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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 3, 2005 (36 weeks)

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  
(State or Other jurisdiction  
of Incorporation or Organization)

700 Anderson Hill Road, Purchase, New York  
(Address of Principal Executive Offices)

13-1584302  
(I.R.S. Employer  
Identification No.)  
10577  
(Zip Code)

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

N/A  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act.) YES  NO

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

Number of shares of Common Stock outstanding as of September 23, 2005: 1,659,193,974

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PEPSICO, INC. AND SUBSIDIARIES

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CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/3/05	9/4/04	9/3/05	9/4/04
<b>Net Revenue</b>	<b>\$8,184</b>	\$7,257	<b>\$22,466</b>	\$20,458
Cost of sales	<b>3,733</b>	3,300	<b>10,255</b>	9,324
Selling, general and administrative expenses	<b>2,734</b>	2,410	<b>7,625</b>	6,974
Amortization of intangible assets	<b>37</b>	35	<b>103</b>	100
<b>Operating Profit</b>	<b>1,680</b>	1,512	<b>4,483</b>	4,060
Bottling equity income	<b>209</b>	147	<b>430</b>	292
Interest expense	<b>(58)</b>	(41)	<b>(161)</b>	(113)
Interest income	<b>37</b>	15	<b>88</b>	37
Income before income taxes	<b>1,868</b>	1,633	<b>4,840</b>	4,276
Provision for income taxes	<b>1,004</b>	269	<b>1,870</b>	1,049
<b>Net Income</b>	<b>\$ 864</b>	\$1,364	<b>\$ 2,970</b>	\$ 3,227
<b>Net Income Per Common Share</b>				
<b>Basic</b>	<b>\$ 0.52</b>	\$ 0.80	<b>\$ 1.77</b>	\$ 1.89
<b>Diluted</b>	<b>\$ 0.51</b>	\$ 0.79	<b>\$ 1.74</b>	\$ 1.86
Cash Dividends Declared Per Common Share	<b>\$ 0.26</b>	\$ 0.23	<b>\$ 0.75</b>	\$ 0.62

See accompanying [Notes to the Condensed Consolidated Financial Statements](#).

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(in millions, unaudited)

	36 Weeks Ended	
	9/3/05	9/4/04
<b>Operating Activities</b>		
Net income	\$ 2,970	\$ 3,227
Adjustments		
Depreciation and amortization	896	863
Stock-based compensation expense	215	261
Cash payments for merger-related and other restructuring charges	(21)	(57)
Bottling equity income, net of dividends	(345)	(248)
Deferred income taxes	101	62
Net change in operating working capital	251	(659)
Other, net	491	268
Net Cash Provided by Operating Activities	<u>4,558</u>	<u>3,717</u>
<b>Investing Activities</b>		
Snack Ventures Europe (SVE) minority interest acquisition	(750)	—
Capital spending	(796)	(700)
Sales of property, plant and equipment	65	15
Other acquisitions and investments in noncontrolled affiliates	(302)	(28)
Cash proceeds from sale of The Pepsi Bottling Group (PBG) stock	177	—
Divestitures	3	—
Short-term investments, by original maturity		
More than three months—purchases	(82)	(28)
More than three months—maturities	56	34
Three months or less, net	(1,832)	(92)
Net Cash Used for Investing Activities	<u>(3,461)</u>	<u>(799)</u>
<b>Financing Activities</b>		
Proceeds from issuances of long-term debt	13	504
Payments of long-term debt	(145)	(175)
Short-term borrowings, by original maturity		
More than three months—proceeds	51	94
More than three months—payments	(66)	(111)
Three months or less, net	1,236	32
Cash dividends paid	(1,209)	(940)
Share repurchases—common	(2,085)	(2,475)
Share repurchases—preferred	(14)	(20)
Proceeds from exercises of stock options	707	846
Net Cash Used for Financing Activities	<u>(1,512)</u>	<u>(2,245)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(21)	(12)
Net (Decrease)/Increase in Cash and Cash Equivalents	<u>(436)</u>	<u>661</u>
Cash and Cash Equivalents—Beginning of year	1,280	820
Cash and Cash Equivalents—End of period	<u>\$ 844</u>	<u>\$ 1,481</u>

See accompanying [Notes to the Condensed Consolidated Financial Statements](#).

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
(in millions)

	(Unaudited) 9/3/05	12/25/04
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 844	\$ 1,280
Short-term investments	4,028	2,165
	<u>4,872</u>	<u>3,445</u>
Accounts and notes receivable, less allowance: 9/05—\$74, 12/04—\$97	3,757	2,999
Inventories		
Raw materials	716	665
Work-in-process	180	156
Finished goods	768	720
	<u>1,664</u>	<u>1,541</u>
Prepaid expenses and other current assets	498	654
	<u>10,791</u>	<u>8,639</u>
Total Current Assets		
Property, Plant and Equipment	16,427	15,930
Accumulated Depreciation	(8,264)	(7,781)
	<u>8,163</u>	<u>8,149</u>
Amortizable Intangible Assets, net	530	598
Goodwill	3,893	3,909
Other Nonamortizable Intangible Assets	898	933
	<u>4,791</u>	<u>4,842</u>
Investments in Noncontrolled Affiliates	3,450	3,284
Other Assets	3,173	2,475
	<u>30,898</u>	<u>27,987</u>
Total Assets		

Continued on next page.

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET (continued)  
(in millions except per share amounts)

	(Unaudited) 9/3/05	12/25/04
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Short-term borrowings obligations	\$ 2,266	\$ 1,054
Accounts payable and other current liabilities	5,860	5,599
Income taxes payable	890	99
	<hr/>	<hr/>
Total Current Liabilities	9,016	6,752
Long-term Debt Obligations	2,300	2,397
Other Liabilities	4,144	4,099
Deferred Income Taxes	1,338	1,216
	<hr/>	<hr/>
Total Liabilities	16,798	14,464
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(104)	(90)
Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share:		
Authorized 3,600 shares, issued 9/05 and 12/04—1,782 shares	30	30
Capital in excess of par value	641	618
Retained earnings	20,441	18,730
Accumulated other comprehensive loss	(921)	(886)
	<hr/>	<hr/>
	20,191	18,492
Less: Repurchased shares, at cost:		
9/05—121 shares, 12/04—103 shares	(6,028)	(4,920)
	<hr/>	<hr/>
Total Common Shareholders' Equity	14,163	13,572
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	\$30,898	\$27,987
	<hr/>	<hr/>

See accompanying [Notes to the Condensed Consolidated Financial Statements](#).

PEPSICO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME  
(in millions, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/3/05	9/4/04	9/3/05	9/4/04
Net Income	<b>\$864</b>	\$1,364	<b>\$2,970</b>	\$3,227
Other Comprehensive Income/(Loss)				
Currency translation adjustment	95	3	(81)	(73)
Cash flow hedges, net of related taxes:				
Net derivative gains <sup>(a)</sup>	18	9	41	11
Reclassification of (gains)/losses to net income	(4)	(4)	5	—
Other	—	—	—	2
	<b>109</b>	8	<b>(35)</b>	(60)
Comprehensive Income	<b>\$973</b>	\$1,372	<b>\$2,935</b>	\$3,167

<sup>(a)</sup> Net derivative gains for the 12 weeks ended and 36 weeks ended September 3, 2005 include \$25 million and \$41 million of net commodity gains.

See accompanying [Notes to the Condensed Consolidated Financial Statements](#).

PEPSICO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Basis of Presentation and Our Divisions**

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***Basis of Presentation***

Our Condensed Consolidated Balance Sheet as of September 3, 2005, the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 3, 2005 and September 4, 2004, and the Condensed Consolidated Statement of Cash Flows for the 36 weeks ended September 3, 2005 and September 4, 2004 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 25, 2004. In connection with our ongoing Business Process Transformation (BPT) initiative, we aligned certain accounting policies across our divisions. In the first quarter of 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. In the third quarter of 2005, we conformed our method of accounting for certain freight, distribution, and employee benefits costs. These changes reduced our net revenue by \$7 million and \$47 million and our operating profit by \$45 million and \$52 million in the 12 and 36 weeks ended September 3, 2005. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the year.

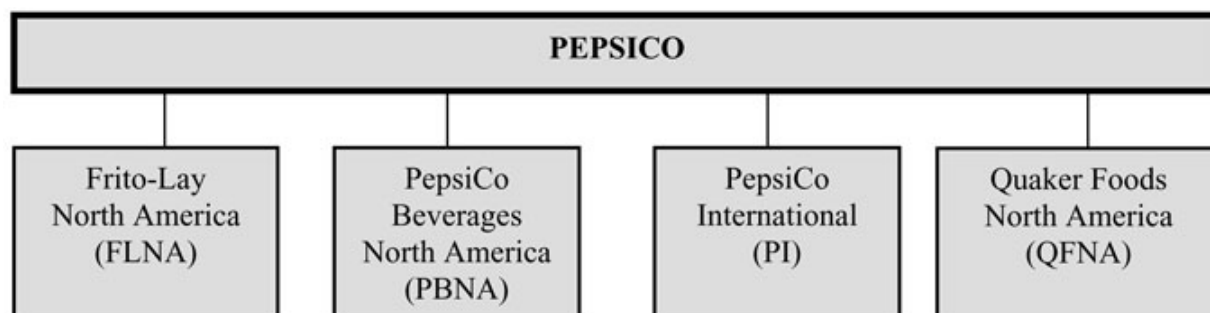
Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives, and certain advertising and marketing costs, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate.

Bottling equity income includes our share of the net income or loss of our noncontrolled bottling affiliates and any changes in our ownership interests of these affiliates. In 2005, bottling equity income includes \$41 million and \$105 million of pre-tax gains on our sales of PBG stock in the 12 and 36 weeks ended September 3, 2005.

The following information is unaudited. 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 year amounts to conform to the 2005 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 25, 2004.



*Our Divisions*



	12 Weeks Ended		36 Weeks Ended	
	9/3/05	9/4/04	9/3/05	9/4/04
<b>NET REVENUE</b>				
FLNA	\$2,461	\$2,325	\$ 7,097	\$ 6,704
PBNA	2,520	2,147	6,522	5,999
PI	2,839	2,430	7,716	6,719
QFNA	364	355	1,131	1,036
	<b>\$8,184</b>	<b>\$7,257</b>	<b>\$22,466</b>	<b>\$20,458</b>
<b>OPERATING PROFIT</b>				
FLNA	\$ 655	\$ 616	\$ 1,788	\$ 1,686
PBNA	628	542	1,598	1,460
PI	473	370	1,232	995
QFNA	111	111	369	325
Total division	1,867	1,639	4,987	4,466
Corporate	(187)	(127)	(504)	(406)
	<b>\$1,680</b>	<b>\$1,512</b>	<b>\$ 4,483</b>	<b>\$ 4,060</b>
			9/3/05	12/25/04
<b>TOTAL ASSETS</b>				
FLNA			\$ 5,539	\$ 5,476
PBNA			6,298	6,048
PI			9,925	8,921
QFNA			952	978
Total division			22,714	21,423
Corporate			5,055	3,569
Investments in bottling affiliates			3,129	2,995
			<b>\$30,898</b>	<b>\$27,987</b>

**Intangible Assets**

	<u>9/3/05</u>	<u>12/25/04</u>
<b>Amortizable intangible assets, net</b>		
Brands	<b>\$1,035</b>	\$1,008
Other identifiable intangibles	<b>230</b>	225
	<u>1,265</u>	<u>1,233</u>
Accumulated amortization	<b>(735)</b>	(635)
	<u>\$ 530</u>	<u>\$ 598</u>

The change in the book value of nonamortizable intangible assets is as follows:

	<u>Balance 12/25/04</u>	<u>Acquisitions</u>	<u>Translation &amp; Other</u>	<u>Balance 9/3/05</u>
<b>FLNA</b>				
Goodwill	\$ 138	\$—	\$4	<b>\$ 142</b>
<b>PBNA</b>				
Goodwill	2,161	—	2	<b>2,163</b>
Brands	59	—	—	<b>59</b>
	<u>2,220</u>	<u>—</u>	<u>2</u>	<u>2,222</u>
<b>PI</b>				
Goodwill	1,435	10	(32)	<b>1,413</b>
Brands	869	—	(35)	<b>834</b>
	<u>2,304</u>	<u>10</u>	<u>(67)</u>	<u>2,247</u>
<b>QFNA</b>				
Goodwill	175	—	—	<b>175</b>
<b>Corporate</b>				
Pension intangible	5	—	—	<b>5</b>
Total goodwill	\$3,909	10	(26)	<b>\$3,893</b>
Total brands	928	—	(35)	<b>893</b>
Total pension intangible	5	—	—	<b>5</b>
	<u>\$4,842</u>	<u>\$ 10</u>	<u>\$(61)</u>	<u>\$4,791</u>

## Stock-Based Compensation

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We account for employee stock options under the fair value method of accounting using a Black-Scholes valuation model. For the 12 weeks, we recognized stock-based compensation expense of \$68 million in 2005 and \$86 million in 2004. For the 36 weeks, we recognized stock-based compensation expense of \$215 million in 2005 and \$261 million in 2004. These amounts are reflected in selling, general and administrative expenses.

