

IN THE ILLINOIS INDEPENDENT TAX TRIBUNAL

PEPSICO, INC. AND AFFILIATES,)	
)	Case Nos. 16 TT 82 and 17 TT 16
Petitioner,)	
)	
v.)	
)	Chief Judge James M. Conway
ILLINOIS DEPARTMENT OF REVENUE,)	
)	
Respondent.)	

JOINT STIPULATIONS OF FACT

PepsiCo, Inc. and Affiliates (“PepsiCo”) and the Illinois Department of Revenue (the “Department”) jointly stipulate the following facts in the above-captioned matters, subject to the following conditions and reservations:

- (a) The stipulations set forth below are true and may be accepted as facts but not as conclusions of law;
- (b) All stipulations relate to PepsiCo’s 2010 - 2013 corporate income tax years (the “Tax Years at Issue”) unless otherwise specifically noted;
- (c) All exhibits attached hereto are incorporated into this stipulation and made a part hereof and such exhibits are authentic and are admissible as business records at any hearing or trial in the above-captioned matters;
- (d) Either party may object to any stipulated fact or stipulated exhibit on the grounds of relevance;
- (e) Either party may, in good faith, assert additional facts in support of claims, defenses or a summary judgment motion, provided, however, that such additional facts are not inconsistent with any stipulated fact or facts, and the other party may, in good faith, dispute any such additional facts; and
- (f) This stipulation is solely for the purpose of resolving disputes in the above-captioned matters.

Background

1. The Department is an Illinois agency responsible for administering and enforcing the State’s revenue laws.

2. PepsiCo, Inc. is a publicly-traded corporation duly organized and existing under the laws of North Carolina.
3. PepsiCo, Inc.'s corporate headquarters are located at 700 Anderson Hill Road, Purchase, New York, 10577.
4. PepsiCo, Inc. and its world-wide affiliates (hereinafter, the "PepsiCo Corporate Group") manufactures, markets, and sells a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages and foods in approximately 200 countries, with its largest operations in North America (United States and Canada), Mexico, and the United Kingdom.
5. The PepsiCo Corporate Group's operations are divided into three principal business lines -- the beverage business (*e.g.*, Pepsi, Gatorade, Bubly, etc. beverages), the snack-foods business (*e.g.*, Frito-Lay potato chips), and the grain-based foods business (*e.g.*, Quaker Oats cereals).
6. The PepsiCo Corporate Group's domestic (U.S.) employees and domestic (U.S.) employer entities generally serve only one of these three business lines; however, outside the U.S., the PepsiCo Corporate Group's three principal business lines are combined, and foreign (non-U.S.) employees and foreign (non-U.S.) employer entities serve all, or some combination of, the beverage business, the snack-foods business, and/or the grain-based business.
7. As a global business, a critical element of the PepsiCo Corporate Group's ability to recruit and retain high quality candidates is the ability to offer such candidates global postings through an expatriate program (the "Expatriate Program"). Such postings allow the PepsiCo Corporate Group to, among other things, share information across the globe, identify and capitalize on best practices, familiarize executives with the different market dynamics in which the PepsiCo Corporate Group operates, and grow their executives to be the next generation of high-performing leaders which will run the business. These benefits accrue to the PepsiCo Corporate Group generally, including each business in the PepsiCo Corporate Group that sends executives on an assignment through the Expatriate Program and each business within the PepsiCo Corporate Group which receives executives who have been on such an assignment.
8. The PepsiCo Corporate Group's 2013 Annual Report reflected robust growth in revenue and profitability, specifically stating at page 4:
 - Over the past decade, our net revenue compound annual growth rate was 9%.
 - Today, our net operating margin stands at 15%, in the top tier of our food and beverage peer group. In addition, core net return on invested capital improved 110 basis points in 2013.
 - In the last 10 years, earnings per share grew at an 8% compound annual growth rate,

and we returned \$57 billion in cash to shareholders through a combination of dividends and share repurchases.

- The PepsiCo Corporate Group’s Cumulative Total Shareholder Return has outpaced the S&P 500 on an annualized basis by 170 basis points since 2000.

9. The PepsiCo Corporate Group’s net revenues and long-lived assets for 2010, 2011, 2012, and 2013 were United States versus foreign sourced as follows:

	2010 (%)	2011 (%)	2012 (%)	2013 (%)
<i>Net Revenues</i>				
U.S.	53%	50%	51%	51%
Foreign	47%	50%	49%	49%
<i>Long-Lived Assets</i>				
U.S.	59%	53%	52%	54%
Foreign	41%	47%	48%	46%

Source: PepsiCo Corporate Group Annual Reports: 2010 (Page 79); 2011 (Page 59); 2012 (Page 77); and 2013 (Page 77).

Frito-Lay North America, Inc. and Consolidated Entities

10. **Frito-Lay North America, Inc. (“FLNA”)** is a U.S. “C corporation” for both federal and Illinois corporate income tax purposes and is wholly owned by PepsiCo, Inc.
11. The management team for the domestic snack food business is employed by and operates out of FLNA, in its Texas offices. That management team runs the strategic arm of that business which includes setting objectives for sales growth, investments, and new product development.
12. FLNA also owns the domestic rights to the snack food business which includes Lay’s, Doritos, Tostitos, Cheetos, Rold Gold Pretzels, Funyuns, Grandma’s Cookies, SunChips, Fritos, Ruffles, and Crackerjack.
13. The domestic snack food business sends executives on assignment through the Expatriate Program and also receives executives who have been on such an assignment.
14. Since the early 1990s, FLNA has also owned the GMD Branch, a Philippines branch of FLNA that is treated as a division of FLNA for both federal and Illinois corporate income tax purposes. GMD Branch exports PepsiCo Corporate Group snack products, mainly to the Asia-Pacific and Caribbean regions.
15. FLNA contracts with Frito-Lay, Inc. (“FLI”), an entity that is ultimately wholly owned by PepsiCo, Inc., for the manufacture of the PepsiCo Corporate Group’s snack-foods products. See, e.g., FLNA and FLI Manufacturing Agreement, attached hereto as Exhibit 1. Exhibit 1 (FLNA and FLI Manufacturing Agreement (PEP00004832-PEP00004841)).

16. FLNA contracts with Rolling Frito-Lay Sales, L.P. (“RFLS”), an entity that is ultimately wholly owned by PepsiCo, Inc., for the distribution and sale of the PepsiCo Corporate Group’s snack-foods products. *See, e.g.*, FLNA and RFLS Sales and Distribution Agreement, attached hereto as Exhibit 2, Article I. *See, e.g.*, Exhibit 2, Article I (FLNA and RFLS Sales and Distribution Agreement (PEP00004842-PEP00004851)).
17. FLNA generates its income by development and operation of the domestic snack food business which includes, among other things: the development, manufacture, marketing, distribution, and sale of snack food products. In operating the domestic snack food business, FLNA contracts with FLI, an internal PepsiCo entity, for the manufacture of some of the snack foods and contracts with RFLS, an internal PepsiCo entity, for the sale and distribution of snack foods.
18. FLNA’s gross sales on Form 1120, U.S. Corporation Income Tax Return - Line 1(b) during the Tax Years at Issue remained relatively constant at: \$8,064,542,579 (2010); \$8,532,030,618 (2011); \$8,570,477,304 (2012); and \$8,719,295,267 (2013).
19. FLNA’s gross sales during the period 2010-2013 were almost exclusively sales of snack food products to, and for distribution by, RFLS.
20. All of FLNA’s gross sales during the period 2011 - 2013 were United States sales of snack food products with the exception of approximately \$230 million per year in foreign sales.
21. As stated in the PepsiCo Corporate Group’s 2013 Annual Report, the PepsiCo Corporate Group consists of six reportable business segments also referred to as “divisions”; one such division is referred to as “Frito-Lay North America.”
22. The Frito-Lay North America division, which includes FLNA, FLI, RFLS, Frito-Lay, Sales, Inc., Stacy’s Pita Chip Company, Inc., Frito-Lay Dip Company, Inc., Smartfoods, Inc., FL Transportation, Inc., among other PepsiCo Corporate Group affiliates, generated more operating profits than any of the other five individual business segments in 2010, 2011, 2012 and 2013.
23. All six individual divisions generated substantial operating profits, reflected below in millions of dollars, and none generated operating losses:

