PEPSICO INC
Form 10-Q
October 09, 2014
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 6, 2014 (36 weeks)
OR

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

For the transition period from to
Commission file number 1-1183

PepsiCo, Inc.
(Exact Name of Registrant as Specified in its Charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	13-1584302 (I.R.S. Employer Identification No.)
700 Anderson Hill Road, Purchase, New York (Address of Principal Executive Offices)	10577 (Zip Code)

914-253-2000
(Registrant’s Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES X NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer X	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Number of shares of Common Stock outstanding as of October 2, 2014 was 1,496,606,020.

Table of Contents

PepsiCo, Inc. and Subsidiaries

Table of Contents

Part I Financial Information		Page No.
Item 1.	Condensed Consolidated Financial Statements	3
	Condensed Consolidated Statement of Income – 12 and 36 Weeks Ended September 6, 2014 and September 7, 2013	3
	Condensed Consolidated Statement of Comprehensive Income – 12 and 36 Weeks Ended September 6, 2014 and September 7, 2013	4
	Condensed Consolidated Statement of Cash Flows – 36 Weeks Ended September 6, 2014 and September 7, 2013	5
	Condensed Consolidated Balance Sheet – September 6, 2014 and December 28, 2013	7
	Condensed Consolidated Statement of Equity – 36 Weeks Ended September 6, 2014 and September 7, 2013	9
	Notes to the Condensed Consolidated Financial Statements	10
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
Report of Independent Registered Public Accounting Firm		47
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	48
Item 4.	Controls and Procedures	48
Part II Other Information		
Item 1.	Legal Proceedings	49
Item 1A.	Risk Factors	49
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 5.	Other Information	51
Item 6.	Exhibits	52

Table of Contents

PART I FINANCIAL INFORMATION
ITEM 1. Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Income
PepsiCo, Inc. and Subsidiaries
(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Net Revenue	$17,218	$16,909	$46,735	$46,297
Cost of sales	7,995	7,946	21,520	21,678
Selling, general and administrative expenses	6,354	6,158	17,600	17,237
Amortization of intangible assets	22	25	65	75
Operating Profit	2,847	2,780	7,550	7,307
Interest expense	(215)	(220)	(625)	(642)
Interest income and other	23	17	51	62
Income before income taxes	2,655	2,577	6,976	6,727
Provision for income taxes	637	654	1,744	1,694
Net income	2,018	1,923	5,232	5,033
Less: Net income attributable to noncontrolling interests	10	10	30	35
Net Income Attributable to PepsiCo	$2,008	$1,913	$5,202	$4,998
Net Income Attributable to PepsiCo per Common Share				
Basic	$1.33	$1.24	$3.43	$3.23
Diluted	$1.32	$1.23	$3.40	$3.20
Weighted-average common shares outstanding				
Basic	1,507	1,542	1,515	1,545
Diluted	1,525	1,561	1,532	1,564
Cash dividends declared per common share	$0.655	$0.5675	$1.8775	$1.6725

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statement of Comprehensive Income
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	12 Weeks Ended 9/6/2014			36 Weeks Ended 9/6/2014		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$2,018			$5,232
Other Comprehensive Loss						
Currency translation adjustment	$(737)	$—	(737)	$(1,151)	$—	(1,151)
Cash flow hedges:						
Reclassification of net losses to net income	109	(37)	72	130	(46)	84
Net derivative losses	(42)	16	(26)	(67)	23	(44)
Pension and retiree medical:						
Reclassification of net losses to net income	55	(18)	37	156	(51)	105
Remeasurement of net liabilities and translation	(10)	5	(5)	(20)	8	(12)
Unrealized losses on securities	(13)	7	(6)	(2)	1	(1)
Total Other Comprehensive Loss	$(638)	$(27)	(665)	$(954)	$(65)	(1,019)
Comprehensive income			1,353			4,213
Comprehensive income attributable to noncontrolling interests			(10)			(30)
Comprehensive Income Attributable to PepsiCo			$1,343			$4,183

	12 Weeks Ended 9/7/2013			36 Weeks Ended 9/7/2013		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$1,923			$5,033
Other Comprehensive Loss						
Currency translation adjustment	$(700)	$—	(700)	$(1,653)	$—	(1,653)
Cash flow hedges:						
Reclassification of net losses to net income	21	(7)	14	72	(26)	46
Net derivative gains/(losses)	4	(4)	—	(14)	12	(2)
Pension and retiree medical:						
Reclassification of net losses to net income	82	(29)	53	245	(83)	162
Remeasurement of net liabilities and translation	(9)	3	(6)	36	(10)	26
Unrealized gains on securities	9	(4)	5	28	(14)	14
Other	1	—	1	—	(16)	(16)
Total Other Comprehensive Loss	$(592)	$(41)	(633)	$(1,286)	$(137)	(1,423)
Comprehensive income			1,290			3,610
Comprehensive income attributable to noncontrolling interests			(9)			(32)
Comprehensive Income Attributable to PepsiCo			$1,281			$3,578

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statement of Cash Flows
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	36 Weeks Ended	
	9/6/2014	9/7/2013
Operating Activities		
Net income	$5,232	$5,033
Depreciation and amortization	1,794	1,815
Stock-based compensation expense	207	219
Merger and integration charges	—	9
Cash payments for merger and integration charges	—	(21)
Restructuring and impairment charges	258	37
Cash payments for restructuring charges	(169)	(100)
Cash payments for restructuring and other charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	—	(26)
Non-cash foreign exchange loss related to Venezuela currency devaluation	—	111
Excess tax benefits from share-based payment arrangements	(86)	(94)
Pension and retiree medical plan expenses	368	462
Pension and retiree medical plan contributions	(196)	(208)
Deferred income taxes and other tax charges and credits	(8)	(66)
Change in accounts and notes receivable	(1,582)	(1,262)
Change in inventories	(481)	(337)
Change in prepaid expenses and other current assets	(18)	(156)
Change in accounts payable and other current liabilities	537	734
Change in income taxes payable	1,115	811
Other, net	(278)	(299)
Net Cash Provided by Operating Activities	6,693	6,662
Investing Activities		
Capital spending	(1,540)	(1,497)
Sales of property, plant and equipment	60	51
Cash payments related to the transaction with Tingyi	—	(3)
Acquisitions and investments in noncontrolled affiliates	(81)	(82)
Divestitures	186	174
Short-term investments, by original maturity		
More than three months – purchases	(5,423)	—
Three months or less, net	117	(8)
Other investing	3	(13)
Net Cash Used for Investing Activities	(6,678)	(1,378)

