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EDITED TRANSCRIPT

PEP - Q4 2011 PEPSICO EARNINGS CONFERENCE CALL

EVENT DATE/TIME: FEBRUARY 09, 2012 / 1:00PM GMT

OVERVIEW:

Management discussed 2011 results, reporting annual revenue of $66b. Guidance was for 2012 EPS down 5% at constant currencies.

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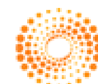

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CORPORATE PARTICIPANTS

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John Compton *PepsiCo - CEO, PepsiCo Americas Foods & Global Snacks Group*

Zein Abdalla *PepsiCo - CEO, PepsiCo Europe*

PRESENTATION

Operator

Ladies and gentlemen, please welcome Senior Vice President, Investor Relations PepsiCo, Jamie Caulfield.

Jamie Caulfield - *PepsiCo - SVP Investor Relations*

Good morning and thank you for attending PepsiCo's investor meeting. Presenting today will be Indra Nooyi, PepsiCo's Chairman and CEO, and Hugh Johnston, PepsiCo's CFO. Following the presentation, Indra and Hugh will be joined for Q&A by John Compton, CEO, PepsiCo Americas Foods, and Global Snacks Group; Al Carey, CEO PepsiCo Americas Beverages; Zein Abdalla, CEO PepsiCo Europe; and Saad Abdul-Latif, CEO PepsiCo Asia, Middle East, Africa.

Before we begin, please take note of our cautionary statement. This presentation includes forward-looking statements including statements regarding 2012 guidance and our long-term growth targets based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements.

Statements made during the meeting should be considered together with cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC. And unless otherwise indicated, all references to revenue, EPS growth, ROIC and division and total operating profit growth are on a core constant currency basis.

Finally, to find disclosures and reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the investor's section of PepsiCo's website under the investor presentation tab.

And now, it's my pleasure to introduce Indra Nooyi.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Thank you, Jamie, and good morning, everyone, and thank you for joining us in person here today. My goal is to cover five topics this morning. I'm going to very briefly cover 2011 results and take a little journey back over the last five years and tell you what we have accomplished. And then we will give you an overview of PepsiCo and outline our strategic priorities very briefly.

We are then going to spend quite a lot of time reviewing the results of a comprehensive review of our businesses that we recently completed. Then we will provide you our financial outlook for 2012 and beyond and then introduce to you a scorecard which we will use to measure our progress.

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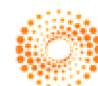

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So with that, let me start with our 2011 performance. We issued our 2011 results this morning and I am not going to spend too much time going into the details except to tell you that 2011 on balance was a good year. Snacks volume grew about 8%, beverages volume grew about 5%, net revenue was up 14% and both core division operating profit and core EPS grew 7%.

We had broad-based gains in snack and beverage volumes and net revenue and we were able to achieve net price realization that vastly offset the extraordinary commodity inflation we faced.

More important in 2011, we made disciplined investments in the business to generate long-term growth. We drove productivity through cost management, and more important, we were able to offset the impact in some of our markets of skittish economies, natural disasters and political unrest with gains from some selective disposals of non-core businesses.

And of course, we benefited from the acquisition of Wimm-Bill-Dann which is a critical addition to our Russia business that further strengthened our already strong position in this key developing market.

Importantly, we also continue to generate strong cash flow. Management's operating cash flow exceeded $6 billion and as a result, we were able to return $5.6 billion in cash to our shareholders through share repurchases and dividends. So, that is 2011.

But 2011 really caps a five-year performance that delivered core net revenue compounded growth rate of 13%, core operating profit growth of 9%, and core EPS growth of 8%. This performance also drove terrific cash returns. Dividends per share grew at 12% annually and our cash returned to shareholders through dividends and share repurchases totaled $30 billion over the past five years.

This is the financial scorecard. What is not evident from the five-year financial performance is the incredible transformation that took place in PepsiCo during this same time. You know, when I came into the CEO job in late 2006, I realized that PepsiCo had to make some bold transformative moves to remain successful well into the future because most of the tailwinds of the first part of the decade were not going to be around the second half. In fact, some of them became headwinds in the second half of the decade.

So, we got to work. Starting in 2007, we began to scale our [part] emerging and developing market business. In fact, our emerging and developing markets revenues went from $8 billion in 2006 to $22 billion in 2011 with the mix increasing from 22% of revenues to 34% of the revenues over that same time frame.

Over that period we also addressed a number of business issues that faced us. First, we had to reconfigure our North American Bottling operation in order to address the serious structural issues of not having an integrated bottling operation in the increasingly diversifying but slow growth liquid refreshment beverage market. We had to restate the Gatorade brand and return it to growth following significant volume declines in 2007 to 2009.

Then we had to restructure and refranchise our Mexican beverage operation to create a single entity with capable partners so that we can restore that business to growth. And then to kick start the China business to a level -- beverage business to a level that was higher in the past, we refranchised our business to Tingyi which is now in the midst of government approval and with this partnership, I think we really take our whole China business group to a whole new level.

All of this creates tremendous [value] for sustainable profit growth across many of our markets. But beyond that, we also increased our investment in R&D by 50% boosting our core capabilities and making substantial talent additions and partnership investments in areas such as advanced [suite] and technology, packaging, where we came up with the first 100% plant derived bottle, and implemented innovation where we are going to be alpha testing a very exciting foodservice beverage dispenser in 2012.

In 2007 to 2011 period, we also significantly expanded the health and wellness offerings of our portfolio. And I know some of you have expressed some concern whether the pendulum swung too far in the direction and whether we took our eye off the core offerings. What I would like to tell you is that the direct answer is this is an and game, not an or game. We have to focus on both growing the core, which is the fun for you products

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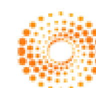

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and the better for you products, and step up our investment in good for you products. And I show you that that is what we have done and will continue doing.

So let me provide some context for what we have done in the whole health and wellness space. First, we increased the permissibility of our core salty snack and beverage products by reducing sodium, frying them in hot healthy oils, using natural ingredients and reducing sugar and reducing calories.

The second thing we did was dialing up the sales of our baked products and snacks and zero calorie beverages which is you know really capitalizing on a sustainable consumer trend.

And the third thing we did was focus significant attention and resources on our good for you businesses to make sure that we are fully capitalizing on their global growth potential.

In North America, for example, we have been very successful in restoring momentum to Gatorade. We have made good progress with Tropicana and the next one we have to address is Quaker Oats, especially in North America. Internationally, we have had strong double-digit growth over the past five years for both Tropicana and Quaker and we've expanded as well to juice and dairy acquisitions.

Importantly, we have targeted resources working on nutrition platforms globally, the benefits of which we will start seeing over the next few years.

As a result of these efforts, we have enhanced our core offerings and our good for you portfolio and the good for you part has now increased its share in our portfolio from 17% to 20% of our revenue over the past five years.

So that is our narrative on our product shift.

The other thing we did over the last five years was continue our investment in SAP and we did that without taking any charge to the P&L. We just kept investing because we believed that we had to really fix the technology base of the Company so that we can have more opportunities for productivity improvement.

And beyond financial investments, we made a major commitment to start shifting the culture of the Company. The first thing we did was put in place an organization structure that leverages the scale of PepsiCo in a much more substantial way. I believe the change was absolutely necessary because with this shift we have gone from decentralized silos, decentralized regional silos, to what I would call now is much more of a connected autonomy structure.

If you look at the chart, the primacy of the P&L still stays with the regions, the geographies, and that is the fundamental principle of PepsiCo, but we have begun to connect important elements of the enterprise to much more effectively leverage ideas, capabilities and scale across the globe.

But this organization shift was just one piece of the culture change. We began to address other aspects of our culture just absolutely had to change. We are evolving from being developed market dominance to having a truly global mindset in the Company. We are also moving from a trade spending push model of selling to a more balanced push [full] model of both marketing and selling.

The other change is that emerging markets in the first part of the decade used to likely be a pay-as-you-go approach. That doesn't work for emerging and developing markets which take a lot of time to build. So over the past five years, we made deliberate choices to step up our investments in key emerging markets because I think it is absolutely necessary to fully capitalize on the growth opportunities and keep PepsiCo growing well into the future.

And lastly, over this last five years, we started to change our talent development process from a traditional model which has been very effective for us to a more strategic approach to build, buy and bond talent to the Company.

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You know, we have tremendous talent within PepsiCo and we are absolutely committed to developing the talent but it's also important to note that as we implement some of the changes in the Company into our portfolio, we need experienced people with different skills to help us navigate through this new volatile environment so that we can remain a growth company.

I want to mention to you that the portfolio changes, the transformation, the culture changes, all of these changes are affected in a difficult macro environment.

So on balance, I believe we have done many of the right things over the past five years to improve the business and position it for sustained growth and attractive financial results for years to come.

Now, let me be clear on one thing. I am not suggesting we executed everything perfectly over the last five years. Could we have done some things differently or better? Sure. But we have gone back and looked at every one of our decisions and said, what could we have done differently? Let me give you some of these things that I think we could have done differently.

First, I think we could have used the synergies from the bottling acquisition to invest more in growing the top line rather than committing to flow through to the bottom line. Second, I wish we had stepped up our overall brand support especially in North American beverages earlier. Third, had we anticipated the commodity volatility that we saw in 2010, 2011 and going into 2012, we could have gone after productivity much more aggressively sooner to help cushion some of those commodity cost increases.

I also think some of the people moves that I made perhaps could have been made a bit earlier so that we could have gotten on with this program faster. And lastly, I think we could have done a better job establishing performance expectations with you, our investors, at a level that we could absolutely deliver on.

And I think some of these topics addressed earlier or more effectively would have resulted in even better operating performance and as a result, better stock price performance, an area that I know has been frustrating for many of you in this room in this morning.

And to be honest, the reason I didn't take some of these resets earlier is because [I see you] will get the chance to make a reset once every 10 years and you only make a major reset when you have a clean line of sight to bounce back. And I didn't feel I had that clean line of sight the last five years. We have it now and that is why we are doing it today and that is why today as you see in the press release, we are taking clearer actions right now to step up brand investment, increase productivity, reduce capital spending and improve shareholder returns.

So as we pause this to look at PepsiCo today, I think we are extremely well-positioned. We generate $66 billion in annual revenue. We are the second largest food and beverage business globally. We have operating margins of 16%. We have net ROIC of 17% and we have return on equity of 31%.

Our mission for the Company is clear and focused. We want to captivate consumers with the world's most loved and best tasting convenient foods and beverages. And we feel confident in our ability to deliver on this mission based on the significant structure and capability advantages that we possess as a Company.