We are currently evaluating the impact of Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*. We will adopt this Standard no later than in the first quarter of 2006. In addition, two of our anchor bottlers, PBG and PepsiAmericas, Inc., will adopt SFAS 123R no later than in the first quarter of 2006 which will negatively impact our bottling equity income upon their adoption.

We currently recognize stock-based compensation cost for employees eligible to retire over the three-year standard vesting period of the grants. Upon adoption of SFAS 123R, we will amortize new option grants to such retirement eligible employees over a shorter period, consistent with the retirement vesting acceleration provisions of these grants. If we had historically recognized stock-based compensation cost for these employees under this accelerated method, \$32 million of compensation cost would have been accelerated and cumulatively recognized through September 3, 2005. The impact of recognizing stock-based compensation under this accelerated method for the 12 and 36 weeks ended September 3, 2005 would have been immaterial.

Our weighted average Black-Scholes fair value assumptions are as follows:

	12 and 36 Weeks Ended	
	9/3/05	9/4/04
Expected life	6 yrs.	6 yrs.
Risk free interest rate	3.8%	3.3%
Expected volatility	24%	26%
Expected dividend yield	1.8%	1.8%

**Pension and Retiree Medical Benefits**

The components of net periodic benefit cost for pension and retiree medical plans are as follows:

	12 Weeks Ended			
	9/3/05	9/4/04	9/3/05	9/4/04
	Pension		Retiree Medical	
Service cost	\$57	\$51	\$ 9	\$ 9
Interest cost	81	73	18	17
Expected return on plan assets	(96)	(90)	—	—
Amortization of prior service cost/(benefit)	1	2	(2)	(2)
Amortization of experience loss	28	21	6	4
<b>Total expense</b>	<b>\$71</b>	<b>\$57</b>	<b>\$31</b>	<b>\$28</b>

	36 Weeks Ended			
	9/3/05	9/4/04	9/3/05	9/4/04
	Pension		Retiree Medical	
Service cost	\$171	\$152	\$27	\$27
Interest cost	244	219	54	50
Expected return on plan assets	(289)	(269)	—	—
Amortization of prior service cost/(benefit)	3	5	(6)	(6)
Amortization of experience loss	84	63	18	13
<b>Total expense</b>	<b>\$213</b>	<b>\$170</b>	<b>\$93</b>	<b>\$84</b>

## Net Income Per Common Share

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

	12 Weeks Ended			
	9/3/05		9/4/04	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income	\$ 864		\$1,364	
Preferred shares:				
Dividends	(1)		(1)	
Redemption premium	(2)		(2)	
Net income available for common shareholders	\$ 861	1,668	\$1,361	1,692
Basic net income per common share	\$0.52		\$ 0.80	
Net income available for common shareholders	\$ 861	1,668	\$1,361	1,692
Dilutive securities:				
Stock options and restricted stock units <sup>(b)</sup>	—	33	—	33
ESOP convertible preferred stock	3	2	3	2
Diluted	\$ 864	1,703	\$1,364	1,727
Diluted net income per common share	\$0.51		\$ 0.79	
	36 Weeks Ended			
	9/3/05		9/4/04	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income	\$2,970		\$3,227	
Preferred shares:				
Dividends	(2)		(2)	
Redemption premium	(11)		(16)	
Net income available for common shareholders	\$2,957	1,674	\$3,209	1,701
Basic net income per common share	\$ 1.77		\$ 1.89	
Net income available for common shareholders	\$2,957	1,674	\$3,209	1,701
Dilutive securities:				
Stock options and restricted stock units <sup>(b)</sup>	—	33	—	31
ESOP convertible preferred stock	13	2	18	3
Diluted	\$2,970	1,709	\$3,227	1,735
Diluted net income per common share	\$ 1.74		\$ 1.86	

<sup>(a)</sup> Weighted average common shares outstanding.

<sup>(b)</sup> Out-of-the money options for the 12 weeks in 2005 were nominal. Options to purchase 4.0 million shares for the 36 weeks in 2005 and 0.5 million shares for the 12 weeks and 9.7 million shares for the 36 weeks in 2004 were not included in the calculation of earnings per share because these options were out-of-the-money. Out-of-the-money options had average exercise prices of \$54.75 for the 12 weeks and \$53.77 for the 36 weeks in 2005 and \$51.98 for the 12 weeks and \$51.70 for the 36 weeks in 2004.

**Income Taxes**

As noted in our 2004 Form 10-K, the American Jobs Creation Act of 2004 (AJCA) creates 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 plan to repatriate approximately \$7.5 billion in earnings previously considered indefinitely reinvested outside the U.S. in the fourth quarter of 2005. In the third quarter of 2005, we recorded income tax expense of \$468 million associated with this planned repatriation. Other than the earnings to be 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.

**Supplemental Cash Flow Information**

	36 Weeks Ended	
	9/3/05	9/4/04
Interest paid	\$ 133	\$ 91
Income taxes paid, net of refunds	\$ 668	\$1,268 <sup>(a)</sup>
Acquisitions <sup>(b)</sup> :		
Fair value of assets acquired	\$ 929	\$ 30
Less: Cash paid and debt assumed	(1,052)	(28)
Add: SVE minority interest eliminated	216	—
Liabilities assumed	\$ 93	\$ 2

<sup>(a)</sup> The 36 weeks in 2004 include a tax payment of \$760 million as a result of our 2003 settlement with the Internal Revenue Service.

<sup>(b)</sup> In 2005, these amounts include the impact of our first quarter acquisition of General Mills, Inc.'s 40.5% ownership interest in SVE for \$750 million. The excess of our purchase price over the preliminary estimate of the fair value of net assets acquired is \$534 million. This amount is reflected in *Other Assets* in our [Condensed Consolidated Balance Sheet](#) as of September 3, 2005, pending finalization of our purchase accounting in the fourth quarter of 2005.

**Recent Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4*, which relates to inventory costs and the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. The provisions of SFAS 151 are effective for inventory costs incurred beginning in the first quarter of 2006. We are currently evaluating the impact of adopting SFAS 151 on our financial statements, but we do not expect the impact to be significant.

ITEM 2. Management's Discussion and Analysis

**FINANCIAL REVIEW**

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*Our discussion and analysis is an integral part of understanding our financial results. Also refer to [Basis of Presentation and Our Divisions](#) in the Notes to the Condensed Consolidated Financial Statements. 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 Critical Accounting Policies**

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In addition to the critical accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2004, the following should be considered. In connection with our ongoing Business Process Transformation (BPT) initiative, we aligned certain accounting policies across our divisions. In the first quarter of 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. In the third quarter of 2005, we conformed our method of accounting for certain freight, distribution, and employee benefits costs. These changes reduced our net revenue by \$7 million and \$47 million and our operating profit by \$45 million and \$52 million in the 12 and 36 weeks ended September 3, 2005.

***Sales Incentives and Advertising and Marketing Costs***

We offer sales incentives through various programs to our customers and to consumers. These incentives are recorded as a reduction of the sales price of our products. Certain sales incentives are recognized at the time of sale while other incentives, such as bottler funding and customer volume rebates, are recognized during the year incurred, generally in proportion to revenue, based on annual targets. Anticipated payments are estimated based on historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. In addition, certain advertising and marketing costs are also recognized during the year incurred, generally in proportion to revenue.

***Effective Tax Rate***

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Our estimated annual effective tax rate also reflects our best estimate of the ultimate outcome of tax audits. Significant or unusual items are separately recognized in the quarter in which they occur.

### **Stock-Based Compensation**

We account for stock options under the fair value method of accounting using a Black-Scholes valuation model. For the 12 weeks, we recognized stock-based compensation of \$68 million in 2005 and \$86 million in 2004. For the 36 weeks, we recognized stock-based compensation of \$215 million in 2005 and \$261 million in 2004. These amounts are reflected in selling, general and administrative expenses.

We are currently evaluating the impact that SFAS 123R could have on our financial statements. We will adopt this Standard no later than in the first quarter of 2006. In addition, two of our anchor bottlers, PBG and PepsiAmericas, Inc., will adopt SFAS 123R no later than in the first quarter of 2006 which will negatively impact our bottling equity income upon their adoption.

We currently recognize stock-based compensation cost for employees eligible to retire over the three-year standard vesting period of the grants. Upon adoption of SFAS 123R, we will amortize new option grants to such retirement eligible employees over a shorter period, consistent with the accelerated retirement vesting provisions of these grants. If we had historically recognized stock-based compensation cost for these employees under this accelerated method, \$32 million of compensation cost would have been accelerated and cumulatively recognized through September 3, 2005. The impact of recognizing stock-based compensation under this accelerated method for the 12 and 36 weeks ended September 3, 2005 would have been immaterial.

For our 2005 Black-Scholes assumptions, see [Stock-Based Compensation](#) in the Notes to Condensed Consolidated Financial Statements.

### **Recent Accounting Pronouncements**

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In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4*, which relates to inventory costs and the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. The provisions of SFAS 151 are effective for inventory costs incurred beginning in the first quarter of 2006. We are currently evaluating the impact of adopting SFAS 151 on our financial statements, but we do not expect the impact to be significant.

### **Our Business Risks**

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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.

Our operations outside of the United States generate approximately 40% of our net revenue. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During the 36 weeks, net favorable foreign currency, primarily increases in the Canadian dollar, Brazilian real, Mexican peso, and euro contributed over 1 percentage point to net revenue growth. Currency declines which are not offset could adversely impact our future results.



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The impact of Hurricane Katrina on our third quarter volume and revenue was not material. Write-offs for inventory and receivables, losses from property damage, increased operating costs, and support for affected PepsiCo employees reduced operating profit by approximately \$9 million in the third quarter. We expect the recent hurricanes to negatively impact our energy and raw materials costs and, potentially, consumer spending, in the fourth quarter and into 2006.

Cautionary statements regarding our trends and future results were included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the fiscal year ended December 25, 2004.

## Results of Operations—Consolidated Review

*In the discussions of net revenue and operating profit below, effective net pricing reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.*

### Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. Total servings increased 8% for the 12 weeks, with worldwide beverages growing 10% and worldwide snacks growing 4.5%. For the 36 weeks, total servings increased 6%, with worldwide beverages growing 7% and worldwide snacks growing 4%.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8 ounce case metric. A portion of our volume is sold by our bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our shipments to customers. BCS is reported to us by our bottlers on a monthly basis. Our third quarter beverage volume includes bottler sales for June, July and August.

### Consolidated Results

#### Total Net Revenue and Operating Profit

	12 Weeks Ended			36 Weeks Ended		
	9/3/05	9/4/04	Change	9/3/05	9/4/04	Change
Total net revenue	<b>\$8,184</b>	\$7,257	13%	<b>\$22,466</b>	\$20,458	10%
Division operating profit	<b>\$1,867</b>	\$1,639	14%	<b>\$ 4,987</b>	\$ 4,466	12%
Corporate unallocated	<b>(187)</b>	(127)	48%	<b>(504)</b>	(406)	24%
Total operating profit	<b>\$1,680</b>	\$1,512	11%	<b>\$ 4,483</b>	\$ 4,060	10%
Division operating profit Margin	<b>22.8%</b>	22.6%	0.2	<b>22.2%</b>	21.8%	0.4
Total operating profit Margin	<b>20.5%</b>	20.8%	(0.3)	<b>20.0%</b>	19.8%	0.1

## 12 Weeks

Net revenue increased 13% reflecting strong volume increases, primarily at PI and PBNA, favorable effective net pricing across all divisions, net favorable foreign currency movements, and the impact of acquisitions by PI. The volume increases contributed over 6 percentage points to revenue growth, effective net pricing contributed nearly 4 percentage points, net favorable foreign currency movements added almost 2 percentage points, and the impact of acquisitions by PI contributed almost 1 percentage point.

Total operating profit increased 11% while margin declined 0.3 percentage points. Division operating profit increased 14% and margin increased 0.2 percentage points. The increases in division operating profit and margin reflect leverage from the revenue growth, partially offset by increased selling and delivery (S&D) expenses and cost of sales, largely due to higher raw materials, energy and S&D labor costs. Higher advertising and marketing expenses, primarily at PBNA, also partially offset the operating profit increases. In addition, total operating profit and margin reflect increased Corporate unallocated expenses.

Corporate unallocated expenses increased 48%. This increase primarily reflects conforming our method of accounting across all divisions for certain freight, distribution, and employee benefits costs, described in Our Critical Accounting Policies above, which contributed 35 percentage points to the increase. Increased support behind health and wellness and innovation initiatives contributed 8 percentage points, and higher costs associated with our BPT initiative and higher employee-related costs each contributed 5 percentage points to the increase. Corporate departmental expenses contributed 2 percentage points to the increase. These increases were partially offset by a gain related to the settlement of a class action lawsuit related to our purchases of high fructose corn syrup from 1991 to 1995 which reduced corporate unallocated expenses by 18 percentage points.

## 36 Weeks

Net revenue increased 10% reflecting, across all divisions, favorable effective net pricing, increased volume and net favorable foreign currency movements. The effective net pricing and the volume gains each contributed 4 percentage points to the increase and the net favorable foreign currency movements contributed over 1 percentage point.