(Continued on following page)

Table of Contents

Condensed Consolidated Statement of Cash Flows (continued)
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	36 Weeks Ended	
	9/6/2014	9/7/2013
Financing Activities		
Proceeds from issuances of long-term debt	$3,364	$4,185
Payments of long-term debt	(2,186)	(2,954)
Short-term borrowings, by original maturity		
More than three months – proceeds	32	2
More than three months – payments	(10)	(476)
Three months or less, net	2,117	662
Cash dividends paid	(2,745)	(2,558)
Share repurchases – common	(3,207)	(2,041)
Share repurchases – preferred	(7)	(5)
Proceeds from exercises of stock options	561	991
Excess tax benefits from share-based payment arrangements	86	94
Acquisition of noncontrolling interests	—	(20)
Other financing	(32)	(15)
Net Cash Used for Financing Activities	(2,027)	(2,135)
Effect of exchange rate changes on cash and cash equivalents	(81)	(242)
Net (Decrease)/Increase in Cash and Cash Equivalents	(2,093)	2,907
Cash and Cash Equivalents, Beginning of Year	9,375	6,297
Cash and Cash Equivalents, End of Period	$7,282	$9,204

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
(in millions)

	(Unaudited) 9/6/2014	12/28/2013
Assets		
Current Assets		
Cash and cash equivalents	$7,282	$9,375
Short-term investments	5,624	303
Accounts and notes receivable, less allowance: 9/14 - $154 and 12/13 - $145	8,376	6,954
Inventories		
Raw materials	1,832	1,732
Work-in-process	261	168
Finished goods	1,691	1,509
	3,784	3,409
Prepaid expenses and other current assets	1,524	2,162
Total Current Assets	26,590	22,203
Property, Plant and Equipment	37,373	36,961
Accumulated Depreciation	(19,444)	(18,386)
	17,929	18,575
Amortizable Intangible Assets, net	1,549	1,638
Goodwill	16,225	16,613
Other Nonamortizable Intangible Assets	13,951	14,401
Nonamortizable Intangible Assets	30,176	31,014
Investments in Noncontrolled Affiliates	1,946	1,841
Other Assets	2,276	2,207
Total Assets	$80,466	$77,478

(Continued on following page)

Table of Contents

Condensed Consolidated Balance Sheet (continued)
PepsiCo, Inc. and Subsidiaries
(in millions except per share amounts)

	(Unaudited) 9/6/2014	12/28/2013
Liabilities and Equity		
Current Liabilities		
Short-term obligations	$9,253	$5,306
Accounts payable and other current liabilities	13,591	12,533
Total Current Liabilities	22,844	17,839
Long-Term Debt Obligations	23,489	24,333
Other Liabilities	5,076	4,931
Deferred Income Taxes	5,870	5,986
Total Liabilities	57,279	53,089
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(178)	(171)
PepsiCo Common Shareholders' Equity		
Common stock, par value $1^2/_3$¢ per share (authorized 3,600 shares, issued, net of repurchased common stock at par value: 1,503 and 1,529 shares, respectively)	25	25
Capital in excess of par value	4,028	4,095
Retained earnings	48,764	46,420
Accumulated other comprehensive loss	(6,146)	(5,127)
Repurchased common stock, in excess of par value (363 and 337 shares, respectively)	(23,463)	(21,004)
Total PepsiCo Common Shareholders' Equity	23,208	24,409
Noncontrolling Interests	116	110
Total Equity	23,187	24,389
Total Liabilities and Equity	$80,466	$77,478

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statement of Equity
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	36 Weeks Ended			
	9/6/2014		9/7/2013	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	$41	0.8	$41
Repurchased Preferred Stock				
Balance, beginning of year	(0.6)	(171)	(0.6)	(164)
Redemptions	—	(7)	—	(5)
Balance, end of period	(0.6)	(178)	(0.6)	(169)
Common Stock				
Balance, beginning of year	1,529	25	1,544	26
Repurchased common stock	(26)	—	(7)	—
Balance, end of period	1,503	25	1,537	26
Capital in Excess of Par Value				
Balance, beginning of year		4,095		4,178
Stock-based compensation expense		207		219
Stock option exercises and restricted stock units (RSUs) converted (a)		(200)		(266)
Withholding tax on RSUs converted		(89)		(77)
Other		15		(14)
Balance, end of period		4,028		4,040
Retained Earnings				
Balance, beginning of year		46,420		43,158
Net income attributable to PepsiCo		5,202		4,998
Cash dividends declared – common		(2,839)		(2,583)
Cash dividends declared – RSUs		(19)		(19)
Balance, end of period		48,764		45,554
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(5,127)		(5,487)
Currency translation adjustment		(1,151)		(1,650)
Cash flow hedges, net of tax:				
Reclassification of net losses to net income		84		46
Net derivative losses		(44)		(2)
Pension and retiree medical, net of tax:				
Reclassification of net losses to net income		105		162
Remeasurement of net liabilities and translation		(12)		26
Unrealized (losses)/gains on securities, net of tax		(1)		14
Other		—		(16)
Balance, end of period		(6,146)		(6,907)
Repurchased Common Stock				
Balance, beginning of year	(337)	(21,004)	(322)	(19,458)
Share repurchases	(38)	(3,264)	(27)	(2,125)
Stock option exercises	10	643	18	1,146
Other	2	162	2	138
Balance, end of period	(363)	(23,463)	(329)	(20,299)
Total PepsiCo Common Shareholders' Equity		23,208		22,414

Noncontrolling Interests		
Balance, beginning of year	110	105
Net income attributable to noncontrolling interests	30	35
Distributions to noncontrolling interests	(23)	(15)
Currency translation adjustment	—	(3)
Acquisitions and divestitures	—	(6)
Other, net	(1)	—
Balance, end of period	116	116
Total Equity	$23,187	$22,402

(a) Includes total tax benefits of $45 million in 2014 and $32 million in 2013.
See accompanying notes to the condensed consolidated financial statements.