We compete in categories with attractive growth margins and returns whether its snacks, beverages or the nutritional category because all of these categories have global growth of 5% or more. Our core businesses of convenient food and beverages are highly complementary. They share not only common consumers and customers but they also share resources and capabilities like agri sourcing, R&D capabilities, packaging, flavoring, go-to-market systems, finance HR talent and all the G&A functions.

And I think our businesses will continue to benefit from global megatrends like on the go lifestyles, a rapidly growing middle class in emerging and developing markets, and consumer's seeking a repertoire of products that spans fun for you to good for you.

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We have a very broad and powerful brand portfolio that connects with consumers including 22 iconic billion dollar brands, the number that has doubled in the past 11 years. And these brands span everything from everything from fun for you to good for you. And all of our brands have typically number one or number two in their respective categories.

I don't know if you know this little factoid, but Lay's is the number one global food brand. Lay's is the number one global food brand, and Pepsi, as you well know, is the number two global beverage brand.

We also have a truly global footprint with presence in more than 150 countries and as I mentioned earlier, we have a $22 billion emerging-market business. And we have tremendous go to market reach which is largely enabled by our DSD systems, which have been developed over many, many decades. And they are all tailored to suit local market dynamics so that we can efficiently and effectively reach millions of points of sale every day and billions of end consumers.

We leverage all of these strengths to deliver against our five strategic priorities which we have been focused on for the past several years. To build and extend macrosnacks globally, as most of you know, we have a 10 times relative market share in salty snacks globally, and whether it is growing the core or extending to adjacencies, we just keep growing the snack for snack business.

Secondly, we are the number two player in beverages globally and our goal is to sustainably and profitably grow this beverage business worldwide.

Third, we have three of the top brands in health and wellness. We are going to leverage these brands in the health and wellness category momentum to grow this nutrition business.

The fourth strategic priority is to leverage the coincidence of consumption between snacks and beverages and capitalize on this cross category presence to grow our scale in individual countries.

And lastly, we will manage the financial results and position of this Company in a prudent and responsible way.

These strategic priorities have not changed over the several years and we will remain focused on them going forward. Taken together, we believe our mission, the strength of our portfolio and strategic priorities will enable us to generate top-tier financial results for investors over the long term.

Revenue growth in the mid-single digits, we expect balanced growth between fun for you, better for you, good for you, and this growth will be predominantly organic. And we expect to continue to benefit from an increasing emerging and developing market presence and this portfolio translates to high single-digit earnings per share growth with increasing margins and return on capital and leads to free cash flow growing in line with net income which in turn enables strong cash returns to shareholders through a combination of dividends and share repurchases.

So the key question that you as investors have asked us is can this portfolio generate these kinds of returns on an ongoing basis? That is what prompted us to undertake a comprehensive review of our business. We looked at every aspect of our portfolio and operating practices.

What I would like to do is to share with you the scope, findings and the go-forward actions now that the review is complete. So the first area we examined was our portfolio. We began with a question that has been speculated upon a lot in recent months. Should PepsiCo split its snack and beverage businesses? And the overriding finding from our portfolio analysis is that PepsiCo's value is maximized as one Company because the current structure is three things.

First, it provides compelling cost leverage across the value chain from an R&D, procurement, consumer insight, sales, merchandising, back-office functions; it provides compelling scale and cost leverage.

Second, it enables us to accelerate in-market growth. Because in-market we benefit from the coincidence of snack and beverage consumption locations. We will benefit from the commonality of consumers and the opportunity to cross merchandise and promote our products.

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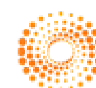

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But in the emerging markets in particular, our snacks business benefits massively from the scale of our beverage business which can be scaled up very quickly and without the presence of our beverage businesses, our ability to establish and grow snacks businesses in emerging markets would be significantly reduced. It will take much more time and require a significant amount more of investment. That is the second reason.

The third reason is that our operation as one Company enables us to share capabilities across geographies and sectors and allows us to attract better talent. This is important everywhere in the world but particularly in emerging and developing markets where the combined scale of our two businesses helps us be the preferred Company to work for.

I can tell you that in emerging markets -- and I travel there all the time, Pepsi is such an iconic brand that young people want to come to work for Pepsi. You bring them into Pepsi and a little while later you put them into Lay's and incorporate in those products so that is the virtual circle how it works.

We estimate that simply on the cost side of the equation, the benefits of having an integrated company are somewhere between $800 million to $1 billion, primarily related to in-country G&A, procurement, shared distribution and infrastructure, corporate G&A and financing costs. This does not take into account the profitability associated with topline synergies. It does not factor in the massive disruption that would surely occur if we tried to separate these two businesses.

So net-net, based on this exhaustive analysis we undertook as a management team, with external advisors, with the involvement of our Board of Directors, we are absolutely convinced that PepsiCo's value is maximized as one Company.

But we didn't stop there. We expanded our portfolio review to dig deeper into our portfolio of countries and businesses. We asked ourselves the question, what is the performance trajectory of the individual businesses and countries and how can we sustain or improve well performing businesses and what can we do to fix the few underperforming businesses we have? And we looked at what additional options exist to strengthen the portfolio and the optimal portfolio configuration to maximize shareholder value.

And to answer all of these questions, we mapped our businesses across two dimensions, margin and growth performance with performance relative to each businesses respective markets and whether the business was related to our mission. What we found is that for the most part, our businesses are highly related to our mission and are generally performing well.

So this chart shows our division operating profit falls across these dimensions. 75% of our profit comes from businesses highly related to our mission and performing very well. Non-core businesses comprised a relatively small percentage of the overall portfolio, about 5%, and these are well performing businesses. The gray box down there represents less than 1% of our profit and we have largely addressed these opportunities and I will tell you what they are, and that leaves 20% that are related to the mission but with some opportunity to improve their growth and all margins.

And we are absolutely clear on what needs to be done in each of these quadrants. High-performing related business will be sustained, invested in and supported. Higher performing but unrelated business will be managed judiciously and they will be divested only if it makes financial sense because most of them contribute positively to our returns and cash flow.

Lower performing unrelated businesses should be divested and will be divested and lower performing related businesses will be operationally improved to drive better growth and returns with clear timetables for improvement. And if the underperformance cannot be addressed operationally then we will seek structural solutions to improve returns or reduce our exposure. And this quadrant is clearly a major area of focus for us.

So let me give you examples of how our businesses map across these quadrants. Clearly on the upper left, you see Frito-Lay North America, our Quaker, Tropicana, Gatorade businesses, many of our international beverage and snack businesses. On the upper right, you find some of our central store food businesses which are pretty small compared to the size of our portfolio and while they don't really relate to our convenience mandate, they are prolific cash generators with very high returns and will be dilutive to our returns and earnings under any divestiture scenario that we run.

In our lower right box, there are a couple of very small businesses, Kretschmer's wheat germ, Coqueiro fish business in Brazil, and they have all been divested now.

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Finally, on the lower left, we find a couple of our emerging market beverage businesses, our North American DSD beverage business and some emerging market snack businesses and we are making great progress in addressing each of these businesses.

One of the businesses that was in this box was Mexico Beverages. By refranchising it and creating a very strong entity with two highly capable beverage partners, I believe we have addressed the Mexico Beverage underperformance issue.

In China, the growth of the market was explosive -- our growth was explosive, but we needed a partner to really kick start this growth. We now have a transaction with Tingyi pending. Tingyi will be a franchisee. It's pending regulatory approval and it will create an anchor bottler in China that will really help PepsiCo take its beverage business to a whole new level.

We have a few snack businesses in emerging markets where I believe the natural growth of these businesses will improve the results and the operating margins of those businesses.

That leaves the North American DSD business -- the DSD beverage business, which accounts for the lion's share of the profits in this quadrant.

So I will set the context for North American DSD beverages. It is a large, highly profitable category, North American beverages. It is important to retailers because of its ability to generate shopper traffic and because it is profitable and an excellent cash generator given to retailers.

At PepsiCo, we have a very good competitive position with a number one share of the liquid refreshment beverage category in retail and most importantly, we own three of the top five LRB trademarks with Pepsi, Mountain Dew and Gatorade. And with Mountain Dew, we have the fastest-growing major CSD trademark in the industry.

However, there are some issues. Category growth has been challenging. The marketplace is intensely competitive. Commodity inflation and volatility has made this market that much more difficult and let's not forget, we do face a competitor who has emerged from a major reset that they undertook between 2004 and 2008.

And I will tell you between 2007 and 2010, we did lose some market share. Recently, our share trends have begun to improve but we are not happy with the pace of improvement and recognize the need to accelerate progress. One of the reasons we brought the bottlers back is because we wanted to address the share issue in this business.

So against backdrop, we are totally committed to actions to improve both the growth and returns of our North American beverage business. So what are we going to do?

We are going to significantly step up our A&M support to reengage consumers with our terrific brands, focusing on our most important brands to drive the maximum impact from our investment.

What is interesting over the last five years, North American A&M did not decline, but the spending was supporting too many brands and was spread across too many agencies. We allowed non-working A&M to squeeze out working A&M. So we went to work and we cleaned house.

We reduced agency relationships in North American beverages from 150 to about 50. So it is not just a step up in A&M, the impact of shifting non-working A&M to A&M will be significant and this whole A&M spending will be amplified.

We are also accelerating our innovation across product and package with a very special focus on revenue management. For example, Pepsi NEX is a great example of leading the markets with product innovation. Thanks to the investments we made in long-term sweetener technology, we are launching a product that delivers the great taste of Pepsi with 60% less sugar.

We are also going to step up our package innovation and a great example that will drive our revenue management agenda are the 24-ounce Dew cans, which will drive further growth of this billion dollar brand into new occasions. And a Starbucks Refreshers launch in a 12-ounce slim can. You know, grab a can of that Mountain Dew as you leave and the Refreshers are out there in the lobby.

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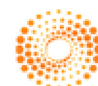

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We are also going to capitalize on the foodservice opportunity especially local and regional food service. As many of you know, this was an area where we had a structural disadvantage relative to our largest competitor prior to our acquisition of the bottlers. We have made the appropriate changes and we are making good progress in foodservice.

We're also dialing up our excellence and execution by shifting distribution systems and it will improve performance. A good example of that was moving Gatorade to DSD and small format. But we're not stopping there. We are looking for other opportunities to leverage the right distribution system for the right product.

