

FINAL TRANSCRIPT

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PRESENTATION

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thanks, everybody. Our next company is perhaps the company that (technical difficulty) and the CEO of PepsiCo Europe, Mr. Zein Abdalla, to tell you a little bit more about PepsiCo's growth in 2010 and beyond.

Zein Abdalla - *PepsiCo - CEO, PepsiCo Europe*

Thank you very much, John, and good morning, everybody. It really is a pleasure to be here and I thank you for giving me the opportunity of talking to you about our European food and beverage business.

With me today I have Richard Goodman, the CFO of PepsiCo, and Lynn Tyson, our Head of Investor Relations. The three of us will be very happy to take your questions and answer them after my presentation.

I will also say that this presentation and a transcript will be posted on our website at PepsiCo.com/investors. In keeping with Indra's invitation on our earnings release call last week, I would also like to extend an invitation to you all to join us at our investor meeting at the end of March, 22nd and 23rd of March, which will be held in New York City at Yankee Stadium.

Now during today's presentation, unless otherwise noted, all of the division net revenue growth and division operating profit growth numbers I will refer to will be on a constant currency basis. You can also get more information from our Q4 earnings release of last week.

Now let me just pause here a moment and allow you to take note of our cautionary statement.

Okay. Now what I would like to do is start off by giving you an overview of Europe, a business that I have personally been involved with for all of the last decade. Now at this point it really is a privilege to me to have led it for the last few years. And it really is a privilege because very few European food and beverage CEOs get to stand up and tell a growth story, but that is exactly how PepsiCo looks at its business in Europe.

The way that I want to cover that for you is to kick off by talking about the European potential from our category point of view, but then to dial in and talk a lot more about our focused growth priority categories -- our snack business across Europe, the juice business that we are building, and emerging category for us in tea.

And then to pull it all together with a description of what is one of the most unique and differentiating levers for us, which is how we leverage those categories through a Power of One combination to bring accelerated growth in emerging markets. I will bring that to live through a showcase of our business in Russia.



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But now no good international presentation starts without a map. It's a pretty important thing to do because everybody, and literally everybody, has a different definition of Europe. Is the UK in or out? That little body of water, the Channel, that has got a lot to be forgiven for.

But which ever way you define Europe -- and our definition spans from the UK in the west to the very eastern point of Russia, that is well in excess of 10 time zones, from Scandinavia in the north to Spain and Turkey in the South -- it's a considerable and diverse geography. Diverse in every sense of the word.

Diverse from an ethnicity point of view, religion, language, culture, tradition. In terms of the trade structure and how it's made up, organized trade in the developed markets of the West and there is very fragmented retail trade in the emerging markets of the East. So there is very diverse geography but a very large scale geography from an economic point of view.

If you add the European Union economy to the emerging market economies, this is a scale economy. And equally it's a scale consumer opportunity with just shy of 900 million consumers.

But if you wanted to simplify it and the way we look at it, you would segment it into two. You would talk about the developed markets of Western Europe which characterized from our business are all about organized trade, concentrated trade, high GDP, high disposable incomes but lower growth rates, through to the emerging markets; the second definition of Europe, the emerging Europe. Higher growth rates with a lower GDP but a fragmented retail systems.

So two Europes. And in that two European world and over the last handful of years we have built a scaled and powerful business, and we have done that with very, very strong growth. Strong growth both organically, playing to the emerging markets of Europe, but also through acquisitions. Acquisitions that have stretched from tuck-in acquisitions like Marbo in Serbia to fill that white space on our snack food business.

But also transformational acquisitions with Lebedyanky, one of the world's top 10 juice businesses in -- one of the top 10 juice businesses in the world, an acquisition we made in Russia to complement our powerful beverage and snack portfolios.

And as well as driving very strong growth and building a scaled business, one of the top handful of food and beverage businesses across those five years, we have also created a powerful portfolio from a balance point view. Good exposure to the faster growth markets of Eastern Europe and the emerging European businesses with nearly a third now of our business coming from emerging European markets.

And also very powerful portfolio from its balance between snack and beverages, and within beverages we have built the largest juice business. So scaled but also very well-poised from a portfolio and balance point of view.

It's also food and beverage business that is made up of very strong positions within each of the categories in which it competes. And within those categories very powerful trademarks, very powerful brands. Not always the case in food and beverages but a unique part of the PepsiCo businesses in Europe.

What that has allowed us to do is to not just grow strongly across the last five years, but even in a tough macroeconomic environment, one of the most challenging macroeconomic environments since the '30s in Europe, we have not only outperformed our peer group but performed very strong both top- and bottom-line results.

Here, again, the balance of that portfolio, the more stable businesses of Western Europe now really able to give our business stability and carry us through this volatile time whilst continuing to drive growth.

We have done it really by focusing on four key levers. The first is in a tough economic environment the consumer is going to look for value. The worst thing you can do is to chase that value down just in simple price promotion, but what you can do is



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to reward the consumer with differentiated value that plays to your brand equities. It allows you to deliver value in new and different ways.