Total operating profit increased 10% and margin increased 0.1 percentage points. Division operating profit increased 12% and margin increased 0.4 percentage points. These gains reflect leverage from the revenue growth, partially offset by increased cost of sales and S&D expenses, largely due to higher raw materials, energy, and S&D labor costs.

Corporate unallocated expenses increased 24%. This increase primarily reflects conforming our method of accounting across all divisions for certain freight, distribution and employee benefits costs, described in Our Critical Accounting Policies above, which contributed 11 percentage points to the increase, and higher costs associated with our BPT initiative which contributed 7 percentage points. Increased support behind health and wellness and innovation initiatives contributed 4 percentage points to the increase, and higher employee-related costs contributed 3 percentage points. Corporate departmental expenses contributed 2 percentage points to the increase. These increases were partially offset by a gain related to the settlement of a class action lawsuit related to our purchases of high fructose corn syrup from 1991 to 1995, which reduced corporate unallocated expenses by 6 percentage points.

**Other Consolidated Results**

	12 Weeks Ended			36 Weeks Ended		
	9/3/05	9/4/04	Change	9/3/05	9/4/04	Change
Bottling equity income	\$ 209	\$ 147	42%	\$ 430	\$ 292	47%
Interest expense, net	\$ (21)	\$ (26)	(21)%	\$ (73)	(76)	(5)%
Tax rate	53.8%	16.5%		38.6%	24.5%	
Net income	\$ 864	\$1,364	(37)%	\$2,970	\$3,227	(8)%
Net income per common share—diluted	\$0.51	\$ 0.79	(36)%	\$ 1.74	\$ 1.86	(7)%

**12 Weeks**

Bottling equity income increased 42% reflecting \$41 million of pre-tax gains on our sales of PBG stock, as well as stronger bottler results.

Net interest expense decreased 21% reflecting the impact of higher investment rates and cash balances, substantially offset by the impact of higher debt levels.

The tax rate increased 37.3 percentage points primarily reflecting the \$468 million tax charge recorded in the third quarter of 2005 related to our planned repatriation of undistributed international earnings, as well as the absence of income tax benefits of \$221 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 decreased 37% and the related net income per share decreased 36%. 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, and, for net income per share, the impact of our share repurchases.

**36 Weeks**

Bottling equity income increased 47% reflecting \$105 million of pre-tax gains on our sales of PBG stock, as well as stronger bottler results.

Net interest expense decreased 5% reflecting the impact of higher investment rates and cash balances, substantially offset by the impact of higher debt levels.

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The tax rate increased 14.1 percentage points primarily reflecting the \$468 million tax charge recorded in the third quarter of 2005 related to our planned repatriation of undistributed international earnings, as well as the absence of income tax benefits of \$221 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 decreased 8% and the related net income per share decreased 7%. 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, and, for net income per share, the impact of our share repurchases.

**Results of Operations—Division Review**

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. For additional information on our divisions, see [Our Divisions](#) in the Notes to our Condensed Consolidated Financial Statements.

**Division Net Revenue**

<u>12 Weeks Ended</u>	<u>FLNA</u>	<u>PBNA</u>	<u>PI</u>	<u>QFNA</u>	<u>Total</u>
<b>Q3, 2005</b>	<b>\$2,461</b>	<b>\$2,520</b>	<b>\$2,839</b>	<b>\$ 364</b>	<b>\$8,184</b>
Q3, 2004	\$2,325	\$2,147	\$2,430	\$ 355	\$7,257
<i>% Impact of:</i>					
Volume	2%	9% <sup>(a)</sup>	9% <sup>(a)</sup>	— %	6%
Effective net pricing	3	8	1	2	4
Foreign exchange	1	1	4	1	2
Acquisitions/divestitures	—	—	2	—	1
<i>% Change<sup>(b)</sup></i>	6%	17%	17%	2%	13%

**Division Net Revenue**

<u>36 Weeks Ended</u>	<u>FLNA</u>	<u>PBNA</u>	<u>PI</u>	<u>QFNA</u>	<u>Total</u>
<b>Q3, 2005</b>	<b>\$7,097</b>	<b>\$6,522</b>	<b>\$7,716</b>	<b>\$ 1,131</b>	<b>\$22,466</b>
Q3, 2004	\$6,704	\$5,999	\$6,719	\$ 1,036	\$20,458
<i>% Impact of:</i>					
Volume	2%	2% <sup>(a)</sup>	7% <sup>(a)</sup>	6%	4%
Effective net pricing	3	6	3	2	4
Foreign exchange	1	—	3	1	1
Acquisitions/divestitures	—	—	1	—	—
<i>% Change<sup>(b)</sup></i>	6%	9%	15%	9%	10%

<sup>(a)</sup> For beverages sold to our bottlers, net revenue volume growth is based on our concentrate shipments and equivalents.

<sup>(b)</sup> Amounts may not foot due to rounding.

**Frito-Lay North America**

	12 Weeks Ended			36 Weeks Ended		
	9/3/05	9/4/04	Change	9/3/05	9/4/04	Change
Net revenue	\$2,461	\$2,325	6%	\$7,097	\$6,704	6%
Operating profit	\$ 655	\$ 616	6%	\$1,788	\$1,686	6%

**12 Weeks**

Net revenue grew 6% reflecting volume growth of 2% and positive effective net pricing due to salty snack pricing actions, favorable mix on both salty and convenience food products, and the favorable settlement of prior year trade spending accruals. Pound volume grew primarily due to double-digit growth in Santitas, low single-digit growth in Lay's Classic potato chips, mid single-digit growth in Cheetos, and double-digit growth in Chewy Granola and Sun Chips. These gains were partially offset by the discontinuance of Toastables and a double-digit decline in Doritos Rollitos. Overall, salty snacks revenue grew 5% with volume growth of 2%, and convenience food products revenue grew 10%, with a 1% increase in volume.

Operating profit grew 6% primarily driven by revenue growth. This growth was reduced by higher S&D costs reflecting increased labor and benefit charges, increased advertising and marketing costs, and the impact of Hurricane Katrina, which resulted in inventory and receivable losses and property damage. In addition, the favorable settlement of prior year trade accruals contributed to operating profit growth.

Products qualifying for our Smart Spot program represented 12% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had mid single-digit revenue growth.

**36 Weeks**

Net revenue grew 6% reflecting volume growth of 2.5% and positive effective net pricing due to salty snack pricing actions and favorable mix on both salty and convenience food products. Pound volume grew primarily due to low single-digit growth in Lay's Classic potato chips, double-digit growth in Santitas and Sun Chips, and mid single-digit growth in Cheetos, Dips, Fritos and Tostitos. These gains were partially offset by the discontinuance of Toastables and a double-digit decline in Doritos Rollitos. Overall, salty snacks revenue grew 5% with volume growth of 3%, and convenience food products revenue grew 11%, with volume declines of 2%.

Operating profit grew 6% primarily driven by revenue growth. This growth was partially offset by higher S&D costs reflecting increased labor and benefit charges and higher cost of sales, driven by raw materials, natural gas and freight. The impact of these increased costs was reduced by a favorable casualty insurance actuarial adjustment made in the second quarter to reflect improved safety performance.

Products qualifying for our Smart Spot program represented nearly 13% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had mid single-digit revenue growth.

**PepsiCo Beverages North America**

	12 Weeks Ended			36 Weeks Ended		
	9/3/05	9/4/04	Change	9/3/05	9/4/04	Change
Net revenue	\$2,520	\$2,147	17%	\$6,522	\$5,999	9%
Operating profit	\$ 628	\$ 542	16%	\$1,598	\$1,460	10%

**12 weeks**

Net revenue increased 17% reflecting volume growth of 8%. The volume increase was driven by a 24% increase in non-carbonated beverages, while carbonated soft drink volume was unchanged from the prior year. The non-carbonated beverage growth was fueled by double-digit growth in Gatorade, Trademark Aquafina, and Propel. Above average 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 growth and Trademark Aquafina growth. Trademark Aquafina also benefited from lower retail pricing. Tropicana Pure Premium experienced a low single-digit decline resulting from price increases taken in the first quarter. Within carbonated soft drinks (CSDs), Trademark Pepsi and Trademark Mountain Dew experienced low single-digit declines, while Trademark Sierra Mist achieved mid single-digit growth. Across the trademarks, regular CSDs experienced a low single-digit decline, while diet CSDs achieved mid single-digit growth, boosted by product relaunches.

Net revenue also benefited from nearly 8 percentage points of favorable effective net pricing, primarily 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. Favorable Canadian foreign exchange rates contributed almost 1 percentage point to net revenue growth.

Operating profit increased 16%, primarily reflecting the net revenue growth. This increase was partially offset by higher raw material, energy, and transportation costs and increased advertising and marketing expenses.

Products qualifying for our Smart Spot program represented approximately 70% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio grew in the mid single-digit range.

**36 weeks**

Net revenue grew 9% and volume grew 3.5%. The volume increase was driven by a 13% increase in non-carbonated beverages, partially offset by a more than 1% decline in CSDs. Within non-carbonated beverages, Gatorade, Trademark Aquafina and Propel 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 growth and Trademark Aquafina growth. Tropicana Pure Premium experienced a mid single-digit decline resulting from the higher pricing. The decline in CSDs reflects low single-digit declines in

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Trademark Pepsi and Trademark Mountain Dew, slightly offset by low single-digit growth in Sierra Mist. Across the brands, diet CSDs achieved low single-digit growth, while regular CSDs declined in the low single-digit range.

Net revenue also benefited from 6 percentage points of favorable effective net pricing, reflecting the continued migration from CSDs to non-carbonated beverages, price increases taken in the first quarter, primarily on concentrate and Tropicana Pure Premium, and a favorable comparison to prior year trade spending, including the settlement of prior year accruals.

Operating profit increased 10%, primarily reflecting the net revenue growth, the favorable resolution of prior year estimated accruals, including the favorable trade spending settlement, and the absence of restructuring costs recorded in the prior year. This increase was partially offset by higher raw material, energy, and transportation costs, as well as increased advertising and marketing expenses.

Products qualifying for our Smart Spot program represented approximately 70% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio grew in the low single-digit range.

### *PepsiCo International*

	12 Weeks Ended			36 Weeks Ended		
	9/3/05	9/4/04	Change	9/3/05	9/4/04	Change
Net revenue	\$2,839	\$2,430	17%	\$7,716	\$6,719	15%
Operating profit	\$ 473	\$ 370	28%	\$1,232	\$ 995	24%

### **12 Weeks**

International snacks volume grew 7%, driven principally by growth of 14% in the Europe, Middle East & Africa region, 3% in the Latin America Region and 3.5% in the Asia Region. Acquisition and divestiture activity, principally the divestiture last year of our interest in a South Korea joint venture, reduced Asia region volume by 15 percentage points. The acquisition of a business in Romania late in 2004 increased the Europe, Middle East & Africa region volume growth by 4 percentage points. Cumulatively, our divestiture and acquisition activity had no net impact on the reported total PepsiCo International snack volume growth rate. The overall gains for the third quarter were driven by double-digit growth in India, Turkey, Russia and China along with low single-digit growth at Gamesa in Mexico. These gains were partially offset by less than 1% declines at Sabritas in Mexico and Walkers in the United Kingdom. The decline at Sabritas was principally due to pricing actions taken in late 2004. Although volume is down for the quarter at Walkers, the volume trend has improved quarter over quarter.

Beverage volume grew 13%, comprised of 15% in the Europe, Middle East & Africa region, 13% in the Asia Pacific region and 8% in the Latin America region. Acquisitions increased the reported Europe, Middle East & Africa region growth rate by 1 percentage point while contributing half a percentage point to the reported total PepsiCo International beverage volume growth rate. Broad-based

increases were led by double-digit growth in the Middle East, China, Russia, Venezuela and Argentina. Carbonated soft drinks and non-carbonated beverages both grew at a double-digit rate.

Net revenue grew 17%, driven by the broad-based volume growth. Foreign currency impact contributed 4 percentage points of growth, reflecting the favorable Mexican peso and Brazilian real, partially offset by the unfavorable British pound. Acquisitions contributed 2 percentage points of growth.

Operating profit grew 28% driven largely by the broad-based volume growth, partially offset by increased energy and raw material costs. Foreign currency impact contributed 6 percentage points of growth, primarily due to favorability in the Mexican peso and Brazilian real, partially offset by the unfavorable British pound. The net favorable impact from acquisition and divestiture activity, primarily the acquisition of General Mills' interest in Snack Ventures Europe in Q1 2005, contributed 3 percentage points of growth.

### **36 Weeks**

International snacks volume grew 4%, reflecting growth of 9% in the Europe, Middle East & Africa region, 2% in the Latin America region and 1.5% 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 15 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 activity had no net impact on the reported total PepsiCo International snack volume growth rate. The overall gains reflected double-digit growth in India, Turkey, Russia, China and Australia, partially offset by a single-digit decline at Walkers in the United Kingdom. The decline at Walkers is due principally to marketplace pressures.