We're also going to use our snack business to drive greater frequency of coincidence of consumption. And linked to our overall productivity efforts, we are stepping up productivity to improve margins and create additional funding for future investment. We intend to take out about $500 million to $600 million in cost of the North American beverage business by 2014.

We're also accelerating R&D in key breakthrough areas like no cost natural sweeteners, small packaging innovation, and foodservice (inaudible) innovation. So a lot is happening in North American beverages, all focused on one thing, to hold or increase value share in this market.

And while we work through these operational improvements, we are simultaneously exploring structural options to jump ship PepsiCo's return from capital that is deployed into this business.

So that is a summary of the overall portfolio look that we undertook. Well, our operational review over the last six months went beyond a high-level portfolio analysis and really took a deep dive on the supporting fundamentals that drive our business. You know, we know that successful PepsiCo is dependent on world-class brand building and innovation. It's dependent on excellence and execution every day in every moment of truth, achieving the right cost structure and the optimal capital structure. And most importantly, being a great place to work.

We went through and looked at how we stack up against each of these requirements. Let me walk you through the conclusions of our review on each of these items, what we found and what we will be doing as a result.

On brand management, you know, in PepsiCo, our marketing approach has historically been highly decentralized with each country introducing brands as needed. To prove the point, it may surprise you that we have more than 400 brands in our portfolio. And this brand proliferation over the years [adds value] the incrementality of our initiatives. And there is no point stepping up the A&M investment if it's going to be fragmented across 400 brands.

So we knew there was a consolidation opportunity here. So as a result of our deep dive, we will be refocusing and streamlining our brand portfolio, sharpening the positioning with consumers, holding a lot of the new innovation to the big brands and slowly start shifting volume from the tail of the portfolio to the core brand portfolio.

We are going to invest and drive growth behind 12 mega brands, Pepsi, Dew, Sierra Mist, 7UP in international markets, Gatorade, Tropicana, Mirinda, Lay's, Doritos, Cheetos, Lipton, Quaker, and the Sun brand. These 12 brands will have aligned positioning globally. They will have consistent campaigns and scale [deliveration] platforms.

For example, we will be launching the first global Pepsi campaign in the summer of this year with common iconography, a common approach and common positioning, he first global Pepsi campaign in PepsiCo's history.

We are also stepping up our investment, our A&M investment behind these 12 brands by $500 million to $600 million in 2012 which represents about a 15% increase. And because North America is such a large market, it will receive a disproportionate share of this increased funding.

While we are increasing the A&M, we are also streamlining our agency relationships. Today, we have about 300 relationships with strategic vendors across the globe. We are looking to reduce that number by more than half, driving greater efficiency of spend.

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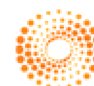

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But spend is one thing, we are also instituting joint performance metrics with our partner and we're implementing a pay for performance model which makes sure that we get the best talent and agencies devoted to PepsiCo's businesses.

So what all of this will do is allow us to shift more of our overall A&M from nonworking A&M to working A&M, which means reduce what we spend on production costs and agency fees to actually consumer facing A&M. This targeted shift of spending to more working A&M will add considerably to the brand presence consumers will feel and just a $500 million to $600 million in incremental spending.

And beyond just the spending increase and the shifting of A&M, we have developed one common way to measure brand equity across the world. And our goal is to track the brand equity evolution of each of these global brands regularly and intervene when appropriate to make sure we hold or increase the brand equity with our overall consumers in every one of the key countries in the world. That was all the brand work we did.

The next area that we reviewed was innovation and innovation is our lifeblood. We need that to keep growing. But as we dug deep into innovation, no surprise to you, the consumer environment has changed radically. Retail shelf space is scarce, consumers have become more demanding, competition has intensified especially with the emergence of pure-play competitors fragmenting the market a lot.

PepsiCo is a prolific innovator and there is a lot about our innovation that we should feel great about and you should admire. IRI consistently ranks us as a leader in innovation in their Pacesetters report. And in 2011 alone, we have 11 of the 15 top-selling items in C-stores and a lot of them were new products that came into the market in 2010 and 2011.

But the problem is that yes we are a prolific innovator but the staying power of this innovation can be much better. Some of it relates to the quality of the innovation. Sometimes it also relates to our lack of patience and a bit of Darwinian mindset that is engendered by the DSD go-to-market system.

So as we sat back and looked at all of our innovation, we realized that something had to change in what we were doing in PepsiCo. We don't believe we are delivering enough incremental innovation and we can do better.

So we are rebalancing our approach. We have now set to very specific goals for three innovation types, refresh innovation, which is mostly non-extensions, reframe innovations and breakthrough innovations and our goal is to derive a higher mix of reframe and breakthrough which have the potential of being a lot more incremental.

So examples of reframe innovation will be Trop50 which has brought back users into the juice category who left the category because of the high calories of juice. And Tostitos Scoops which solve the issue of getting dip on your tie or dress when you eat regular Tostitos.

An example of breakthrough innovation would be products based on the work we are doing with natural zero calorie sweeteners. Our belief is that when that commercializes, which I hope is pretty soon, we will really start reframing the carbonated soft drink category.

And to enable all of this we have improved the Stage Gate process to allow for greater [incubase] of new products. And we are doing one more thing. We are leveraging our Frito-Lay North America best practice. They have something called a new growth ventures model. They incubate products in a second distribution system that reaches a certain size, bringing into DSD if necessary.

We are going to lift and shift that idea to North American beverages because I believe we have a lot of great innovation which are smaller volume and tend to die in the DSD system if you put it in their right away. So we are going to incubate it into a second distribution system in PepsiCo and then bring it into DSD.

More importantly, the fact that we have now created the horizontal structures with the global group is enabling the creation and development of more innovation platforms, as opposed to products. And we also are able now to lift and shift ideas across the globe so we don't keep repeating what we are doing country after country.

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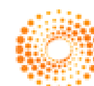

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The other amazing thing is somewhat of a role reversal, we are explicitly taking innovation from our developing markets especially the great work on value innovation and bringing it back to developed markets. Stila Bars and Quaker cookies from Mexico is one example of developing market innovation that is being launched very successively in North America.

The last thing we have done on innovation is we have restructured our relationships with our consumer insight providers and what we have told them is we are going to pay for insights, not data. So we have given them specific questions and we want them to answer those questions as opposed to just buying data and allowing us to troll for it.

So our priorities here are to drive higher topline, get better price utilization but most importantly, increase our value share. That is the result of our brand and innovation look.

Let me turn to the third area we looked at in great detail, which is our execution. Some of you asked in the reports you wrote or in meetings we have had with you whether we have lost our execution edge especially here in North America? You know, I would say no, but we went back and looked at it in great detail anyway. Generally speaking, this is an area where we are very good at and in many cases I would argue we are best-in-class at execution.

Frito-Lay North America in particular is awesome at execution. But we have to push the boundaries and not just be complacent that we are very good and we also have to learn to share best practices across the Company.

So in the case of our North American Bottling, this is going to be a renewed area of focus having just spent the last two years with an appropriate focus on getting the integration complete and delivering against the synergy targets.

We know there is a lot of best practice sharing that will go on between North American Bottling and Frito-Lay, both ways. So our execution focus going forward has several elements. In terms of driving inventory share in the store, our beverage business as one Company is beginning to align marketing and sales to one set of programs on promotional inventory.

In terms of ensuring perfect orders and on-time delivery, our beverage business will be creating a centralized dispatch headquarters in order to use sophisticated dynamic routing algorithms currently being used by Frito-Lay to improve service levels and reduce costs.

In terms of new product execution, our beverage business will start to deploy Frito-Lay's industry-leading tools to ensure disciplined store level execution and tracking of all new products. And these programs respond directly to the measures most important to our customers and they have the highest correlation to increasing sales.

We also want to leverage data we have collected for our top accounts across both snacks and beverages to drive continuous improvement and perhaps stimulate some healthy internal competition to ensure that we are best-in-class in this critical area.

And the last thing we're going to be doing on execution is driving and tracking coincidence of purchase between snacks and beverages. We have told you many times that our snacks and beverages are highly complementary and are consumed when purchased together. For example, 30% of CSD shopper locations include a salty snack purchase and 30% of salty snack purchases include a CSD. So the opportunity for PepsiCo is tremendous as we drive incremental co-purchases and every point of additional share is worth $120 million in retail sales. So we intend to exploit this coincidental a lot more.

Finally, now that we have foodservice in our control, we are increasing our push on gaining both local and regional foodservice accounts and in 2011 we made real progress. We gained two points of market share in foodservice. That is a lot in this business. We converted key accounts from our primary competitor, Papa John's, Chuck E. Cheese, Tim Hortons, to name a few, and most importantly, we achieved a 98% contract renewal rate for our existing customers.

We launched new product innovations in foodservice. For example, oatmeal at McDonald's and Burger King and culinary innovation at Taco Bell via our Fritos burritos. I hope you have had a chance to enjoy the product.

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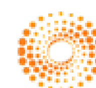

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And we acquired 35,000 new foodservice accounts as a result of expanding the use of broad line distributors to secure new, local and regional beverage accounts in all of our field acquisition efforts.

So let me assure you if you have any doubt execution excellence is what we are about, what we are really good at, and we will ensure that we drive ourselves and each other to be best-in-class uniformly. That is execution.

Now let me turn to the whole area of cost and productivity which is another area that we spend a lot of time on as part of operating review. PepsiCo has always been known to be a highly productive and cost efficient Company and we are aggressively manage our costs year in and year out. We know that we are in a new environment of tremendous macroeconomic volatility including commodity cost volatility. So we knew that we had to get even more productive to create the breathing room to deliver our numbers.

So let's just take a look quick look at our cost structure. About 29% of the cost structure is raw commodities, a little over 5% is A&M, and 50% is manufacturing and SG&A excluding A&M, which results in this operating profit of 16% of revenues. You know, our goal is to increase that operating profit number.

So let me just walk you through each of the pieces. From a commodity cost standpoint, the way we manage risk is through systematic forward buying so that we can get more cost certainty and increase cost visibility. But we will keep reviewing our commodity procurement approach to make sure that we have the optimal balance between risk management and visibility.

On A&M, we're going to grow it from 5.2% of sales to 6% of revenues by 2015 and in 2012 with the increase in A&M, it will actually go up to 5.7% of sales. So the focus then is on the 50%, this big bucket. Our goal over the next three to four years is to take out 250 to 300 basis points of cost from this bucket. And today, we announced a three-year plan to double our ongoing productivity, which will generate over $1 billion in cost savings in 2012 and $3 billion by 2014. And $1.5 billion of the $3 billion is incremental productivity versus our historical run rate.