Divisions	2010	2011	2012	2013
Frito-Lay North America	\$3,376	\$3,621	\$3,646	\$3,877
Quaker Foods North America	\$741	\$797	\$695	\$617
Latin American Foods	\$1,004	\$1,078	\$1,059	\$1,242
PepsiCo Americas Beverages	\$2,776	\$3,273	\$2,937	\$2,955
Europe	\$1,054	\$1,210	\$1,330	\$1,293
Asia, Middle East, and Africa	\$708	\$887	\$747	\$1,174
Total Division Operating Profits	\$9,659	\$10,866	\$10,414	\$11,158

Source: PepsiCo Corporate Group 2012 Annual Report (Page 76); PepsiCo Corporate Group 2013 Annual Report (Page 75). The Frito-Lay North America Division includes FLI, FLNA, RFLS, Frito-Lay, Sales, Inc., Stacy's Pita Chip Company, Inc., Frito-Lay Dip Company, Inc., Smartfoods, Inc., FL Transportation, Inc., among other PepsiCo Corporate Group affiliates.

24. **PepsiCo Hong Kong, LLC (“FLNA Hong Kong”)** is a U.S. single member LLC and is treated as a division of FLNA for both federal and Illinois corporate income tax purposes.
25. FLNA Hong Kong provides intercompany services to support the Asia Pacific region, including stewardship activities, such as: business strategy, accounting, marketing, and financial services. *See* Exhibit 3 (FLNA Hong Kong and FLGI Service Agreement) (PEP00004909-PEP00004914).
26. FLNA Hong Kong operated at a net operating loss position, during the Tax Years at Issue. *See* PepsiCo Hong Kong, LLC Pro Forma Form 1120, U.S. Corporation Income Tax Return, attached as Exhibit 13 (PEP00001951 - PEP00001979 (2011); PEP00002078 - PEP00002097 (2012); and PEP00002168 - PEP00002190 (2013)).
27. **PepsiCo Global Mobility, LLC (“PGM LLC”)** was formed on June 23, 2010 under Delaware law as a single member LLC disregarded for federal and state income tax purposes. Detail regarding PGM LLC's formation is attached hereto as Exhibit 5 (Entity Overview: PepsiCo Global Mobility, LLC (PEP00002876- PEP00002879)) (PEP00002876- PEP00002879).
28. The PepsiCo, Inc. and Affiliates Domestic (U.S.) Consolidated Return (2012), Trial Balance Detail Without Elimination and Schedule L Balance Sheet, attached hereto as Exhibit 45 (PEP00004973-PEP00005082) and Exhibit 46 (PEP00005083-PEP00005101), state the amount of real property, tangible personal property, and intangible property owned or rented by each entity within the domestic (U.S.) federal consolidated group.
29. The PepsiCo, Inc. Domestic (U.S.) Consolidated Group Bank Account Detail, attached

hereto as Exhibit 47 (PEP00004966), lists the entities within the PepsiCo, Inc. domestic (U.S.) federal consolidated group that have their own individual bank account compared with the entities within this group that do not have their own individual bank account.

30. The following number of expats are listed on the PGM LLC Payroll Reports: 151 (2011); 165 (2012); and 184 (2013). *See* Exhibit 4 (PGM LLC Payroll Reports (2011-2013) (PEP00002641-PEP00002853)).
31. At least nine of the expatriates listed on the PGM LLC Payroll Reports were working at FLNA Hong Kong during each of the 2011-2013 tax years.
32. The only people on the PGM LLC Payroll Reports (2011 – 2013) were expatriates.
33. **Centro-Mediterranea de Bebidas Carbonicas PepsiCo S.L. (“CEME”)** is a Spanish Sociedad Limitada and is treated as a division of FLNA for both federal and Illinois corporate income tax purposes.
34. CEME manufactures, produces, bottles, and sells soft drink products in Spain.
35. CEME operated at a net operating loss position, during the Tax Years at Issue. *See* Centro-Mediterranea de Bebidas Carbonicas PepsiCo S.L. Pro Forma Form 1120, U.S. Corporation Income Tax Return, attached as Exhibit 12 (PEP00002037 - PEP00002077 (2011); PEP00002129 - PEP00002163 (2012); and PEP00002228 - PEP00002258 (2013)).
36. **QFL OHQ SDN. BHD (“QFL”)** is a Malaysian Sendirian Berhad and is treated as a division of FLNA for both federal and Illinois corporate income tax purposes.
37. QFL is a supply chain distribution support company for the Asia-Pacific region.
38. **Beverage Services, LLC (“Bev Svcs”)** is a U.S. limited liability company and is treated as a division of FLNA for both federal and Illinois corporate income tax purposes.
39. Bev Svcs provides support services for franchise-owned bottling operations in Saudi Arabia.

PepsiCo’s Global Restructuring

40. On February 26, 2010, the PepsiCo Corporate Group acquired The Pepsi Bottling Group (“PBG”) and affiliated entities, including the Woodlands Insurance Company, Inc. (“Woodlands”).
41. On February 26, 2010, the PepsiCo Corporate Group acquired PepsiAmericas, Inc. (“PAS”) and affiliated entities.
42. PBG and PAS were the two largest publicly traded independent bottlers of Pepsi products

prior to their acquisition by the PepsiCo Corporate Group.