Beverage volume grew 11%, comprised of 13% 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.

Net revenue grew 15%, primarily as a result of the broad-based volume growth and favorable effective net pricing. Foreign currency contributed 3 percentage points of growth reflecting the favorable Brazilian real, Mexican peso, euro and British pound. Acquisitions contributed 1 percentage point of growth.

Operating profit grew 24% 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, Brazilian real, British pound and euro. The net favorable impact from acquisition and divestiture activity, primarily the acquisition of General Mills' interest in Snack Ventures Europe in Q1 2005, contributed 2 percentage points of growth.



**Quaker Foods North America**

	12 Weeks Ended			36 Weeks Ended		
	9/3/05	9/4/04	Change	9/3/05	9/4/04	Change
Net revenue	<b>\$364</b>	\$355	2%	<b>\$1,131</b>	\$1,036	9%
Operating profit	<b>\$111</b>	\$111	—	<b>\$ 369</b>	\$ 325	13%

**12 Weeks**

Net revenue increased 2% and volume was flat. The flat volume reflects double-digit growth in Rice-A-Roni, high single-digit growth in Life and low single-digit growth in Cap'n Crunch and Oatmeal. These gains were offset by a low single-digit decline in Aunt Jemima syrup and mix, as well as declines in other breakfast foods. Higher effective net pricing contributed almost 2 percentage points of growth to net revenue primarily reflecting favorable product mix and price increases on ready-to-eat cereals taken in August 2004. Favorable Canadian foreign exchange rates contributed nearly 1 percentage point to net revenue growth.

Operating profit was flat as increased advertising and marketing costs behind programs for innovation and core brands, as well as higher cost of sales, offset net revenue growth.

Products qualifying for our Smart Spot program represented approximately half of net revenue and had low single-digit revenue growth. The balance of the portfolio experienced mid single-digit revenue growth.

**36 Weeks**

Net revenue grew 9% and volume increased 6%. The volume increase reflects double-digit growth in Oatmeal and Rice-A-Roni, and high single-digit growth in Aunt Jemima syrup and mix and Cap'n Crunch. Higher effective net pricing contributed over 2 percentage points of growth primarily reflecting the settlement of prior year trade spending accruals, favorable product mix and price increases on ready-to-eat cereals taken in the third quarter of 2004. Favorable Canadian foreign exchange rates contributed nearly 1 percentage point to net revenue growth.

Operating profit increased 13% reflecting the net revenue growth and favorable cost of sales comparisons, partially offset by increased advertising and marketing costs behind programs for innovation and core brands.

Products qualifying for our Smart Spot program represented approximately half of net revenue and had double-digit revenue growth. The balance of the portfolio experienced high single-digit revenue growth.

## OUR LIQUIDITY AND CAPITAL RESOURCES

### *Operating Activities*

During the 36 weeks, our operations provided \$4.6 billion of cash primarily reflecting our solid business results. The prior year reflects a \$760 million tax payment related to our 2003 settlement with the IRS.

We make periodic regulatory contributions to our qualified pension plans during the course of the year. We also make annual discretionary contributions to these plans. For the full year 2005, we expect total contributions to these plans to be approximately \$800 million, substantially all of which will be included in our fourth quarter operating cash flows. As a result of these contributions, we expect the assets for these plans to meet or exceed the liabilities for service to date as of September 30, 2005.

### *Investing Activities*

During the 36 weeks, we used \$3.5 billion, primarily reflecting net purchases of short-term investments of \$1.9 billion, primarily internationally, acquisitions of \$1.1 billion, primarily the \$750 million acquisition of SVE, and capital spending of \$796 million. These amounts were partially offset by the proceeds from our sale of PBG stock of \$177 million. We continue to expect full year capital spending to approximate 5% of net revenue.

### *Financing Activities*

During the 36 weeks, we used \$1.5 billion, primarily reflecting common share repurchases of \$2.1 billion and dividend payments of \$1.2 billion, partially offset by net proceeds from short-term borrowings of \$1.2 billion, primarily in the U.S., and stock option proceeds of \$707 million.

### *Management Operating Cash Flow*

Management operating cash flow is the primary measure management uses 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 net cash provided by operating activities as reflected in our Condensed Consolidated Statement of Cash Flows to our management operating cash flow.

	36 Weeks Ended	
	9/3/05	9/4/04
Net cash provided by operating activities	<b>\$4,558</b>	\$3,717
Capital spending	<b>(796)</b>	(700)
Sales of property, plant and equipment	<b>65</b>	15
Management operating cash flow	<b>\$3,827</b>	\$3,032

Management operating cash flow was used primarily to repurchase shares and pay dividends, and we expect to continue to return approximately all of our management operating cash flow to our shareholders. We also continue to expect management operating cash flow for the full year to exceed \$4.1 billion reflecting our underlying business growth, and expect share repurchases to be approximately \$3.0 billion this year. See [Our Business Risks](#) for certain factors that may impact our operating cash flows.

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We plan to fund our \$7.5 billion repatriation of undistributed international earnings in the fourth quarter with existing international cash and increased borrowings. Our Board of Directors has approved a Domestic Reinvestment Plan to use the amount in accordance with the requirements of the AJCA.

We expect the fourth quarter repatriation, as well as planned repayments of domestic debt, to increase total debt and total short-term investments by approximately the same amount.

Upon adoption of SFAS 123R, we will be required to record tax benefits related to stock-based compensation exercises in excess of the tax benefits initially recorded as a cash inflow from financing activities rather than as a reduction in operating cash outflows. We are currently evaluating the impact on the classification of our cash flows of the adoption of SFAS 123R.

Report of Independent Registered Public Accounting Firm

The Board of Directors  
PepsiCo, Inc.

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of September 3, 2005 and the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 3, 2005 and September 4, 2004 and the Condensed Consolidated Statement of Cash Flows for the thirty-six weeks ended September 3, 2005 and September 4, 2004. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 25, 2004, and the related Consolidated Statements of Income, Common Shareholders' Equity and Cash Flows for the year then ended not presented herein; and in our report dated February 24, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 25, 2004, is fairly presented, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP  
New York, New York  
September 29, 2005

ITEM 4. 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 pursuant to Rule 13a-14 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.

In addition, there were no changes in our internal control over financial reporting during our third fiscal quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. 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.

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ITEM 2. Unregistered Sale of Equity Securities and Use of Proceeds

A summary of our repurchases (in millions, except average price per share) during the 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 as follows:

	<u>Shares Repurchased</u>	<u>Average Price Per Share</u>	<u>Authorization Remaining</u>
6/11/05			\$3,598
6/12/05—7/9/05	4.9	\$54.51	(265)
			<u>3,333</u>
7/10/05—8/6/05	5.7	54.72	(314)
			<u>3,019</u>
8/7/05—9/3/05	4.5	54.64	(248)
	<u>15.1</u>	<u>\$54.63</u>	<u>\$2,771</u>

ITEM 6. Exhibits

See [Index to Exhibits](#) on page 33.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

PepsiCo, Inc.  
\_\_\_\_\_  
(Registrant)

Date: September 30, 2005

/S/ PETER A. BRIDGMAN

Peter A. Bridgman  
Senior Vice President and  
Controller

Date: September 30, 2005

/S/ ROBERT E. COX

Robert E. Cox  
Vice President, Deputy General  
Counsel and Assistant Secretary  
(Duly Authorized Officer)



INDEX TO EXHIBITS

ITEM 6 (a)

EXHIBITS

- Exhibit 3.2 By-laws of PepsiCo, Inc., as amended, effective October 1, 2005.
- Exhibit 10 PepsiCo, Inc., 2003 Long-Term Incentive Plan, as amended and restated effective October 1, 2005
- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges
- Exhibit 15 Letter re: Unaudited Interim Financial Information
- Exhibit 31 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

**PepsiCo, Inc.**

**By-Laws**

*As amended, effective October 1, 2005*

## Article I

### Offices

Section 1.1 *Principal Office*. The principal office of PepsiCo, Inc. (hereinafter called the “Corporation”) may be located at such place as the Board of Directors of the Corporation (hereinafter called the “Board”) may fix from time to time.

Section 1.2 *Registered Office*. The registered office of the Corporation required by law to be maintained in the State of North Carolina may be, but need not be, identical with the principal office.

Section 1.3 *Other Offices*. The Corporation may also have an office or offices at such other place or places, either within or without the State of North Carolina, as the Board may from time to time by resolution determine or as may be appropriate to the business of the Corporation.

## Article II

### Meetings of Shareholders

Section 2.1 *Place of Meetings*. All meetings of the shareholders of the Corporation shall be held at the principal office of the Corporation in the State of North Carolina, or at such other place within or without the State of North Carolina as may from time to time be fixed by the Chairman of the Board or the Board and designated in the notice of the meeting.

Section 2.2 *Annual Meetings*. The annual meeting of the shareholders of the Corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on the first Wednesday of May in each year (or, if that day shall be a legal holiday under the laws of the State where such meeting is to be held, then on the next succeeding business day). No business shall be transacted at an annual meeting of shareholders, except such business as shall be (a) specified in the notice of meeting given as provided in Section 2.5, (b) otherwise brought before the meeting by or at the direction of the Board, or (c) otherwise brought before the meeting by a shareholder of record entitled to vote at the meeting, in compliance with the procedure set forth in this Section 2.2. For nominations or other business to be brought before an annual meeting by a shareholder pursuant to (c) above, the shareholder must have given written notice thereof to the Secretary of the Corporation. To be timely, a shareholder’s notice must be delivered to, or mailed to and received at, the principal office of the Corporation no less than ninety (90) nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year’s annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from such anniversary date, notice by the shareholder must be so delivered not earlier than the 120<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such shareholder notice shall set forth: (A) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including such person’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (B) as to any other business that the shareholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder; and (C) the name and address of such

shareholder as it appears on the Corporation's books, and the number of shares of the Corporation's stock which are owned by such shareholder. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the provisions set forth in this Section 2.2. If the chairman of the annual meeting determines that any business was not properly brought before the meeting in accordance with provisions prescribed by these By-Laws, he shall so declare at the meeting, and to the extent permitted by law any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 2.2 regarding advance notice of shareholder proposals, a shareholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.2. Nothing in this Section 2.2 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

**Section 2.3 *Substitute Annual Meeting.*** If the annual meeting shall not be held on the day designated by these By-Laws, a substitute annual meeting may be called in accordance with the provisions of Section 2.4. A meeting so called shall be designated and treated for all purposes as the annual meeting.

**Section 2.4 *Special Meetings.*** A special meeting of the shareholders of the Corporation may be called at any time by the Chairman of the Board or by resolution of the Board, and shall be called by the Secretary upon the written request of the shareholders owning a majority of shares of the common stock of the Corporation outstanding and entitled to vote at such meeting. Such special meeting shall be held at such time and at such place within or without the State of North Carolina as may be fixed by the Chairman of the Board, in the case of meetings called by the Chairman of the Board, or by resolution of the Board, in the case of meetings called by the Board; and any meeting called at the request of the shareholders pursuant hereto shall be held at the principal office of the Corporation within ninety (90) days from the receipt by the Secretary of such request. Any request for a special meeting of the shareholders shall set forth: (A) a statement of the specific proposal to be brought before the meeting, the reasons for conducting such business at the meeting, and any material interest in such business of the shareholders requesting the meeting; (B) the name and address of each such shareholder as it appears on the Corporation's books; and (C) the number of shares of the Corporation's stock which are owned by each such shareholder.

**Section 2.5 *Notice of Meetings.*** Notice of each meeting of the shareholders of the Corporation, whether annual or special, shall be given at least ten (10) but not more than sixty (60) days before the day on which the meeting is to be held to each shareholder entitled to vote thereat, by mailing a written or printed notice thereof, postage prepaid, addressed to him at his address as it appears on the stock ledger of the Corporation, provided, however, that notice is not required to be given to a shareholder if (i) notice of two consecutive annual meetings, and all notices of meetings during the period between those two consecutive annual meetings, have been sent to the shareholder at the shareholder's address as shown on the stock ledger of the Corporation and have been returned undeliverable; or (ii) all, but not less than two, payments of dividends on securities during a 12-month period, or two consecutive payments of dividends on securities during a period of more than 12 months, have been sent to the shareholder at the shareholder's address as shown on the stock ledger of the Corporation and have been returned undeliverable. If any shareholder delivers to the Corporation a written notice setting forth the shareholder's current address, the requirement that notice be given to the shareholder shall be reinstated. In the case of a special meeting, the notice of meeting shall include a description of the purpose or purposes for which the meeting is called; but, in the case of an annual or substitute annual meeting, the notice of meeting need not include a description of the purpose or purposes for which the meeting is called unless such a description is required by the provision of the North Carolina Business Corporation Act. Except as otherwise prescribed by statute, notice of any adjourned meeting of shareholders need not be given.

