

PepsiCo, Inc.

By: /s/ Margaret D. Moore

Margaret D. Moore
Senior Vice President, Human Resources

Date: 12-31-05

**EXHIBIT 10.32**

**Summary of Employment Arrangement with Irene Rosenfeld**

Irene B. Rosenfeld entered into an employment arrangement with PepsiCo to serve as Chairman and Chief Executive Officer of the Company's Frito Lay North American division commencing September 1, 2004. The employment arrangement does not guarantee employment and either the Company or Ms. Rosenfeld may terminate her employment at any time. The employment arrangement provides for a payout equal to one year of base salary and bonus should she be involuntarily terminated (other than for cause) within the first three years of her employment.

The arrangement provided Ms. Rosenfeld with relocation benefits generally available to all employees to facilitate her relocation from Chicago to Dallas. She was also granted $1 million in Restricted Stock Units with one-year service-based vesting. The award vested on September 1, 2005 and converted to common shares, less applicable taxes. The shares are currently being held by Ms. Rosenfeld in furtherance of her share ownership requirements.

As part of the arrangement, Ms. Rosenfeld is eligible to receive salary, bonus, long-term incentives and other benefits as described in the attached offer letter. Her bonus and long-term incentives are awarded based on performance and all elements of her compensation, including salary, are subject to yearly review by the Board of Directors based on the Company's and Ms. Rosenfeld's performance.

Ms. Rosenfeld participates in the same retirement program as other salaried employees and will be eligible for full retirement at age 62 after ten years of service. At that time, as part of the arrangement, she will receive an additional 10 years of credited service when determining her retirement benefit.

700 Anderson Hill Road Purchase, New York 10577 www.pepsico.com

DAVID E. SCHERB
VICE PRESIDENT
COMPENSATION AND BENEFITS

July 30, 2004

Ms. Irene Rosenfeld
862 Greenwood Avenue
Glencoe, IL 60022

Dear Irene:

We are pleased to confirm our offer for you to join PepsiCo as Chairman and Chief Executive Officer of Frito-Lay North America, reporting to Steve Reinemund, Chairman and Chief Executive Officer of PepsiCo, Inc.

The primary details of your offer are as follows:

- **Start Date**: Your start date will be September 1, 2004.
- **Salary**: Your starting annual base salary will be $775,000. Your annual base salary will be reviewed each year beginning in 2005.
- **Bonus**: Each year you will be eligible to participate in our Executive Incentive Compensation Plan (EICP), which provides two bonus opportunities. First, an **Annual Bonus** with a target of 150% of your base salary and which is payable in the year following the bonus year. Second, a **Premium Bonus** with a target of 50% of your base salary and which vests and is payable in thirds over three years following the bonus year. Bonuses under the EICP are approved by the Compensation Committee of the Board of Directors and paid out at 0% - 200% of target, depending on business and personal performance.

  For four months employment in 2004, both bonuses will be paid based on no less than 100% target performance and pro-rated to pay out 33% of the full year amounts.
- **Long-Term Incentive Program**: You will be eligible to participate in Long-Term Incentives applicable to other similarly situated executives at PepsiCo. The size and terms of awards under the LTIP are determined by the Compensation Committee. The following is a summary of the Initial Grants and New Hire Grant that the Compensation Committee of PepsiCo's Board of Directors has already approved for you, and a summary of Future Grants you would eligible for.
- **Initial Grants**: On your hire date, you will receive an award under the terms of the LTIP with a value of $578,800 split 50%/50% between Stock Options and Restricted Stock Units. The Stock Options will have a face value of $1,157,500, and the actual number of options you are granted will be determined by dividing the face value by the fair market value of PepsiCo common stock on September 1, 2004. The Restricted Stock Units will have an award value of $289,400, and the actual number of units you are granted will be determined by dividing the award value by the fair market value of PepsiCo common stock on September 1, 2004.

Ms. Irene Rosenfeld
July 30, 2004
Page 2

- **New Hire Grant**: On your hire date, you will receive an award under the terms of the LTIP with a value of $1,000,000, which will be entirely in restricted Stock Units. The actual number of units you are granted will be determined by dividing the award value by the fair market value of PepsiCo common stock on September 1, 2004.
- **Future Grants**: Under the current terms of the LTIP, beginning in 2005, you will be eligible to receive an annual award with a target value of $1,378,000, or such other amount commensurate with similarly situated executives of PepsiCo, split 50%/50% between Stock Options and Restricted Stock Units. The actual value of the award will be determined by the Board of Directors, taking into account market conditions and individual and team performance.
- **Vesting**: Under the current terms of the LTIP, on the third anniversary of the grant date, Stock Options become vested and exercisable. Also, Restricted Units become unrestricted and payable on the third anniversary, assuming that PepsiCo achieves its three-year RSU performance goals set by the Board of Directors.

  For your 2004 Initial Grant, the option vesting dates and RSU performance criteria will be the same as other senior executives who received their awards on February 1, 2004. This means your awards will vest in two years and five months on February 1, 2007, rather than three years.

  For your 2004 Hire Grant, your Restricted Shock Units will vest after one year on September 1, 2005.

  Vesting of your Options and Restricted Stock Units will accelerate in the event of your death or total disability.
- **Term**: Options typically expire after 10 years. Because they are granted during the year, your 2004 options will have a 9 year and 5 month term and will expire February 1, 2014.
- **Exercisability**: In the event of your retirement, death or disability, your vested options would remain exercisable for their entire term. In the event of any other termination of employment, your vested options would have to be exercised prior to your termination date.
- **SharePower**: You will be eligible for additional grants of stock options under the LTIP equal to the options you would receive under PepsiCo's SharePower Stock Option Program if you were eligible to participate in that program. You will first be eligible for SharePower grants in 2005. SharePower grants typically vest after three years, but would vest fully upon your retirement.
- **Deferred Compensation**: You will be eligible to participate in PepsiCo's Executive Income Deferral Program (EID), under which you are permitted to defer up to 100% of your base salary and annual bonus.
- **Executive Car Program**: You will be eligible to participate in PepsiCo's Executive Car Program, which generally covers your costs of leasing and maintaining an automobile of your choice (with certain limitations). In lieu of leasing an automobile, you may choose to receive a cash car allowance.
- **Active Health Benefits**: You will be eligible to participate in PepsiCo's benefits plan for salaried employees. Under this plan, PepsiCo pays a portion of the costs of medical, dental and vision / hearing coverage as well as basic disability and life insurance benefits.