Do Us a Flavor in the UK is a new way of engaging consumers and I will talk more about that later. With free airtime promotions in Turkey, airtime on mobile phones is a tremendous currency for the youth in an emerging market. Nokia phone promotions on Pepsi in Western Europe.

In a number of markets we replaced our classic sort of in-bag promotions where we would have in-bag value premiums with straightforward money in bag. When the consumer is telling us what they really want right now is money in the pocket, we gave them money in the bag. So a very strong set of differentiated consumer value propositions.

The second big driver for us has been disciplined revenue management. And there it really has been all about reengineering our package lineup to tap into the right price points, the right pack sizes for the right occasions. Making sure that we hit powerful out-of-pocket price points and differentiating between what we need to do for take-home propositions in terms of either multi-packs or take-home multi-serves, as well as out of home experiences through our single-serve.

The third driver for us has been transformational productivity and it really has spanned the full spectrum. It has been the classic belt tightening type of cost discipline that we have seen across every single one of our 28,000 employees across Europe through to transformational type productivity where we have had our employees literally change their tires as they were driving the car, reengineer whole business models as we have seen throughout our businesses in Eastern Europe, to restructure them, grow their gross margins in very tough economic environments where ForEx and procurement-driven ForEx cost inflation has challenged the businesses.

The fourth very important driver for us has been an incredibly disciplined approach on cash management. Again, in a very tough macroeconomic environment where us and the whole value chain, especially through the distribution system, are finding it hard to finance their businesses. Distributors, especially in Eastern European markets, where high interest costs have made it very difficult for them to finance their businesses. Every single one of our 28,000 employees has stayed very disciplined on how you manage in that environment.

It's very easy to chase false volume by giving extended credit terms, but what you need to do is stay very disciplined in terms of the days receivable in the marketplace. And that has allowed us to grow our business very profitably and deliver against our cash goals.

And through all of that one of the things that I am proudest about across our employees is we have not missed a single beat on building the sustainability of our business by enhancing the purpose agenda. Really the performance with purpose agenda or the purpose agenda for PepsiCo across all three planks. We have continued to work on transforming our portfolio, renovating the core, and building extensions into healthier propositions.

On the environment we are well on track to hitting our 2015 goals in terms of water and energy reductions. And we have made enormous strides in reducing the amount of waste that comes out of our plant with many of our scale plants now across the UK actually sending zero waste to landfill.

Then the third dimension, talent sustainability. Again in a tough macroeconomic environment it is incredibly important that you stay engaged with your employees and you move your talent agenda forward. For us diversity and inclusion are a very important driver in that geographic region. We have continued to grow the representation of the variety of nationalities across our business and to drive gender representation in our businesses.

But equally we have continued to build very strong organizational health. We survey that every couple of years. And again in a very tough environment where we were asking people to do more for less we actually saw our organizational health engagement scores improved substantially.



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I guess one of the real differentiating factors across Europe is the talent and depth of our team. This is the leadership team that I am blessed to have. Every single one of them with double-digit years experience in PepsiCo. There are eight nationalities represented on this chart representing again the breadth of Europe.

The majority of these executives now have dual experience. They have deep experience in both snacks and beverages and that is a very powerful attribute for us going forward. So we have built a scaled business and a business that is robust in challenging times and can drive explosive growth in good times.

Let me now turn to the growth potential and what is ahead of us in the years to come. Let me start by mentioning it for both snacks and beverages. We are the largest savory snack company in Europe and we have done that by building our core propositions in the core sector, the left-hand side of that chart. But whichever way you look at it this is far, far from a mature business.

Per capita consumptions significantly lag the scale markets like the USA. Even Western Europe is behind the USA in terms of per capita consumption and Eastern Europe is well behind, so there is enormous opportunity to grow the per capita consumption.

And then when you look across adjacent categories, our ability to expand out of our heartland, our core base, again is substantial as we look at all of that white space as we broaden out the usage occasions and the target groups that we can go to with our snack businesses. So enormous opportunity across our snack food business.

We have got equally significant opportunity on beverages. Per capita consumption again lags, especially in Eastern Europe, and that plays out and you see much higher growth rates between beverages in Eastern Europe than you do in the West. Equally, as health and wellness trends kick in, you see faster growth between non-carbonated beverages and CSD. And within CSD over time you see higher growth between no sugar, 0 calorie products and full sugar.

Our portfolio plays very well against that in terms of how it is focused. In particular I would highlight on CSD. For some time now we have focused all of our efforts in Western Europe against no sugar, against no sugar propositions. And the UK is a great example of that where despite a slowing and tough macroeconomic challenges we have managed to grow our CSD business in the high single digit and we have managed to grow Pepsi Max high, high double-digit.