**Section 2.6 *Voting, Inspectors of Election.*** All shares of one or more classes or series that under the Articles of Incorporation or the North Carolina Business Corporation Act are entitled to vote and be counted together collectively on a matter at a meeting of shareholders constitute a voting group within the meaning of the North Carolina Business Corporation Act. All shares entitled by the Articles of Incorporation or the North Carolina Business Corporation Act to vote generally on a matter are for that purpose a single voting group. Classes or series of shares shall not be entitled to vote separately by voting group unless expressly authorized by the Articles of Incorporation or specifically required by law. At any meeting of the shareholders of the Corporation, each shareholder entitled to vote may vote in person or by proxy provided that no proxy shall be voted after eleven (11) months from its date unless said proxy provides for a longer period. Unless otherwise provided by the Articles of Incorporation or By-laws, action on a matter by a voting group for which a quorum is present is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action. The vote for the election of directors, other matters expressly prescribed by statute, and, upon the direction of the presiding officer of the meeting, the vote on any other question before the meeting, shall be by ballot. At all meetings of shareholders, the polls shall be opened and closed, the proxies and ballots shall be received, taken in charge and examined, and all questions concerning the qualifications of voters, the validity of proxies and the acceptance or rejection of proxies and of votes shall be decided by three (3) inspectors of election. Such inspectors of election, together with one alternate, to serve in the event of death, inability or refusal by any of said inspectors of election to serve at the meeting, none of whom need be a shareholder of the Corporation, shall be appointed by the Board, or, if no such appointment or appointments shall have been made, then by the presiding officer at the meeting. If, for any reason, any inspector of election so appointed shall fail to attend, or refuse or be unable to serve, a substitute shall be appointed to serve as inspector of election, in his place or stead, by the presiding officer at the meeting. No director or candidate for the office of director shall be appointed as an inspector. Each inspector shall take and subscribe an oath or affirmation to execute faithfully the duties of inspector at such meeting with strict impartiality and according to the best of his ability. After the balloting, the inspectors shall make a certificate of the result of the vote taken.

**Section 2.7 *Quorum, Presiding Officer.*** Except as otherwise prescribed by statute, the Articles of Incorporation or in a By-Law approved by the shareholders, at any meeting of the shareholders of the Corporation, shares entitled to vote as a separate voting group may take action on a matter at the meeting only if a quorum of that voting group exists. The presence in person or by proxy of the holders record of a majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting. In the absence of a quorum at such meeting or any adjournment or adjournments thereof, the holders of record of a majority of such shares so present in person or by proxy and entitled to vote thereat may adjourn the meeting from time to time until a quorum shall be present. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. Meetings of the shareholders shall be presided over by the Chairman of the Board, or, if the Chairman is not present, by another officer or director who shall be designated to serve in such event by the Board. The Secretary of the Corporation, or an Assistant Secretary designated by the officer presiding at the meeting, shall act as Secretary of the meeting.

Section 2.8 *Lists of Shareholders*. It shall be the duty of the officer of the Corporation who shall have charge of the stock ledger of the Corporation, either directly or through another officer designated by him or through a transfer agent or transfer clerk appointed by the Board, to prepare and make a complete list of shareholders entitled to notice of a shareholders' meeting, arranged in alphabetical order by voting group, and showing the address of and number of shares held by each shareholder. Such list shall be open to the examination of any shareholder at the place where said election is to be held beginning two (2) business days after notice of the meeting is given for which the list was prepared, and shall be produced and kept at the time and place of election, during the whole time thereof, subject to the inspection of any shareholder who may be present.

### **Article III**

#### **Board of Directors**

Section 3.1 *Powers, Number, Term, Election*. The property, business and affairs of the Corporation shall be managed by the Board. The Board shall consist of fourteen (14) directors, but the number of directors may be increased, and may be decreased to any number not less than three (3), by resolution adopted by three-fourths of the whole Board; provided, however, that the number of directors which shall constitute the whole Board shall not be reduced to a number less than the number of directors then in office, unless such reduction shall become effective only at and after the next ensuing meeting of shareholders for the election of directors, or upon the resignation of an incumbent director. Each director shall hold office from the time of his election and qualification until the annual meeting of shareholders next succeeding his election and until his successor shall have been duly elected and shall have qualified, or until his death, resignation or removal. The term of a director elected to fill a vacancy expires at the next shareholders' meeting at which directors are elected. A decrease in the number of directors does not shorten an incumbent director's term. No director need be a shareholder. Except as provided in Section 6.4, the directors shall be elected at the annual meeting of shareholders. Those persons who receive the highest number of votes at a meeting at which a quorum is present shall be deemed to have been elected. Only persons who are nominated in accordance with the provisions set forth in these By-Laws shall be eligible to be elected as directors at an annual or special meeting of shareholders called for that purpose. Nomination for election to the Board shall be made by or at the direction of the Board or a nominating committee appointed by the Board. Nomination for election of any person to the Board may also be made by a shareholder at any annual meeting, in accordance with Section 2.2, and at a special meeting of shareholders called for that purpose, if made by the close of business on the seventh day following the date on which notice of such special meeting is first given to shareholders and otherwise made in accordance with Section 2.2.

Section 3.2 *Place of Meetings*. The Board may hold its meetings at such place or places within or without the State of North Carolina as it may from time to time by resolution determine, or as shall be specified or fixed in the respective notices or waivers of notice thereof. Any regular or special meeting may be held by conference telephone or similar communications equipment so long as all persons participating in such meeting can hear one another, and participation in such a telephonic meeting shall constitute presence in person.

Section 3.3 *First Meeting*. After each annual election of directors, on the same day and at the place where such election is held, the newly elected Board shall meet for the purpose of organization, the election of officers and the transaction of other business. Notice of such meeting need not be given. Such meeting may be held at any other time or place which shall be specified in a notice given as hereinafter provided for special meetings of the Board, or in a waiver of notice thereof signed by all the directors.

Section 3.4 *Regular Meetings*. Regular meetings of the Board may be held at such time and place and in such manner as the Board may from time to time by resolution determine. Except as otherwise expressly prescribed by statute, the Articles of Incorporation or these By-Laws, notice of regular meetings need not be given.

Section 3.5 *Special Meetings*. Special meetings of the Board shall be held whenever called by the Chairman of the Board, or by the Secretary upon the written request filed with the Secretary by any four (4) directors. Notice of the time, place and manner of each such special meeting shall be mailed to each director, at his residence or usual place of business, not later than the second day before the day on which such meeting is to be held, or shall be sent addressed to him at such place by telegraph or other electronic transmission, or shall be delivered personally or by telephone, not later than six o'clock in the afternoon of the day before the day on which such meeting is to be held. Except as otherwise prescribed by statute, the Articles of Incorporation or these By-Laws, and except in the case of a special meeting of the Board called for the purpose of removing an officer or officers of the Corporation or the filling of a vacancy or vacancies in the Board or of amending the By-Laws, notice or waivers of notice of any meeting of the Board need not set forth the purpose or purposes of the meeting.

Section 3.6 *Quorum*. Except as otherwise prescribed by statute or by these By-Laws, the presence of a majority of the full Board shall constitute a quorum for the transaction of business at any meeting, and the act of a majority of the directors present at a meeting at which a quorum shall be present shall be the act of the Board. Any meeting of the Board may be adjourned by a majority vote of the directors present at such meeting. In the absence of a quorum, the Chairman of the Board or a majority of the directors present may adjourn such meeting until a quorum shall be present. Notice of any adjourned meeting need not be given. The directors shall act only as a board and the individual directors shall have no power as such.

Section 3.7 *Indemnification*. Unless the Board of Directors shall determine otherwise, the Corporation shall indemnify, to the full extent permitted by law, any person who was or is, or who is threatened to be made, a party to an action, suit or proceeding (and any appeal therein), whether civil, criminal, administrative, investigative or arbitrative, by reason of the fact that he, his testator or intestate, is or was a director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding. Such indemnification may, in the discretion of the Board, include advances of a director's, officer's or employee's expenses prior to final disposition of such action, suit or proceeding. The right of indemnification provided for in this Section 3.7 shall not exclude any rights to which such persons may otherwise be entitled by contract or as a matter of law. The Board shall take all such action as may be necessary and appropriate to authorize the Corporation to pay the indemnification required by this By-Law, including, without limitation, making a determination that indemnification is permissible in the circumstances and a good faith evaluation of the manner in which the claimant for indemnity acted and of the reasonable amount of indemnity due him. The Board may appoint a committee or special counsel to make such determination and evaluation.

Section 3.8 *Presumption of Assent*. A director who is present at a meeting of the Board or a committee of the Board when corporate action is taken is deemed to have assented to the action taken unless (a) he objects at the beginning of the meeting, or promptly upon his arrival, to holding it or to transacting business at the meeting, or (b) his dissent or abstention from the action taken is entered in the minutes of the meeting, or (c) he files written notice of his dissent or abstention

with the presiding officer of the meeting before its adjournment or with the corporation immediately after the adjournment of the meeting. Such right of dissent or abstention is not available to a director who votes in favor of the action taken.

**Section 3.9 *Written Consents.*** Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if, before or after such action, unrevoked written consents thereto are signed by all members of the Board or of such committee, as the case may be, and such written consents are filed with the minutes of proceedings of the Board or committee. Action taken under this section is effective when one or more unrevoked consents signed by all of the directors are delivered to the Corporation, unless the consents specify a different effective date. A director's consent to action may be revoked in a writing signed by the director and delivered to the Corporation prior to the action becoming effective.

## **Article IV**

### **Committees**

**Section 4.1 *Designation, Vacancies, etc.*** The Board may from time to time by resolution create committees of directors with such functions, duties and powers as the Board shall by resolution prescribe. The creation of a committee of the Board and appointment of members to it must be approved by the greater of (a) a majority of the number of directors in office when the action is taken or (b) the number of directors required to take action pursuant to Section 3.6. Each committee may have one or more members, except any executive committee shall have three or more members, as provided in the Articles of Incorporation. A majority of all the members of any such committee may determine its actions and rules or procedure, and fix the time, place and manner of its meetings, unless the Board shall otherwise provide. The Board shall have power to change the members of any such committee at any time, to fill vacancies, and to discharge any such committee, either with or without cause, at any time.

## **Article V**

### **Officers**

**Section 5.1 *Principal Officers.*** The principal officers of the Corporation shall be a Chairman of the Board of Directors, who shall be chosen from among the directors, a President, one or more Vice Presidents, a Secretary, a Treasurer, and a Controller. The Corporation may also have a Vice Chairman, who shall have such powers and duties as the Board shall designate from time to time. Any person other than the President may hold any two such offices (as provided in the Articles of Incorporation), but no officer may act in more than one capacity where action of two or more officers is required. The Board may require any such officer to give security for the faithful performance of his duties.

**Section 5.2 *Election, Term of Office, Qualification.*** The principal officers of the Corporation shall be elected annually by the Board and each shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall resign, or until he shall have been removed in the manner hereinafter provided.

**Section 5.3 *Chairman of the Board.*** The Chairman of the Board of Directors as shall be determined by the Board of Directors, shall be chief executive officer of the Corporation and, as such, shall have supervision of its policies, business, and affairs, and such other powers and duties as are commonly incident to the office of chief executive officer. The Chairman of the Board of Directors shall preside at the meetings of the Board and may call meetings of the Board and of any committee thereof, whenever he deems it necessary, and he shall call to order and preside at all meetings of the



shareholders of the Corporation. In addition, he shall have such other powers and duties as the Board shall designate from time to time. The Chairman of the Board of Directors shall have power to sign all certificates of stock, bonds, deeds and contracts of the Corporation.

Section 5.4 *Chief Executive Officer.* The Chief Executive Officer of the Corporation shall have supervision of its policies, business, and affairs, and such other powers and duties as are commonly incident to the office of chief executive officer.

Section 5.5 *President.* The President shall have such powers and duties as the Chairman of the Board shall designate from time to time. The President shall have power to sign all certificates of stock, bonds, deeds and contracts of the Corporation.

Section 5.6 *Vice Presidents.* Each Vice President shall have such powers and perform such duties as the Board or the Chairman of the Board may from time to time prescribe. The Board may elect or designate one or more of the Vice Presidents as Executive Vice Presidents, Senior Vice Presidents or with such other title as the Board may deem appropriate.

Section 5.7 *The Treasurer.* The Treasurer shall keep, deposit, invest and disburse the funds and securities of the Corporation, shall keep full and accurate accounts of the receipts and disbursements of the Corporation, shall maintain insurance coverage on the Corporation's assets, and, in general, shall perform all the duties incident to the office of Treasurer and such other duties as may from time to time be assigned to him by the Chairman of the Board, the Chief Executive Officer or the Board.

Section 5.8 *The Secretary.* The Secretary shall act as secretary of, and keep the minutes of, all meetings of the Board and of the shareholders, shall be custodian of the seal of the Corporation and shall affix and attest the seal to all documents the execution of which on behalf of the Corporation under its seal shall have been specifically or generally authorized by the Board, and, in general, shall perform all the duties incident to the office of Secretary and such other duties as may from time to time be assigned by the Chairman of the Board, the Chief Executive Officer or the Board.

Section 5.9 *The Controller.* The Controller shall be the chief accounting officer of the Corporation, shall have charge of its accounting department and shall keep or cause to be kept full and accurate records of the assets, liabilities, business and transactions of the Corporation.