Ms. Irene Rosenfeld
July 30, 2004
Page 3

- **Home Purchase Policy**: You will be eligible for our standard policy for home sale / purchase / mortgage assistance.
- **Relocation Package**: You will be covered by our standard relocation policy, which covers your actual relocation costs (e.g. traveling, shipping goods, temporary living) and provides you with a $62,500 cash allowance.
- **Pension**: In accordance with applicable plans, you will be eligible for a retirement pension if you terminate employment (other than for cause) after completing at least ten years of service. Upon completion of ten years of service, you will receive ten years of “additional credited service” that will be added to your total years of actual service when calculating your total pension benefit. The amount of your pension benefit will be calculated in accordance with PepsiCo’s Pension Equalization Plan. Vesting occurs after five years, but vested benefits will not include the additional credited service mentioned above until ten years of actual service are completed.
- **Retiree Health Benefits**: In accordance with applicable plans, if you terminate employment (other than for cause) after completing ten years of service, you will be eligible to participate in PepsiCo’s retiree medical benefits program. Under the current program, PepsiCo pays a portion of the costs of medical coverage.
- **Severance**: In the event of your involuntary termination (other than for cause) during the first three years of employment, you will receive a lump sump severance payment equal to not less than one year of Base Salary and Target Annual Bonus (150% of Base Salary).
- **Term of Employment**: Nothing in this offer serves as a guarantee of employment for any fixed length of time, and either you or PepsiCo may terminate your employment at any time.

The above describes the primary terms of our offer and PepsiCo’s Compensation and Benefits Programs. The terms and conditions of these programs are governed by the formal legal documents. For your information, I have enclosed a one-page summary of your compensation and copies of the Executive Compensation, Deferred Compensation and Executive Car Programs.

700 Anderson Hill Road Purchase, New York 10577 www.pepsico.com



We are excited about the strength and versatility you will bring to PepsiCo and hope that you view our offer as an indication of our confidence in your success. We know you will be a strong addition to our team and believe you will find your experience at PepsiCo to be challenging, rewarding and fun. Please acknowledge your acceptance of the above offer by signing below and returning this letter to me via fax at 914-253-3008 or mail. If you have any questions, please feel free to contact me at 914-253-3862 or Peggy Moore at 914-253-3007.

Sincerely,

/s/ David E. Scherb

David E. Scherb

Vice President, Compensation and Benefits

cc: Steve Reinemund
Peggy Moore

Accepted:

/s/ Irene Rosenfeld

Irene Rosenfeld Date: 8/2/04

**EXHIBIT 12**

PEPSICO, INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges [(a)]
Years Ended December 31, 2005, December 25, 2004,
December 27, 2003, December 28, 2002 and December 29, 2001
(in millions except ratio amounts)

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Earnings: | | | | | |
| Income before income taxes – continuing operations | $6,382 | $5,546 | $4,992 | $4,433 | $3,644 |
| Unconsolidated affiliates interests, net | (320) | (289) | (275) | (251) | (100) |
| Amortization of capitalized interest | 7 | 7 | 9 | 8 | 10 |
| Interest expense | 256 | 167 | 163 | 178 | 219 |
| Interest portion of net rent expense [(b)] | 76 | 82 | 77 | 64 | 55 |
| Earnings available for fixed charges | $6,401 | $5,513 | $4,966 | $4,432 | $3,828 |
| Fixed Charges: | | | | | |
| Interest expense | $ 256 | $ 167 | $ 163 | $ 178 | $ 219 |
| Capitalized interest | 5 | 2 | 4 | 3 | 3 |
| Interest portion of net rent expense [(b)] | 76 | 82 | 77 | 64 | 55 |
| Total fixed charges | $ 337 | $ 251 | $ 244 | $ 245 | $ 277 |
| Ratio of Earnings to Fixed Charges | 19.03 | 22.00 | 20.37 | 18.08 | 13.83 |

(a) Based on unrounded amounts.

(b) One-third of net rent expense is the portion deemed representative of the interest factor.

| Company Name | Domicile/Jurisdiction |
|---|---|
| A.R. Scott Ltd. | United Kingdom |
| Ahmedabad Advertising and Marketing Consultants Ltd. | India |
| Alcasa S.A. | Chile |
| Alegro Internacional, S. de R.L. de C.V. | Mexico |
| Alimentos del Istmo S.A. | Panama |
| Alimentos Quaker Oats y Compania Limitada | Guatemala |
| Alliance Canners | Canada |
| Alpac Corporation | United States |
| Anderson Hill Insurance Limited | Bermuda |
| Aradhana Beverages & Foods Company Pvt Limited | India |
| Aradhana Carbonated Beverages Private Ltd. | India |
| Aradhana Convenience Foods Private Limited | India |
| Aradhana Drinks and Beverages Private Limited | India |
| Aradhana Foods and Juices Private Limited | India |
| Aradhana Snack Food Company | India |
| Aradhana Soft Drinks Company | India |
| BAESA Capital Corporation Ltd. | Cayman Islands |
| Balwerk V - Consultadoria Economica E Participacoes, Sociedade Unipessoal Lda. | Portugal |
| Balwerk VI - Consultadoria Economica E Participacoes, Sociedade Unipessoal Lda. | Portugal |
| Beaman Bottling Company | United States |
| Bebidas Purificadas de Michoacan S.A. de C.V. | Mexico |
| Bebidas Purificadas de Occidente, S.A. de C.V. | Mexico |
| Bebidas Purificadas del Centro, S.A. de C.V. | Mexico |
| Bebidas Purificadas del Cupatitzio, S.A. de C.V. | Mexico |
| Beijing Pepsi-Cola Beverage Company Ltd. | China |
| Bell Taco Funding Syndicate | Australia |
| Beverage Services Ltd. | Bermuda |
| Beverage Services, Inc. | United States |
| Beverages, Foods & Service Industries, Inc. | United States |
| Bluejay Holdings LLC | United States |
| Boquitas Fiestas LLC | United States |