9

Table of Contents

Notes to the Condensed Consolidated Financial Statements
Note 1 - Basis of Presentation and Our Divisions
Basis of Presentation

When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries.
Our Condensed Consolidated Balance Sheet as of September 6, 2014, Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 6, 2014 and September 7, 2013, and the Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 6, 2014 and September 7, 2013 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks ended September 6, 2014 and September 7, 2013 are not necessarily indicative of the results expected for the full year.
The results of our Venezuelan businesses have been reported under highly inflationary accounting since the beginning of 2010. See further unaudited information in “Our Business Risks,” “Items Affecting Comparability” and “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.
While our North America (United States and Canada) results are reported on a 12-week basis, most of our international operations report on a monthly calendar basis for which the months of June, July and August are reflected in our third quarter results.
Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives and certain advertising and marketing costs in proportion to revenue or volume, as applicable, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.
The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

Table of Contents

Our Divisions

We are organized into six reportable segments (also referred to as divisions), as follows:

1. Frito-Lay North America (FLNA);
2. Quaker Foods North America (QFNA);
3. Latin American Foods (LAF), which includes all of our food and snack businesses in Latin America;
4. PepsiCo Americas Beverages (PAB), which includes all of our North American and Latin American beverage businesses;
5. PepsiCo Europe (Europe), which includes all beverage, food and snack businesses in Europe and South Africa; and
6. PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA, excluding South Africa.

Net revenue and operating profit of each division are as follows:

	12 Weeks Ended		36 Weeks Ended	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Net Revenue				
FLNA	$3,526	$3,424	$10,132	$9,879
QFNA	586	604	1,784	1,815
LAF	2,178	2,049	5,638	5,532
PAB	5,383	5,406	15,090	15,086
Europe	3,764	3,818	9,382	9,413
AMEA	1,781	1,608	4,709	4,572
	$17,218	$16,909	$46,735	$46,297

	12 Weeks Ended		36 Weeks Ended	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Operating Profit				
FLNA	$1,025	$977	$2,824	$2,711
QFNA	150	137	449	450
LAF	327	295	882	829
PAB	858	843	2,155	2,290
Europe	465	501	1,068	1,014
AMEA	309	295	884	1,003
Total division	3,134	3,048	8,262	8,297
Corporate Unallocated				
Mark-to-market net (losses)/gains	(33)	(19)	32	(74)
Restructuring and impairment charges	(15)	1	(20)	(1)
Venezuela currency devaluation	—	—	—	(124)
Other	(239)	(250)	(724)	(791)
	$2,847	$2,780	$7,550	$7,307

Table of Contents

Total assets of each division are as follows:

	Total Assets	
	9/6/2014	12/28/2013
FLNA	$5,471	$5,308
QFNA	1,013	983
LAF	5,095	4,829
PAB	30,727	30,350
Europe	17,967	18,702
AMEA	6,123	5,754
Total division	66,396	65,926
Corporate [(a)]	14,070	11,552
	$80,466	$77,478

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

Note 2 - Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance on revenue recognition, which provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. There is no option for early adoption. The provisions of the new guidance will be effective as of the beginning of our 2017 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected a transition approach to implement the standard.

In July 2013, the FASB issued new accounting guidance that requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance were effective as of the beginning of our 2014 fiscal year and did not have a material impact on our financial statements.

In December 2011, the FASB issued new disclosure requirements that were intended to enhance current disclosures on offsetting financial assets and liabilities. The disclosures required an entity to disclose both gross and net information about derivative instruments accounted for in accordance with the guidance on derivatives and hedging that are eligible for offset on the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The provisions of the disclosure requirements were effective as of the beginning of our 2014 fiscal year. Accordingly, we included enhanced footnote disclosure in Note 10.

Note 3 - Restructuring, Impairment and Integration Charges

2014 Multi-Year Productivity Plan

The multi-year productivity plan we publicly announced on February 13, 2014 (2014 Productivity Plan) includes the next generation of productivity initiatives that we believe will strengthen our food, snack and beverage businesses by: accelerating our investment in manufacturing automation; further optimizing our global manufacturing footprint, including closing certain manufacturing facilities; re-engineering our go-to-market systems in developed markets; expanding shared services; and implementing simplified organization

Table of Contents

structures to drive efficiency. The 2014 Productivity Plan is in addition to the productivity plan we began implementing in 2012 and is expected to continue the benefits of that plan.

In the 12 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $54 million ($39 million after-tax or $0.03 per share) in conjunction with the 2014 Productivity Plan. In the 36 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $227 million ($167 million after-tax or $0.11 per share) in conjunction with the 2014 Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. The majority of the restructuring accrual at September 6, 2014 is expected to be paid by the end of 2014.

A summary of our 2014 Productivity Plan charges is as follows:

	12 Weeks Ended 9/6/2014	36 Weeks Ended 9/6/2014
FLNA	$9	$33
QFNA	—	2
LAF	8	14
PAB	16	131
Europe	7	22
AMEA	2	11
Corporate	12	14
	$54	$227

A summary of our 2014 Productivity Plan activity in 2014 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 28, 2013	$30	$—	$1	$31
2014 restructuring charges	85	62	80	227
Cash payments	(35)	—	(65)	(100)
Non-cash charges	(13)	(62)	(2)	(77)
Liability as of September 6, 2014	$67	$—	$14	$81

2012 Multi-Year Productivity Plan

The multi-year productivity plan we publicly announced on February 9, 2012 (2012 Productivity Plan) includes actions in every aspect of our business that we believe will strengthen our complementary food, snack and beverage businesses by: leveraging new technologies and processes across PepsiCo's operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The 2012 Productivity Plan continues to enhance PepsiCo's cost-competitiveness and provide a source of funding for future brand-building and innovation initiatives.