Section 5.10 *Additional Officers.* The Board may elect or appoint such additional officers as it may deem necessary or advisable, and may delegate the power to appoint such additional officers to any committee or principal officer. Such additional officers shall have such powers and duties and shall hold office for such terms as may be determined by the Board or such committee or officer.

Section 5.11 *Salaries.* The Salaries of the officers of the Corporation shall be fixed from time to time in the manner prescribed by the Board.

## **Article VI**

### **Removal, Resignations, Vacancies and Salaries**

Section 6.1 *Removal of Directors.* Any director may be removed at any time, either with or without cause, by a vote of the shareholders entitled to vote at a special meeting of the shareholders called for that purpose, if the number of votes cast to remove such director exceeds the number of votes cast not to remove him, and the vacancy in the Board caused by any such removal may be filled by the shareholders at such meeting and, if not filled thereat, the vacancy caused by such removal may be filled by the directors as provided in Section 6.4 hereof.

Section 6.2 *Removal of Officers.* Any officer of the Corporation elected or appointed by the Board, or appointed by any committee or principal officer of the Corporation pursuant to authority delegated by the Board, may be removed at any time, either with or without cause, by resolution adopted by a majority of the whole Board at a regular meeting of the Board or at a special meeting thereof called for such purpose or by the appointing committee or appointing officer or by any other officers authorized by the Board of Directors.

Section 6.3 *Resignation.* Any director or officer of the Corporation may at any time resign by giving written notice to the Board, the Chairman of the Board, the Chief Executive Officer, or the Secretary. Any such resignation shall take effect at the time specified therein or, if no time shall be specified therein, at the time of the receipt thereof, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6.4 *Vacancies.* Any vacancy in the Board caused by death, resignation, disqualification, an increase in the number of directors, or any other cause, may be filled by the majority vote of the remaining directors, though less than a quorum at any regular meeting of the Board or any special meeting thereof called for the purpose, or by the shareholders of the Corporation at the next annual meeting or at any special meeting called for the purpose, and the directors so chosen shall hold office, subject to the provisions of these By-Laws, until the next annual meeting of shareholders for the election of directors and until his successor shall be duly elected and shall qualify. Any vacancy in any office, caused by death, resignation, removal, disqualification or any other cause, shall be filled for the unexpired portion of the term in the manner prescribed in these By-Laws for regular election or appointment to such office.

Section 6.5 *Compensation.* Each director who shall not also be an executive officer of the Corporation or any of its subsidiary companies and receiving a regular salary for his services, in consideration of his serving as a director, shall be entitled to receive from the Corporation such fees for serving as a director as the Board shall from time to time determine, and each such director, who shall serve as a member of any committee of the Board, in consideration of his serving as a member of such committee, shall be entitled to such amount per annum or such fees for attendance at committee meetings as the Board shall from time to time determine. Nothing contained in this Section shall preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving compensation therefor.

## **Article VII**

Contracts, Loans, Checks, Drafts, Deposits, Etc.

Section 7.1 *Contracts and Loans.* Except as authorized pursuant to a resolution of the Board or these By-Laws, no officer, agent or employee of the Corporation shall have any power or authority to bind the Corporation by any contract or engagement, to effect any loan on its behalf, to issue any negotiable paper in its name, to pledge its credit, to render it pecuniarily liable for any purpose or for any amount, or to pledge, hypothecate or transfer any securities or other property of the Corporation as security for any loans or advances.

Section 7.2 *Checks, Drafts, etc.* All checks, drafts, and other instruments or orders for the payment of monies out of the funds of the Corporation, and all notes or other evidences of indebtedness, bills of lading, warehouse receipts and insurance certificates of the Corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined pursuant to a resolution of the Board. All checks, drafts and other instruments or orders for the payment of monies to or upon the order of the Corporation may be endorsed for deposit in such manner as shall be determined pursuant to a resolution of the Board.

Section 7.3 *Proxies*. Unless otherwise provided by resolution of the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, or any Vice President or Secretary or Assistant Secretary designated by the Board, may from time to time appoint an attorney or attorneys or agent or agents of the Corporation to cast, in the name and on behalf of the Corporation, the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, all such written proxies or other instruments as he may deem necessary or proper in the premises.

## Articles VIII

Shares, Dividends, Etc.

Section 8.1 *Certificates*. Certificates for shares of the common stock of the Corporation shall be in such form as shall be approved by the Board. Each such certificate shall be signed in the name of the Corporation by the Chairman of the Board, the President, or a Vice President, and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation; provided, however, that, where such certificate is signed (a) by a transfer agent or an assistant transfer agent or (b) by a transfer clerk acting on behalf of the Corporation, and a registrar, the signature of any such Chairman of the Board, Chief Executive Officer, President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary may be a facsimile. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates shall be deemed to have been adopted by the Corporation and to have been issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures were used thereon had not ceased to be such officer or officers of the Corporation. Except as otherwise prescribed by statute, the Articles of Incorporation, or by these By-Laws, the person in whose name shares of stock shall be registered on the books of the Corporation shall be deemed to be the owner thereof for all purposes as regards the Corporation.

Section 8.2 *Transfers*. The Board may make such rules and regulations as it may deem expedient concerning the issue, registration and transfer of certificates representing shares of the common stock of the Corporation and may appoint one or more transfer agents or clerks and registrars thereof.

Section 8.3 *Record Date*. The Board may fix in advance a date, not exceeding seventy (70) days preceding the date of any meeting of shareholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of common stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of common stock, or to give such consent, and in such case such shareholders and only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to such notice

of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment or rights, or exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. Except where a date shall have been fixed as a record date for the determination of the shareholders entitled to vote, as hereinabove provided, no share of stock shall be voted on at any election of directors which shall have been transferred on the books of the Corporation within twenty (20) days next preceding such election of directors.

Section 8.4 *Lost or Destroyed Certificates*. In case of loss, theft, mutilation or destruction of any certificate evidencing shares of the common stock of the Corporation, another may be issued in its place upon proof of such loss, theft, mutilation or destruction and upon the giving of an indemnity or other undertaking to the Corporation in such form and in such sum as the Board may direct.

## **Article IX**

Seal, Fiscal Year, Waivers of Notice, Amendments

Section 9.1 *Corporate Seal*. The seal of the Corporation shall be circular in form and shall bear the name of the Corporation and the inscription "Corporate Seal, North Carolina". Said seal may be used by causing it or a facsimile thereof to be impressed or reproduced or otherwise.

Section 9.2 *Fiscal Year*. Each fiscal year of the Corporation shall end on the last Saturday of December.

Section 9.3 *Waivers of Notice*. Anything in these By-Laws to the contrary notwithstanding, notice of any meeting of the shareholders, the Board, or any committee constituted by the Board need not be given to any person entitled thereto, if such notice shall be waived by such person in a signed writing that is delivered to the Corporation for inclusion in the minutes or corporate records before, at or after such meeting, or if such person shall be present in person (or in the case of a meeting of the shareholders, be present in person or represented by proxy) at such meeting and without objecting to such lack of notice at the beginning of the meeting and as otherwise required by statute.

Section 9.4 *Amendments*. Unless otherwise provided by statute, the Articles of Incorporation or a By-Law approved by shareholders, these By-Laws may be altered, amended or repealed or new By-Laws may be made either:

(a) by the affirmative vote of the holders of record of a majority of the outstanding stock of the Corporation entitled to vote thereon, at any annual or special meeting of the shareholders, provided that notice of the proposed alteration, amendment or repeal or of the proposed new By-Law or By-Laws be included in the notice of such meeting or waiver thereof, or

(b) by the affirmative vote of a majority of the whole Board at any regular meeting of the Board, or any special meeting thereof, provided that notice of the proposed alteration, amendment or repeal or of the proposed new By-Law or By-Laws be included in the notice of such special meeting or waiver thereof or all of the directors at the time in office be present at such special meeting.

provided, however, that (i) no change of the time or place for the election of directors shall be made within sixty (60) days next before the day on which such election is to be held, and that in case of any change of such time or place, notice thereof shall be given to each shareholder in accordance with Section 2.5 hereof at least twenty (20) days before the election is held, and (ii) the Board may alter, amend or repeal any By-Laws, but any By-Laws made by the Board may be altered, amended or repealed by the shareholders.

Section 9.5 *Electronic Transactions*. The Corporation may conduct any action or set of actions by any electronic means.

**PepsiCo, Inc.**  
**2003 Long-Term Incentive Plan**  
(as amended and restated effective October 1, 2005)

**1. Purposes.**

The purposes of this Plan are to provide long-term incentives to those persons with significant responsibility for the success and growth of PepsiCo, Inc. ("PepsiCo") and its subsidiaries, divisions and affiliated businesses, to associate the interests of such persons with those of PepsiCo's shareholders, to assist PepsiCo in recruiting, retaining and motivating a diverse group of employees and outside directors on a competitive basis, and to ensure a pay for performance linkage for such employees and outside directors. If approved by PepsiCo's shareholders, this Plan would replace the PepsiCo, Inc. 1994 Long-Term Incentive Plan, the PepsiCo, Inc. 1995 Stock Option Incentive Plan, the PepsiCo SharePower Stock Option Plan, the Director Stock Plan and the PepsiCo Share Award Plan, and no further awards would be made under any of the foregoing plans.

**2. Definitions.**

For purposes of the Plan:

(a) "Award" means a grant of Options, Stock Appreciation Rights, Restricted Shares, Restricted Share Units, Performance Awards, or any or all of them.

(b) "Board" means the Board of Directors of PepsiCo, Inc.

(c) "Change in Control" is defined in Section 11(f).

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means, with respect to any matter relating to Section 8 of the Plan, the Board, and with respect to all other matters under the Plan, the Compensation Committee of the Board of Directors of PepsiCo, Inc. The Compensation Committee shall be appointed by the Board and shall consist of two or more outside, disinterested members of the Board. The Compensation Committee, in the judgment of the Board, shall be qualified to administer the Plan as contemplated by (a) Rule 16b-3 of the Securities and Exchange Act of 1934 (or any successor rule), (b) Section 162(m) of the Code, as amended, and the regulations thereunder (or any successor Section and regulations), and (c) any rules and regulations of a stock exchange on which Common Stock is traded. Any member of the Compensation Committee who does not satisfy the qualifications set out in the preceding sentence may recuse himself or herself from any vote or other action taken by the Committee. The Board may, at any time and in its complete discretion, remove any member of the Compensation Committee and may fill any vacancy in the Compensation Committee.

(f) "Common Stock" means the common stock, par value 1 <sup>2</sup>/<sub>3</sub> cents per share, of PepsiCo, Inc.

(g) "Company" means PepsiCo, its subsidiaries, divisions and affiliated businesses.

(h) "Eligible Participants" means any of the following individuals who is designated by the Committee as eligible to receive Awards, subject to the conditions set forth in this Plan: any officer, employee, consultant or advisor of the Company. The term employee does not include any individual who is not, as of the grant date of an Award, classified by the Company as an employee on its corporate books and records even if that individual is later reclassified (by the Company, any court or any governmental or regulatory agency) as an employee as of the grant date. Non-Employee Directors are not Eligible Participants.

(i) "Employee Directors" means the members of the Board who are also employees of the Company.

(j) "Fair Market Value" on any date means the average of the high and low market prices at which a share of Common Stock shall have been sold on such date, or the immediately preceding trading day if such date was not a trading day, as reported on the New York Stock Exchange Composite Transactions Listing and, in the case of an ISO, means fair market value as determined by the Committee in accordance with Section 422 of the Code.

(k) "ISO" means an Option satisfying the requirements of Section 422 of the Code and designated by the Committee as an ISO.

(l) "Named Executive Officer" means PepsiCo's Chief Executive Officer and PepsiCo's next four highest paid executive officers, as reported in PepsiCo's proxy statement pursuant to Regulation S-K, Item 402(a)(3) for a given year.

(m) "Non-Employee Director" means a member of the Board who is not an employee of the Company.

(n) "NQSO" or "Non-Qualified Stock Option" means an Option that does not satisfy the requirements of Section 422 of the Code and that is not designated as an ISO by the Committee.

(o) "Options" means the right to purchase shares of Common Stock at a specified price for a specified period of time.

(p) "Option Exercise Price" means the purchase price per share of Common Stock covered by an Option granted pursuant to this Plan.

(q) "Participant" means an individual who has received an Award under this Plan.

(r) "PepsiCo" means PepsiCo, Inc., a North Carolina corporation.

(s) "Performance Awards" means an Award of Performance Shares or Performance Units based on the achievement of Performance Goals during a Performance Period.

(t) "Performance Based Exception" means the performance-based exception set forth in Code Section 162(m)(4)(C) from the deductibility limitations of Code Section 162(m).

(u) "Performance Goals" means the goals established by the Committee under Section 7(d).

(v) "Performance Measures" means the criteria set out in Section 7(d) that may be used by the Committee as the basis for a Performance Goal.

(w) "Performance Period" means the period established by the Committee during which the achievement of Performance Goals is assessed in order to determine whether and to what extent a Performance Award has been earned.

(x) "Performance Shares" means shares of Common Stock awarded to a Participant based on the achievement of Performance Goals during a Performance Period.