43. The PBG and PAS acquisitions reduced third-party costs by eliminating transactions between concentrate manufacturers within the PepsiCo Corporate Group and third-party bottlers outside the PepsiCo Corporate Group.
44. At the time of their acquisition, PBG and PAS were publicly traded and together employed more than 84,000 people.
45. PBG and PAS owned more than \$18 billion in assets to carry on their bottling and distribution operations.
46. As a result of the PBG and PAS acquisitions, 67 domestic and 119 international entities were integrated into the PepsiCo Corporate Group's overall corporate structure.
47. At the time of the acquisitions, the PepsiCo Corporate Group, PBG, and PAS each utilized respectively the following separate entities for their foreign expatriate programs: Beverages Foods & Services Inc. (PepsiCo Corporate Group), C&I Leasing, Inc. (PBG), and Pepsi-Cola General Bottlers, Inc. (PAS).
48. In 2010, the PepsiCo Corporate Group undertook a global restructuring of its business.
49. As one part of this restructuring, the following entities and their operations were consolidated under FLNA: FLNA Hong Kong; PGM LLC; CEME; QFL; and Bev Svcs.
50. Prior to the 2010 global restructuring, FLNA owned seven manufacturing plants that were leased to FLI.
51. As part of the 2010 PepsiCo Corporate Group global restructuring, four of FLNA's manufacturing plants were contributed to FLI on January 2, 2010; FLNA's Casa Grande, Arizona plant was conveyed to FLI on August 9, 2010; the plant located in Beaverton, Oregon was sold to an outside third party; and the Visalia, California plant closed permanently.
52. As part of the 2010 PepsiCo Corporate Group global restructuring, FLNA employees were realigned with their organizational function:
 - Manufacturing, research, and development employees were relocated to FLI;
 - Information Technology employees, who provide shared services to all of PepsiCo, Inc. and affiliates, were transferred to PepsiCo, Inc.;
 - Procurement, supply chain, and transformation and strategy groups were relocated to FLI;
 - Human resources employees were relocated to FLI; and

- Sales and local marketing related employees were relocated to RFLS.
53. Post-restructuring, FLNA continued to employ senior domestic snack food business marketing employees, general management, and the President of FLI.

PepsiCo Global Mobility, LLC

54. At the time of the PepsiCo Corporate Group's 2010 global restructuring, approximately 200 U.S./foreign national expatriates within the PepsiCo Corporate Group -- consisting of high performing executives, managers, and analysts -- were scattered across various PepsiCo affiliates (including former PBG and PAS affiliates) and seconded outside the U.S. to serve the various businesses of the PepsiCo Corporate Group as part of the then-existing Expatriate Programs.
55. At the time of and in connection with the PepsiCo Corporate Group's 2010 global restructuring, PriceWaterhouseCoopers ("PwC") assessed the PepsiCo Corporate Group's overall global mobility practices. *See, e.g.,* Exhibit 17 (PepsiCo Global Mobility Transformation Plan (Jan. 2011) (PEP00004813-4831)).
56. PwC identified the following areas of improvement for the PepsiCo Corporate Group's global mobility practices: 1) "G[lobal] M[obility] function and processes do not align with the business strategy"; 2) "Service delivery model is not in line with 'best practice'"; 3) "Significant duplication of effort across the function & opportunities to streamline, automate & remove non-value added work"; 4) "Inconsistency in services across countries and regions"; and 5) "Lack of career progression/opportunities within the team." *See* Exhibit 17, Slide 4 (PepsiCo Global Mobility Transformation Plan (Jan. 2011) (PEP00004816)).
57. Prior to PGM LLC's formation, the PepsiCo Corporate Group utilized three separate Expatriate Program entities for foreign-based (non-U.S.) secondments -- Beverages Foods & Services Inc. (PepsiCo Corporate Group), C&I Leasing, Inc. (PBG), and Pepsi-Cola General Bottlers, Inc. (PAS).
58. After PGM LLC's formation, the PepsiCo Corporate Group utilized PGM LLC as the single Expatriate Program entity for foreign-based (non-U.S.) secondments.
59. As part of the restructuring, the PepsiCo Corporate Group identified approximately \$14 million dollars per year in total tax savings in 13 states by creating PGM LLC as a division of FLNA. *See* Exhibit 6 (PepsiCo Global Mobility, LLC - Background to the Change in Entity (Sept. 2010) (PEP000002880-2888)).
60. FLNA was identified as the location to centralize foreign branch activity and PGM LLC.
61. FLNA also had the ability to fund ongoing cash needs of historically loss generating foreign entities, including CEME and FLNA Hong Kong.

62. PGM LLC facilitates the secondment of high-performing expatriate executives, directors, managers, and analysts from PepsiCo Corporate Group affiliates/operating companies who fulfill temporary key roles with the objective of developing and retaining talent and expanding foreign business operations in established and emerging international (non-U.S.) markets.
63. For each individual included on the PGM LLC Payroll Reports for the Tax Years at Issue, PGM LLC and the applicable foreign host company executed a Secondment Agreement. Copies of the PGM LLC Payroll Reports for the Tax Years at Issue are attached hereto as Exhibit 4. Representative examples of the Secondment Agreements are attached hereto as Exhibit 25.
64. For each individual included on the PGM LLC Payroll Reports for the 2011 - 2013 tax years, PGM LLC and the individual executed an agreement (*i.e.*, a “Letter of Understanding”) outlining applicable terms which apply during the assignment. Representative examples of the Letters of Understanding are attached hereto as Exhibit 26.
65. One of the purposes of forming PGM LLC was to attempt to protect other U.S. entities within the PepsiCo Corporate Group, such as PepsiCo, Inc., FLI, or FLNA, from having direct legal liability for actions of or disputes regarding the seconded expatriates actions in all of the countries in which each of those executives are assigned.
66. The foreign host companies are responsible for maintaining insurance coverage in respect of any liability to or on behalf of the seconded expatriates.
67. Having a single entity, like PGM LLC, be the counterparty to all of the Secondment Agreements for all outbound expatriate employees: (i) preserves seconded employees’ continued participation in U.S. benefits plans (*e.g.*, pre-tax retirement contribution plans authorized under 26 U.S.C. § 401(k)); (ii) centralizes Permanent Establishment foreign tax exposure related to expatriates working abroad to a single legal entity; (iii) centralizes tax, business, and other government compliance requirements (including but not limited to: certificates of coverage, foreign country work permits, and simplifies the process of foreign assignments).
68. The majority of expatriates seconded through the Expatriate Program either work for the snack-foods business all of the time or work partially for the snack-foods business. *See* Exhibit 7 (Breakout of Beverage, Food, and Combination PGM LLC Employees (Sample) (PEP00004906-PEP00004908)).
69. The expatriates are assigned to various non-U.S. locations around the world, including (but not limited to): China, Ireland, Japan, Mexico, Poland, Russia, Spain, Switzerland, Thailand, the United Arab Emirates, and the United Kingdom.
70. Examples of entities operating as “foreign host companies” include (but are not limited

to): Pepsi-Cola International Cork, Pepsi-Cola (Thai) Trading Co. Ltd., Frito-Lay Trading Company GmbH, Frito-Lay Poland Sp.z.o.o., Sabritas S.R.L. de C.V., Walker Snack Foods Ltd., FLNA Hong Kong, etc.