These productivity initiatives are multifunctional, cross sector and they are going to be delivering benefits throughout the entire value chain. Our plan will become the new norm for PepsiCo by creating ongoing global productivity culture and this productivity program just didn't happen. It has been months of effort across people, across the world, across all of our businesses involving all of the functions, all of the businesses, all of the sectors.

We are taking actions to significantly reduce our G&A by implementing simplified organization structures. We are going to a wider expanse of control, fewer layers of management, we are consolidating facilities. We are accelerating the development and deployment of global projects impacting our products, packaging, manufacturing, transportation, how we grew our various factories and much more.

We set up a global operations tool, and that has been a critical unlock because they have been able to coordinate all of these new ideas and facilitate the lift and shift of current best practices across all of our businesses.

We have a program management office to track each of these initiatives, monitor progress, manage priorities, review achievements, identify key risks and development mitigation plans for the global leadership team.

A critical aspect of this program is a focus on increasing operational productivity into three key areas of make, move and sell. What we plan to do here is to drive world-class efficiencies through the deployment and execution of what we call global playbooks. These global playbooks are targeted to positively impact areas such as yield, changeover times, labor and asset utilization across geographies and key lines of business.

Now, as I mentioned to you, the financial results of all of this work is that we are going to take our 250 to 300 basis points of operating costs over the next three years.

Now, these productivity efforts will impact about 8700 associates worldwide. Let me tell you the most difficult part of this whole productivity program has been the fact that we have to take out people. It is never easy when we have to take out people from the organization. The 8700

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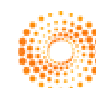
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people represent about 3% of our workforce, and we have to make these tough choices if we are to create the breathing room to keep reinvesting in the Company.

The other thing we did, just to give you comfort, is that we were very careful to make sure that we were not impacting the core operations of the business in taking out these people. We looked very carefully to make sure that we had all of the right functions, staffed the right people and had the right resources that we can keep the growth of the Company growing in the future.

We didn't stop just with productivity on the P&L. We also looked at capital productivity. You know, over the last five years, CapEx has been about 5.5% of revenue. For 2012, we reduced CapEx to 4.5% of net revenues. Now some of you might say, oh you must have just cut it. No, we've reduced it. We took a very granular approach to understand where the capacity was in the organization, where the underutilization was, how can we get lower capital into emerging markets so that we can match capital cost with the economies -- of the economics of that marketplace. So we took a very granular look at our capital and that is what allowed us to cut the CapEx into 2012 and our goal beyond 2012 is to run our business, the CapEx level, to about 5% of net sales.

But it is not just capital expenditures, we are also looking at working capital. We believe we do a pretty good job with our cash conversion cycle. But again, as we looked at our cash conversion cycle, there is a lot more granularity. We think there is improvement in our days in inventory, DSO and DPO days and we think there is an opportunity to reduce this whole cash conversion cycle by 10%, which will actually generate about $200 million of cash annually, incremental cash.

And through institutionalized capital productivity in the Company, we will implement an EVA approach at the operating unit level, and economic value added approach at the operating unit level, so each of our businesses can see the direct cost of the capital they deploy, whether it is normal capital expenditures or tuck-in acquisitions they propose. This is going to be part of our ongoing performance management system and all of these efforts are designed to increase management operating cash flow and improve ROIC.

Finally, let me turn to the last and most important part of our operating review which is our organization and people. You know, we looked at every aspect of the Company in terms of morale, succession, organizational structure. We looked at everything.

Let me start by telling you that PepsiCo is and will always remain an academy company. We are a highly desirable place to work and in fact, according to the Chief Executive magazine, we just moved up on the list of leadership companies from number 17 to seven. And we have been named to Fortune's Top 10 companies for leaders.

But as a Company we don't just rest on those laurels. We actually assess the morale of the Company every year because we conduct an annual organizational health survey which we then augment with a midyear Pulse survey just to get a sense for how people are feeling. Then we compare it on a cross-sectional basis across the Company over years. We look at it by function, across agendas, ethnicities and we benchmark ourselves against a peer group of companies who conduct similar org health surveys.

I am pleased to report to you that our org health survey results show that by and large we are doing better than the peer group and the basic morale of the organization is pretty good. So from an organization perspective, we feel good about where we are.

From a succession perspective, of the top 200 roles in the Company, we have a five deep bench. We identify people who can fill their job if somebody is hit by a bus, ready in one to two years, or ready in three plus years. Coming out of this exercise, we identified 500 high potential executives who we are going to -- we have given a 10-year development plan for them and we will accelerate their progress with the Company.

Let me briefly touch on CEO succession. CEO succession at PepsiCo started day when I became CEO. We have updated our Board of Directors every year and we provide midyear updates as necessary on this topic of CEO succession. This is very much on top of my priority list; has been since 2006. And I believe we have outstanding leaders running each of our major businesses who are all CEO capable.

So from an organization perspective, from a people perspective, succession perspective, we feel very good about where we are.

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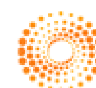

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So that was the summary of our detailed operational review and a look at all of the drivers of our performance. Once again, based on this very detailed look, we are comfortable with our long-term targets -- grow revenues in mid single digits, deliver high single-digit EPS growth, grow free cash flow in line with net income and deliver attractive cash returns to our shareholders.

This performance will be balanced across our geographies and our categories and as you can see, we plan to do a lot of things differently in 2012 and going forward. We are going to increase A&M spend by $500 million to $600 million and total marketplace spend by $600 million to $700 million. We're going to focus our brands, reduce the number of agencies and strategic partnerships we have. We're going to focus on improving brand equity for our key brands and you are going to start seeing stepped-up innovation levels in the marketplace.

We will deliver incremental productivity of over $500 million this year and a total of $1.5 billion of incremental productivity over the next three years. We will reduce CapEx to 4.5% of net revenue which is about $300 million lower than it was in 2011 while still growing the topline. We will generate more than $6 billion in management operating cash flow and return $3.3 billion in dividends which is about $100 million increase over 2011. And we will repurchased at least $3 billion in shares which is an increase of about $600 million over 2011.

We will do all this while navigating through incremental commodity costs or additional commodity costs of $1.5 billion.

Finally, in terms of operating and reporting transparency, historically, we have provided you data on PepsiAmericas Foods, PepsiCo Americas Beverages, Europe and AMEA. Going forward, we will provide additional data on global snacks and global beverages. Within that, we will provide you topline numbers, volume revenue on our global nutrition business also.

So that is the comprehensive summary of our operating review, the findings on what we are going to do differently going forward. With that, let me turn it over to Hugh Johnston to talk in detail about 2012 and go through all of the financial information. Thank you.

Hugh Johnston - *PepsiCo - CFO*

Great. Thank you, Indra. Good morning, everyone. As discussed earlier, 2012 is a year of transition with EPS down 5% on a core constant currency basis. As we compare 2012 to our high single-digit long term growth targets, there were several key drivers for this gap. I will cover them briefly here and then we will look at each individually.

First, we face another year of higher than normal commodity inflation driven by the lag effect of our forward buying program. This negatively impacts our EPS growth by nine points.

Second, extraordinary investments we are making in the marketplace, both A&M and to a lesser degree in racks and routes, drives another eight points of EPS gap. To help offset this marketplace investment, we are as Indra mentioned, embarking on a multiyear productivity effort which is expected to deliver over $500 million in incremental productivity savings in 2012 for cumulative incremental productivity of $1.5 billion through 2014. This initiative is expected in 2012 to contribute seven points of EPS growth.

Below the line pension costs will increase as a result of the lower discount rate we use to calculate pension expense. And finally, our net interest costs also rise as we increase our borrowings and term out debt in a low interest rate environment and our tax rate will be slightly higher at 27%. The net impact of the latter two items is a reduction of 3 points.

Note at this point based on market consensus forecast, we anticipate FX to be a 3 point headwind in 2012.

Now I would like to take a moment to go a little bit deeper on some of these. Overall, we are anticipating 7% commodity inflation for this year. Our commodity spend consists of three components, raw commodities which we purchased via a systematic forward buying program; raw commodities for which there is no active traded market; and then finally, cost our suppliers incur to convert raw commodities into ingredients and packaging materials.

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On non-traded raw commodities, we will have moderate inflation of 4% this year and on conversion costs, we are actually benefiting from 5% deflation as a result of value engineering and productivity efforts with our suppliers. But we are facing a steep 16% inflation in market traded commodity purchases.

Because we secure coverage in advance of the start of the year via our systematic forward buying program, 35% of our commodity purchases were already locked by July 2011, more than 40% by September, and almost two-thirds by the end of the December 2011. As a result, we are not fully benefiting from the recent declines in raw commodity prices yet.

While this program proved to be very beneficial to us in the past two years, and over accumulative period, we are still ahead of the market. Our costs for traded commodities are unfavorable to the market in 2012 on a percentage basis. It is important to note, though, that we expect our actual prices to be at or below the market prices on many commodities but the rate of inflation will be higher because of the different prior year basis.

The commodity inflation is highest in the first quarter and mitigates as we move forward through the year, as you would expect with the lagging effect.

Regarding our productivity program, as indicated earlier, we expect to deliver $3 billion in savings over the next three years, which is double our historical productivity run rate. Our productivity program will touch virtually every aspect of our business including manufacturing, distribution and SG&A. Specifically, we are heightening our ability to execute best practice sharing across our organization leveraging new technologies and processes across our entire cost structure and we will increase yield and throughput and reduce waste throughout the value chain.

In addition, we are consolidating a number of manufacturing, warehouse and sales facilities and we are implementing a more simplified organization structure with wider spans of control and fewer layers of management which will enhance our cost competitiveness and drive more effective accountability.

The restructuring actions will have a one-time cost of about $910 million of which about $750 million is cash.

As mentioned earlier, overall below the line costs are a 3 point drag on EPS. Our pension costs are increasing by almost $100 million this year, as a result of a decrease in the discount rates. This is after a $1 billion discretionary pretax contribution to the pension and retiree medical plans, which reduce the expense by $100 million.

In addition, our net interest costs are increasing by about $200 million as we term out debt to benefit from long-term, low interest rates, borrowing increases generally in line with cash which sits internationally. All other corporate G&A cost are flats as reductions in corporate G&A are being redeployed to support the global productivity initiative.

Turning to capital allocation and cash return, we announced this morning that we will increase our dividend by 4% to $2.15 with the June dividend payments and we intend to step up our share repurchase program to at least $3 billion in 2012.