In the 12 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $14 million ($12 million after-tax or $0.01 per share) in conjunction with our 2012 Productivity Plan. In the 36 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $31 million ($29 million after-tax or $0.02 per share) in conjunction with our 2012 Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. Substantially all of the restructuring accrual at September 6, 2014 is expected to be paid by the end of 2014.

Table of Contents

In the 12 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $7 million ($6 million after-tax with a nominal amount per share) in conjunction with the 2012 Productivity Plan. In the 36 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $37 million ($29 million after-tax or $0.02 per share) in conjunction with the 2012 Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses.

A summary of our 2012 Productivity Plan charges is as follows:

	12 Weeks Ended		36 Weeks Ended	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013
FLNA	$—	$1	$2	$5
QFNA	—	—	—	—
LAF [(a)]	(2)	1	(7)	6
PAB	—	3	7	8
Europe	7	2	15	14
AMEA	6	1	8	3
Corporate [(a)]	3	(1)	6	1
	$14	$7	$31	$37

(a) Income amounts represent adjustments of previously recorded amounts.

A summary of our 2012 Productivity Plan activity in 2014 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 28, 2013	$68	$—	$17	$85
2014 restructuring charges	15	6	10	31
Cash payments	(46)	—	(23)	(69)
Non-cash charges	(5)	(6)	2	(9)
Liability as of September 6, 2014	$32	$—	$6	$38

Note 4 - Intangible Assets

A summary of our amortizable intangible assets, net is as follows:

	9/6/2014			12/28/2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired franchise rights	$902	$(92)	$810	$910	$(83)	$827
Reacquired franchise rights	107	(93)	14	108	(86)	22
Brands	1,390	(1,014)	376	1,400	(996)	404
Other identifiable intangibles	665	(316)	349	686	(301)	385
	$3,064	$(1,515)	$1,549	$3,104	$(1,466)	$1,638

Table of Contents

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

	Balance 12/28/2013	Translation and Other	Balance 9/6/2014
FLNA			
Goodwill	$305	$(4)	$301
Brands	29	(1)	28
	334	(5)	329
QFNA			
Goodwill	175	—	175
LAF			
Goodwill	660	1	661
Brands	206	4	210
	866	5	871
PAB			
Goodwill	9,943	(8)	9,935
Reacquired franchise rights	7,281	(26)	7,255
Acquired franchise rights	1,551	—	1,551
Brands	146	3	149
	18,921	(31)	18,890
Europe			
Goodwill	5,027	(394)	4,633
Reacquired franchise rights	760	(65)	695
Acquired franchise rights	230	(11)	219
Brands [(a)]	4,071	(361)	3,710
	10,088	(831)	9,257
AMEA			
Goodwill	503	17	520
Brands	127	7	134
	630	24	654
Total goodwill	16,613	(388)	16,225
Total reacquired franchise rights	8,041	(91)	7,950
Total acquired franchise rights	1,781	(11)	1,770
Total brands	4,579	(348)	4,231
	$31,014	$(838)	$30,176

(a) In the 12 and 36 weeks ended September 6, 2014, we recorded an impairment charge of $23 million related to a brand in Greece.

Table of Contents

Note 5 - Income Taxes

A rollforward of our reserves for all federal, state and foreign tax jurisdictions is as follows:

	9/6/2014	12/28/2013
Balance, beginning of year	$1,268	$2,425
Additions for tax positions related to the current year	205	238
Additions for tax positions from prior years	105	273
Reductions for tax positions from prior years	(42)	(327)
Settlement payments	(74)	(1,306)
Statute of limitations expiration	(36)	(30)
Translation and other	(9)	(5)
Balance, end of period	$1,417	$1,268

Note 6 - Stock-Based Compensation

The following table summarizes our total stock-based compensation expense:

	12 Weeks Ended		36 Weeks Ended	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Stock-based compensation expense	$67	$70	$207	$219
Restructuring and impairment benefits	(1)	—	(4)	—
Total	$66	$70	$203	$219

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

	36 Weeks Ended	
	9/6/2014	9/7/2013
Expected life	6 years	6 years
Risk free interest rate	1.8%	1.0%
Expected volatility [(a)]	16%	17%
Expected dividend yield	2.9%	2.7%

(a) Reflects movements in our stock price over the most recent historical period equivalent to the expected life.

For the 12 weeks ended September 6, 2014 and September 7, 2013, our grants of stock options, RSUs and PepsiCo equity performance units (PEPUnits) were nominal.

The following table summarizes awards granted under the terms of our 2007 Long-Term Incentive Plan:

	36 Weeks Ended			
	9/6/2014		9/7/2013	
	Granted [(a)]	Weighted-Average Grant Price	Granted [(a)]	Weighted-Average Grant Price
Stock options	3.3	$ 80.67	2.7	$ 76.22
RSUs	4.2	$ 79.80	4.2	$ 76.35
PEPUnits	0.4	$ 79.75	0.4	$ 75.75

(a) In millions.

Table of Contents

Note 7 - Pension and Retiree Medical Benefits

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013	9/6/2014	9/7/2013
	U.S.		International			
Service cost	$91	$107	$24	$28	$8	$10
Interest cost	134	122	33	29	14	13
Expected return on plan assets	(181)	(190)	(44)	(39)	(6)	(6)
Amortization of prior service cost/(credit)	5	4	—	—	(5)	(6)
Amortization of net losses/(gains)	40	67	14	17	(2)	—
	89	110	27	35	9	11
Settlement loss	—	—	3	—	—	—
Special termination benefits	3	—	—	—	1	—
Total expense	$92	$110	$30	$35	$10	$11

	36 Weeks Ended					
	Pension				Retiree Medical	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013	9/6/2014	9/7/2013
	U.S.		International			
Service cost	$272	$323	$67	$77	$24	$31
Interest cost	402	365	90	81	42	38
Expected return on plan assets	(543)	(570)	(120)	(109)	(18)	(18)
Amortization of prior service cost/(credit)	14	13	—	1	(15)	(16)
Amortization of net losses/(gains)	121	200	36	46	(4)	—
	266	331	73	96	29	35
Settlement loss	—	—	3	1	—	—
Special termination benefits	11	3	—	—	2	—
Total expense	$277	$334	$76	$97	$31	$35

We regularly evaluate different opportunities to reduce risk and volatility associated with our pension and retiree medical plans. During the second quarter of 2014, we made discretionary contributions of $19 million to our international pension plans. During the first quarter of 2013, we made discretionary contributions of $13 million to our international pension plans.