71. Each PepsiCo Corporate Group employee identifies in his/her company profile whether he/she is willing to work outside his/her home country and on what grounds, *e.g.*, temporary assignment or permanent transfer.
72. The PepsiCo Corporate Group has two different forms of global mobility practices for transferring individuals outside the U.S.: (1) permanent transfers, *e.g.*, a U.S. citizen's employment is transferred indefinitely/permanently from a U.S. PepsiCo Corporate Group entity to a foreign (non-U.S.) PepsiCo Corporate Group entity; and (2) temporary assignments, *e.g.*, a U.S. citizen is temporarily assigned to a foreign host company conditioned upon repatriation.
73. Seconded expatriates are assigned to foreign host companies for a variety of reasons, including: 1) to advance their career development within the PepsiCo Corporate Group; and 2) to provide highly skilled industry knowledge and technical expertise not otherwise available to the foreign host company through the local talent pool.
74. "Core" Senior Management Human Resource employees, (non-Global Mobility function personnel), spread amongst entities across the PepsiCo Corporate Group, review Pepsi "talent" consisting of employees who have indicated in their profile they are willing to move to foreign countries and match employees with foreign subsidiaries for purposes of furthering their development as employees as well as providing foreign subsidiaries with talent needs.
75. The expatriates are chosen because they are considered high-performers and future leaders of the PepsiCo Corporate Group.
76. PepsiCo Corporate Group management identifies and approves individuals for assignment to foreign host companies pursuant to its determination of the skill set and interest of each individual, and the business needs of the foreign host companies.
77. The jobs the seconded expatriates perform while on assignment are mid-level to senior-level jobs within the PepsiCo Corporate Group. Examples of services/roles performed by the seconded expatriates include (but are not limited to): executive management, human resources, business strategy and development, communications, marketing, and financial planning. Line level employees (staff, factory workers, clerks, etc.) are not eligible for assignments as part of the Expatriate Program.
78. The term/duration of the temporary assignment is set in advance of the secondment and typically lasts no longer than three to five years.
79. PGM LLC is charged for payments made to and benefits received by expatriates seconded to foreign host companies. All payroll transactions within the PepsiCo

Corporate Group are made through a third-party payroll service provider. The payments made to these seconded expatriates include: base salary, bonus payments, and deferred and executive benefits (e.g., stock options).

80. PGM LLC is charged for the payments made to and benefits received by expatriates seconded to foreign host companies throughout the term of their assignment.
81. Due to their Secondment Agreement with PGM LLC, a U.S. entity, seconded expatriates participate in the PepsiCo Corporate Group's U.S. benefits plan (wages, salaries, bonuses, stock options, etc.).
82. Due to their Secondment Agreement with PGM LLC, a U.S. entity, seconded expatriates are eligible to participate in the PepsiCo Corporate Group's U.S. benefits plans, including: the PepsiCo Savings Plan; the PepsiCo Salaried Employees Retirement Plan; the PepsiCo Pension Equalization Plan for the Pre-Section 409A Program; the PepsiCo Pension Equalization Plan for the Section 409A Program; the PepsiCo Automatic Retirement Contribution Equalization Plan; and the PepsiCo Employee Health Care Program. Representative copies of the PepsiCo U.S. Benefits Plans are attached hereto as Exhibit 29.
83. The Secondment Agreements and the Contracts of Employment / Letters of Understanding were intended to be the legal basis by which the seconded expatriates perform services/roles for the foreign host companies. Those agreements were created with the intent to govern the expatriates' conduct and rights on assignment. Those are the written agreements which set out the terms between PGM LLC, the expatriates, and the foreign host companies.
84. The Secondment Agreements and the Contracts of Employment / Letters of Understanding state:
 - PGM LLC and each seconded expatriate agree to a Contract of Employment / Letter of Understanding.
 - PGM LLC temporarily assigns each seconded expatriate to a foreign host company and causes that expatriate to provide specific technical services to the applicable foreign host company.
 - The seconded expatriates are required to do all things established by PGM LLC to complete the assignment and to adhere to all PGM LLC policies and to the laws and regulations of any country in which the seconded expatriate is assigned.
 - The temporary assignment is conditioned upon the continuation of an employment relationship between PGM LLC and the seconded expatriate.
 - PGM LLC cedes to the foreign host company the right to direct, control, and supervise the day-to-day services performed by the seconded expatriate.

- During the assignment, the seconded expatriates are subject to the full direction, control, and supervision of the assigned foreign host company while the expatriate provides the agreed upon services.
 - PGM LLC does not exercise any direction, control, or supervision over the seconded expatriates of any day-to-day duties for the foreign host company performed under the Secondment Agreement.
85. In the Secondment Agreements and accompanying Letters of Understanding, the Parties state their intent that the expatriates remain employed by PGM LLC during the term of the assignment.
 86. The Secondment Agreements state that to prevent permanent establishment foreign tax exposure for PGM LLC, FLNA, or PepsiCo, Inc., PGM LLC agrees to take all necessary steps to ensure, that, during the term of the assignment, the seconded expatriates will not have any authority to negotiate on behalf of PGM LLC or to otherwise bind PGM LLC to any contract with any third party or to conduct any business in the name of or on behalf of PGM LLC.
 87. A foreign host company manager generally assesses the seconded expatriate's day-to-day performance and determines an annual performance rating reflective of these day-to-day services and submits this rating to the PepsiCo Corporate Group's Executive Compensation Team.
 88. The PepsiCo Corporate Group's Executive Compensation Team evaluates the overall performance of all employees on the U.S. benefits plan (including all PepsiCo Corporate Group domestic U.S. employees and all expatriates seconded outside the U.S.) and makes all final compensation determinations.
 89. The PepsiCo Corporate Group's human resources function located in PepsiCo, Inc. serves all personnel/entities within the PepsiCo Corporate Group.
 90. There is no written agreement between PGM LLC, or any other PepsiCo Corporate Group entity, and PepsiCo, Inc. for human resource services provided to the entire PepsiCo Corporate Group.
 91. No intercompany payment is made by or on behalf of PGM LLC, or any other PepsiCo Corporate Group entity, to reimburse PepsiCo, Inc. for human resource services provided to the entities within the PepsiCo Corporate Group.
 92. PGM LLC's stated business activity is a human resource function -- specifically, the human resource functions associated with supporting high-performing executives sent outside the U.S. to perform temporary key roles for foreign subsidiaries.
 93. Certain expatriates provide human resource services to the PepsiCo Corporate Group --

for example, Massalas [redacted], was seconded to a foreign host company in the United Kingdom (Walker Snack Foods Ltd.) in the role of HR Senior Vice President. *See* Exhibit 7 (Breakout of Beverage, Food, and Combination PGM LLC Employees (Sample) PEP00004906-PEP00004908); *see also* Rockchel Provillon Letter of Understanding (PEP00000120-PEP00000129). Massalas [redacted] is not among the individuals listed as part of the Global Mobility HR Function for the 2011-2013 tax years. *See* Exhibit 8 (Global Mobility HR Function Employee List (PEP00002531)).

94. The seconded expatriates perform services for the host companies under the direction of and for the benefit of the host companies.
95. PGM LLC's books are credited for foreign host companies' reimbursement of seconded expatriate payments and benefits.
96. PGM LLC is reimbursed for 100% of all payments and benefits paid to the seconded expatriates.
97. A foreign host company may end an assignment for any reason upon written notice to PGM LLC; however, the Secondment Agreement does not provide the foreign host company the right to terminate a seconded expatriate's overall employment.
98. The Secondment Agreements state that PGM LLC may end an assignment for any reason, including by termination of overall employment, upon written notice to the foreign host company.
99. The Expatriate Program is overseen in its entirety by a group of individuals within the PepsiCo Corporate Group's human resources function (the "PepsiCo Corporate Group HR Function").
100. More specifically, within the PepsiCo Corporate Group HR Function, there are approximately twenty individuals located throughout the world who execute employee transfers, relocations, and secondments throughout the PepsiCo Corporate Group in locations across the world ("Global Mobility HR Function"). *See* Exhibit 8 (Global Mobility HR Function Employee List (PEP00002531)).
101. The majority of the time and resources spent by individuals within the Global Mobility HR Function are dedicated to activities and functions that are unrelated to the management and support functions for PGM LLC and its expatriates. Such activities include, but are not limited to: talent management (*i.e.*, career path support, placement and deployment of skill, evaluation, etc.), payroll administration, benefits enrollment, tax services, immigration assistance, etc. for other (non-PGM LLC) domestic U.S. and international transfers, relocations, and temporary work assignments.
102. The total cost of the individuals dedicated to the Global Mobility HR Function is attached hereto as Exhibit 9 (Global Mobility HR Function Cost Summary (PEP00004921)); these individuals provide human resource services to a variety of businesses within the PepsiCo Corporate Group in addition to their Global Mobility HR Function services.