| Company Name | Domicile/Jurisdiction |
| --- | --- |
| Boquitas Fiestas S.R.L. | Honduras |
| Border Properties, Inc. | United States |
| Bottling Investment Chile | Bahamas |
| Bottling Realco Nova Scotia ULC | Canada |
| Bramshaw Limited | Ireland |
| Breckinridge, Inc. | United States |
| BUG de Mexico, S.A. de C.V. | Mexico |
| BUG Holdings S. de R.L. de C.V. | Mexico |
| Cane Investments S.a.r.l. | Luxembourg |
| Capital Services Associates | Netherlands Antilles |
| Changchun Pepsi-Cola Beverage Company | China |
| Changsha Pepsi-Cola Beverage Co. Ltd. | China |
| Chipiga, S. DE R.L. DE C.V. | Mexico |
| Chipima, Sociedade De Productos Alimentares, SA | Portugal |
| Chipsy for Food Industries S.A.E | Egypt |
| Chipsy International SAE | Egypt |
| Chitos International y Cia Ltd. | Guatemala |
| Chongqing Pepsi-Tianfu Beverage Co. Ltd. | China |
| CIF 1990 Trustee Limited | United Kingdom |
| CMC Investment Company | Bermuda |
| Comercializadora Nacional SAS, Ltda. | Colombia |
| Comercializadora Snacks, S.R.L. | Venezuela |
| Compania Embotelladora Nacional, S.A. De C.V. | Mexico |
| Copella Fruit Juices Limited | United Kingdom |
| Copper Beach LLC | United States |
| Corina Snacks | Cyprus |
| Corporativo Internacional Mexicano, S. de R.L. de C.V. | Mexico |
| D’ORO - Sociedade de Productos Alimentares, S.A. | Portugal |
| Davlyn Realty Corporation | United States |
| Desarrollo Inmobiliario Gamesa, S. de R.L. de C.V. | Mexico |
| Distribuidora Disa de Michoacan S.A. de C.V. | Mexico |
| Distribuidora Disa de Uruapan, S.A. de C.V. | Mexico |
| Distribuidora Disa del Centro, S.A. de C.V. | Mexico |
| Distribuidora Interestatal, S.A. de C.V. | Mexico |
| Distribuidora Savoy Guatemala S.A. | Guatemala |
| Doritos Australia One Pty Limited | Australia |
| Doritos Australia Two Pty Limited | Australia |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Dormant PC Ltd. | United Kingdom |
| Duo Juice Company | United States |
| Duo Juice Company BV | Netherlands |
| Earthposed Limited | United Kingdom |
| Elaboradora Argentina de Cereales, S.R.L. | Argentina |
| Embotelladora de Occidente S.A. de C.V. | Mexico |
| Empaques Constar, SA de CV | Mexico |
| Eridanus Investments S.a.r.l. | Luxembourg |
| Evercrisp Snack Productos de Chile S.A. | Chile |
| Fabrica de Productos Alimenticios Rene y Compania SCA | Guatemala |
| Fabrica de Productos Rene LLC | United States |
| Farm Produce (Australia) Pty. Ltd. | Australia |
| Fester Industria Alimenticia Ltda. | Brazil |
| FL Transportation, Inc. | Delaware |
| FLI Andean LLC | United States |
| FLI Colombia, LLC | United States |
| FLI Snacks Andean GP, LLC | United States |
| FLRC, Inc. | United States |
| Frito-Lay Australia Holdings Pty Ltd. | Australia |
| Frito-Lay Colombia Ltda. | Colombia |
| Frito-Lay de Venezuela, C.A. | Venezuela |
| Frito-Lay Dominicana S.A. | Dominican Republic |
| Frito-Lay Foods | United Kingdom |
| Frito-Lay France SA | France |
| Frito-Lay Gida Sanayi Ve Ticaret A.S. | Turkey |
| Frito-Lay Holdings C.V. | Netherlands |
| Frito-Lay Holdings Limited | United Kingdom |
| Frito-Lay India | India |
| Frito-Lay Investments B.V. | Netherlands |
| Frito-Lay Manufacturing OOO | Russia |
| Frito-Lay Netherlands Holding B.V. | Netherlands |
| Frito-Lay North America, Inc. | United States |
| Frito-Lay Poland Sp.zo.o. | Poland |
| Frito-Lay Trading Company (Europe) Gmbh | Switzerland |
| Frito-Lay Trading Company Gmbh | Switzerland |
| Frito-Lay Trinidad Unlimited | Unknown |
| Frito-Lay, Inc. | United States |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Froooties Limited | United Kingdom |
| Gamesa LLC | United States |
| Gamesa USA, Inc. | United States |
| Gamesa, S. de R.L. de C.V. | Mexico |
| Gas Natural de Merida, SA de CV | Mexico |
| Gatorade de Mexico, S.de R.L. de C.V. | Mexico |
| Gatorade Ltd | United Kingdom |
| Gatorade Portugal Services Da marketing S.A. | Portugal |
| Gatorade Puerto Rico Company | United States |
| Golden Grain Company | United States |
| Goldfinch Holdings LLC | United States |
| Green Hemlock International, LLC | United States |
| Greenville Holding Corp. | United States |
| Grupo Gamesa, S. de R.L. de C.V. | Mexico |
| Guangzhou Pepsi-Cola Beverage Co. Ltd. | China |
| Guangzhou Quaker Oats Food & Beverage Co. Ltd. | China |
| Hangzhou Pepsi-Cola Beverage Company Limited | China |
| Harbin Pepsi-Cola Beverages Co. Ltd. | China |
| Harinera Monterrey, S.A. de C.V. | Mexico |
| Heathland, LP | United States |
| Hillbrook Insurance Company, Inc. | United States |
| Holland Snacks S.A. de C.V. | Mexico |
| Homefinding Company of Texas | United States |
| Hurdell Holdings LLC | United States |
| Importadora Gator, S. de R.L. de C.V. | Mexico |
| Impulse Action Limited | United Kingdom |
| Inmobiliaria Interamericana, S.A. De C.V. | Mexico |
| Integrated Beverage Services (Bangladesh) Ltd. | Bangladesh |
| International Bottlers Almaty Ltd | Kazakstan |
| International Kas AG | Liechtenstein |
| Inversiones PFI Chile Limitada | Chile |
| Inversiones Santa Coloma S.A.(Venezuela) | Venezuela |
| J. E. Duke II, Inc. | Florida |
| Japan Frito-Lay Ltd. | Japan |
| Jinan Pepsi-Cola Beverage Company Limited | China |
| Jordan Ice & Aerated Water Ltd. | Jordan |
| Jungla Mar del Sur | Costa Rica |