The bottling acquisition of PBG and PAS is transformational for us in terms of how it sets up our categories to really, really attack that growth opportunity. Now it's true that our portfolio will skew more towards CSD as you see on the left-hand side of the chart as we integrate the bottling system. But what is very powerful about this is that it brings in a lot of businesses with strong operating entities in the Eastern European and faster growing emerging markets.

And so we will say weighted more towards non-carbonated beverages, over half the volume coming from non-carbonated beverages, but we significantly increase the percentage of our beverage portfolio that is weighted in the fastest-growing Eastern European and emerging European businesses.

Transformational from a scale point of view as well. This steps us up to approximately a \$9 billion business, but a \$9 billion business that has a significantly expanded footprint across Europe, a significantly expanded infrastructure. That strengthened portfolio in terms of the balance between East and West. It gives us a whole new platform in terms of unleashing the Power of One and I will give you some examples of that when we talk about Russia.

But clearly what it allows us to do is to build a unified and aligned system where we can call the priorities quickly, we can align around the decisions that we want to take faster. And if there was one phrase I would like to leave with you about how we see this opportunity is that this gives us the opportunity to be bigger and faster. And that combination doesn't often come.

We will talk a lot more about the transformation in the beverage system at our investor meeting on the 22nd and 23rd.



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But if I was to wrap up against that potential, we are going to push hard against five leaders. The first is playing to that powerful and diversified portfolio, whether it is from a category point of view or from a geographic point of view. The second lever is leveraging the global scale that we can bring as both PepsiCo globally, PepsiCo within Europe, but playing to win locally in each one of those markets. A very powerful formula for the emerging markets.

The third lever for us is how we build advantaged business systems. Again through both Power of One but how we leverage global intellectual properties around our go-to-market systems to build powerfully advantaged business systems in each of the geographies in which we operate.

The fourth strategic lever for us is a compelling one that is unique to PepsiCo, is how do we combine these two categories that are in the sweet spot of the food and beverage industry, the convenient food, the convenient beverage, in a Power of One approach to both our consumer, customer, and whole business system.

The fifth one is again using our scale to build a diversified and talented team. We have increasingly built a strong employee value proposition and as we pull the scale of these businesses together there is enhanced opportunity to accelerate that. All of this underpinned by our goals on delivering the transformations in our portfolio that underpin our purpose agenda on human sustainability, reducing the impact of our footprint across Europe, and engaging our employees.

Now let me turn to addressing this in terms of growth opportunity for each of those priority categories across snacks, juice, and tea.

Starting with snacks. Now we have built the largest savory snack company in Europe and it's really based on three fundamentals. The first is these global brands, the tremendous global know-how we have in making the world's best potato chip, but brought home in a locally relevant way in each of the markets in which we do business. So local flavors. Local flavors, whether it's cheese and onion and salt and vinegar in the UK, Lays red caviar in Russia, and Artesanas, an olive oil produced potato crisp in Spain.

The second is the intellectual properties we have built around our go-to-market systems. You are very familiar with the power of our DSD system in the United States. Well, we have taken that and across Europe built a myriad of DSD systems.

The pallet-able, scale customers where we have large drop sizes right the way through to customers where we can manage a drop size of EUR30 profitably. So inventive systems like drop-and-go where we have pre-merchandised racks and the salesman can be in and out of a call, delivering an invoice, collecting the cash within minutes.

At the other end of the spectrum warehouse management in Western Europe and the ability to engage with organized trade customers is a particular strong point for our snack foods businesses through joint planning and category management techniques.

The third lever for us on our snack food business has been the advantage in our overall supply chain. Again, taking and leveraging learnings out to the US and taking those across Europe from high-yield variety potatoes through production techniques, harvesting techniques, and storage technique has allowed us to produce the best quality potatoes at the best cost structure.

So tremendous power in our business operating systems on snacks and that has allowed us to do is across the geography is to build commanding share positions in each of the markets in which we do business.

Now I would like to bring us to life for you with a story around the UK and this really is just a phenomenal powerhouse business. Walkers is not just the number one snack food business and snack brand in the UK, it's actually one of the largest food brands and is one of the most loved British trademarks. One of those other loved British trademarks was Cadbury's. Well, Walkers is going to be the most loved British trademark I can guarantee you that.



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And it's well placed because of its scale but its universal presence, the frequency with which it is engaged by the British customer -- 10 million bags a day. In a population of 60 million people that is high, high frequency. But I think the thing that is most unique about Walkers is just how British it truly is, and that has been built through one of Britain's most loved advertising campaigns.

Now it is very British, but I am going to risk telling you about it. It all centers around a football hero, Gary Lineker -- a soccer hero, Gary Lineker. Gary Lineker was not only an absolute soccer star of the 1980s -- in the 1980s he won the Golden Boot in the World Cup for the highest number of goals scored -- but he was the Mr. Nice Guy of football.