103. Roughly 26% of the Global Mobility HR Function’s time and resources are devoted to management and support functions for PGM LLC and its expatriates. Exhibit 9 (Global Mobility HR Function Cost Summary (PEP00004921); and Exhibit 8 (Global Mobility HR Function Employee List) (PEP00002531).
104. In providing management and support functions to PGM LLC and the expatriates, the Global Mobility HR Function addresses HR issues unique to expatriate assignments such as education, immigration, and work permit issues.
105. The Global Mobility HR Function was divided into three main teams to oversee each expatriate seconded by PGM LLC: 1) the “**Center of Excellence Team**”; 2) the “**Services Team**”; and 3) the “**Relationship Team**”. According to Exhibit 18 (Global Mobility Progress Toward Transformation (Mar. 2011) (PEP00001337-1362)).
106. The **Center of Excellence Team** drives strategy, best practices, policies, vendor management, reporting, technology, tools, and guidance.
107. The **Services Team** is the foundation for preparing packages for the seconded employees, initiating relocations, executing of core processes, and resolving issues.
108. Specific responsibilities/functions of the Services Team include (but are not limited to): preparing and implementing the package of the seconded employee; administering the assignment packages throughout the duration of the assignment; executing core process such as payroll and U.S. and non-U.S. tax compliance; maintenance of required documentation throughout the duration of the assignment; and managing regional vendor relationships.
109. The **Relationship Team** is the primary contact for the seconded employee and his/her family, human resources, and PepsiCo Corporate Group business leaders throughout the duration of the assignment to the foreign host company.
110. Specific responsibilities/functions of the Relationship Team include (but are not limited to): managing the seconded employees experience; delivering his or her package and on-boarding; providing training and education tools and teaching support; identifying and eliminating soft barriers to mobility, such as family integration; building links and maintaining the relationship with the assignee’s home country; and managing expectations and consulting on relocations.

PGM LLC Benefit External Reporting / Compliance

111. Like all entities within the PepsiCo Corporate Group, a third party service provider acting in the name of PGM LLC withholds and remits all U.S. payroll and employment taxes required by statute, law, rule, or regulation to be withheld and paid under U.S. law.
112. Actual cash payments made to seconded expatriates originate in PGM LLC’s books and

records as payroll expense.

113. After PGM LLC's books and records record the payroll expense for payments to the seconded expatriates, PGM LLC's books and records record an "other income" offset for reimbursement from the foreign host companies dollar-for-dollar in the amount of the actual cash expense paid to the seconded expatriate.
114. Income taxes are withheld and U.S. payroll and employment taxes are remitted in PGM LLC's name on payments to expatriates who are seconded outside the U.S.
115. For each of the Tax Years at Issue, Forms W-2, Wage and Tax statements were submitted in PGM LLC's name when required under U.S. law to the expatriates seconded to foreign host companies. PGM LLC's Forms W-2/W-2c Files are attached hereto as Exhibit 27 (PEP00000186-209 (2011); PEP00000222-245 (2012); and PEP00000257-296 (2013)).
116. For each of the Tax Years at Issue, Federal Insurance Contributions Act ("FICA") tax was withheld from payments to expatriates. That tax was remitted in PGM LLC's name to the IRS on Form 941, Employer's Quarterly Federal Tax Return. PGM LLC's Form 941, Employer's Quarterly Federal Tax Returns for the Tax Years at Issue are attached hereto as Exhibit 28 (PEP00001872-1883 (2011); PEP00001860-1871 (2012); and PEP00001652-1663 (2013)).
117. Payments to and benefits received by expatriates (wages, salaries, bonuses, stock options, etc.) were made on behalf of PGM LLC to expatriates while seconded to the foreign host companies in the following amounts for each of the Tax Years at Issue: \$93,463,835 (2011); \$100,439,232 (2012); and \$116,263,196 (2013). See Exhibit 4 (PGM LLC Payroll Reports (2011-2013) (PEP00002641-PEP00002853)).
118. On PGM LLC's books, "Other Income" is credited for foreign host company dollar-for-dollar reimbursement of the payments to and benefits received by the seconded expatriates. Accordingly, on PGM LLC's pro forma federal income tax returns, taxable income/losses equaled the following amounts: 2011 – (\$1); 2012 – (\$9,064,100); and 2013 - (\$7,015,640). See PGM LLC 2011, 2012, and 2013 Pro Forma Federal Income tax returns at PEP00002532, PEP00002544, and PEP00002555. The losses in 2012 and 2013 are generated primarily from unreimbursed expenses attributable to the exercise by foreign expatriates of non-qualified stock options. PEP00002551 and 00002562

PGM LLC's Internal Accounting Processes

119. Invoices are issued on behalf of PGM LLC to foreign host companies for reimbursement of payments and benefits. A representative sample of such invoices is attached hereto as Exhibit 30 (Intercompany Invoices (PEP00002567-2618)).
120. The Pepsi International Support Center ("PISC"), a division of PepsiCo, Inc., intercompany cross-charges entities within the PepsiCo Corporate Group for expenses and reimbursements.

121. The PISC maintains accounting books and records attendant to the PGM LLC foreign expatriate payroll expenses.
122. Compensation paid to foreign expatriates is the only employee compensation reported by PGM LLC. PGM LLC claims no other employees for accounting, tax return reporting, or other purposes.
123. PISC contracts with Hewitt Payroll Services to issue payroll checks to all PepsiCo Corporate Group affiliate employees on the U.S. benefits plan, including to all expatriates seconded outside the United States, and files all necessary payroll tax returns reporting their compensation (“PGM LLC Compensation”).
124. PISC issues invoices to foreign subsidiaries to charge foreign expatriate payroll costs on a dollar-for-dollar basis, without markup.
125. Under the general ledger system maintained by PISC, there is an automatic charge of PGM LLC foreign expatriate payroll expenses as a debit to payroll expenses in PGM LLC’s general ledger.
126. PISC and Pepsi-Cola International Limited (“PCIL”), a wholly owned PepsiCo, Inc. affiliate, (i) cross-charge PGM LLC’s benefit expenses to the foreign host companies; and (ii) cross-charge the foreign host companies’ reimbursement to PGM LLC for the benefit amounts. *See, e.g.*, PGM LLC’s SAP Intercompany Activity Ledger (P1-P2/2012), attached as Exhibit 31 (PEP00002906-2927).
127. PISC and PCIL cross-charge PGM LLC’s general ledger for accrued employee payroll expense. *See, e.g.*, Exhibit 32 (PGM LLC book-to-tax trial balances (PEP00002621-2622; (2011); PEP00002625-2626; (2012); and PEP00002635-2637 (2013))); and Exhibit 33 (PGM LLC Feb. 2012 trial balance evidencing PGM LLC benefit expense and reimbursement (PEP00002854-2855)).
128. PISC and PCIL cross-charge the foreign host companies for reimbursement of PGM LLC’s benefits, and PGM LLC’s general ledger is credited to show reimbursement for these amounts. *See, e.g.*, Exhibit 34 (PEP00002619-2620 (2011); PEP00002623-2624 (2012); and PEP00002627-2628 (2013)).
129. The reimbursement cross-charged to the foreign host companies, and credited to PGM LLC’s general ledger as reimbursement, are on a cost basis, *i.e.*, there is no mark-up fee.