Table of Contents

Note 8 - Debt Obligations and Commitments

In the first quarter of 2014, we issued:
- $750 million of 0.950% senior notes maturing in February 2017; and
- $1.250 billion of 3.600% senior notes maturing in March 2024.

In the second quarter of 2014, we issued:
- €500 million of 1.750% senior notes maturing in April 2021; and
- €500 million of 2.625% senior notes maturing in April 2026.

The net proceeds from the issuances of the above notes were used for general corporate purposes, including the repayment of commercial paper.

In the 36 weeks ended September 6, 2014, $2.2 billion of senior notes matured and were paid.

In the second quarter of 2014, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement) which expires on June 9, 2019. In the third quarter of 2014, we increased commitments under this agreement. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to $3.7725 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.5 billion. Additionally, we may, once a year, request renewal of the agreement for an additional one-year period.

In addition, in the second quarter of 2014, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 8, 2015. In the third quarter of 2014, we increased commitments under this agreement. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to $3.7725 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.5 billion. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than the then effective termination date. The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our $2.925 billion five-year credit agreement dated as of June 10, 2013 and our $2.925 billion 364-Day credit agreement dated as of June 10, 2013. Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes. Subject to certain conditions, we may borrow, prepay and reborrow amounts under these agreements. As of September 6, 2014, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

As of September 6, 2014, we had $5.0 billion of commercial paper outstanding and $1.8 billion of non-cancelable purchase commitments. For further information on our long-term contractual commitments, see Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 28, 2013.

Table of Contents

Note 9 - Accumulated Other Comprehensive Loss

The reclassifications from Accumulated Other Comprehensive Loss to the Condensed Consolidated Statement of Income are summarized as follows:

	12 Weeks Ended		36 Weeks Ended		
	9/6/2014	9/7/2013	9/6/2014	9/7/2013	
	Reclassifications from Accumulated Other Comprehensive Loss				Affected Line Item in the Condensed Consolidated Statement of Income
Losses/(gains) on cash flow hedges:					
Foreign exchange contracts	$5	$2	$(6)	$6	Cost of sales
Interest rate derivatives	98	8	112	41	Interest expense
Commodity contracts	5	12	24	26	Cost of sales
Commodity contracts	1	(1)	—	(1)	Selling, general and administrative expenses
Net losses before tax	109	21	130	72	
Tax amounts	(37)	(7)	(46)	(26)	
Net losses after tax	$72	$14	$84	$46	
Amortization of pension and retiree medical items:					
Net prior service credit [(a)]	$—	$(2)	$—	$(2)	
Net actuarial losses [(a)]	55	84	156	247	
Net losses before tax	55	82	156	245	
Tax amounts	(18)	(29)	(51)	(83)	
Net losses after tax	$37	$53	$105	$162	
Total net losses reclassified for the period, net of tax	$109	$67	$189	$208	

(a) These items are included in the components of net periodic benefit cost for pension and retiree medical plans (see Note 7 for additional details).

Note 10 - Financial Instruments

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

- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange rates and currency restrictions; and
- interest rates.

In the normal course of business, we manage commodity price, foreign exchange and interest rate risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging strategies. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies. Our global purchasing programs include fixed-price purchase orders and pricing agreements.

Table of Contents

Derivatives

Our hedging strategies include the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity price, foreign exchange or interest rate risks are classified as operating activities in the Condensed Consolidated Statement of Cash Flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. See "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.

For cash flow hedges, the effective portion of changes in fair value are deferred in accumulated other comprehensive loss within common shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not fully offset the change in the value of the underlying hedged item. If the derivative instrument related to a cash flow hedge is terminated or no longer qualifies for hedge accounting, we continue to defer the related gain or loss as part of accumulated other comprehensive loss until the underlying hedged item is recognized in net income. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss on the hedge in net income immediately.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including reviewing netting agreements, if any, and a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price contracts and purchase orders, pricing agreements and derivatives. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for energy, agricultural products and metals. For those derivatives that qualify for hedge accounting treatment, any ineffectiveness is recorded immediately in corporate unallocated expenses. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of $19 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit.

Table of Contents

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $68 million as of September 6, 2014 and $512 million as of September 7, 2013.
Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $1.1 billion as of September 6, 2014 and $947 million as of September 7, 2013.

Foreign Exchange

We are exposed to foreign exchange risk from foreign currency purchases and foreign currency assets and liabilities created in the normal course of business. We manage this risk through sourcing purchases from local suppliers, negotiating contracts in local currencies with foreign suppliers and through the use of derivatives, primarily forward contracts with terms of no more than two years. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.
Our foreign currency derivatives had a total face value of $2.6 billion as of September 6, 2014 and $2.8 billion as of September 7, 2013. During the next 12 months, we expect to reclassify net losses of $3 million related to foreign currency derivative contracts that qualify for hedge accounting from accumulated other comprehensive loss into net income. Ineffectiveness was not material for all periods presented. For foreign currency derivatives that do not qualify for hedge accounting treatment, all losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross-currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Certain of our fixed rate indebtedness has been swapped to floating rates. The notional amount, interest payment and maturity date of the interest rate and cross-currency interest rate swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.
The notional amounts of the interest rate derivative instruments outstanding as of September 6, 2014 and September 7, 2013 were $9.3 billion and $7.1 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of $20 million related to these hedges from accumulated other comprehensive loss into net income.
As of September 6, 2014, approximately 35% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to approximately 31% as of December 28, 2013.