He went through his career without ever being sent off or booked in a match and he was loved by the British public and the British press -- and British press are very important -- as Mr. Nice Guy. Walkers signed him up and repositioned him. So the irresistibility of the Walkers brand and the Walkers bag of potato chips Gary Lineker turned into a thief.

He would be caught in odd circumstances stealing other people's crisps because they were so irresistible. The whole tagline of 'No more Mr. Nice Guy' stuck and Gary Lineker became the face of Walkers and has been the face of Walkers for 15 continuous years.

Now we have leveraged from that as we went through the 2000s and the health and wellness and some of the headwinds that we started to see in our category by taking them head-on. And again using the ultimate ambassador, No More Mr. Nice Guy Gary Lineker, talking to the work we are doing in terms of renovating our portfolio and educating the consumer and actually some of our broader stakeholders around what is truly in a bag of Walkers crisp with such head-on advertising as, wouldn't you like to know a bag of Walkers potato crisps has less salt than a slice of bread.

And beyond that now playing to one of the deepest of the British emotions, the pride of being British, we have moved back to the irresistible with home-grown irresistibility in the Walkers campaign around home-grown British potatoes, which plays to the environment. It plays to natural and fresh, and it plays to quality as defined by the British. Now just one word of translation, the British word for potatoes is spuds.

(video in progress)

Muddy marvelous. Lineker has been a tremendous property for us, but clearly as you are going through the type of macroeconomic environment we have in 2009 all you needed to do is to find new ways through direct media and direct engagement with your consumers of building news and strong news at the point of sale. The whole Walkers Do Us a Flavor campaign is one of the best examples I have seen in the food and beverage industry around building consumer engagement in a unique way.

We invited our consumers to participate in designing and inventing new flavors. They got to vote on their favorite flavors and against a short list of 16 we agreed to produce eight of them. You can imagine how thrilled our R&D group were when they were asked to produce Builder's Breakfast, Cajun Squirrel, Chili & Chocolate, and Fish & Chips, but that is exactly what they did. They created crisps with those flavors.

These were massively engaged by the retail trade because of their novelty value and the newsworthiness of them. Huge displays followed, and of course the whole Internet-type relationship you can engage in with your consumer. In a year where most of the headlines are actually pretty depressing we are actually getting to participate in a vote around us is Cajun Squirrel better than Builder's Breakfast is truly a point of light relief.

And we had massive, massive engagement. The winner was Builder's Breakfast. Not to everyone's taste but nonetheless a high-profile piece of activity.

The next thing I would say about our business in the UK is whilst building this massive engagement around its core it has also stayed very true to the purpose agenda in terms of how do we transform that core and how do we build it out to meet some of these trends in terms of where the consumer is going and where they are today. In 2009 we launched an all natural kettle



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chip, Red Sky, in beautifully differentiated packaging that plays again to a broader cohort group and allows for this fundamental reappraisal of the potato crisp category.

SunBites was launched, which is a grain-based snack. Sun Chips in the US. And again allows us to provide a different role across our portfolio in terms of fiber now content in our delicious snacks. And then the baked product lineup was launched in the UK but with a twist.

One of the gaps in the market is every time you have gone for something that is better for you or has a reduced fat the advertising has tended to skew and the communications have tended to skew very functionally. People have been asked to really choose between do you want better for you or do you want emotion and attitude and personality. We decided that we could do both and we could bring a very new look and feel to a better for you product in the food industry.

(video in progress)

British humor. But that advert builds off of an insight that we learned from Pepsi, Pepsi Max which is -- and Pepsi Max is just a tremendous brand in the UK. We were the first people to bring full-type Pepsi Cola type imagery and personality and attitude to the diet segment. It didn't have to be plain vanilla. It didn't have to be boring. Pepsi Max really broke through and that is what we are looking to do on Baked.

Now one of the beauties in Europe of having an absolute powerhouse business like the UK is that you can build ideas, you can build propositions, and then you can take them broadly across Europe. So the whole renovation program, driving permissibility, driving reappraisal of our category is now all the way across in northern Western Europe.

And these sensations, indulgent propositions that we have built in the UK has now been translated into many different languages either directly, Lays Sensations in northern Europe, or with a twist, Lays Gourmet in Spain, which taps into the tapas insight and builds a highly differentiated, high-price premium proposition.

But we have strong businesses across the length and breadth of Europe. So as well as leveraging ideas across Europe from the UK, like Do Us a Flavor -- which is now in Poland, it's in the Netherlands, and was played out on Doritos in Turkey -- we also have fabulous innovations like Cheetos Merienda which is the kid's snack. A nutritious snack when you come home from school. This is a baked product, high fiber, and again has been translated into Turkey, into Russia, and into Poland.

We are looking to extend so the baked idea now in the UK, into The Oven in continental Europe. And from The Oven we can build a platform that can allow us to extend into vegetables, into grains. And again as we edge out from our core into those adjacencies, nuts and seeds, a tremendous opportunity for us. It's incredibly synergistic. It tends to play to an older target group than our core business.