Simultaneously, we will term out debt taking advantage of that low interest rate environment. This will increase our leverage which we are comfortable with because we intend to limit both our number and size of tuck-in acquisitions and to do them only in emerging and developing markets.

Net, we expect to increase our borrowing but again it will only increase in line with our growth in cash. This cash is largely offshore and is therefore tax inefficient to repatriate. With this, despite a year of earnings decline, we expect to return about $6.3 billion to shareholders this year, up from $5.6 billion in 2011.

Turning to the portfolio review, I am sure many of you focused on the lower left quadrant of the matrix that Indra showed you earlier and have questions about how we will scorecard that. For these businesses, we expect them to hold or grow share, begin to achieve profitable growth and

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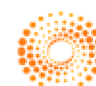

improve their ROICs within a 12 to 18 month timeframe. If they don't, we will seek structural solutions as an alternative, collaborations, JVs, re-franchisings or divestitures are all on the table, all would be objective to improve PepsiCo shareholder value creation.

Summarizing 2012, we are targeting EPS to decline by approximately 5% on a constant currency basis. Based on current market consensus ForEx, this is a 3 point headwind resulting in an 8% decline in EPS on a USD basis. As you model out the quarters, please keep in mind that commodity inflation is steepest in the first quarter and consequently, we anticipate first-quarter earnings to decline high single digits.

We expect CapEx to be approximately $3 billion, a 10% reduction for our 2011 CapEx level. Management operating cash flow is targeted at about $6 billion an amount similar to our 2011 management operating cash flow, despite an earnings decline in 2012. And we have plans in place to return over $6 billion to shareholders through dividends and share repurchases.

Long term, as many of the headwinds we were experiencing in 2012 moderate and as our A&M investments take hold, we anticipate returning to our long-term targets of 6% to 7% core constant currency growth and division operating profit, core constant currency EPS growth in the high single digits, CapEx investment of no more than 5% of net revenue, and core management operating cash flow growing in line with net income on a rolling three-year basis.

Now, let's turn to how we will measure progress on our performance scorecard. We will measure our performance along eight key metrics, four of which relate to what we do to deliver results and four of which reflect the results of what we do.

Let's talk about first about what we do or what I call or input metrics which include brand strength, execution, cost and CapEx efficiency and innovation.

For brand strength, we expect brand equity on our top 12 global brands to improve year-over-year. We expect A&M spend as a percentage of revenue to increase or stay flat after 2012. In terms of execution, we will track two key measures, inventory share and coincidence of purchase. These each have a strong correlation with sales growth and do so in a cost efficient manner.

Cost and CapEx efficiency are critical to our ability to deliver profit and returns to shareholders. We are confident that our productivity programs in both P&L and CapEx investments will enable us to deliver on these targets.

Last, we will measure the success of our innovation, defined as new product sales as a percent of total PepsiCo sales. While we expect the first three metrics to deliver in line with our long-term target in 2012, we are not counting on an increase in innovation as a percentage of sales in 2012.

For these metrics, we expect to share our performance with you on a semiannual basis and we expect to perform against these targets beginning in 2012.

Obviously, we will also measure our performance against key output metrics that are highly relevant to investors. The metrics are value share, EPS, ROIC and operating cash flow.

Our guidance and performance targets are consistent with these long-term targets and we will continue to report them to you as we currently do.

Because 2012 is a transition year, however, we expect to achieve only the value share targets in 2012. We believe that this scorecard is well-connected to both operating performance and shareholder value creation and will enable you to clearly understand our results.

With that, now I will turn the meeting back over to Indra.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Thank you, Hugh. Thanks to all of you for your attention this morning and before we open it up for questions, let me just recap the key points we would like you to take away this morning by returning to one of our earlier slides.

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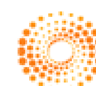
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We are excited about the initiatives we shared with you this morning and look forward to sharing with you our progress as the year progresses. As I said, as I close my talk this morning, you should expect to see the following -- a substantial increase in our brand's support and focus; improvement in our brand's health; delivery of significant incremental cost productivity; greater efficiency in capital spending; strong cash flow generation; and attractive cash returns to our shareholders through dividends and share repurchases.

Now, as I turn it over to you for Q&A, if I could just have John, Zein, Al, Saad join me here on the podium, and we will take questions from you and then we will toss it to our sector head so that they too can share their thoughts with you.

So, with that, it's over to you.

QUESTIONS AND ANSWERS

Indra Nooyi - *PepsiCo - Chairman and CEO*

Yes? Hang on. I think they're getting a mic there for you.

Unidentified Audience Member

Indra, how do you know this is enough? And I say that in the context particularly around the spend back. So $500 million, $600 million A&M only gets you kind of halfway to where you were at the beginning part of this decade, even if you pull out PB (inaudible). How do you know that is enough?

In particular, what does it tell us about the ROI of the overall business and the trend of the ROI of the overall business as you are spending more and more and more, you are doing more and more, but you are getting to the same number from a growth perspective. How should we feel about that?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Well, I will make a couple three comments and I'm going to toss it to Al to talk about how they are reorienting the advertising spending. Especially -- you focus more on North American beverages, right?

Let me start by saying to you that over the last five years, the A&M has not been cut. That is the interesting part of the whole North American beverage discussion. So the dollar amount has not been cut, the nonworking A&M squeezed out the working A&M, that is the big issue. What you see is measured media, we look at total A&M in the North American beverage business, nothing has changed.

The thing to be careful about, Gatorade, for example, the working media that you see, the ads are a very small portion of Gatorade. A lot of Gatorade is small. What they do with sideline presence and what they do with athletes and what they do to markets, the product to them. So you've got to look at the overall A&M bucket.

Over the last five years, the single biggest trend is that we had nonworking A&M squeeze out working A&M because inflation and contracts and we had too many agency relationships. And the second is that we supported too many brands. In North America because we are a total beverage Company with a large portfolio of noncarbon/carbonated brands we supported too many brands.

So the first thing we are doing is first focusing our efforts behind a few brands, and Al has got a list of brands he is really going to focus on and by shifting more nonworking to working A&M, what you are going to see is the 15% to 20% increase in visible dollars that we are talking about is going to feel like a hell of a lot more in North America. So that is the topline number.

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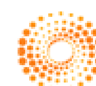

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But that is not enough. If you don't support the A&M with innovation and execution, you can talk about the brands all you want but you need new to drive incrementality so that is why we are going to focus a lot more on innovation.

And, Al, maybe you can talk about some of the innovations the second point, and execution on the ground is going to really go up as we start tailoring assortments by store, so we can actually get their incremental growth.

Lastly, on total growth, the marketplace in North American beverage business is only growing 1% in volume and in value maybe 3% to 4%. In the last four or five years, the new entrants and the pure plays have taken a lot of the growth. And the big two, 2.5, 3, have not really had as much of the growth as the pure plays. So we have to figure out how to be a pure play within our own Company. And it is not for having the innovation, we have had tons of innovation, we just kill it too fast.

And these new growth ventures that Al is setting up now, mainly what we have done at Frito-Lay, will allow us to incubate these new products so that it doesn't always have to be a 50 million, 100 million case innovation the first year; we can actually start smaller and build up the business.

So let me turn it to Al to give you his perspective. Al, it is all yours.

Al Carey - *PepsiCo - CEO, PepsiCo Americas Beverages*

Okay, Indra has mentioned already, too many -- spent the money on many brands, not the five core brands. So this coming year you will see on Pepsi, Mountain Dew, Gatorade, Tropicana and Lipton, substantial increases in it, not the usual just double-digit increases in these campaigns. And the campaigns are not going to be just increases in media/television. Also digital shows tremendous promise. I think not just digital but customer digital.

Some of our customers who are on the leading edge of digital show some remarkable new ideas that we could probably tie into and drive our business, much more directly and focused to those consumers. So if we are looking at selling Gatorade to athletes or families that have young athletes, we can get to these consumers much more directly by using let's say the Safeway card and the digital approaches that they use.

But let me go back on a couple of the key things that we're going to be working on at PepsiCo Beverages North America. I don't believe -- my observation is the businesses not broken. It needs to be -- I would describe it as a focus on the back to basics. That means investments, substantial investments in the top five brands. And then the other thing we need to do is significantly improve the innovation that we have going into the marketplace. Both on healthy and core.

So this year in 2012, you're going to see a substantial improvement in innovation, but the 2013 pipeline is the one that we really expect to see some really big gains, but this year as well. You will see things like this that I would call not giant innovation but we have worked with customers on this particular product right here. It is a 24-ounce can of Mountain Dew. Our initial test market we blew out every can that we made. And it appeals not only to Mountain Dew users but also to energy drink users who normally pay $2.99 for a can like this. This will be a lot less.

Then I would call it mid type of innovation like Pepsi Next, and Pepsi Next will have 60% less calories than a normal Pepsi and I would ask you to try some of it on your way out. I think you will find that it tastes exactly like a regular Pepsi. I am a regular Pepsi drinker and it really is the same. We have made substantial progress on that product.

And then, big innovation is all natural sweeteners, big breakthrough in fountain equipment and those things are towards the end of this year and really into 2013. We will have what I would call the proper investments against those brands.

One last thing I would mention. Putting a local structure in place that allows us to get the most out of these big national ideas but also to capitalize on these granular opportunities that exist in the marketplace. Today, I believe we've call to many of the plays out of the center, meaning in my group. We're going to have a structure that is announced very quickly here where we will have general managers in the marketplace that will have regional resources for marketing and will be able to work with our customers on things that are going on specifically in Los Angeles.

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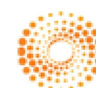

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I just don't think we are able to make these calls out of the center as good as the people who are down in the marketplace in the Californias and the Texases and in those kinds of markets.

Indra Nooyi - *PepsiCo - Chairman and CEO*

And let me just add one last point, as I said to you in the opening comments, this is the first time we are going to have global management of big brands. It might seem unusual to you but Pepsi was never managed as a global brand. It was managed in a much more fragmented way.

Brad Jakeman, who joined us six, nine months ago, is doing a fabulous job thinking about Pepsi as a global brand, and you will start seeing the results of the global brand work in summer of this year. So the leverage of all of this investment is what gives us confidence that at first step, whole share, start slowly moving this value share, tick it up. And then with the technology breakthrough, really start thinking about how to gain share.

But the real important thing in all of this is to play in this market in a responsible way. I think this category has been played in interesting ways by the competitors, too much pricing action or even when commodities have gone up, so it is very important that pricing is responsible and that is what we have been trying to do in the last six, nine months. Go ahead.