PepsiCo’s Exclusion of Frito-Lay North America, Inc. from the 2011 - 2013 Illinois Combined Tax Returns

130. PepsiCo excluded FLNA from the 2011, 2012 and 2013 Illinois Combined Tax Returns as an 80/20 company pursuant to 35 ILCS 5/1501(a)(27). The Department disagrees with this position.

131. The income and tax effects of PepsiCo’s application of the 80/20 Test to exclude FLNA from its 2011, 2012 and 2013 Illinois Combined Tax Returns as compared to 2010, the year prior to such exclusion, are summarized in the chart below:

Tax Year	IL 1120 Line	2010	2011	2012	2013
Federal Consolidated Income - Per Audit	1	\$1,438,691,738	\$1,395,652,666	\$1,397,889,650	\$1,574,642,751
PepsiCo’s Exclusion of FLNA Income from Federal Consolidated Income under the 80/20 test.	N/A	N/A	(\$2,743,739,901)	(\$2,822,348,294)	(\$2,374,671,181)
Federal Consolidated Income – Per PepsiCo’s Original Return.	1	\$1,438,691,738	(\$1,348,087,235)	(1,424,458,644)	(800,028,430)
*****		*****	*****	*****	*****
Total Net Income and Replacement Taxes - Per Audit	52	\$ 6,251,010	\$ 4,696,736	\$ 3,355,864	\$ 2,623,354
Total Net Income and Replacement Taxes – Per PepsiCo’s Original Return	52	\$ 5,350,035	\$0	\$0	\$0

132. During the Audits, PepsiCo provided tax return documentation to the Department stating FLNA’s “business activity,” as reflected by FLNA’s property and payroll factors, is 80% or more outside the United States.

PepsiCo’s Illinois Combined Tax Returns and the Department’s Audit

133. PepsiCo, along with its unitary subsidiaries, timely filed an Illinois Income and Replacement Tax Return on a combined basis (“Illinois Combined Tax Return”), and paid the tax shown due thereon, for tax years 2010 - 2013.

134. The Department initiated audits of PepsiCo for tax years 2010 and 2011 on or about April

2, 2014 and for tax years 2012 and 2013 on or about December 22, 2015 (collectively, the "Audits").

135. Upon conclusion of the Audits, the Department issued four separate notices of deficiency for each of PepsiCo's tax years 2010 - 2013, true and correct copies of which are attached hereto as Exhibit 38.
136. In the notices of deficiency, among other adjustments, the Department included FLNA in PepsiCo's Illinois Combined Tax Returns for the 2011-2013 tax years.

PepsiCo's 80/20 Company Computations for Frito-Lay North America, Inc. (2011-2013)

137. For the **2011 tax year**, PepsiCo revised its reported FLNA's average foreign property and foreign payroll factors to equal 81.72% pursuant to 35 ILCS 5/1501(a)(27). Details regarding this computation are set forth in Exhibit 35 (PEP00002873).
138. For the **2012 tax year**, PepsiCo reported FLNA's average foreign property and foreign payroll factors equaled 86.54% pursuant to 35 ILCS 5/1501(a)(27). Details regarding this computation are set forth in Exhibit 36 (PEP00002874).
139. For the **2013 tax year**, PepsiCo reported FLNA's average foreign property and foreign payroll factors equaled 87.18% pursuant to 35 ILCS 5/1501(a)(27). Details regarding this computation are set forth in Exhibit 37 (PEP00002875).
140. **FLNA (stand-alone entity)** had: \$21,100,952 in U.S. payroll and \$9,994,824 in U.S. property during the 2011 tax year; \$20,341,918 in U.S. payroll and \$10,220,736 in U.S. property during the 2012 tax year; and \$22,764,790 in U.S. payroll and \$9,903,992 in U.S. property during the 2013 tax year.
141. **GMD Branch** had: \$155,166 foreign (non-U.S.) payroll and \$50,816 foreign (non-U.S.) property during the 2011 tax year; \$170,687 foreign (non-U.S.) payroll and \$308,560 foreign (non-U.S.) property during the 2012 tax year; and \$0 payroll and \$352,893 foreign (non-U.S.) property during the 2013 tax year.
142. **FLNA-Hong Kong** had: \$7,832,717 foreign (non-U.S.) payroll and \$6,225,904 foreign (non-U.S.) property during the 2011 tax year; \$28,319,334 foreign (non-U.S.) payroll and \$27,729,750 foreign (non-U.S.) property during the 2012 tax year; and \$29,848,722 foreign (non-U.S.) payroll and \$26,681,821 foreign (non-U.S.) property during the 2013 tax year.
143. **CEME** had: \$17,833,906 foreign (non-U.S.) payroll and \$30,145,239 foreign (non-U.S.) property during the 2011 tax year; \$12,920,622 foreign (non-U.S.) payroll and \$32,671,422 foreign (non-U.S.) property during the 2012 tax year; and \$11,749,178 foreign (non-U.S.) payroll and \$33,488,656 foreign (non-U.S.) property during the 2013 tax year.

144. **QFL** had: \$0 payroll and \$78,609 foreign (non-U.S.) property during the 2011 tax year; \$0 payroll and \$166,330 foreign (non-U.S.) property during the 2012 tax year; and \$422,028 foreign (non-U.S.) payroll and \$212,724 foreign (non-U.S.) property during the 2013 tax year.
145. **Bev Svcs** had: \$4,670,315 foreign (non-U.S.) payroll and \$5,287,857 foreign (non-U.S.) property during the 2013 tax year.
146. For purposes of this case, the Department will not dispute the payroll and property amounts reported for PepsiCo's 2011-2013 tax years, as set forth in Exhibit 35 through Exhibit 37, with respect to the following entities: FLNA (stand-alone entity); GMD Branch (branch of FLNA); FLNA Hong Kong; CEME; QFL; and Bev Svcs for purposes of the 80/20 company computation under 35 ILCS 5/1501(a)(27).
147. PepsiCo reported that **PGM LLC** had: \$93,463,835 foreign (non-U.S.) payroll and \$0 property during the 2011 tax year; \$100,439,232 foreign (non-U.S.) payroll and \$0 property during the 2012 tax year; and \$116,263,196 foreign (non-U.S.) payroll and \$0 property during the 2013 tax year; the Department agrees as to the completeness and accuracy of these dollar amounts reported for PGM LLC; however, the Department does not agree these amounts constitute PGM LLC's "compensation" or "wages" for purposes of the 80/20 company computations under 35 ILCS 5/1501(a)(27).
148. For 2010, FLNA's salary and wage expense totaled \$145,138,430 (including all foreign disregarded entities). Pepsi 2010 Consolidated Federal Income Tax Return Consolidating Schedules, page 1, Line 13, col. FLNA.
149. As of January 1, 2010, FLNA's investment in tangible personal and real property, consisting of land, buildings and other depreciable assets totaled \$ 622,949,413 (including all foreign disregarded entities). Pepsi 2010 Consolidated Federal Income Tax Return Consolidating Schedules, page 185, Line 10(A), col. FLNA.
150. FLNA (stand-alone entity excluding foreign disregarded entities) does not hold any inventory in the United States. FLNA sells Frito-Lay products manufactured by FLI to RFLS. FLI holds ownership of the product in its inventory until RFLS picks up the product for sale and distribution to third parties.
151. Beginning in 2011 and extending throughout the audit period at issue, FLNA (stand-alone entity excluding foreign disregarded entities) owned no tangible or real property.
152. FLNA did not own real property and rented office space from Frito-Lay, Inc. at Frito-Lay, Inc. headquarters located at 7701 Legacy Drive, Plan, Texas 75024 during 2011-2013.
153. The FLNA 2011 through 2013 rental expense (stand-alone entity excluding foreign disregarded entities), annualized for Illinois property factor purposes at eight times annual rent, constituted FLNA's contribution to the property factor, all U.S. source, for