Available-for-Sale Securities

Investments in debt and equity marketable securities, other than investments accounted for under the equity method, are classified as available-for-sale. All highly liquid investments with original maturities of three months or less are classified as cash equivalents. Our investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of available-for-sale securities are recognized in accumulated other comprehensive loss within common shareholders’ equity. Unrealized gains and losses on our investments in marketable debt securities as of September 6, 2014 were not material.

Table of Contents

Unrealized gains on our investments in marketable equity securities were $121 million and $92 million as of September 6, 2014 and September 7, 2013, respectively.
Changes in the fair value of available-for-sale securities impact net income only when such securities are sold or an other-than-temporary impairment is recognized. We regularly review our investment portfolio to determine if any security is other-than-temporarily impaired. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and our intent to sell, or whether we will more likely than not be required to sell, the security before recovery of its amortized cost basis. Our assessment on whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security. We recorded no other-than-temporary impairment charges for the 12 and 36 weeks ended September 6, 2014 and September 7, 2013.

Table of Contents

Fair Value Measurements

The fair values of our financial assets and liabilities as of September 6, 2014 and September 7, 2013 are categorized as follows:

	2014		2013	
	Assets [a]	Liabilities [a]	Assets [a]	Liabilities [a]
Available-for-sale securities:				
Equity securities [b]	$135	$—	$105	$—
Debt securities [c]	7,054	—	—	—
	$7,189	$—	$105	$—
Short-term investments – index funds [d]	$195	$—	$169	$—
Prepaid forward contracts [e]	$24	$—	$38	$—
Deferred compensation [f]	$—	$505	$—	$486
Derivatives designated as fair value hedging instruments:				
Interest rate [g]	$156	$—	$167	$5
Derivatives designated as cash flow hedging instruments:				
Foreign exchange [h]	$16	$19	$33	$3
Interest rate [g]	19	44	3	—
Commodity [i]	—	7	6	36
	$35	$70	$42	$39
Derivatives not designated as hedging instruments:				
Foreign exchange [h]	$1	$16	$27	$12
Interest rate [g]	65	84	64	89
Commodity [i]	39	97	16	97
	$105	$197	$107	$198
Total derivatives at fair value [j]	$296	$267	$316	$242
Total	$7,704	$772	$628	$728

(a) Unless otherwise noted, financial assets are classified on our condensed consolidated balance sheet within prepaid expenses and other current assets and other assets. Financial liabilities are classified on our condensed consolidated balance sheet within accounts payable and other current liabilities and other liabilities. Unless specifically indicated, all financial assets and liabilities are categorized as Level 2 assets or liabilities.

(b) Based on the price of common stock. Categorized as a Level 1 asset.

(c) Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data. As of September 6, 2014, $1.7 billion and $5.4 billion of debt securities were classified as cash equivalents and short-term investments, respectively. All of the Company's available-for-sale debt securities have contractual maturities of one year or less.

(d) Based on the price of index funds. Categorized as a Level 1 asset. These investments are classified as short-term investments.

(e) Based primarily on the price of our common stock.

(f) Based on the fair value of investments corresponding to employees' investment elections.

(g) Based on LIBOR forward rates and recently reported market transactions of spot and forward rates. As of September 6, 2014 and September 7, 2013, amounts related to non-designated instruments are presented as a net liability on our condensed consolidated balance sheet.

(h) Based on recently reported market transactions of spot and forward rates.

(i) Based on recently reported market transactions, primarily swap arrangements.

(j)

Unless otherwise noted, derivative assets and liabilities are presented on a gross basis on our condensed consolidated balance sheet. Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on the condensed consolidated balance sheet as of September 6, 2014 and September 7, 2013 were immaterial. Collateral received against any of our asset positions was immaterial.

Table of Contents

The fair value of our debt obligations as of September 6, 2014 was $34 billion, based upon prices of similar instruments in the marketplace.

Pre-tax losses/(gains) on our derivative instruments are categorized as follows:

	12 Weeks Ended					
	Fair Value/Non-designated Hedges		Cash Flow Hedges			
	Losses/(Gains) Recognized in Income Statement [a]		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement [b]	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Foreign exchange	$2	$(8)	$(6)	$(5)	$5	$2
Interest rate	10	53	39	(9)	98	8
Commodity	45	36	9	10	6	11
Total	$57	$81	$42	$(4)	$109	$21

	36 Weeks Ended					
	Fair Value/Non-designated Hedges		Cash Flow Hedges			
	Losses/(Gains) Recognized in Income Statement [a]		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement [b]	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Foreign exchange	$1	$(3)	$6	$(38)	$(6)	$6
Interest rate	6	104	44	3	112	41
Commodity	34	85	17	49	24	25
Total	$41	$186	$67	$14	$130	$72

(a) Foreign exchange derivative gains/losses are primarily included in selling, general and administrative expenses. Interest rate derivative gains/losses are primarily from fair value hedges and are included in interest expense. These gains/losses are substantially offset by increases/decreases in the value of the underlying debt, which are also included in interest expense. Commodity derivative gains/losses are included in either cost of sales or selling, general and administrative expenses, depending on the underlying commodity.

(b) Foreign exchange derivative gains/losses are primarily included in cost of sales. Interest rate derivative gains/losses are included in interest expense. Commodity derivative gains/losses are included in either cost of sales or selling, general and administrative expenses, depending on the underlying commodity.