(y) "Performance Units" means an Award denominated in shares of Common Stock, cash or a combination thereof, as determined by the Committee, awarded to a Participant based on the achievement of Performance Goals during a Performance Period.

(z) "Plan" means the PepsiCo, Inc. 2003 Long-Term Incentive Plan, as amended and restated from time to time.

(aa) "Prior Plans" means the PepsiCo, Inc. 1994 Long-Term Incentive Plan, the PepsiCo, Inc. 1995 Stock Option Incentive Plan, the PepsiCo SharePower Stock Option Plan, the Director Stock Plan, the PepsiCo Share Award Plan, the PepsiCo 1987 Incentive Plan, 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.

(bb) "Restriction Period" means, with respect to Restricted Shares or Restricted Share Units, the period during which any restrictions set by the Committee remain in place. Restrictions remain in place until such time as they have lapsed under the terms and conditions of the Restricted Shares or as otherwise determined by the Committee.

(cc) "Restricted Shares" means shares of Common Stock, which may not be traded or sold until the date that the restrictions on transferability imposed by the Committee with respect to such shares have lapsed.

(dd) "Restricted Share Units" means the right, as described in Section 7(c), to receive an amount, payable in either cash or shares of Common Stock, equal to the value of a specified number of shares of Common Stock.

(ee) "Retirement" with respect to a Non-Employee Director shall mean termination from the Board after such Non-Employee Director shall have attained at least age 55 or after such Non-Employee Director shall have satisfied the criteria for Retirement established by the Employee Directors from time to time.

(ff) "Stock Appreciation Rights" or "SAR" means the right to receive the difference between the Fair Market Value of a share of Common Stock on the grant date and the Fair Market Value of a share of Common Stock on the date the Stock Appreciation Right is exercised.

(gg) "Total Disability" shall have the meaning set forth in the long-term disability program of PepsiCo.

### **3. Administration of the Plan.**

(a) Authority of Committee. The Plan shall be administered by the Committee, which shall have all the powers vested in it by the terms of the Plan, such powers to include the authority (within the limitations described herein):

- to select the persons to be granted Awards under the Plan,
- to determine the type, size and terms of Awards to be made to each person selected,
- to determine the time when Awards are to be made and any conditions which must be satisfied before an Award is made,
- to establish objectives and conditions for earning Awards,
- to determine whether an Award shall be evidenced by an agreement and, if so, to determine the terms of such agreement (which shall not be inconsistent with the Plan) and who must sign such agreement,
- to determine whether the conditions for earning an Award have been met and whether an Award will be paid at the end of the Performance Period,
- to determine if and when an Award may be deferred,
- to determine whether the amount or payment of an Award should be reduced or eliminated,
- to determine the guidelines and/or procedures for the payment or exercise of Awards, and
- to determine whether an Award should qualify, regardless of its amount, as deductible in its entirety for federal income tax purposes, including whether any Awards granted to Named Executive Officers comply with the Performance Based Exception under Code Section 162(m).

(b) Interpretation of Plan. The Committee shall have full power and authority to administer and interpret the Plan and to adopt or establish such rules, regulations, agreements, guidelines, procedures and instruments, which are not contrary to the terms of the Plan and which, in its opinion, may be necessary or advisable for the administration and operation of the Plan. The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including PepsiCo, its shareholders and any person receiving an Award under the Plan.

(c) Delegation of Authority. To the extent not prohibited by law, the Committee may delegate its authority hereunder and may grant authority to employees or designate employees of the Company to execute documents on behalf of the Committee or to otherwise assist the Committee in the administration and operation of the Plan.



#### **4. Eligibility.**

(a) General. Subject to the provisions of the Plan, the Committee may, from time to time, select from all Eligible Participants those to whom Awards shall be granted under Section 7 and shall determine the nature and amount of each Award. Only Non-Employee Directors shall be eligible to receive Awards under Section 8.

(b) International Participants. Notwithstanding any provision of the Plan to the contrary, in order to foster and promote achievement of the purposes of the Plan or to comply with provisions of laws in other countries in which the Company operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (i) determine which Eligible Participants (if any) employed by the Company outside the United States are eligible to participate in the Plan, (ii) modify the terms and conditions of any Awards made to such Eligible Participants, and (iii) establish subplans and modified Option exercise procedures and other Award terms and procedures to the extent such actions may be necessary or advisable.

#### **5. Shares of Common Stock Subject to the Plan.**

(a) Authorized Number of Shares. Unless otherwise authorized by PepsiCo's shareholders and subject to the provisions of this Section 5 and Section 10, the maximum aggregate number of shares of Common Stock available for issuance under the Plan shall be (i) 70 million, plus (ii) the number of shares underlying awards under the Prior Plans, which are cancelled or expire after the effective date of this Plan. Any of the authorized shares may be used for any of the types of Awards described in the Plan, except:

(i) at least 20 million of the authorized shares will be available for issuance in connection with broad-based grants under PepsiCo's SharePower program,

(ii) no more than 30 million of the authorized shares may be issued pursuant to Awards other than Options granted with an Option Exercise Price equal to Fair Market Value on the date of grant, and

(iii) no more than 50 million shares may be issued in the form of ISOs.

(b) Share Counting. The following shall apply in determining the number of shares remaining available for grant under this Plan:

(i) In connection with the granting of an Option or other Award (other than a Performance Unit denominated in dollars), the number of shares of Common Stock available for issuance under this Plan shall be reduced by the number of shares in respect of which the Option or Award is granted or denominated; provided, however, that where a SAR is settled in shares of Common Stock, the number of shares of Common Stock available for issuance under this Plan shall be reduced only by the number of shares issued in such settlement.

(ii) If any Option is exercised by tendering shares of Common Stock to PepsiCo as full or partial payment of the exercise price, the number of shares available for issuance under this Plan shall be increased by the number of shares so tendered.

(iii) Whenever any outstanding Option or other Award (or portion thereof) expires, is cancelled, is settled in cash or is otherwise terminated for any reason without having been exercised or payment having been made in respect of the entire Option or Award, the shares allocable to the expired, cancelled, settled or otherwise terminated portion of the Option or Award may again be the subject of Options or Awards granted under this Plan.

(iv) Awards granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who become employees as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company as a result of an acquisition will not count against the reserve of available shares under this Plan.

(c) Shares to be Delivered. Shares of Common Stock to be delivered by the Company under this Plan shall be determined by the Committee and may consist in whole or in part of authorized but unissued shares, treasury shares or shares acquired on the open market.

## **6. Award Limitations.**

The maximum number of Options or SARs that can be granted to any Eligible Participant during a single calendar year cannot exceed 2,000,000. The maximum per Eligible Participant, per calendar year amount of Awards other than Options and SARs shall not exceed \$15,000,000 or 500,000 shares of Common Stock. The maximum Award that may be granted to any Eligible Participant for a Performance Period greater than one year shall not exceed the foregoing annual maximum multiplied by the number of full years in the Performance Period.

## **7. Awards to Eligible Participants.**

### **(a) Options.**

(i) Grants. Subject to the terms and provisions of this Plan, Options may be granted to Eligible Participants. Options may consist of ISOs or NQSOs, as the Committee shall determine. Options may be granted alone or in tandem with SARs. With respect to Options granted in tandem with SARs, the exercise of either such Options or such SARs will result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

(ii) Option Exercise Price. The Option Exercise Price shall be equal to or greater than the Fair Market Value on the date the Option is granted, unless the Option was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company.

(iii) Term. The term of Options shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten (10) years from the date of grant; provided, however, that Awards covering up to five (5) million shares of Common Stock may be issued with a term of up to fifteen (15) years.

(iv) ISO Limits. ISOs may only be granted to employees of PepsiCo, its divisions and subsidiaries and may only be granted to an employee who, at the time the Option is

granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of PepsiCo. The aggregate Fair Market Value of all shares with respect to which ISOs are exercisable by a Participant for the first time during any year shall not exceed \$100,000. The aggregate Fair Market Value of such shares shall be determined at the time the Option is granted.

(v) No Repricing. Except for adjustments made pursuant to Section 10, the Option Exercise Price for any outstanding Option granted under the Plan may not be decreased after the date of grant nor may any outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower Option Exercise Price without the approval of PepsiCo's shareholders.

(vi) 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 may be made in cash, in shares of Common Stock, or partly in cash and partly in Common Stock, as the Committee deems advisable. To the extent payment is 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.

(b) Stock Appreciation Rights.

(i) Grants. Subject to the terms and provisions of this Plan, SARs may be granted to Eligible Participants. SARs may be granted alone or in tandem with Options. With respect to SARs granted in tandem with Options, the exercise of either such Options or such SARs will result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

(ii) Purchase Price. The purchase price per share of Common Stock covered by a SAR granted pursuant to this Plan shall be equal to or greater than Fair Market Value on the date the SAR is granted, unless the SAR was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became employees of the Company as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company.

(iii) Term. The term of a SAR shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten (10) years from the date of grant; provided, however, that Awards covering up to five (5) million shares of Common Stock may be issued with a term of up to fifteen (15) years.

(iv) Form of Payment. The Committee may authorize payment of a SAR in the form of cash, Common Stock valued at its Fair Market Value on the date of the exercise, a combination thereof, or by any other method as the Committee may determine.

(c) Restricted Shares / Restricted Share Units.

(i) Grants. Subject to the terms and provisions of the Plan, Restricted Shares or Restricted Share Units may be granted to Eligible Participants.

(ii) Restrictions. The Committee shall impose such terms, conditions and/or restrictions on any Restricted Shares or Restricted Share Units granted pursuant to the Plan as it may deem advisable including, without limitation: a requirement that Participants pay a stipulated purchase price for each Restricted Share or each Restricted Share Unit; restrictions based upon the achievement of specific performance goals (Company-wide, divisional, and/or individual); time-based restrictions on vesting; and/or restrictions under applicable Federal or state securities laws. Unless otherwise determined by the Committee at the time of grant, any time-based restriction period shall be for a minimum of three years. To the extent the Restricted Shares or Restricted Share Units are intended to be deductible under Code Section 162(m), the applicable restrictions shall be based on the achievement of Performance Goals over a Performance Period, as described in Section 7(d) below.

(iii) Payment of Units. Restricted Share Units that become payable in accordance with their terms and conditions shall be settled in cash, shares of Common Stock, or a combination of cash and shares, as determined by the Committee.

(iv) No Disposition During Restriction Period. During the Restriction Period, Restricted Shares may not be sold, assigned, transferred or otherwise disposed of, or mortgaged, pledged or otherwise encumbered. In order to enforce the limitations imposed upon the Restricted Shares, the Committee may (a) cause a legend or legends to be placed on any certificates relating to such Restricted Shares, and/or (b) issue “stop transfer” instructions, as it deems necessary or appropriate.

(v) Dividend and Voting Rights. Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Shares and Restricted Share Units shall have the right to receive dividends in cash or other property or other distribution or rights in respect of such shares, and Participants who hold Restricted Shares shall have the right to vote such shares as the record owner thereof. Unless otherwise determined by the Committee, any dividends payable to a Participant during the Restriction Period shall be distributed to the Participant only if and when the restrictions imposed on the applicable Restricted Shares or Restricted Share Units lapse.

(vi) Share Certificates. Each certificate issued for Restricted Shares shall be registered in the name of the Participant and deposited with the Company or its designee. At the end of the Restriction Period, a certificate representing the number of shares to which the Participant is then entitled shall be delivered to the Participant free and clear of the restrictions. No certificate shall be issued with respect to a Restricted Share Unit unless and until such unit is paid in shares of Common Stock.

(d) Performance Awards.

(i) Grants. Subject to the provisions of the Plan, Performance Awards consisting of Performance Shares or Performance Units may be granted to Eligible Participants. Performance Awards may be granted either alone or in addition to other Awards made under the Plan.

(ii) Performance Goals. Unless otherwise determined by the Committee, Performance Awards shall be conditioned on the achievement of Performance Goals (which shall be based on one or more Performance Measures, as determined by the Committee) over a Performance Period. The Performance Period shall be one year, unless otherwise determined by the Committee.

(iii) Performance Measures. The Performance Measure(s) to be used for purposes of Performance Awards may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company in which the Participant is employed, and may consist of one or more or any combination of the following criteria: stock price, market share, sales revenue, cash flow, sales volume, earnings per share, return on equity, return on assets, return on sales, return on invested capital, economic value added, net earnings, total shareholder return, gross margin, and/or costs. The Performance Goals based on these Performance Measures may be made relative to the performance of other corporations.

(iv) Negative Discretion. Notwithstanding the achievement of any Performance Goal established under this Plan, the Committee has the discretion, by Participant, to reduce some or all of a Performance Award that would otherwise be paid.

(v) Extraordinary Events. At, or at any time after, the time an Award is granted, and to the extent permitted under Code Section 162(m) and the regulations thereunder without adversely affecting the treatment of the Award under the Performance Based Exception, the Committee may provide for the manner in which performance will be measured against the Performance Goals (or may adjust the Performance Goals) to reflect the impact of specific corporate transactions, accounting or tax law changes and other extraordinary and nonrecurring events.