And equally with the acquisition of Duyvis in the Netherlands we have got a great platform to extend. This year we took it to -- sorry, in 2009 we launched it in Spain leveraging our powerful system DSD system. And we are well on track there to build a leadership position in the nuts category.

The other aspect of having this absolute powerhouse business, both in terms of its engagement with consumer and its scale, is how you engage with a concentrated retail environment. They are looking for excitement. They are looking for brand ideas. People who can build traffic and people who can build frequency in their stores.

We have great partnerships with Albert Heijn; (inaudible), a European company; ASDA, part of the Wal-Mart group; or Carrefour, the second-largest retailer in the world and here illustrated with a large Power of One activity as we pull our snacks and beverages together.



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This know-how as well as being extendable across Western Europe is equally extendable to the East. Local flavors and our ability to build differentiated flavors, the four seasons varieties that we launched in Poland and equally extend into new snack categories like the crispbread business in Russia. Hrusteam is now well on track to become to become the largest crispbread in the Russian market.

Again, building those out into those adjacencies we have built off technology and know-how across our total European business.

I guess the final dimension is as you build out know-how and as you add that scale and you can translate that scale across Europe the one thing that we know absolutely for certain is our snack business is that as per capita income grows so does per capita consumption. They correlate very, very well.

We have seen this as we have grown our business across Russia, across Poland, across Turkey. You can see the exciting potential it has across all of those markets. So the leadership position in snacks but tremendous growth potential ahead of us, whether we look at it from a per capita consumption point of view or a geographic extension point of view.

Let me now turn to our second priority growth category which is juice. In the 10 years that I have been building the European business I have been involved all of that time directly with our juice business. I actually moved to Europe to run our Tropicana juice business in the year 2000, and at that time it really was a highly entrepreneurial business.

Well, you know across the last decade we have built the number one fruit juice company in Europe. We have done it both through very strong organic growth on the Tropicana trademark in Western Europe, but also through acquisitions by fleshing out our portfolio across Eastern Europe with Sandora in the Ukraine and Lebedyansky in Russia. Now it is a fragmented market but nonetheless we have leadership of it and are very well placed in a growth category.

Let me take you through how we have done it across Western Europe. You remember there are few things that the Brits and the French will agree on, but one thing that they will absolutely agree on is that Tropicana is the world's best fruit juice. We have delivered that message consistently by consistently reinforcing that Tropicana is the closest thing you can get to freshly squeezed.

Very impactful type print campaigns like these have reinforced that message. As well as building a very powerful brand another dimension has building a very powerful total business system. In a region where oranges don't grow in abundance or they certainly don't grow cheaply we have managed to set up a very advantaged supply chain in partnership with (inaudible) in Brazil, one of the world's largest fruit companies.

And that starts really in the grove, picking the absolute right varieties of oranges that we want to grow to deliver maximum quality. How we deliver that quality protection throughout the supply chain through the world's first orange juice supertanker that sails directly to Zeebrugge, our port plant, discharges directly in to the plant for filling and distribution across Europe. So in terms of quality and cost an enormously advantaged business system for not from concentrate.

The other dimension though is we have taken a category in Europe that up until Tropicana established itself had typically been commodity and pretty boring. Push driven, trade spend driven. And we brought proper beverage type marketing to this category in terms of differentiating the proposition, anchoring it in the breakfast occasion, leveraging the type of experience we have on high-scale properties on the Pepsi business to build that kind of impact on juice with the Roland-Garros sponsorship in France.

But at the other end of the spectrum how we really build a relationship database and ability to target our core consumers on a one-on-one basis. And that is an incredibly powerful technique in terms of being able to talk directly to your customer, to your consumer. The final piece of the jigsaw puzzle is to bring really high-profile advertising again to a category that has up until this point been undifferentiated.



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(video in progress)

The first of those adverts anchored us where we wanted to be anchored which is deeply in the breakfast occasion orange juice. The second though is something that we have built out over time which is to romance the free much more holistically. Today actually over 50% of our business mix in a country like France comes from other than orange juice.

Now that again what it has allowed us to do is to expand beyond orange juice, but also to start to leverage our brands to build functional health benefits based on the properties of the fruit itself and to start to build the credentials across a broader set of need states. And, finally, with the launch of Smoothies to get into whole fruit delivery itself.

But beyond the fruit to vegetables. The Alvalle business that has come out of gazpacho in Spain, an absolutely fabulous product that delivers the same type of quality differentiation on a vegetable drink as we have managed to achieve on Tropicana orange. As we look forward clearly mapping out those need states even more broadly from the classic liquid fruit juice to food and from pure fruits get into blends and from fruit blends into vegetables allows us to build a much broader footprint for a fruit and vegetable platform.

The final piece of the jigsaw puzzle is geographic expansion. Nothing really for us is more exciting than the extension into Eastern Europe, the high-growth markets of Eastern Europe. And, again, we are able to take a lot of the learnings we have into those geographies but equally benefit from a lot of the learnings that are coming out of acquisitions like Lebedyansky.