80/20 Test computations in the attached Exhibits.

154. FLNA (stand-alone entity excluding foreign disregarded entities) contributed Property (annualized rent) and Payroll, all U.S. Source, to the 80/20 Test computations in the attached Exhibits as follows:

U.S. Payroll and Property for 80/20 Test in Attached Exhibits		
Year	U.S. Payroll	US Property
2011	\$21,100,952	\$9,994,824
2012	\$20,341,918	\$10,220,736
2013	\$22,764,790	\$9,903,992

155. Foreign Property and Payroll, all Foreign, used for 80/20 Test computations in the attached Exhibits is attributable to PGM LLC, FLNA GMD Branch, PepsiCo Hong Kong, LLC, CEME, and QFL, and is summarized as follows:

Foreign Payroll and Property for 80/20 Test in Attached Exhibits		
Year	Foreign Payroll	Foreign Property
2011	\$118,967,981	\$36,500,568
2012	\$141,848,877	\$60,876,062
2013	\$162,953,439	\$65,773,951

156. Federal Taxable Income reported on the pro forma federal income tax returns and trial balances prepared for PGM LLC, FLNA GMD Branch, PepsiCo Hong Kong, LLC, CEME, and QFL, attached hereto as Exhibits, is summarized as follows:

		2011 Pro Forma Separate Federal Taxable Income	2012 Pro Forma Separate Federal Taxable Income	2013 Pro Forma Separate Federal Taxable Income
1.	PGM LLC	(\$1)	(\$9,064,100)	(\$7,015,640)
2.	FLNA GMD Branch	12,529,594	15,096,966	17,052,484
3.	PepsiCo Hong Kong, LLC	(3,072,153)	(16,772,890)	(19,804,877)
4.	CEME	(48,908,632)	(28,949,914)	(47,345,437)
5.	QFL	133,197	174,544	(324,349)
	Total	(\$39,317,275)	(\$39,515,394)	(\$57,437,839)

157. FLNA GMD Branch, PepsiCo Hong Kong, LLC, CEME, and QFL neither conduct

business nor make sales in the U.S., nor are they otherwise engaged in the US domestic snack foods business.

Exhibits / Sample Documentation

158. The Parties agree the following are true and correct documents for entry into the record:
- A. **FLNA and FLI Manufacturing Agreement -- Exhibit 1** (PEP00004832-PEP00004841)
 - B. **FLNA and RFLS Sales and Distribution Agreement -- Exhibit 2** (PEP00004842-PEP00004851)
 - C. **FLNA Hong Kong and FLGI Service Agreement -- Exhibit 3** (PEP00004909-PEP00004914)
 - D. **PGM LLC Payroll Reports (2011-2013) -- Exhibit 4** (PEP00002641-2710 (2011); PEP00002711-2770 (2012); and PEP00002771-2853 (2013))
 - E. **Entity Overview: PepsiCo Global Mobility, LLC -- Exhibit 5** (PEP00002876-2879)
 - F. **PepsiCo Global Mobility, LLC - Background to the Change in Entity (Sept. 2010) -- Exhibit 6** (PEP000002880-2888)
 - G. **Breakout of Beverage, Food, and Combination PGM LLC Employees (Sample) -- Exhibit 7** (PEP00004906-PEP00004908)
 - H. **Global Mobility HR Function Employee List -- Exhibit 8** (PEP00002531)
 - I. **Global Mobility HR Function Cost Summary -- Exhibit 9** (PEP00004921)
 - J. **FLNA *Pro Forma* Form 1120, U.S. Corporation Income Tax Return (2011 - 2013) -- Exhibit 10** (PEP00002351 - PEP00002380 (2011); PEP00002426 - PEP00002459 (2012); and PEP00002496 - PEP00002523(2013))
 - K. **PepsiCo Global Mobility, LLC *Pro Forma* Form 1120, U.S. Corporation Income Tax Return (2011 - 2013) -- Exhibit 11** (PEP00002532-PEP00002543 (2011); PEP00002544-PEP00002554 (2012); PEP00002555-PEP00002566 (2013))
 - L. **Centro-Mediterranea de Bebidas Carbonicas PepsiCo S.L. *Pro Forma* Form 1120, U.S. Corporation Income Tax Return -- Exhibit 12** (PEP00002037 - PEP00002077 (2011); PEP00002129 - PEP00002163 (2012); and PEP00002228 - PEP00002258 (2013))

- M. PepsiCo Hong Kong, LLC *Pro Forma* Form 1120, U.S. Corporation Income Tax Return -- Exhibit 13** (PEP00001951 - PEP00001979 (2011); PEP00002078 - PEP00002097 (2012); and PEP00002168 - PEP00002190) (2013))
- N. FLNA GMD Branch *Pro Forma* Form 1120, U.S. Corporation Income Tax Return (2011 - 2012); Book to Tax Trial Balance (2013) -- Exhibit 14** (PEP00001980 - PEP00002010 (2011); PEP00002191 - PEP00002223 (2012); and PEP00002224 - PEP00002225 (2013))
- O. QFL OHQ SDN. BHD. *Pro Forma* Form 1120, U.S. Corporation Income Tax Return (2011 - 2012); Book-to-Tax Trial Balance (2013) -- Exhibit 15** (PEP00001890 - PEP00001915 (2011); PEP00002098 - PEP00002128 (2012); and PEP00002226 - PEP00002227 (2013))
- P. Beverage Services, LLC Book-to-Tax Trial Balance (2013) -- Exhibit 16** (PEP00002164 - PEP00002167)
- Q. PepsiCo Global Mobility Transformation Plan (Jan. 2011) -- Exhibit 17** (PEP00004813-PEP00004831)
- R. PepsiCo Global Mobility Progress Toward the Transformation (Mar. 2011) - - Exhibit 18** (PEP00001337-PEP00001362)
- S. Assignment Lifecycle (May 2011) -- Exhibit 19** (PEP00004852-PEP00004855)
- T. PepsiCo Global Mobility Progress Toward the Transformation (Jun. 2011) -- Exhibit 20** (PEP00004856-PEP00004878)
- U. PepsiCo Global Mobility Transformation, Advisory Council Update (Jul. 2011) -- Exhibit 21** (PEP00004879-PEP00004888)
- V. PepsiCo's Global Mobility Transformation, The Strategic Role of Talent Management -- Exhibit 22 (Sept. 2011)** (PEP00004889-PEP00004905)
- W. PepsiCo's New Mobility Paradigm -- Exhibit 23** (PEP00004922-4924)
- X. PepsiCo Global Mobility Overview -- Exhibit 24** (PEP00004915-PEP00004920)
- Y. Secondment Agreements -- Exhibit 25**
- PGM LLC and Frito-Lay Trading Co Gmbh (Switzerland) (PEP00001642 - PEP00001651)
 - PGM LLC and PepsiCo Holdings, LLC (Russia) (PEP00001666 - PEP00001675)