Unidentified Audience Member

Hi, a couple of questions. One is on China. It is such a strategically important market for long-term growth, and having met with Tingyi over the last couple of years a number of times, they have always said we don't think carbonated soft drinks are a good business in China. People like teas, people like this. So there was -- I don't know if they have changed their tune, but it scares me that that has been their attitude in the past.

So my question would be -- I see the short-term benefit of getting losses off the income statement from the re-franchising, but what are the measurements that you are putting in place to make sure that Tingyi doesn't do a blast it out, get all the volume benefit, but actually delivers over time in this critical market?

And then a question for John, just on the volume growth at Frito, which was the slowest it has been in the last, as I remember, the 1%. What do you think it looks like over time and why?

Indra Nooyi - *PepsiCo - Chairman and CEO*

So, Saad, do you want to take the Tingyi question because you meet with Chairman Wei on a regular basis and -- please?

Saad Abdul-Latif - *PepsiCo - CEO, PepsiCo Asia, Middle East, Africa*

Yes, no problem. We are extremely very pleased about (inaudible) approved by the Chinese government with Tingyi. You know, the CSD category in China has been growing, and in fact, in 2011, has grown faster than NCDs. And Tingyi in their portfolio, does not have that. So our alliance with them actually is complimentary.

It will give us access to wide areas where we don't have production facilities with them so we will have to run our CSD business there. It is an alliance between the number one ready to drink tea, the number one water, the number one cola and the number one flavors.

So I think now we accept and transform, if approved by the Chinese government, this alliance our beverage business on trajectory for growth for many, many years to come.

How are we going to measure the performance of Tingyi going forward? We have a joint plant with them, we operate as we operate with the franchise bottler. Every year, we step up the annual operating plan, we measure it quarterly, we adjust where we need to adjust and so forth. Most

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of our people running our business will be working with Tingyi on this, so there is no change. So we are not like giving our business with these people. Actually, we are moving a lot of our people in the operation with Tingyi.

The beauty about this alliance is we'll get access to distribution points, we'll get access to wide areas where we have never existed before. There was a structural disadvantage on operating plans. We had 22, coke had 34. With this now, probably we will be set for good -- for sustainable growth and once approved, we would be the number one, actually beverage Company with Tingyi overnight.

Indra Nooyi - *PepsiCo - Chairman and CEO*

You know, that is a great question and when we went into the alliance with Tingyi, we've all had a chance to meet with Chairman Wei, who we adore. All I will tell you is that was the thing we worried about the most, and what we have found that was refreshing was Chairman Wei actually -- I already told you -- but he sought us as much as we sought him. He wanted this business because he realized that this business had more price implementality than tea, where there is so much local competition. So this actually gives him some insulation.

PepsiCo also provides him a lot of best practice sharing from all of the stuff we do around the world, whether it is marketplace investment, how we grow the business, how we put in coolers, how we put in the route. There is a lot of sharing of knowledge and know-how. And he genuinely believes that carbonated soft drinks will actually grow as a percentage of sales in China. May not be to the US level, but it will grow, it is about 20% today. It will grow.

So this was a mutually sought-after marriage and we feel very good about the prospects for this business. So, with that, let me toss it to John to talk about --

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John Compton - *PepsiCo - CEO, PepsiCo Americas Foods & Global Snacks Group*

Two weeks ago I gave a big speech to an industry conference of the Food and Marketing Institute and I was challenging the group on how to rethink growth. Because if you look at all food and beverage in the fourth quarter of 2011, volume declined 1.5%. Revenues grew 5% but there was almost 7 points of pricing behind that 5% revenue growth.

So I look at Frito-Lay North America and say 1% volume growth in the quarter compared to everyone else declining 1.5% I think is pretty good and the algorithm for the quarter of a [1-7-10] I would say is world-class.

Ongoing, when -- we took, as you know, almost six points of pricing and drove 1% volume growth in that business. Ongoing, we have said for Frito-Lay is a low single digit volume growth company. We expect a positive spread between volume and revenue and a positive spread between revenue and profit and that is our expectation. We are very proud of Frito-Lay.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Judy?

Unidentified Audience Member

Thanks. Just in terms of commodities, the $1.5 billion step up in 2012, a little bit more color just in terms of maybe key inputs or by product categories where you are seeing the most pressure?

And then as related to that, the inflation impact for 2012 that you won't be able to cover price with pricing just seems a little bit larger. So is it really a consumer issue? Is there an element of brand equity issue that you are really trying to address here? And then how much is also driven by perhaps maybe your hedge position being a little bit of a disadvantage versus your competitors?

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Indra Nooyi - *PepsiCo - Chairman and CEO*

Hugh, go ahead.

Hugh Johnston - *PepsiCo - CFO*

Sure. So in terms of the key commodities, obviously we tend not to talk about specific commodity pricing for obvious reasons. That is information we would rather not share with competitors. What I would say to you though, Judy, is it is very much driven by the lagging effect of the timing of purchases. We do think based on the pricing that we have and we obviously have knowledge of what the marketplace prices are, with one or two notable exceptions, the pricing that we are paying is better than what is in the market or equal to what is in the market right now.

Relative to competition hedging strategies, that is hard for me to speculate on. Obviously, it is just difficult to say what competition is doing. We have seen, obviously, a number of CPGs come out and start to share guidance and I think we have seen people talk about anything from low to mid single digits. Obviously, the number that we shared is a notch above that.

I guess generally speaking, the more you are exposed to Agro, you probably have a bit more commodity inflation as opposed to being exposed more to energy, so the food and beverage company is probably a little bit higher than the HPCs. And the longer you tend to hedge and we have been pretty open about the fact that we tend to work about nine months out, the more the effect will hit in 2012.

Indra Nooyi - *PepsiCo - Chairman and CEO*

So in terms of pricing, behind the brands, we actually lead pricing in many parts of even North America. None of our snack businesses are an issue. But in beverages, we have been trying to take pricing up. It is a very competitive market out there, and if the marketplace behaves in a sensible way based on commodities, I think the pricing will go up. This has nothing to do with our brands.

One example I will give you is in the cold channel, and Al, you can talk about it, we have taken pricing up and it stuck and our cold channel volume is up significantly.

Al Carey - *PepsiCo - CEO, PepsiCo Americas Beverages*

Yes, our cold channel business right now for probably the last 12 weeks is very solid and a good indicator of the brand strength as we put some programs in place on Mountain Dew and Pepsi. But the pricing in the marketplace even on large format is rational right now, which is a good thing for all of us.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Let me take a question here and then come there.

Unidentified Audience Member

Indra, can you talk about why you have a line of sight now and it's the right time to reset? So why do you have it now? Why didn't you have it three years ago? Is it due to the macro or can you just explain that a little further and then I have a follow-up.

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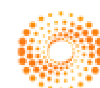

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Indra Nooyi - *PepsiCo - Chairman and CEO*

Good question, and I tell you, 2007 -- 2008, many of the -- typically when you see us come we just like to sort of throw everything into the kitchen sink and reset. Looking at the portfolio and saying you can reset all you want but developed markets are getting a little soft. Don't have much emerging and developing markets in my portfolio. And sometimes when you have a problem in the portfolio overall, you take a gigantic reset. The issues that I was facing at that time required transformation which was going to take several years.

I will be honest with you, had we not had this macroeconomic meltdown and this commodity cost volatility, this whole reset would have happened earlier and the transformation could have happened earlier. The problem is we faced the worst crisis and we had to reset in the middle of this crisis.

The other problem was, anytime we wanted to reset your North American beverages, there was this giant sucking sound where the bottling system took out all of the extra funding and demanded bottler funding. Okay? So we had to address that structural problem we had with the bottling system so that we didn't have two companies fighting over shrinking profit or a flat profit pool. So I had to wait for the bottling system integration to happen.

And so finished the bottling system integration in 2010. In 2011, brought the management of all of it under one person, Al Carey, and said okay, now is the time to go off and make the reset happen because now we know that every dollar of shareholders' money we put behind the reset will actually yield results as opposed to you put the money in here, as I said, every CEO gets an opportunity once in a decade to make a reset.

You know, it is like running a car race, you have got to take a pit stop at some point. And you don't get too many chances to take a pit stop, and then still win the race. We want to win the race, so this was the pit stop and we had to pick it very strategically. So, that is what you get. Thought through about it every year, will be honest with you.

Unidentified Audience Member

Got you. Then if you can talk about volume (inaudible) this year and maybe the long term because I don't think it was mentioned in any of the slides.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Revenue is up mid single digits this year, too.

Hugh Johnston - *PepsiCo - CFO*

Yes, we said that mid single on revenue.

Unidentified Audience Member

Okay, and then no volume?

Hugh Johnston - *PepsiCo - CFO*

Revenue is probably the more relevant thing at this point.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Because of the pricing, yes. Can I take a question and then come to you? Question there, please.

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Unidentified Audience Member

Yes, Indra, two questions. One on North America Beverages. You talked about the opportunity through structural chains to jump shift ROIC. Could you elaborate on that comment? Are you rethinking about how you are thinking about wholly owning the bottling assets for the long-term? What did you mean by that comment, that is question one.

And then question two, is as you think about the larger organization, the whole of PepsiCo, and as the Chairman of the Company and its CEO, how do you think about A, kind of internal versus external candidates for key leadership roles? And B, how are you thinking about those two roles being occupied by one person?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Let me ask Hugh first on the structural issue.

Hugh Johnston - *PepsiCo - CFO*

Sure, well, as we laid out in the scorecard, I think we are open about how we are going to look at the business. Regarding alternatives to increase returns, first of all, from an operating perspective we are obviously going to be looking at capital investments with extreme scrutiny when the business is challenged from a growth perspective. Working capital the same. We do think that there are lots of opportunities to manage inventory more tightly, and as Indra said, to reduce days both on the payables and -- or on the receivable side increase on the payable side.

From a structural alternative perspective, I think it is fair to say that there is a variety of items on the table and we are going to look at each of the options and determine what makes sense if we don't see internal operating performance of the business and the returns of the business improve over time. That can be anything from collaborations right through to all variety of other options as well.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Let me talk to you about organization. We do a great job developing our internal talent for succession at the senior most level. You see an outstanding group of leaders here who have all grown up in the PepsiCo system doing an outstanding job. But I think the mark of a good company is to be able to bring in external talent when needed at the right level, whatever the level of the Company is. If the belief of the leadership of the Company is that this external talent will significantly improve the thinking of the Company and help us position ourselves to perform in a new and changing environment, I think all of us are in an extraordinary period of change. Many of the skills we had over -- that we have learned over the last 10 or 15 years don't apply in the future, so very often you have to buy some of this talent to just improve the overall knowledge base in the Company.