These companies are built on much broader portfolios. Orange juice only plays a small percentage of their mix and so again their know-how in terms of breadth of fruit and breadth of blending and breadth of cost engineering our brand blending is a tremendous asset to our overall business.

Now let me turn to our third priority category, which is tea. This really is an incredibly exciting category. Through our joint venture with Unilever we have Lipton, which is Europe's number one tea brand. Coupled now with our beverage expertise and know how we can build on the platform that we have of the number one ready-to-drink tea.

Drink Positive is a new marketing campaign that we are bringing. And again we are bringing the types of properties that we have created on Pepsi to the world of ready-to-drink tea.

(video in progress)

I would like to tell you I produced that just for you, but that is for our salesforce as we roll this campaign out. It's incredible, you can take a personality like Hugh Jackman, who has never done any brand direct work before, and yet Lipton and Drink Positive means so much to him.

It's that whole era that really gives us the most excitement around the category is it's a pretty good business right now. It's a business with a lot of growth but it's a business that really is anchored in a pretty narrow need state. Whereas tea as a natural ingredient plays -- can play to a very broad range of need states and we feel that this is a platform for significant expansion.

The other area though about the potential explosive growth on tea is geographic expansion with it. Our largest tea business on the Lipton brand today in Europe actually is Russia and you can see how underdeveloped it is when you look at the per capita consumption there.

Just to give you a few sound bites, ready-to-drink tea is as big a category in China as carbonated soft drinks. So when you look at the size of hot tea consumption in Russia and where they are at on the per capita consumption of ready-to-drink tea you can see the size of the opportunity.



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With that now let me just turn to a final few pages on how we bring it together in the Power of One. I am going to illustrate that through Russia, but in illustrating it through Russia what we are doing is building a model that is applicable to the emerging geographies of Central and Eastern Europe. And this is a considerable consumer market, both in terms of the number of consumers but also the rate of GDP growth and the wealth that they are getting access to.

Now we have a long history in Russia. In actual fact in 2009 we celebrated our 50th anniversary. Don Kendall, our cofounder, the man who 50 years ago sampled Nikita Krushchev and Nixon with a Pepsi, was there to celebrate it. 50 years on. And I can tell you that he was recognized personally by President Medvedev and by Prime Minister Putin as the man who really did bring about the thaw in USSR and United States relations.

Really we have had a tremendous history of development since then. Across those 50 years we have built the largest multinational food and beverage company in Russia. We have built it on the back of our core beverages but at the end of the '90s launching our snack business and in nine years becoming the largest snack company in Russia. Then more recently fleshing the portfolio out with the acquisition of Lebedyansky.

We have built the advantages really across four planks and these four planks are consistent with what we have done across the rest of Europe. The first is to be deeply rooted in powerful brands and powerful brands representing strong growth portfolios.

The second plank is how do you build these advantaged and powerful go-to-market systems? In a country where you have more than 10 time zones from Moscow to Vladivostok the power of your go-to-market system and how fortified and advantaged your supply chain is our competitive advantage is for the long term.

And of course in any emerging market one of the most important battles that you have to win and win early on is being an employer of choice and attracting the best talent in the marketplace.

Now I have touched on the power of our snack food brands in Russia, the fact that we have got the leading juice portfolio, and the fact that we are the largest tea business with explosive growth potential. But carbonated soft drinks are also a priority for us in Russia because we do see significant growth opportunity there. And Pepsi through its long history and engagement with the Russian consumer is very, very well positioned. Again we have taken a global approach but truly localized that to meet Russian definitions.

(video playing)

Pepsi You Can, which in Russia translates into Pepsi I Can. Now the Power of One though is the unique differentiator for us in Russia. One of the things that we have done across the last nine years is work with our snack and beverage business to drive synergies in our Power of One go-to-market system.

This shows you a great example of where -- and again in a country where logistics are a primary driver, you can tap into the fact that a truck will weight out on beverages and volume out on snacks to get optimal truck efficiency. That allows us to drive costs out of the system and equally though it allows us to get tremendously more geographic reach.

We can get increased distribution and depth from the economy of our go-to-market system. Then obviously by pulling the adjacencies of the categories together at the point of sale captivate the consumer in very differentiated ways.

The other dimension for our business in Russia is how we have gone about localizing the input of our raw materials. And potatoes is a great example of that. Nine years ago when we started up we literally had to import every single potato we fried. Today we are more than 90% self-sufficient in Russia.



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We produce over 200,000 tons of potatoes, the largest potato producer and consumer. And we have done that by taking in that standard methodology, seed variety, technology know-how, but also by providing finances to farmers and sponsoring education programs in the agricultural industry.

I think the thing though that is most exciting for us as we look forward from our business in Russia is that the best is truly yet to come. We have built the largest scale food and beverage company from a multinational perspective, but we believe that that really is just a start point.