Table of Contents

Note 11 - Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended			
	9/6/2014		9/7/2013	
	Income	Shares [a]	Income	Shares [a]
Net income attributable to PepsiCo	$2,008		$1,913	
Preferred shares:				
Dividends	—		—	
Redemption premium	(3)		—	
Net income available for PepsiCo common shareholders	$2,005	1,507	$1,913	1,542
Basic net income attributable to PepsiCo per common share	$1.33		$1.24	
Net income available for PepsiCo common shareholders	$2,005	1,507	$1,913	1,542
Dilutive securities:				
Stock options, RSUs, PEPUnits and Other [b]	—	17	—	18
Employee stock ownership plan (ESOP) convertible preferred stock	3	1	—	1
Diluted	$2,008	1,525	$1,913	1,561
Diluted net income attributable to PepsiCo per common share	$1.32		$1.23	

	36 Weeks Ended			
	9/6/2014		9/7/2013	
	Income	Shares [a]	Income	Shares [a]
Net income attributable to PepsiCo	$5,202		$4,998	
Preferred shares:				
Dividends	—		(1)	
Redemption premium	(6)		(4)	
Net income available for PepsiCo common shareholders	$5,196	1,515	$4,993	1,545
Basic net income attributable to PepsiCo per common share	$3.43		$3.23	
Net income available for PepsiCo common shareholders	$5,196	1,515	$4,993	1,545
Dilutive securities:				
Stock options, RSUs, PEPUnits and Other [b]	—	16	—	18
ESOP convertible preferred stock	6	1	5	1
Diluted	$5,202	1,532	$4,998	1,564
Diluted net income attributable to PepsiCo per common share	$3.40		$3.20	

(a) Weighted-average common shares outstanding (in millions).

(b) For the 12 weeks in 2014 and 2013, the calculation of diluted earnings per common share was unadjusted because there were no out-of-the-money options during the period. For the 36 weeks, options to purchase 0.1 million shares in 2014 and 0.9 million shares in 2013 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. These out-of-the-money options had average exercise prices of $82.25 in 2014 and $75.69 in 2013.

Note 12 - Divestitures

Suntory Holdings Limited

During our second quarter of 2013, as part of the refranchising of our beverage business in Vietnam, we completed a transaction with Suntory Holdings Limited. Under the terms of the agreement, we sold a controlling interest in our Vietnam bottling operations. The alliance serves as the franchise bottler for both companies. In our second quarter 2013 results, we recorded a pre- and after-tax gain of $137 million (or $0.09 per share) associated with this transaction.

25

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL REVIEW

Our discussion and analysis is an integral part of understanding our financial results and is provided as an addition to, and should be read in connection with, our condensed consolidated financial statements and the accompanying notes. Also refer to Note 1 of our condensed consolidated financial statements. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Our Critical Accounting Policies

The critical accounting policies below should be read in conjunction with those outlined in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

Sales Incentives and Advertising and Marketing Costs

We offer sales incentives and discounts through various programs to customers and consumers. These incentives and discounts are primarily accounted for as a reduction of revenue. A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. Certain advertising and marketing costs are also based on annual targets.

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period’s actual gross revenue or volume, as applicable, to our forecasted annual gross revenue or volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized beginning in the interim period that they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for advertising and other marketing activities.

Income Taxes

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Subsequent recognition, derecognition and measurement of a tax position taken in a previous period are separately recognized in the quarter in which they occur.

Table of Contents

Our Business Risks

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Forward-looking statements are generally identified through the inclusion of words such as "aim," "anticipate," "believe," "drive," "estimate," "expect," "expressed confidence," "forecast," "future," "goals," "guidance," "inten "objectives," "outlook," "plan," "position," "potential," "project," "seek," "should," "strategy," "target," "will" or similar state variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. Such risks and uncertainties include, but are not limited to: changes in demand for PepsiCo's products, as a result of changes in consumer preferences or otherwise; changes in the legal and regulatory environment; imposition of new taxes, disagreements with tax authorities or additional tax liabilities; PepsiCo's ability to compete effectively; PepsiCo's ability to grow its business in developing and emerging markets or unstable political conditions, civil unrest or other developments and risks in the markets where PepsiCo's products are sold; unfavorable economic conditions in the countries in which PepsiCo operates; increased costs, disruption of supply or shortages of raw materials and other supplies; failure to realize anticipated benefits from PepsiCo's productivity initiatives or global operating model; disruption of PepsiCo's supply chain; damage to PepsiCo's reputation; failure to successfully complete or integrate acquisitions and joint ventures into PepsiCo's existing operations or to complete or manage divestitures or refranchisings; PepsiCo's ability to hire or retain key employees or a highly skilled and diverse workforce; trade consolidation or the loss of any key customer; any downgrade or potential downgrade of PepsiCo's credit ratings; PepsiCo's ability to protect its information systems against a cybersecurity incident; PepsiCo's ability to build and sustain proper information technology infrastructure, successfully implement its ongoing business transformation initiative or share services for certain functions effectively; fluctuations or other changes in exchange rates; climate change, or legal, regulatory or market measures to address climate change; failure to successfully negotiate collective bargaining agreements or strikes or work stoppages; any infringement of or challenge to PepsiCo's intellectual property rights; potential liabilities and costs from litigation or legal proceedings; and other factors that may adversely affect the price of PepsiCo's common stock and financial performance including those described in "Risk Factors" in Item 1A. and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks" in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 and in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks" of this Quarterly Report on Form 10-Q. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

In the 36 weeks ended September 6, 2014, our operations outside of the U.S. generated 48% of our net revenue, with Russia, Mexico, Canada, the United Kingdom and Brazil comprising approximately 23% of our net revenue. As a result, we are exposed to foreign currency risks and unstable economic and political conditions and civil unrest in certain of the markets in which we operate. Events involving Russia, Ukraine and the Middle East and currency fluctuations in markets such as Venezuela (discussed further below), Argentina and Turkey continue to result in challenging operating environments. We continue to monitor the economic, operating and political environment in these markets closely and have identified actions to potentially mitigate the unfavorable impact, if any, on our future results. In the 12 weeks ended September 6,

2014, unfavorable foreign currency decreased net revenue growth by 1 percentage point, primarily due to depreciation of the Russian ruble, the Ukrainian hryvnia, the Argentine peso and the Turkish lira, partially offset by appreciation of the British pound. In the 36 weeks ended September 6, 2014, unfavorable foreign currency decreased net revenue growth by 2 percentage points, primarily due to depreciation of the Russian ruble, the Canadian dollar, the Argentine peso, the Brazilian real and the Turkish lira, partially offset by appreciation of the British pound. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

The results of our Venezuelan businesses have been reported under highly inflationary accounting since the beginning of our 2010 fiscal year, at which time the functional currency of our Venezuelan entities was changed from the bolivar to the U.S. dollar.