I mean, I will give you an example, Enderson Guimaraes -- where are you, Enderson? Enderson came to us from Electrolux. And he was running a big piece of Electrolux, now is running global operations for PepsiCo. The thinking that Enderson brings to us challenges the way we do things in PepsiCo, which is great, because it makes us all a better company, a better group of leaders.

So I think any good company, the mark of a great company is to be willing, to be open to bringing in external talent where needed, assimilating them, learning from them and then getting better as an overall company.

And the last thing on the Chairman and CEO role, look, I have been Chairman and CEO, and I have seen the benefit of being both the Chairman and CEO, being able to manage the Board external constituencies and be able to run the Company.

If you have a Chairman and CEO that runs a very flat organization, 20 reports and they are not of the caliber of being Chairman and CEO themselves, then you have a problem. I have the unusual benefit of having full sector heads groups, each of them can be Chairman and CEO in their own right and a phenomenal CFO.

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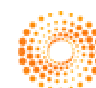

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So I look at my team and say, you know, I work for them, they are all Chairmen and CEOs in their own way, and so I think in PepsiCo this role (inaudible) actually works. Here. I promised to come here, yes, right here in the first row.

Unidentified Audience Member

Indra, can you discuss your level of confidence that you will get returns behind this marketing spending in beverages? Also, as we look at 2013 and 2014, I am assuming that your EPS growth will be in line with your long-term goals. Why would that be if you are getting return on the marketing investment in 2012 that is depressing the earnings base and you have also got incremental cost cutting in those years?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Your question is why isn't it higher in 2013?

Unidentified Audience Member

Yes.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Well, you know, look, what we have given you is a long-term algorithm. It's at high single digits. We have come to the 2013 guidance as we get to the early part of 2013. Let's see what the environment is like, what all of the cost situation looks like. Why do we believe that we will get a return on investment?

I'm going to use Pepsi Max as an example. We invested heavily behind Pepsi Max in the restaging of Pepsi Max last year and this year. Pepsi Max is up more than 50% in volume between last year and this year. Now, it is off small base but it's up 50% and it's almost one share of the carbonated soft drink business.

So, you can't run 20 brands and try to invest behind all of them and expect them to cut through the clutter but if you take a focused group of brands that actually belong in different aisles in the store. Look at the brands that Al talked about, you've got Pepsi, Dew, in the CSD aisle. You have got Gatorade in the sports aisle; you have got Tropicana sitting in the refrigerated aisle.

If you invest behind each of these, sitting in different parts of the store and (technical difficulty) appropriate media rates, our testing shows that you can actually get growth in each of these brands. That is the model we have been using. We have tested that, and we believe we will get a return on them.

I'll have to go to a question. Go ahead.

Unidentified Audience Member

Two questions. One, just implied in your long-term model is there an expectation that gross margins will expand over time, or is all of the leverage going to be below the gross profit line?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Hugh?

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Hugh Johnston - *PepsiCo - CFO*

To be perfectly candid, a little tough to say given commodities have been so volatile. We will clearly see margins below the line improve or the impact of lower cost below the line. MVA, which is the non-commodity portion of cost of goods sold, we clearly expect to see productivity there. How commodities shake out and how that balances out to me is very much an open question. Under normal circumstances, yes, I would expect to see gross margin improvement as well, but --.

Unidentified Audience Member

So you would expect to be able to start to or be able over time to cover some level of commodity inflation with pricing, I guess is my -- if this Company lost pricing power is what I am asking.

Hugh Johnston - *PepsiCo - CFO*

Yes, the way I think about it is -- when I think about commodities, I tend to think about the longer-term growing roughly in line with global GDP, and so somewhere in the 3%, 3.5% range. And at that level, certainly we would expect to be able to price to cover. What happens in any individual year, tough to ascertain further out than a few months before the year begins.

Indra Nooyi - *PepsiCo - Chairman and CEO*

The thing to be careful about, just to stay on pricing, be careful about assuming that the brands don't have pricing power. I will tell you why, because this is a tough economy. It is not that the brands don't have pricing power; consumers don't have the buying power. If you had a normal year, we would be looking at a very different dynamic.

In countries where consumers have buying power, the emerging markets of AMEA, Asia and Middle East, we have been able to price, we are getting the value -- the volume growth and the value growth, not an issue.

The last thing I'll tell you is our gross margins as the mix of countries changes, and as we get more growth in emerging and developing markets, which is what all of us should want, because that drives long-term growth, sometimes the gross margin picture starts looking muddy, because in those markets we are still in the early stages so the gross margin is a little bit lower and then they ramp up.

So when you have a large company and you are looking at a combination of different businesses, categories, countries with different dynamics and a combination of franchise and operating business, there is not a linear relationship on the gross margin, so it requires explanation and we will provide it to you in our quarterly calls.

Unidentified Audience Member

Thank you.

Indra Nooyi - *PepsiCo - Chairman and CEO*

I'll take a question this side. Is there a question this side? No go ahead. And I will come back to this side.

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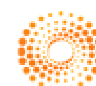

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Unidentified Audience Member

Hugh, thank you so much for your commentary around balancing your leverage increase and tuck-in acquisitions. If I could just dig into that a little bit, when you look at your short-term borrowings and your access to commercial paper, do you see a need to maintain Tier 1 CP access or could you look for increased balance sheet flexibility by moving towards Tier 2?

Hugh Johnston - *PepsiCo - CFO*

It is a good question. At this point in terms of commenting on specific ratings it would probably be inappropriate for me to do that right now. We have shared with you what our plans are and what our leverage roughly looks like. Beyond that, I would probably rather not get into it. I wouldn't necessarily take anything off the table though.

Unidentified Audience Member

Okay, thank you.

Indra Nooyi - *PepsiCo - Chairman and CEO*

A question there. One back there and then you, John.

Unidentified Audience Member

Yes, I just wanted to ask you -- you have an increased budget for advertising. Just wanted to know which sectors are you targeting? Are you moving more or less towards the Internet, or print or TV? And also, do you have any hand in the Olympics with your Gatorade drinks and so forth? Thank you.

Indra Nooyi - *PepsiCo - Chairman and CEO*

I mean the advertising spending is broad-based. As Al mentioned, it is a 360 degree activation, so each of those elements you talked about will get an increase in advertising spending.

And, no, we are not in the Olympics. We were the proud sponsors of the NFL and the outstanding Super Bowl we just witnessed, where we had phenomenal results with our advertising campaign. And that is what we are doing.

Al Carey - *PepsiCo - CEO, PepsiCo Americas Beverages*

And I would say, we are not in the Olympics, but we have three substantial campaigns this summer, one on Gatorade, one on Pepsi and Mountain Dew.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Yes, John?

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Unidentified Audience Member

Thanks, so you talked about -- one of the targets that you are going to keep for 2012, you had those targets and you talked about the bottom of the page, one of them was value share growth. So going back to Dara's question, I guess, historically, advertising takes a little time to seed and so can you talk about what you see as the key drivers of those values -- of that value share growth?

So advertising takes a little time to seed, the innovation is a little back-end loaded. Taking less price relative to raw material inflation sounds like we could actually see price gaps widening from that standpoint. So how much of that short-term value share growth do you think comes from potentially widening of price point gaps? Thanks.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Hugh?

Hugh Johnston - *PepsiCo - CFO*

John, from that standpoint, we -- and let me focus more on North America because that is sort of the more logical area of emphasis. We really did get our pricing in place in the fourth quarter, particularly in the beverage business, and we are comfortable with where we are right now and I think we would expect to see that stay roughly where it is right now.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Any other question on this side? Yes, go ahead. Damian?

Unidentified Audience Member

Indra, just a two-part question on -- just give us your global perspective in terms of -- what is happening around the globe currently? What do you think about each market in terms of -- is it getting better or worse? And then I don't know if I missed it but if I look at your goal for fun -- good for you, the $30 billion by 2020, is that still a target? And since you sort of said no big acquisitions, do you think you can still get there with organic or mostly organic growth?

Indra Nooyi - *PepsiCo - Chairman and CEO*

I'm going to answer that question, and then what I am going to do, Damian, is give you a gift. I am going to have Saad, Zein talk about their regions and then I'm going to have John and Al talk about Latin America because they also cover Latin America.

Currently, good for you portfolio is about $14 billion in PepsiCo. That market category is growing between 8% and 9% globally. If we just keep growing at that rate between now and 2020, we will be a $30 billion business. So we don't need any extraordinary intervention to grow that business. What we need to do is to invests to grow those markets we are in and grow into new markets with just our Quaker, Tropicana, Gatorade, and where appropriate, our Naked Juice brands. So we are not looking at any dramatic expansion through acquisitions at this point.

So let me turn -- Zein, let me turn it to you to talk about what you are seeing in Europe, especially Western Europe, Eastern Europe, Southern. Give us your perspective.

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Zein Abdalla - *PepsiCo - CEO, PepsiCo Europe*

Yes, well, I mean, clearly you all read the news, Europe is going through a lot of challenges, and you almost see either issues unfold by the week are some issues just repeat, repeat by the week.

One of the, I think, wonderful things about our business in Europe is it is very finely balanced between the East and the West. We are pretty evenly split between the emerging markets of Europe and the developed markets of Europe. And what that tends to do for us is in good times allows us to accelerate growth and move ahead of the pack. And obviously in more challenging times in the developed markets tend to be more stable, it allows us to hedge against the challenges. So even in a very difficult year like 2011, we still delivered very solid topline growth.

I would say looking back to 2011 obviously the developed markets are more stable and perform better. Russia had a particular challenge. You will have heard that from many food and beverage companies from many FMCG companies. Not so much driven by their economy where they actually had good GDP growth, but much more driven by the excessive inflation in the country because they suffered both from the global inflation, but also particularly in Russia, a very severe crop shortage in 2010 as a result of the very hot summer that played out into basic commodities, hurt consumers really in terms of their basic purchases. And you saw a decline in disposable incomes.

Now, we do see that normalizing in Russia and we do see the market coming back and we will see a stronger performance in Russia in 2012. Now again having said that, we are very pleased with the topline performance of our business in Russia going double digits in 2011.