Because there is a window of opportunity now to build a defining consumer goods company of Russia by tapping not just into our powerful brands and portfolios, but by fleshing out the backbone across the business system in Russia and a truly advantaged business model. Localizing the inputs; I have touched on how we integrate our whole logistics, back office, and production systems. We can now step up several gears with the integration of the bottling system.

But probably the single most differentiated position and competitive position is how you can build on power of the go-to-market systems, both by taking all the intellectual properties that we have across Europe, the myriad of go-to-market systems, and applying them across the different regions of Russia. So an exciting, a tremendously exciting growth opportunity ahead of us.

So pulling it together, I would say that as I look at PepsiCo Europe it really is a growth story. It's a portfolio that is very well positioned for growth, both in terms of its geographic portfolio, the balance between East and West, but also the categories and brands that it plays to. The Power of One, how we can take the Power of One to a whole new level and build those advantaged business systems and use the bottling acquisition as a transformation opportunity to do that.

But all of it underpinned by this very diverse and very talented team who have proven that they can grow the business in good times, but equally they can manage it and manage it well in challenging times and navigate the economic headwinds to produce equally strong results. All who know very intimately a very simple equation that their personal growth and business growth are completely interrelated.

That is the European story. Thank you very much.

Now what we would like to do is open it up for Q&A and Richard and Lynn will join me. And we will be happy to take your questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thank you, Zein. A couple of questions. First, can you talk about, with regards to procurement and supply chain in Europe, broadly what kind of commodity inflation you are seeing in 2010 and how that might impact your business? And then -- go ahead and take that one first.

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

Okay. 2010 we see a much more stable environment on commodities. Part of what we saw in 2009 as well was not just commodity inflation but it was also ForEx, especially in Eastern Europe. And, again, as we have entered the year we are seeing more stable Eastern European currencies.



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Unidentified Audience Member

The second part is the basic affordability question that a lot of companies have been talking about, especially in Central Europe and Russia. Can you speak to the basic product affordability issues and how you are addressing that?

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

There is no doubt that part of what drove the growth was that S curve that I showed you. As GDP per capita income grew, whole households came in to an income level where they could access our product and some of those have fallen back out now. But they will come back.

One of the things, though, that you do do through difficult times is you take a real hard look at your business system and how well you can engineer its cost structure and how well you can make sure that the scale years as you pursued rapid growth a little bit of fat comes with that as well because growth hides a lot of things. So there is a lot to go at and again allow us to reinvest back into value.

I think the third dimension I am seeing, and this is one of the real learnings that came with the Lebedyansky business, is how you think about your portfolio. Because one of the things they have which is wonderful is that they have everything from the premium brand, Ya, to the absolute value brand in the marketplace. And by very careful product engineering in terms of the recipes they can drive profitability across that spectrum coupled with very differentiated go-to-market systems.

So a lot of learnings coming from that as well.

Richard Goodman - PepsiCo - CFO

And so what you saw in Russia was, although volume was a challenge that we gained significant market share in the market because in fact we were playing against all of those.

The same thing actually on the snacks business. Although the growth slowed down, we were able to -- because we have both extruded products, we have the bread snacks products as well as the potato chips, we were able to maintain pretty good volume momentum and also gain I think about five percentage points worth of share.

So it's being able to have the full range of products and making sure that in fact we can make money on them, because even as we were doing that we were expanding gross margins.

Unidentified Audience Member

I am just wondering in terms of the focus of your presentation carbonated soft drinks didn't seem to play a particularly large role. You mentioned that Pepsi Max. Are you kind of stepping away from sugared carbonated soft drinks in Europe and Eastern Europe?

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

No. In 40 minutes I needed to focus and I focused on our growth priorities.

Carbonated soft drinks is a significant business for us and we see good growth opportunities, especially by focusing against where the growth is in that portfolio. Eastern Europe is going to have higher growth than Western Europe, and within Western Europe no sugar is going to have higher growth than full sugar.

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So we are pushing very much against where we see the growth coming in future years.

Unidentified Audience Member

Zein, can you talk about how the economic downturn has affected your snacks and beverage businesses in a different way in both the western parts of Europe and then in developing markets?

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

Yes. We have seen more stability on the snacks and beverages in Western Europe, simply because we start from a higher disposable income threshold than in Eastern Europe. But we have seen strong performances across both.

In Western Europe we played to the power of our brands as I demonstrated to you through driving consumer engagement and value in different ways. As well as through very targeted pack price management through the organized trade.

In Eastern Europe we have played to the breadth of the portfolio between premium and value and through engineering the cost structure of our business systems. Leveraging Power of One is a very good example. But we have seen actually strong performances both competitively and in terms of overall business results both West and East, but the West has been more of a stabilizing factor in the tough macroeconomic environment.