- PGM LLC and PepsiCo Services Asia Ltd. (Thailand) (PEP00001676 - PEP00001685)
- PGM LLC and the Concentrate Manufacturing Company of Ireland (Ireland) (PEP00001686 - PEP00001695)
- PGM LLC and Pepsi-Cola International Ltd. (United Arab Emirates) (PEP00001696 - PEP00001708)
- PGM LLC and PepsiCo Hong Kong, LLC (China) (PEP00001709 - PEP00001719)
- PGM LLC and Pepsi-Cola (Thai) Trading Co. Ltd. (Thailand) (PEP00001720 - PEP00001729)

Z. Letters of Understanding -- Exhibit 26

- Jennifer [redacted] (PEP00000001 - PEP00000010)
- Alejandra [redacted] (PEP00000011 - PEP00000020)
- Alejandra [redacted] - Localization (PEP00000021 - PEP00000026)
- Jose [redacted] (PEP00000027 - PEP00000041)
- Marc [redacted] (PEP00000042 - PEP00000071)
- Michael [redacted] (PEP00000072 - PEP00000079)
- Ahmed [redacted] (PEP00000080 - PEP00000089)
- Omar [redacted] (PEP00000090 - PEP00000100)
- Adel [redacted] (PEP00000101 - PEP00000111)
- Jonathan [redacted] (PEP00000112 - PEP00000119)
- Rockchel [redacted] (PEP00000120 - PEP00000129)
- Bassim [redacted] (PEP00000130 - PEP00000139)

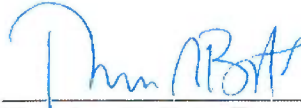
AA. PGM LLC Form W-2/W-2c Files -- Exhibit 27 (PEP00000186-209 (2011); PEP00000222-245 (2012); and PEP00000257-296 (2013))

- BB. PGM LLC Form 941, Employer's Quarterly Federal Tax Returns for the Tax Years at Issue -- Exhibit 28** (PEP00001872-1883 (2011); PEP00001860-1871 (2012); and PEP00001652-1663 (2013))
- CC. The PepsiCo Corporate Group's U.S. Benefits Plans -- Exhibit 29**
- The PepsiCo Savings Plan (Dec. 31, 2010) (PEP00003617-PEP00003850);
 - The PepsiCo Savings Plan (Jan. 1., 2013) (PEP00003086-PEP000003333);
 - PepsiCo Savings and Retirement Benefits (PEP00004273-PEP00004368);
 - The PepsiCo Salaried Employees Retirement Plan (Sept. 30, 2009) (PEP00004051-PEP00004272);
 - The PepsiCo Salaried Employees Retirement Plan (Jan. 1, 2013) (PEP00003939-PEP00004050);
 - The PepsiCo Pension Equalization Plan for the Pre-Section 409A Program (PEP00003334-PEP00003416);
 - The PepsiCo Pension Equalization Plan for the Section 409A Program (PEP00003851-PEP00003938);
 - The PepsiCo Automatic Retirement Contribution Equalization Plan (Jan 1., 2011) (PEP00003417-PEP00003464);
 - The PepsiCo Employee Health Care Program (Jan. 1, 2011) (PEP00003465-PEP00003616); and
 - The PepsiCo Employee Health Care Program (Jan. 1, 2013) (PEP00002928-PEP00003085).
- DD. PGM LLC Intercompany Invoices -- Exhibit 30** (PEP00002567-2618)
- EE. PGM LLC SAP Intercompany Activity Ledger (P1-P2/2012) -- Exhibit 31** (PEP00002906-2927)
- FF. PGM LLC Book-to-Tax Trial Balances -- Exhibit 32** (PEP00002621-2622; (2011); PEP00002625-2626; (2012); and PEP00002635-2637 (2013))
- GG. PGM LLC February 2012 Trial Balance -- Exhibit 33** (PEP00002854-2855)
- HH. PGM LLC General Ledger (2011-2013) -- Exhibit 34** (PEP00002619-2620 (2011); PEP00002623-2624 (2012); and PEP00002627-2628 (2013))

- II. FLNA 80/20 Company Computation (2011) -- Exhibit 35** (PEP00002873)
- JJ. FLNA 80/20 Company Computation (2012) -- Exhibit 36** (PEP00002874)
- KK. FLNA 80/20 Company Computation (2013) -- Exhibit 37** (PEP00002875)
- LL. Illinois Department of Revenue Notices of Deficiency (2010--2013) -- Exhibit 38**
- MM. Certificate of Coverage -- Exhibit 39**
- Michael [redacted] (PEP00000140 - PEP00000141)
 - Jennifer [redacted] (PEP00000178)
- NN. Employment Permit / Work Permit -- Exhibit 40**
- Michael [redacted] (PEP00000142 - PEP00000146)
 - Alejandra [redacted] (PEP00000179)
- OO. International Assignment Handbook -- Exhibit 41** (PEP00001311-PEP00001336)
- PP. Annual Reports- 2010 through 2013 -- Exhibit 42**
- QQ. EDA-25 IL- 1120 Auditor's Report 2010 through 2013 -- Exhibit 43**
- RR. Internal Revenue Service Notice of Proposed Adjustment -- Exhibit 44** (PEP00004925-PEP00004965)
- SS. PepsiCo, Inc. and Affiliates Domestic (U.S.) Consolidated Return (2012), Trial Balance Detail Without Elimination -- Exhibit 45** (PEP00004973-PEP00005082)
- TT. PepsiCo, Inc. and Affiliates Domestic (U.S.) Consolidated Return (2012), Schedule L Balance Sheet Detail -- Exhibit 46** (PEP00005083-PEP00005101)
- UU. PepsiCo, Inc. Domestic (U.S.) Consolidated Group Bank Account Detail -- Exhibit 47** (PEP00004966-PEP00004972)

The parties jointly agree to the above stated facts.

Dated: 1/17/2020

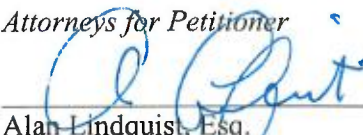


Theodore R. Bots, Esq.
David A. Hemmings, Esq.
BAKER & MCKENZIE LLP
300 E. Randolph Street, Suite 5000
Chicago, IL 60601

George M. Clarke, Esq.
BAKER & MCKENZIE LLP
815 Connecticut Avenue, NW
Washington, DC 20006

Attorneys for Petitioner

Dated: 1/17/20



Alan Lindquist, Esq.
Joseph Kasiak, Esq.
Jessica Odigie, Esq.
Illinois Department of Revenue
Office of Legal Services
100 W. Randolph Street, Room 7-900
Chicago, IL 60601

Attorneys for Respondent