And again, the wonderful hedging of that business across the multiple categories in which we compete. You know, following the Wimm-Bill-Dann acquisition and the integration, we are nearly 12 months into that now, and the integration of it into our business, I can tell you we have gone in 12 months from essentially serving consumers between about 12 o'clock midday through to about six o'clock in the evening. And now are serving them from the moment they wake up to actually the moment before they go to sleep. The traditional drink in Russia before you go to bed is a glass of kefir which is a fermented yogurt drink. It is a digestive, it helps you sleep and that is actually one of the fastest-growing beverage categories.

When you talk about snacking, and we all tend to think about, you know, nutrition versus fun for you. Well, one of the fastest-growing snacking areas in many of these emerging markets is as the meals deconstruct, and as people move from formal breakfast at home before they leave home to needing that midmorning snack or that second breakfast, again products like value added dairy play very, very strongly in that segment.

So, yes, a challenging macroeconomic picture in Europe, challenging consumer picture but you know, we have always I think said to you that the good news is people have to eat and drink. The really good news is we have a balanced portfolio both geographically and in terms of the categories and the consumer needs and occasions that we service.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Saad?

Saad Abdul-Latif - *PepsiCo - CEO, PepsiCo Asia, Middle East, Africa*

Yes, well, (inaudible) territories, as you know, and they have three-quarters of the world's population and --

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Indra Nooyi - *PepsiCo - Chairman and CEO*

We want three-quarters of the profits of the Company (inaudible) -- (laughter)

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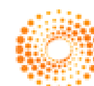

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Saad Abdul-Latif - *PepsiCo - CEO, PepsiCo Asia, Middle East, Africa*

We are working towards that. You know, I will tell you, we hold growth for PepsiCo (inaudible). You know, first of all, the economies are growing. We are in China and India, they are growing at high single digit GDP. The population (inaudible) and the per capita consumption of both snacks and beverages is a fraction of the developed world. So we have a huge way to grow both businesses and we are poised to capture that growth.

We have outstanding businesses in beverages and in snacks and I will just tour around the area with you, area by area. So if we take the Middle East, we are the overwhelming choice of consumers there in beverages, and in snacks. What has been happening lately in the Middle East, while it will set us back a little bit, for a year or two, however, for the long term, it is great because it will bring a lot of transparency and governance and it will bring a lot of employment (inaudible) to all our businesses. And we are very well positioned to capture that growth.

India has been great. We have fantastic businesses in beverages and snacks, in fact, in 2011, we outgrew our competitor by 6, 7 factor points in LRB. Our snacks business is -- costs 100,000 tons and doing great, and we are capturing all the growth of the GDP.

You know, it slowed a little bit down, but not to the level that really worried us. There is a lot of consumers coming in with purchasing power into that, as in China.

In China, our snacks business is doing great. We are growing in high, high teens and in the beverages, when the government approves, the alliance with Tingyi, we have really set our beverage business on a sustainable growth path.

As I said earlier, we are aligned with the number one tea and the number one water. We are the number one cola and the number one flavors. So coming together, we put that business on a trajectory to grow [itself].

And with snacks, it is a very fragmented market, and you know we are very well poised with the capability of people that we have there to grow.

Asia Pacific is a mixture of countries there we have developed such as Australia, like other developed worlds, there have been some challenges there but we are managing these challenges and actually we are growing on the snacks business. And we have a lot of emerging markets that we are doing extremely well, such as Vietnam, where actually we are the choice of consumers there for both snacks and beverages.

Pakistan, which is part of Asia Pacific, is also growing. So overall, we have great businesses in food and beverages. The economies are growing. The population is young, and we are very well poised to capture that growth for the future.

Indra Nooyi - *PepsiCo - Chairman and CEO*

John, can you talk about Latin America, but stay with the macroeconomic --

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John Compton - *PepsiCo - CEO, PepsiCo Americas Foods & Global Snacks Group*

Yes, Latin America, remains 3% to 4% GDP growth. Obviously, that is driven by Mexico and Brazil. Mexico for the year was around 3%. Brazil slowed some but I think as you look forward, you have got to believe that that economy is going to continue to grow, 4%, 5%, maybe 6% going forward with the Olympics and the World Cup coming there. And our business collectively grew volume about 5% during the year, so strong.

And in Brazil, our snack business was up 8% and I think it is, to Indra's point about the synergies of the two, it is one of our best markets with the power of one where we leveraged the Frito-Lay system to distribute many of the beverage brands. So very optimistic about Latin America.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Yes?

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Unidentified Audience Member

Thanks for allowing me to ask a question. Indra, two questions. One, I didn't hear a lot about mix on a consolidated basis. I think you touched on the fact that emerging markets are a negative to mix, but if you are no longer doing as much M&A, I would assume that is no longer going to be as much of a drag and if you are focusing on the top 12 global brands, I assume they typically have a higher than average mix benefit. So maybe you could touch on those and then I will follow up

Indra Nooyi - *PepsiCo - Chairman and CEO*

Yes, mix, I think, our expectation again depends on how the economies evolve, but right now in emerging markets -- emerging and developing markets -- about 35% of the revenue of PepsiCo, we think it will get to 50% by the end of the decade. Okay? That is the range.

It takes that long only because our developed market business is also growing. Okay? So that is how we think it will evolve. The good news is in emerging and developing markets, once they get to a certain scale, their margins escalate quite fast.

The best example is Sabritas in Mexico. It is a developing market but if you look at the margins we get in our Sabritas business, it is very attractive. And so because we have scale, we have the largest salty snack player there. So I think there are a couple of dynamics.

One, we will keep moving the emerging and developing markets up, get it to half and half. They should be even more skewed to emerging and developing markets based on the world population. But let's start with 50-50, and then, hopefully sometime around 2015, the profit acceleration from emerging markets will start picking up even more, because the investments to build scale now are returns from the scale investments. So I hope that change will happen.

Unidentified Audience Member

And then in looking at that four quad grid that you put up, so basically in the top left quadrant, it was 74% of the business. And the other 26% had issues one way or the other. And I kind of wanted to think about that -- how should we think about that relative to the power of one? Because it seemed like the top left quadrant was what really benefited from power of one.

For as the others were more difficult to kind of see where the benefit comes in there, and then to the extent that you get a 1% lift from the power of one quantified I guess is like $120 million in sales. I mean you are talking relative to a business that has got $60 billion, $70 billion of sales. So how is that incremental?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Having the power of one increment, you are talking about in North America, right? That number was a North American coincidence number, increasing about 1%. Believe me, our normal businesses grow, Frito-Lay grows, North American Beverage grows. Over and above that if we can get an additional $120 million sales, two or three points from that in North America, that is a bonanza. To get $300 million, $400 million from an over-the-top co-merchandising activity, co-promotion activity is gigantic for an overall food and beverage business, a market that is not growing as robustly as it used to grow.

I would look at the portfolio differently. Actually, when putting it together looked at it very carefully. The businesses on the lower left quadrant, some of the emerging markets snack businesses, they are only there because we don't have the scale as yet. They are going to use the beverage business to plus up their scale, they will quickly move into the top left quadrant. Okay?

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But we need to make sure that we manage that business to drive the growth, make sure that we leverage the beverage business to drive the growth, get the right people in and we have to do that, that is why we put it there, honestly. Some of the emerging market beverage business, we have done the (inaudible). We have looked at each of these businesses and said do we have an operational line of sight to get to the top quadrant?

Or do we have to consider a structural option that is refranchising into a well-capitalized bottler and who has a reason to refranchise? And let me speak to that a little bit. In the past, one of the mistakes we made as a Company, I will go back -- when we gave Mexico, Russia to PBG, all right, we gave it to them because we felt they needed a growth market.

Well one of the big lessons, Eric, was that you give a growth market which is not the whole market to a bottler only if you have reason to combine it with something else they have and get scale. You just don't throw a growth market to them and that is why the whole international experiment with PBG wasn't widely successful.

So when we think about refranchising some of these emerging market beverage businesses, we have to find a bottler who has other businesses so they can leverage the scale, like Ambev in Brazil was a great example. And we have partners like that in Asia Pacific. I look at our Japanese bottlers who are absolutely terrific bottlers taking them to other parts of Asia Pacific. I think there are lots of opportunities there to think about how to move emerging market beverage businesses to the top box.

The biggest elephant there is North American DSD in that bottom box. If commodity inflation wasn't prevalent, we wouldn't have put it in that bottom box because margins in that business normally are in their teens, shouldn't have been a problem at all. And then we bought the bottlers back and we were thrilled at the synergies and what we can do.

What we need to navigate through now is how do you manage a beverage business which is not growing too much with a lot of commodity inflation? How do you reset that whole business? If you can't reset it through a technology breakthrough, through a different way of operating it, through innovation, through brand building, then you have to think about structural options, and that is what we are going through.

So what I would suggest is to focus on the percentage of profitability from North American DSD beverages that belongs in that box. The rest of it will take care of itself because of the growth and the way we are managing it today.

Caroline, I think we have to shut it down, but one last question. Go ahead.

Unidentified Audience Member

Thank you so much. This is for Al.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Make it a good one.

Unidentified Audience Member

It will be -- a good two for Al, or maybe both for Al. On feet on the street, you've got a lot of layoffs coming. How do you feel about the capability of the Pepsi system right now? Do you need more people rather than less?

The other is, do you think you should be doing more targeted Hispanic marketing given the growth rate in consumption of beverages by that consumer group?

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Al Carey - *PepsiCo - CEO, PepsiCo Americas Beverages*

Those are good questions. Let me just say with the layoffs that will occur at Pepsi North America, very few will be at the front line, most will be focused on middle and above management. So I am not worried about feet on the street. But as time goes on, there are a few gaps in service and those are being taken care of I believe in customer service just like at the Frito-Lay system, so I feel very good where we are there.

On the Hispanic opportunity, I think probably more than 60% of the growth in the category is going to come from the Hispanic consumer and I have seen some estimates that are quite a bit higher than that and this whole local campaign that we are putting together in our local region markets, very focused on that, as opportunities come up in the Texas, Florida, California market. And actually that opportunity is becoming bigger in almost every city, not just in those Southwest cities that we typically talk about.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Thank you, Caroline. So let me just close by saying thank you again to all of you for coming to our meeting this morning and thank you for your attention over the past couple of hours. We look forward to seeing a lot of you over the next few weeks and certainly reconnecting with all of you at CAGNY later this month.

But as you leave, I just want you to take a picture of PepsiCo back with you; $66 billion in revenue, 16% operating margin, 17% net return on invested capital, 31% return on equity, a prolific cash generator and a Company with 22 brands, each one generating over $1 billion in retail sales. And a Company with terrific people and great growth prospects.

So with that, thank you for your time and hope to reconnect with you soon. Thank you.

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