Unidentified Audience Member

Then my second question is there is map that you showed on the presentation, the map of Russia, where there is a lot of -- it seems like there is a lot of overlap between PBG and Lebedyansky just in terms of plants and etc. So is there an opportunity to really look at that map in a more consolidated basis and really look at synergies and cost savings, etc.?

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

Clearly there is, but as well as looking at it from a cost synergy point of view, when you look at that map how do you look at it from a top-line synergy point of view as well.

Clearly, there is an opportunity to build much more powerful alignment in the go-to-market systems when we look at the three different business systems. We have been doing that for some time on snack and beverage. We can now introduce Lebedyansky into the mix as well, but we need to do it in a very planned for way.

There are areas where we want to go with dedicated, both snack and beverage, selling systems separated because the scale and the volume plays to that. And there are areas where we want to go jointly. So building a very clear and well-articulated plan, almost region by region, down to almost account by account, is critical to underpinning a good execution of that. And that is what we are working our way through.

The other thing I would say that is what it clearly needs is a strong common systems agenda. One of the things that we are doing in Russia is putting in a common systems plan now across all lines of business.

Richard Goodman - PepsiCo - CFO

I think given the geography of Russia, I think the emphasis really here is on being able to leverage the business across the businesses. So you need a very wide footprint in Russia because the geography is just so huge. So it's not so much about being

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able to synergize down to it's really being able to use the breadth of the offering in order actually to be able to have economics across a huge geography.

And that is something that everybody struggles with in Russia and that we have a huge advantage of by having both snacks and beverages, and within beverages having the two big categories. Because the juice category is actually a bigger category than the CSD category in Russia because it's the -- remember in Russia the juice category is a fruit replacement.

The growing season in Russia for fruit is about a nanosecond so it's different. So I think there are synergies as well and we will be getting that from a back office standpoint but it's really the benefit of the geography.

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

Yes. But I do want to emphasize this that we are doing it in this very targeted way. Again, give you an example of that. In the early years we put snacks and beverages together on many routes. As we built the scale of the categories in those different routes are now starting to move the specialized presale with dedicated delivery.

So you can get the economy of the scale of the backbone but the specialization and the category focus actually in terms of interaction directly with the customer. That is a tremendous opportunity, but you need a lot of capability to be able to deliver that.

Richard Goodman - PepsiCo - CFO

And to some degree that is exactly the same kind of model that we have now the ability to reproduce, for example, in the Ukraine.

Unidentified Audience Member

Thank you very much. Zein, I am wondering if you can just tell us how the marketing spend has looked across your territory. Has that stepped up in 2009 and perhaps plans into 2010? Maybe, Richard, you can address that for the entire company. And then I have a follow-up on juice.

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

As we have delivered those strong financial results one of the things I am very proud of in Europe is we have done it whilst also building levels of A&M. So we have stepped A&M up a bit, but also at a time where we have seen quite a lot of deflation in the advertising costs. So in terms of real GDPs impact that we get out in the marketplace, we have seen a step up in 2009.

Again, in a tough environment shoring up your brands is a very important thing to do. Not to chase the volume, not to chase the volume down, but to shore up your brands and build the strength of the business for the long term.

Richard Goodman - PepsiCo - CFO

And in absolute dollars at PepsiCo media spending actually was the same in 2009 as it had been on 2008 so in constant currency it actually increased. And certainly from an impressions standpoint that gave us much more visibility because there was huge deflation in media spending as well.

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Unidentified Audience Member

In you are referring certainly to in-your-face TV advertising, customer-facing, very visible initiatives?

Richard Goodman - PepsiCo - CFO

It's both. It's a combination of obviously the same kind of television advertising, but also increasingly -- in increasing amounts in the digital space as well. You have seen much more of that. And in the US you saw a lot of out-of-home and other stuff too, so it's really being able to make sure that you are using all of the tools that you have available.

And you can see on the digital, particularly is very impactful as well for a group of consumers who are now very fluent in the digital space.

Unidentified Audience Member

Thanks for that and then a follow-up on juice. I know this time last year juice was starting to slow. It was showing a little bit of sluggishness. How have the trends looked throughout the quarters of 2009 and perhaps going into early 2010, what you can comment? Has it stabilized? Are you still seeing declines or are things looking a little bit better on the juice category -- in Russia?

Zein Abdalla - PepsiCo - CEO, PepsiCo Europe

In Russia. No, we have seen sequential improvements as we have gone through the year but 2010 again will be a challenging year. I mean there is no question about that. GDPs are stabilizing, but what we really do need to see is employment start to build and real disposable incomes start to grow because those are the real drivers.

But what we are confident of is that we can run a very strong competitive position through the challenging economic times, come out stronger, and that is actually good news in the long run. It cleans a lot up, a tough macroeconomic environment in an emerging market.

Jonathan Feeney - Janney Montgomery Scott - Analyst

Well, I think we will leave it there. I want to first thank you for a great presentation. I want to thank you especially and thank all of PepsiCo for providing lunch today for us. Management will be available to take questions at that great lunch.

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