| Company Name | Domicile/Jurisdiction |
|---|---|
| KRJ Holdings, S. de R.L. de C.V. | Mexico |
| L-P Investment LLC | United States |
| Lacenix Cia. Ltda. | Ecuador |
| Large Investments S.a.r.l. | Luxembourg |
| Larragana Holding de Espana, S.L. | Spain |
| Larragana Holdings 1, LLC | United States |
| Larragana Holdings 2, LLC | United States |
| Larragana Holdings 3, LLC | United States |
| Larragana Holdings 4, LLC | United States |
| Larragana Holdings 5, LLC | United States |
| Larragana, S.L. | Spain |
| Latin American Snack Foods ApS | Denmark |
| Latin Foods International, LLC | United States |
| Latvia Snacks Ltd. | Latvia |
| Lithuanian Snacks Ltd. | Lithuania |
| Long Bay, Inc. | United States |
| Looza NV | Belgium |
| Looza USA, Inc. | United States |
| Maizoro, S.A. de C.V. | Mexico |
| Malpensa - Consultadoria e Servicos LDA | Portugal |
| Matudis - Comercio de Produtos Alimentares, Limitada | Portugal |
| Matutano, S.L. | Portugal |
| Meadowlark Holdings LLC | United States |
| Midland Bottling Co. | United States |
| Mountain Dew Marketing, Inc. | United States |
| Mountainview Insurance Company, Inc. | United States |
| Nasser | Ireland |
| NCJV, Inc. | Delaware |
| New Age Beverages Ltd | South Africa |
| New Century Beverage Company | United States |
| New Generation Beverages Pty. Ltd. | Australia |
| Noble Leasing LLC | Delaware |
| P.B.I. Fruit Juice Company BVBA | Belgium |
| Panagarh Marketing Company Limited | India |
| Panimex, Inc. | Mauritius |
| Papas Chips | Uruguay |
| Pasteleria Vienesa, C.A. | Venezuela |

| Company Name | Domicile/Jurisdiction |
|---|---|
| PCBL, LLC | United States |
| PCIL USA Indonesia | Indonesia |
| PCM Finance LLC | United States |
| PEI e Companhia | Portugal |
| PEI N.V. | Netherlands Antilles |
| Peninsular Beverage Service Sdn. Bhd. | Malaysia |
| Pepsi Bottling Holdings, Inc. | United States |
| Pepsi Bugshan Investments Company | Egypt |
| Pepsi Cola Egypt | Egypt |
| Pepsi Cola Trading Ireland | Ireland |
| Pepsi Foods Private Ltd. | India |
| Pepsi Overseas (Investments) Partnership | Canada |
| Pepsi Srl | Italy |
| Pepsi-Cola (Bermuda) Limited | Bermuda |
| Pepsi-Cola (Thai) Trading Company Limited | Thailand |
| Pepsi-Cola Advertising and Marketing, Inc. | United States |
| Pepsi-Cola Belgium S.A.R.L. | Luxembourg |
| Pepsi-Cola Bottlers Holding, C.V. | Netherlands |
| Pepsi-Cola Bottling Company of Los Angeles | United States |
| Pepsi-Cola Bottling Company of Ohio, Inc. | United States |
| Pepsi-Cola Bottling Company Of St. Louis, Inc. | United States |
| Pepsi-Cola Canada Ltd. | Canada |
| Pepsi-Cola Company | United States |
| Pepsi-Cola de Honduras S.R.L. | Honduras |
| Pepsi-Cola East Africa Limited | United Kingdom |
| Pepsi-Cola Equipment Corp. | United States |
| Pepsi-Cola Far East Trade Development Co., Inc. | Philippines |
| Pepsi-Cola Fountain Company, Inc. | Delaware |
| Pepsi-Cola Gesellschaft M.B.H. | Austria |
| Pepsi-Cola Gmbh | Germany |
| Pepsi-Cola Industrial Da Amazonia Ltda. | Brazil |
| Pepsi-Cola Interamericana de Guatemala S.A. | Guatemala |
| Pepsi-Cola International (Cyprus) Limited | Cyprus |
| Pepsi-Cola International (PVT) Limited | Pakistan |
| Pepsi-Cola International Limited | Bermuda |
| Pepsi-Cola International Limited (U.S.A.) | United States |
| Pepsi-Cola International Tanitim Ltd. | Turkey |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Pepsi-Cola International, Cork | Ireland |
| Pepsi-Cola Kft. Hungary | Hungary |
| Pepsi-Cola Korea, Co. Ltd. | United States |
| Pepsi-Cola Latin American Brands, S. de R.L. de C.V. | Mexico |
| Pepsi-Cola Maghreb | Morocco |
| Pepsi-Cola Mamulleri Limited Sirketi | Turkey |
| Pepsi-Cola Management and Administrative Services, Inc. | United States |
| Pepsi-Cola Manufacturing (Ireland) | Ireland |
| Pepsi-Cola Manufacturing (Mediterranean) Limited | Bermuda |
| Pepsi-Cola Manufacturing Company Of Uruguay S.R.L. | Uruguay |
| Pepsi-Cola Manufacturing International, Limited | Bermuda |
| Pepsi-Cola Marketing Corp. Of P.R., Inc. | United States |
| Pepsi-Cola Mediterranean Ltd. (Italy Br.) | Italy |
| Pepsi-Cola Mediterranean Ltd. ( HQ) | United States |
| Pepsi-Cola Mediterranean, Ltd. | United States |
| Pepsi-Cola Metropolitan Bottling Company, Inc. | United States |
| Pepsi-Cola Metropolitan, LLC | United States |
| Pepsi-Cola Mexicana Holdings LLC | Delaware |
| Pepsi-Cola Mexicana, S.A. de C.V. | Mexico |
| Pepsi-Cola Operating Company Of Chesapeake And Indianapolis | United States |
| Pepsi-Cola Panamericana (Colombia Br.) | Colombia |
| Pepsi-Cola Panamericana S.R.L. | Peru |
| Pepsi-Cola Panamericana, LLC. | United States |
| Pepsi-Cola Panamericana, S.R.L. | Venezuela |
| Pepsi-Cola Portugal Marketing E Servicos de Bebidas, LDA | Portugal |
| Pepsi-Cola Sales and Distribution, Inc. | United States |
| Pepsi-Cola Technical Operations, Inc. | United States |
| Pepsi-Cola U.K. Limited | United Kingdom |
| Pepsi-Cola Ukraine | Ukraine |
| PepsiCo & Cia | Brazil |
| PepsiCo (China) Ltd. | China |
| PepsiCo (Gibraltar) Ltd. | Gibraltar |
| PepsiCo (India) Holdings Pvt. Ltd. | India |
| PepsiCo (Ireland) Limited | Ireland |