(vi) Interpretation. With respect to any Award that is intended to satisfy the conditions for the Performance Based Exception under Code Section 162(m): (A) the Committee shall interpret the Plan and this Section 7 in light of Code Section 162(m) and the regulations thereunder; (B) the Committee shall have no discretion to amend the Award in any way that would adversely affect the treatment of the Award under Code Section 162(m) and the regulations thereunder; and (C) such Award shall not be paid until the Committee shall first have certified that the Performance Goals have been achieved.

**8. Awards to Non-Employee Directors.**

(a) Awards. Non-Employee Directors are eligible to receive any and all types of Awards under this Plan other than ISOs.

(b) Initial Grants. Each newly appointed Non-Employee Director shall, as soon as practicable after initially becoming a member of the Board, be granted: (i) 1,000 shares of Common Stock; (ii) an Annual Grant (as defined below), which for a Non-Employee Director elected after October 1 shall be pro-rated to reflect his or her date of election; and (iii) a Retainer Award, which for a Non-Employee Director elected after October 1 shall be pro-rated to reflect his or her date of election.

(c) Annual Grants. Each Non-Employee Director shall receive the following on October 1 (or on such other date as is determined by the Committee) of each year:

(i) An Award (the "Annual Grant") consisting of (A) Restricted Share Units, the number of which shall be determined by dividing \$50,000 by the Fair Market Value on the grant date and (B) Options, the number of which shall be determined by multiplying the number of Restricted Share Units awarded under subsection 8(c)(i)(A) hereof by four.

(ii) A retainer fee of \$120,000 for each Non-Employee Director who is the chairman of a committee of the Board or \$100,000 for each other Non-Employee Director (the "Retainer Award"). Each Non-Employee Director may elect to receive the Retainer Award in the form of (A) cash or (B) deferred stock units.

(d) Death, Total Disability and Retirement. In the event of the death, Total Disability or Retirement of a Non-Employee Director prior to the granting of an Annual Grant and Retainer Award in respect of the fiscal year in which such event occurred, an Annual Grant and Retainer Award may, in the discretion of the Committee, be granted in respect of such fiscal year to the retired or disabled Non-Employee Director or his or her estate. If any Non-Employee Director ceases to be a member of the Board for any reason other than death, Total Disability or Retirement, his or her rights to any Award in respect of the fiscal year during which such cessation occurred will terminate unless the Committee determines otherwise.

(e) Terms of Awards Granted to Non-Employee Directors.

(i) Each Option granted to a Non-Employee Director shall have an Option Exercise Price equal to the Fair Market Value on the grant date.

(ii) Each Option granted to a Non-Employee Director prior to October 1, 2003 shall be fully vested and exercisable on the grant date. Subject to subparagraph (iii) below, each Option and Restricted Share Unit granted to a Non-Employee Director on or after October 1, 2003 shall vest (and, in the case of Options, become exercisable) on the third anniversary of the grant date. Each Option granted to a Non-Employee Director shall have a term of ten years.

(iii) In the event a Non-Employee Director terminates membership on the Board prior to the vesting date of an Award, then (A) if such termination is the result of such Non-Employee Director's death, Total Disability or Retirement, such Award shall immediately vest and, in the case of Options, be exercisable, and (B) if such termination is the result of an event other than death, Total Disability or Retirement, such Award shall immediately terminate and expire.

(iv) No Options granted to a Non-Employee Director may be exercised after he or she ceases to be a member of the Board, except that: (A) if such cessation occurs by reason of

death, the Options then held by the Non-Employee Director may be exercised by his or her designated beneficiary (or, if none, his or her legal representative) until the expiration of such Options in accordance with the terms hereof; (B) if such cessation occurs by reason of the Non-Employee Director incurring a Total Disability, the Options then held by the Non-Employee Director may be exercised by him or her until the expiration of such Options in accordance with the terms hereof; and (C) if such cessation occurs by reason of the Non-Employee Director's Retirement, the Options then held by the Non-Employee Director may be exercised by him or her until the expiration of such Options in accordance with the terms hereof.

(f) Exercise of Options Granted to Non-Employee Directors.

(i) To exercise an Option, a Non-Employee Director must provide to PepsiCo (A) a written notice specifying the number of Options to be exercised and (B) to the extent applicable, any required payments due upon exercise.

(ii) Non-Employee Directors may exercise Options under either of the following methods:

(A) **Cashless Exercise.** Non-Employee Directors may exercise Options through a registered broker-dealer pursuant to cashless exercise procedures that are, from time to time, approved by the Committee. Proceeds from any such exercise shall be used to pay the exercise costs, which include the Option Exercise Price, applicable taxes, brokerage commissions and SEC fees. Any remaining proceeds from the sale shall be delivered to the Non-Employee Director in cash or stock, as specified by the Non-Employee Director.

(B) **Standard Exercise.** Non-Employee Directors may exercise Options by paying to PepsiCo an amount in cash from his or her own funds equal to the Option Exercise Price and any taxes required at exercise. A certificate representing the shares of Common Stock that the Non-Employee Director purchased shall be delivered to him or her only after the Option Exercise Price and the applicable taxes have been paid.

**9. *Deferred Payments.***

Subject to the terms of this Plan, the Committee may determine that all or a portion of any Award to a Participant, whether it is to be paid in cash, shares of Common Stock or a combination thereof, shall be deferred or may, in its sole discretion, approve deferral elections made by Participants. Deferrals shall be for such periods and upon such terms as the Committee may determine in its sole discretion.

**10. *Dilution and Other Adjustments.***

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination or exchange of shares or other change in corporate structure affecting any class of Common Stock, the Committee may, but shall not be required to, make such adjustments in the class and aggregate number of shares which may be delivered under this Plan as described in Section 5, the individual award maximums under Section 6, the class, number, and Option Exercise Price of outstanding Options and the class and number of shares subject to any other Awards granted under this Plan (provided the number of shares of any class subject to any Award shall

always be a whole number), as may be determined to be appropriate by the Committee, and any such adjustment may, in the sole discretion of the Committee, take the form of Options covering more than one class of Common Stock. Such adjustment shall be conclusive and binding for all purposes of the Plan.

#### **11. 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 a lump sum cash payment 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 a lump sum cash payment 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.

## **12. Miscellaneous Provisions.**

(a) Misconduct. Except as otherwise provided in agreements covering Awards hereunder, a Participant shall forfeit all rights in his or her outstanding Awards under the Plan, and all such outstanding Awards shall automatically terminate and lapse, if the Committee determines that such Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, including without limitation, a violation of any Company code of conduct, (iii) engaged in unlawful trading in the securities of PepsiCo or of another company based on information gained as a result of that Participant’s employment or other relationship with the Company, or (iv) committed a felony or other serious crime.

(b) Rights as Shareholder. Except as otherwise provided herein, a Participant shall have no rights as a holder of Common Stock with respect to Awards hereunder, unless and until certificates for shares of Common Stock are issued to the Participant.

(c) No Loans. No loans from the Company to Participants shall be permitted under this Plan.

(d) Assignment or Transfer. Unless the Committee shall specifically determine otherwise, no Award under the Plan or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution and shall be exercisable, during the Participant’s lifetime, only by the Participant. Once awarded, the shares of Common Stock received by Participants may be freely transferred, assigned, pledged or otherwise subjected to lien, subject to the restrictions imposed by the Securities Act of 1933, Section 16 of the Securities Exchange Act of 1934 and PepsiCo’s Insider Trading Policy, each as amended from time to time.

(e) Withholding Taxes. PepsiCo shall have the right to deduct from all Awards paid in cash (and any other payment hereunder) any federal, state, local or foreign taxes required by law to

be withheld with respect to such Awards and, with respect to Awards paid in stock or upon exercise of Options, to require the payment (through withholding from the Participant's salary or otherwise) of any such taxes. The obligations of PepsiCo to make delivery of Awards in cash or Common Stock shall be subject to currency or other restrictions imposed by any government.

(f) No Rights to Awards. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of PepsiCo or any of its subsidiaries, divisions or affiliates. Except as set forth herein, no employee or other person shall have any claim or right to be granted an Award under the Plan. By accepting an Award, the Participant acknowledges and agrees (i) that the Award will be exclusively governed by the terms of the Plan, including the right reserved by the Company to amend or cancel the Plan at any time without the Company incurring liability to the Participant (except for Awards already granted under the Plan), (ii) that Awards are not a constituent part of salary and that the Participant is not entitled, under the terms and conditions of employment, or by accepting or being granted Awards under this Plan to require Awards to be granted to him or her in the future under this Plan or any other plan, (iii) that the value of Awards received under the Plan will be excluded from the calculation of termination indemnities or other severance payments, and (iv) that the Participant will seek all necessary approval under, make all required notifications under and comply with all laws, rules and regulations applicable to the ownership of Options and stock and the exercise of Options, including, without limitation, currency and exchange laws, rules and regulations.

(g) Beneficiary Designation. To the extent allowed by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named on a contingent or successive basis) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Unless the Committee determines otherwise, each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

(h) Costs and Expenses. The cost and expenses of administering the Plan shall be borne by PepsiCo and not charged to any Award or to any Participant.

(i) Fractional Shares. Fractional shares of Common Stock shall not be issued or transferred under an Award, but the Committee may pay cash in lieu of a fraction or round the fraction, in its discretion.

(j) Funding of Plan. PepsiCo shall not be required to establish or fund any special or separate account or to make any other segregation of assets to assure the payment of any Award under the Plan.

(k) Indemnification. Provisions for the indemnification of officers and directors of the Company in connection with the administration of the Plan shall be as set forth in PepsiCo's Certificate of Incorporation and Bylaws as in effect from time to time.

(l) Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

### **13. Effective Date, Governing Law, Amendments and Termination.**

(a) Effective Date. The Plan was approved by the Board on January 30, 2003 and shall become effective on the date it is approved by PepsiCo's shareholders.

(b) Amendments. The Board may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards granted prior to the date of such termination or amendment. Notwithstanding the foregoing, unless PepsiCo's shareholders shall have first approved the amendment, no amendment of the Plan shall be effective which would (i) increase the maximum number of shares of Common Stock which may be delivered under the Plan or to any one individual (except to the extent such amendment is made pursuant to Section 10 hereof), (ii) extend the maximum period during which Awards may be granted under the Plan, (iii) add to the types of awards that can be made under the Plan, (iv) change the Performance Measures pursuant to which Performance Awards are earned, (v) modify the requirements as to eligibility for participation in the Plan, or (vi) require shareholder approval pursuant to this Plan or applicable law to be effective. With the consent of the Participant affected, the Committee may amend outstanding agreements evidencing Awards under the Plan in a manner not inconsistent with the terms of the Plan.

(c) Governing Law. All questions pertaining to the construction, interpretation, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of North Carolina without giving effect to conflict of laws principles.

(d) Termination. No Awards shall be made under the Plan after the tenth anniversary of the date on which PepsiCo's shareholders approve the Plan.

PEPSICO, INC. AND SUBSIDIARIES  
 Computation of Ratio of Earnings to Fixed Charges  
 (in millions except ratio amounts, unaudited)

	36 Weeks Ended	
	9/3/05	9/4/04
<b>Earnings:</b>		
Income before income taxes	<b>\$4,840</b>	\$4,276
Unconsolidated affiliates' interests, net	<b>(272)</b>	(246)
Amortization of capitalized interest	<b>6</b>	6
Interest expense	<b>161</b>	113
Interest portion of rent expense <sup>(a)</sup>	<b>60</b>	56
	<b>\$4,795</b>	\$4,205
<b>Fixed Charges:</b>		
Interest expense	<b>\$ 161</b>	\$ 113
Capitalized interest	<b>3</b>	1
Interest portion of rent expense <sup>(a)</sup>	<b>60</b>	56
	<b>\$ 224</b>	\$ 170
<b>Ratio of Earnings to Fixed Charges <sup>(b)</sup></b>	<b>21.43</b>	24.70

<sup>(a)</sup> One-third of net rent expense is the portion deemed representative of the interest factor.

<sup>(b)</sup> Based on unrounded amounts.

## Accountant's Acknowledgement

The Board of Directors of PepsiCo, Inc.

We hereby acknowledge our awareness of the use of our report dated September 29, 2005 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve and thirty-six weeks ended September 3, 2005, and incorporated by reference in the following Registration Statements and in the related Prospectuses:

### **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

Pursuant to Rule 436(c) of the Securities Act of 1933, such report is not considered a part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

New York, New York

September 30, 2005

## CERTIFICATION

I, **Steven S Reinemund**, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 most recent 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: September 30, 2005

/S/ STEVEN S REINEMUND

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Steven S Reinemund  
Chairman of the Board and  
Chief Executive Officer

## CERTIFICATION

I, **Indra K. Nooyi**, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 most recent 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: September 30, 2005

/S/ INDRA K. NOOYI

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Indra K. Nooyi  
President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended September 3, 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: September 30, 2005

/S/ STEVEN S REINEMUND

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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 Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended September 3, 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: September 30, 2005

/S/ INDRA K. NOOYI

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Indra K. Nooyi  
President and Chief Financial Officer