| Company Name | Domicile/Jurisdiction |
| --- | --- |
| PepsiCo (Malaysia) SDN. BHD. | Malaysia |
| PepsiCo 1990 Trustee Limited | United Kingdom |
| PepsiCo Antilles Holdings N.V. | Netherlands Antilles |
| PepsiCo Australia Holdings Pty Ltd | Australia |
| PepsiCo Australia International | Australia |
| PepsiCo Beverages (Guangzhou) Limited | China |
| PepsiCo Beverages (Hong Kong) Limited | Hong Kong |
| PepsiCo Beverages International -Vietnam Company | United States |
| PepsiCo Beverages International Ltd. | Nigeria |
| PepsiCo Beverages Italia Srl | Italy |
| PepsiCo Beverages Switzerland GmbH | Switzerland |
| PepsiCo Canada (Holdings) Co. | Canada |
| PepsiCo Canada Finance LLC | United States |
| PepsiCo Captive Holdings, Inc. | United States |
| PepsiCo Comercial Exportadora | Brazil |
| PepsiCo de Argentina S.R.L. | Argentina |
| PepsiCo de Mexico S.A. de C.V. | Mexico |
| PepsiCo do Brasil Holdings Ltda. | Brazil |
| PepsiCo do Brasil Ltda. | Brazil |
| PepsiCo Estonia | Estonia |
| PepsiCo Euro Bermuda Limited | Bermuda |
| PepsiCo Euro Finance Antilles B.V. | Netherlands Antilles |
| PepsiCo Euro Finance Antilles N.V. | Netherlands Antilles |
| PepsiCo Europe Services, S.L. | Spain |
| PepsiCo Finance (Antilles A) N.V. | United States |
| PepsiCo Finance (Antilles B) N.V. | Netherlands Antilles |
| PepsiCo Finance (South Africa) (Proprietary) Ltd. | South Africa |
| PepsiCo Finance (U.K.) Ltd. | United Kingdom |
| PepsiCo Finance Europe Ltd. | United Kingdom |
| PepsiCo Finance Luxembourg Ltd. | United Kingdom |
| PepsiCo Fleet Services Limited | United Kingdom |
| PepsiCo Foods (China) Co. Ltd. | China |
| PepsiCo Foods (Private) Limited | Pakistan |
| PepsiCo Foods and Beverages International Limited | United Kingdom |
| PepsiCo Foods Canada Inc. | Canada |
| PepsiCo Foods Hellas | Greece |
| PepsiCo Foods International Holdings, Inc. | United States |

| Company Name | Domicile/Jurisdiction |
| --- | --- |
| PepsiCo Foods Taiwan Co., Ltd. | Taiwan |
| PepsiCo Foreign Sales Corporation | Barbados |
| PepsiCo France SNC | France |
| PepsiCo Germany Holding Gmbh | Germany |
| PepsiCo Global Investment Holdings Limited | Ireland |
| PepsiCo Global Investments B.V. | Netherlands |
| PepsiCo Global Investments II BV | Netherlands |
| PepsiCo Global Investments S.a.r.l. | Luxembourg |
| PepsiCo Gulf International FZE | United Arab Emirates |
| PepsiCo Holdings | United Kingdom |
| PepsiCo Holdings Hong Kong Limited | Hong Kong |
| PepsiCo India Holdings, Inc. | United States |
| PepsiCo Internacional México, S. de R. L. de C. V. | Mexico |
| PepsiCo International Ireland | Ireland |
| PepsiCo International Limited | United Kingdom |
| PepsiCo International Pte Ltd. | Singapore |
| PepsiCo Investment (China) Ltd. | China |
| PepsiCo Investments (Europe) I B.V. | Netherlands |
| PepsiCo Investments Denmark Ltd I ApS | Denmark |
| PepsiCo Investments Limited | United Kingdom |
| PepsiCo Light BV | Netherlands |
| PepsiCo Mauritius Holdings Inc. | Mauritius |
| PepsiCo Max BV | Netherlands |
| PepsiCo Nordic Denmark A/S | Denmark |
| PepsiCo Nordic Finland OY | Finland |
| PepsiCo Nordic Norway A/S | Norway |
| PepsiCo Nordic Sweden AB | Sweden |
| PepsiCo One B.V. | Netherlands |
| PepsiCo Overseas Corporation | United States |
| PepsiCo Pacific Trading Company, Limited | Hong Kong |
| PepsiCo Pension Management Services, Ltd. | United States |
| PepsiCo Products B.V. | Netherlands |
| PepsiCo Property Management Limited | United Kingdom |
| PepsiCo Puerto Rico, Inc. | United States |
| PepsiCo Services International Inc. | United States |
| PepsiCo Twist B.V. | Netherlands |

| Company Name | Domicile/Jurisdiction |
|---|---|
| PepsiCo UK Pension Plan Trustee Limited | United Kingdom |
| PepsiCo UK Pension Trust Limited | United Kingdom |
| PepsiCo World Trading Company, Inc. | United States |
| PepsiCo, Inc. | United States |
| Pete & Johnny Limited | United Kingdom |
| PFI - (FRITO) | United States |
| PFI Agriculture Europe Limited | United Kingdom |
| PFI Italia S.R.L. | Italy |
| PGCC, Inc. | United States |
| PIE Holdings Limited | Ireland |
| Pine International LLC | United States |
| Pizza Hut, Inc. | United States |
| Pizza Restaurant Management, Inc. | United States |
| Planters U.K. Limited | United Kingdom |
| PlayCo, Inc. | United States |
| Polis S.R.L. | Italy |
| Prestwick, Inc. | United States |
| Productos Gatorade de Mexico, S. de R.L. de C.V. | Mexico |
| Productos Quaker Limitada | Colombia |
| PRS, Inc. | United States |
| PT Gatorade Indonesia | Indonesia |
| Punch N.V. | Netherlands Antilles |
| Pure & Natural, Inc. | United States |
| Putnam Holdings, Inc. | United States |
| QFL OHQ Sdn. Bhd. | Malaysia |
| QTG Canada Inc. | Canada |
| QTG Development, Inc. | Delaware |
| Quaker Bebidas, S.L. | Spain |
| Quaker Beverages Italia S.p.A | Italy |
| Quaker Cereals Limited | United Kingdom |
| Quaker de Ecuador Cia. Ltda. | Ecuador |
| Quaker Developments B.V. | Netherlands |
| Quaker Europe Ltd. | United Kingdom |
| Quaker European Beverages, LLC | United States |
| Quaker European Investments B.V. | Netherlands |
| Quaker Foods Ltd. | United Kingdom |
| Quaker Global Investments B.V. | Netherlands |
| Quaker Holdings (UK) Limited | United Kingdom |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Quaker Manufacturing, LLC | United States |
| Quaker Mexico Holdings, LLC | United States |
| Quaker Oats (Shanghai) Food Co. Ltd. | China |
| Quaker Oats Asia, Inc. | United States |
| Quaker Oats Australia Pty., Ltd. | Australia |
| Quaker Oats B.V. | Netherlands |
| Quaker Oats Capital Corporation | United States |
| Quaker Oats Europe LLC | United States |
| Quaker Oats Europe, Inc. | United States |
| Quaker Oats Japan, Ltd. | Japan |
| Quaker Oats Ltd. | United Kingdom |
| Quaker Oats Puerto Rico, Inc. | United States |
| Quaker Old Trading Limited | United Kingdom |
| Quaker Peru S.R.L. | Peru |
| Quaker Products Limited | United Kingdom |
| Quaker Products Manufacturing Import, Export and Marketing Ltd. Co. | Turkey |
| Quaker Sales & Distribution, Inc. | United States |
| Quaker Subco Ltd | United Kingdom |
| Quaker Trading Limited | United Kingdom |
| Quic, Ltd | Bermuda |
| Red Maple LLC | United States |
| Refrigerantes sul Riograndenses S.A. | Brazil |
| Regia-Comercial E Publicidade Ltda. | Brazil |
| Rolling Frito-Lay Sales, Limited Partnership | Delaware |
| Romix 1990 Trustee Limited | United Kingdom |
| Ruscan, Inc. | United States |
| S.C. Star Foods E.M. S.R.L. | Romania |
| S.V.E. (Hungary) Trading and Manufacturing Limited | Hungary |
| S.W. Frito-Lay, Ltd | United States |
| Sabritas de Costa Rica, S. de R.L. | Costa Rica |
| Sabritas Snacks America Latina de Nicaragua y Cia, Ltda | Nicaragua |
| Sabritas Trust | Mexico |
| Sabritas y Compania, SCA | El Salvador |
| Sabritas, LLC | United States |
| Sabritas, S. de R.L. de C.V. | Mexico |
| Sakata Rice Snacks Australia Proprietary Limited | Australia |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Saudi Snack Foods Company Limited | Saudi Arabia |
| Seepoint Holdings Ltd. | Cyprus |
| Senrab Limited | Ireland |
| Serm Suk Public Company Limited | Thailand |
| Servicios Calificados, S.A. de C.V. | Mexico |
| Servicios Chipiga, S. de R.L. de C.V. | Mexico |
| Servicios Operativos Gatorade de Mexico, S. de R.L. de C.V. | Mexico |
| Seven-Up Asia ITCO | Japan |
| Seven-Up Asia HQ | United States |
| Seven-Up Asia, Inc. | United States |
| Seven-Up Europe Limited | United Kingdom |
| Seven-Up Great Britain, Inc. | United States |
| Seven-Up Ireland Limited | Ireland |
| Seven-Up Light BV | Netherlands |
| Seven-Up Nederland B.V. | Netherlands |
| Seven-Up Southern Hemisphere, Inc. | United States |
| Shanghai Pepsi-Cola Beverage Company Ltd. | China |
| Shanghai PepsiCo Snacks Company Limited | China |
| Shanghai Quaker Oats Beverage Co. Ltd. | China |
| Shenyang Pepsi-Cola Beverages Co., Ltd. | China |
| Shenzhen Pepsi-Cola Beverage Co. Ltd. | China |
| Sichuan Pepsi-Cola Beverage Co. Ltd. | China |
| SIH International LLC | United States |
| Simba Pty Ltd. | South Africa |
| Smartfoods, Inc. | United States |
| Smiths Crisps Limited | United Kingdom |
| Smiths Food Group, B.V. | Netherlands |
| Snack Food Holdings C.V. | Netherlands |
| Snack Food Investments GmbH | Switzerland |
| Snack Food Investments II GmbH | Switzerland |
| Snack Food Investments Limited | Bermuda |
| Snack Foods Belgium B.V.B.A. | Belgium |
| Snack Ventures Europe SCA | Belgium |
| Snack Ventures Inversiones, S.L. | Spain |
| Snack Ventures Manufacturing, S.L. | Spain |
| Snacks America Latina Ecuador Cia. Ltda | Ecuador |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Snacks America Latina Peru S.R.L. | Peru |
| Snacks America Latina S.R.L. | Peru |
| Snacks America Latina Venezuela S.R.L. | Venezuela |
| Snacks Guatemala, Ltd. | Bermuda |
| Snacks Ventures S.A. | Spain |
| SoBe Operating Corp., Inc. | United States |
| South Beach Beverage Company, Inc. | United States |
| Special Edition Beverages Limited | New Zealand |
| Special Editions Enterprises Ltd. | New Zealand |
| Sportmex Internacional, S.A. De C.V. | Mexico |
| Stokely-Van Camp, Inc. | United States |
| SVC Equipment Company | United States |
| SVC Latin America, Inc. | United States |
| SVC Latin America, LLC | Delaware |
| SVC Logistics, Inc. | United States |
| SVC Manufacturing Inc. | United States |
| SVE Italia | Italy |
| SVE Russia Holdings GmbH | Germany |
| Tastes of Adventures Pty. Ltd. | Australia |
| Tasty Foods S.A. | Greece |
| TFL Holdings, Inc. | United States |
| The Beverage S.R.L. | Italy |
| The Concentrate Manufacturing Company Of Ireland | Ireland |
| The Gatorade Company | United States |
| The Gatorade Company of Australia Pty Ltd. | Australia |
| The Original Pretzel Company Pty. Ltd. | Australia |
| The Quaker Oats Company | United States |
| The Radical Fruit Company New York | Ireland |
| The Smiths Snackfood Company Ltd. | Australia |
| Tianjin Pepsi-Cola Beverage Company Limited | China |
| Tianjin PepsiCo Foods Co. Ltd. | China |
| Tobago Snack Holdings, LLC | United States |
| TPI Urban Renewal Corporation | United States |
| Tropicana Alvalle S.L. | Spain |
| Tropicana Beverages (Huizhou) Co. Ltd. | China |
| Tropicana Beverages Company | India |
| Tropicana Beverages Greater China Limited | Hong Kong |
| Tropicana Beverages Ltd. | Hong Kong |

| Company Name | Domicile/Jurisdiction |
|---|---|
| Tropicana Europe NV | Belgium |
| Tropicana Inversiones, S. L. | Spain |
| Tropicana Looza BENELUX BVBA | Belgium |
| Tropicana Manufacturing Company, Inc. | United States |
| Tropicana Products Sales, Inc. | United States |
| Tropicana Products, Inc. | United States |
| Tropicana Services, Inc. | United States |
| Tropicana Transportation Corp. | United States |
| Tropicana United Kingdom Limited | United Kingdom |
| Twisties Australia One Pty Limited | Australia |
| Twisties Australia Two Pty Limited | Australia |
| United Foods Company S.A. | Brazil |
| Valores Bermuda S.R.L. | Venezuela |
| Valores Mapumar | Venezuela |
| Veurne Snackfoods BVBA | Belgium |
| Walkers (Nominees) Limited | United Kingdom |
| Walkers 1990 Pensions Trustee Limited | United Kingdom |
| Walkers Acquisition Company Limited | United Kingdom |
| Walkers Crisps Limited | United Kingdom |
| Walkers Group Limited | United Kingdom |
| Walkers Intermediate Holding Company Limited | United Kingdom |
| Walkers No.2 1990 Trustee Limited | United Kingdom |
| Walkers Snack Foods Limited | United Kingdom |
| Walkers Snack Services Limited | United Kingdom |
| Walkers Snacks (Distribution) Limited | United Kingdom |
| Walkers Snacks Limited | United Kingdom |
| Walkers Snacks Services Limited | United Kingdom |
| Whitman Corporation | United States |
| Wotsits Brands Limited | United Kingdom |
| WRP 1990 Trustee Limited | United Kingdom |
| Xi’an Pepsi-Cola Beverage Company Limited | China |
| Zhanjiang Pepsi Cola Beverages Limited | China |

## Consent of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
PepsiCo, Inc.:

We consent to incorporation by reference in the Registration Statements listed below of PepsiCo, Inc. of our report dated February 24, 2006, relating to the consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 31, 2005 and December 25, 2004 and the related consolidated statements of income, cash flows and common shareholders' equity for each of the years in the three-year period ended December 31, 2005, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 and the effectiveness of internal control over financial reporting as of December 31, 2005, which report appears in the December 31, 2005 annual report on Form 10-K of PepsiCo, Inc.

**Description, Registration Statement Number**

Form S-3

- PepsiCo SharePower Stock Option Plan for PCDC Employees, 33-42121
- $32,500,000 Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority Adjustable Rate Industrial Revenue Bonds, 33-53232
- Extension of the PepsiCo SharePower Stock Option Plan to Employees of Snack Ventures Europe, a joint venture between PepsiCo Foods International and General Mills, Inc., 33-50685
- $4,587,000,000 Debt Securities and Warrants, 33-64243
- $500,000,000 Capital Stock, 1 2/3 cents par value, 333-56302

Form S-4

- 330,000,000 Shares of Common Stock, 1 2/3 cents par value and 840,582 Shares of Convertible Stock, no par value, 333-53436

Form S-8

- PepsiCo, Inc. 2003 Long-Term Incentive Plan, 333-109509
- PepsiCo SharePower Stock Option Plan, 33-35602, 33-29037, 33-42058, 33-51496, 33-54731, 33-66150 & 333-109513
- Director Stock Plan, 33-22970 & 333-110030
- 1979 Incentive Plan and the 1987 Incentive Plan, 33-19539
- 1994 Long-Term Incentive Plan, 33-54733
- PepsiCo, Inc. 1995 Stock Option Incentive Plan, 33-61731, 333-09363 & 333-109514
- 1979 Incentive Plan, 2-65410
- PepsiCo, Inc. Long Term Savings Program, 2-82645, 33-51514 & 33-60965
- PepsiCo 401(K) Plan, 333-89265
- PepsiCo Puerto Rico 1165(e) Plan, 333-56524
- Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union #173), 333-65992
- The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors, 333-66632
- The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees, 333-66634
- The PepsiCo 401(k) Plan for Salaried Employees, 333-76196
- The PepsiCo 401(k) Plan for Hourly Employees, 333-76204
- The PepsiCo Share Award Plan, 333-87526

/s/ KPMG LLP

New York, New York

February 27, 2006

# POWER OF ATTORNEY

PepsiCo, Inc. (“PepsiCo”) and each of the undersigned, an officer or director, or both, of PepsiCo, do hereby appoint Larry D. Thompson, Robert E. Cox and Thomas H. Tamoney, Jr. and each of them severally, its, his or her true and lawful attorney-in-fact to execute on behalf of PepsiCo and the undersigned the following documents and any and all amendments thereto (including post-effective amendments):

(i) Registration Statements No. 33-53232, 33-64243 and 333-102035 relating to the offer and sale of PepsiCo’s Debt Securities, Warrants and Guarantees;

(ii) Registration Statements No. 33-4635, 33-21607, 33-30372, 33-31844, 33-37271, 33-37978, 33-47314, 33-47527, 333-53436 and 333-56302 all relating to the primary and/or secondary offer and sale of PepsiCo Common Stock issued or exchanged in connection with acquisition transactions;

(iii) Registration Statements No. 33-29037, 33-35602, 33-42058, 33-51496, 33-54731 33-42121, 33-50685, 33-66150 and 333-109513 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo SharePower Stock Option Plan;

(iv) Registration Statements No. 2-82645, 33-51514, 33-60965 and 333-89265 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo 401(k) Plan or the PepsiCo Long-Term Savings Program; Registration Statement No. 333-56524 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo Puerto Rico 1165(e) Plan; Registration Statement No. 333-65992 relating to the offer and sale of PepsiCo Common Stock under the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamsters Local Union #173), the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates; Registration Statement No. 333-66634 relating to the offer and sale of PepsiCo Common Stock under The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees; Registration No. 333-76196 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo 401(k) Plan for Salaried Employees; and Registration No. 333-76204 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo 401(k) Plan for Hourly Employees;

(v) Registration Statements No. 33-61731, 333-09363 and 333-109514 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo, Inc. 1995 Stock Option Incentive Plan; Registration Statement No. 33-54733 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo, Inc. 1994 Long-Term Incentive Plan and resales of such shares by executive officers of PepsiCo; Registration Statement No. 33-19539 relating to the offer and sale of PepsiCo Common Stock under PepsiCo’s 1987 Incentive Plan and resales of such shares by executive officers of PepsiCo; Registration Statement No. 2-65410 relating to the offer and sale of PepsiCo Common Stock under PepsiCo’s 1979 Incentive Plan and 1972 Performance Share Plan, as amended; Registration Statement No. 333-66632 relating to the offer and sale of PepsiCo Common Stock under The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999, and The Quaker Oats Company Stock Option Plan for Outside Directors; Registration Statement No. 333-109509 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo, Inc. 2003 Long-Term Incentive Plan and resales of such shares by executive officers and directors of PepsiCo;

(vi) Registration Statement No. 33-22970 and 333-110030 relating to the offer and sale of PepsiCo Common Stock under PepsiCo's Director Stock Plan and resales of such shares by Directors of PepsiCo;

(vii) Registration Statement No. 333-87526 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo Share Award Plan;

(viii) Schedule 13G relating to PepsiCo's beneficial ownership of Common Stock and Class B Common Stock of The Pepsi Bottling Group, Schedule 13D relating to PepsiCo's beneficial ownership of Common Stock of PepsiAmericas, Inc. and any schedules deemed to be necessary or appropriate by any such attorney-in-fact;

(ix) all other applications, reports, registrations, information, documents and instruments filed or required to be filed by PepsiCo with the Securities and Exchange Commission, any stock exchanges or any governmental official or agency in connection with the listing, registration or approval of PepsiCo Common Stock, PepsiCo debt securities or warrants, other securities or PepsiCo guarantees of its subsidiaries' debt securities or warrants, or the offer and sale thereof, or in order to meet PepsiCo's reporting requirements to such entities or persons;

and to file the same, with all exhibits thereto and other documents in connection therewith, and each of such attorneys shall have the power to act hereunder with or without the other.

IN WITNESS WHEREOF, the undersigned has executed this instrument on February 27, 2006.

PepsiCo, Inc.

By: /s/ Steven S Reinemund
Steven S Reinemund
*Chairman of the Board and*
*Chief Executive Officer*

/s/ Steven S Reinemund
Steven S Reinemund
*Chairman of the Board and*
*Chief Executive Officer*

/s/ Indra K. Nooyi
Indra K. Nooyi
*Director, President,*
*and Chief Financial Officer*

/s/ Peter A. Bridgman
Peter A. Bridgman
*Senior Vice President and Controller*
*(Principal Accounting Officer)*

/s/ John F. Akers
John F. Akers
*Director*

/s/ Robert E. Allen
Robert E. Allen
*Director*

/s/ Dina Dublon
Dina Dublon
*Director*

| | |
|---|---|
| /s/ Victor J. Dzau, M.D.<br>Victor J. Dzau, M.D.<br>*Director* | /s/ Ray L. Hunt<br>Ray L. Hunt<br>*Director* |
| /s/ Alberto Ibargüen<br>Alberto Ibargüen<br>*Director* | /s/ Arthur C. Martinez<br>Arthur C. Martinez<br>*Director* |
| /s/ Sharon Percy Rockefeller<br>Sharon Percy Rockefeller<br>*Director* | /s/ James J. Schiro<br>James J. Schiro<br>*Director* |
| /s/ Franklin A. Thomas<br>Franklin A. Thomas<br>*Director* | /s/ Cynthia M. Trudell<br>Cynthia M. Trudell<br>*Director* |
| /s/ Daniel Vasella<br>Daniel Vasella<br>*Director* | |

**EXHIBIT 31**

## CERTIFICATION

I, **Steven S Reinemund,** certify that:

1. I have reviewed this annual report on Form 10-K of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PepsiCo and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in PepsiCo's internal control over financial reporting that occurred during PepsiCo's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, PepsiCo's internal control over financial reporting; and
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PepsiCo's auditors and the audit committee of PepsiCo's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PepsiCo's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal control over financial reporting.

Date: February 27, 2006

/s/ Steven S Reinemund

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer

## CERTIFICATION

I, **Indra K. Nooyi,** certify that:

1. I have reviewed this annual report on Form 10-K of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PepsiCo and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in PepsiCo's internal control over financial reporting that occurred during PepsiCo's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, PepsiCo's internal control over financial reporting; and
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PepsiCo's auditors and the audit committee of PepsiCo's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PepsiCo's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal control over financial reporting.

Date: February 27, 2006

/s/ Indra K. Nooyi

Indra K. Nooyi
President and Chief Financial Officer

**EXHIBIT 32**

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of PepsiCo, Inc. (the “Corporation”) on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Steven S Reinemund, Chairman and Chief Executive Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: February 27, 2006

/s/ Steven S Reinemund

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of PepsiCo, Inc. (the “Corporation”) on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Indra K. Nooyi, President and Chief Financial Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: February 27, 2006

/s/ Indra K. Nooyi

Indra K. Nooyi
President and Chief Financial Officer