In the 36 weeks in 2014 and 2013, a substantial number of our Venezuelan transactions included items which are categorized as essential goods at the fixed exchange rate of 6.3 bolivars per U.S. dollar through the government-operated National Center of Foreign Commerce (CENCOEX) ("fixed exchange rate"), formerly the Foreign Exchange Administration Board (CADIVI). The Venezuelan government has continued to release funding of U.S. dollars at the fixed exchange rate for our eligible transactions. In February 2013, the Venezuelan government devalued the bolivar by resetting the fixed exchange rate from 4.3 bolivars per U.S. dollar to 6.3 bolivars per U.S. dollar, resulting in an after-tax net charge of $111 million in the first quarter of 2013 (see "Items Affecting Comparability"). In January 2014, the Venezuelan government announced the expansion of its auction-based foreign exchange system (SICAD) to include additional items, including foreign investments. In March 2014, the Venezuelan government introduced an additional auction-based foreign exchange system (SICAD 2) which permits all companies incorporated or domiciled in Venezuela to bid for U.S. dollars for any purpose. As of September 6, 2014, the SICAD exchange rate was 11.70 bolivars per U.S. dollar and the SICAD 2 exchange rate was 49.98 bolivars per U.S. dollar. As we believe the fixed exchange rate of 6.3 bolivars per U.S. dollar remains legally available to us, we intend to continue to remeasure the net monetary assets of our Venezuelan entities at this rate.

At September 6, 2014, we had pending requests with an agency of the Venezuelan government for remittance of dividends at the fixed exchange rate. These requests pertain to years from 2006 to 2012. We are unable to predict the likelihood of Venezuelan government approvals of these requests or, if approved, the estimated time for remittance.

In the 36 weeks ended September 6, 2014, our results of operations in Venezuela, which reflect the months of January through August, generated 2% of our net revenue and 4% of our operating profit. In the 36 weeks ended September 7, 2013, our operations in Venezuela generated 1% of our net revenue and 2% of our operating profit. In the year ended December 28, 2013, our operations in Venezuela generated 1% of our net revenue and 2% of our operating profit. The devaluation charge of $111 million did not have a material impact on the results of our operations for the full year. As of September 6, 2014, our operations in Venezuela comprised 10% of our cash and cash equivalents balance. Our bolivar-denominated net monetary assets in Venezuela, which primarily include cash and cash equivalents, approximated $505 million at September 6, 2014. We continue to evaluate available options to obtain U.S. dollars to meet our operational needs in Venezuela.

We believe that significant uncertainty remains regarding the nature of transactions that will flow through CENCOEX, SICAD or SICAD 2, and whether a converged mechanism will emerge, as well as how these mechanisms will operate in the future and the availability of U.S. dollars under each. We continue to monitor developments closely and may determine in the future that rates other than the fixed exchange rate are appropriate for remeasurement of the net monetary assets of our Venezuelan entities. If the exchange rates were to range between 10 and 50 bolivars per U.S. dollar, we would expect the potential after-tax net charge of remeasuring our Venezuela businesses to be approximately $190 million to $440 million. Such a charge,

Table of Contents

if recognized, would be reflected in “Items Affecting Comparability.” Further devaluation of the bolivar below the fixed exchange rate could adversely affect our financial position, including any potential impairment of non-monetary assets, which primarily include equity investments, intangible assets, inventory and property, plant and equipment, and results of operations, both for any period in which we determine to remeasure using another rate and on a going forward basis following any such remeasurement.

In 2014, the Venezuelan government also issued a new Law on Fair Pricing, establishing a maximum profit margin of 30%. We do not expect the law to have a material impact on our consolidated results or financial position.
During the third quarter of 2014, Russia announced economic sanctions against the U.S. and other nations that include a ban on imports of certain ingredients and finished goods from specific countries. We do not anticipate the current sanctions to have a material impact on the results of our operations in Russia or our consolidated results or financial position and we will continue to monitor the economic, operating and political environment in Russia closely. In each of the 36 week periods ended September 6, 2014 and September 7, 2013, 7% of our total net revenue was generated by our operations in Russia. As of September 6, 2014, our long-lived assets in Russia were $7 billion. Our operations in Ukraine are not significant in relation to our consolidated results or financial position.
See Note 10 to our condensed consolidated financial statements for a discussion of our financial instruments, including their fair values as of September 6, 2014 and September 7, 2013. Cautionary statements included above and in “Item 1A. Risk Factors” and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, should be considered when evaluating our trends and future results.

Table of Contents

Results of Operations – Consolidated Review

Items Affecting Comparability

Our reported financial results are impacted by the following items in each of the following periods:

	12 Weeks Ended		36 Weeks Ended	
	9/6/2014	9/7/2013	9/6/2014	9/7/2013
Operating profit				
Mark-to-market net (losses)/gains	$(33)	$(19)	$32	$(74)
Merger and integration charges	$—	$(9)	$—	$(9)
Restructuring and impairment charges	$(68)	$(7)	$(258)	$(37)
Venezuela currency devaluation	$—	$—	$—	$(111)
Net income attributable to PepsiCo				
Mark-to-market net (losses)/gains	$(20)	$(10)	$21	$(47)
Merger and integration charges	$—	$(7)	$—	$(7)
Restructuring and impairment charges	$(51)	$(6)	$(196)	$(29)
Venezuela currency devaluation	$—	$—	$—	$(111)
Net income attributable to PepsiCo per common share – diluted				
Mark-to-market net (losses)/gains	$(0.01)	$(0.01)	$0.01	$(0.03)
Merger and integration charges	$—	$ (—)	$—	$ (—)
Restructuring and impairment charges	$(0.03)	$ (—)	$(0.13)	$(0.02)
Venezuela currency devaluation	$—	$—	$—	$(0.07)

Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, agricultural products and metals. Certain of these commodity derivatives do not qualify for hedge accounting treatment and are marked to market each period with the resulting gains and losses recognized in corporate unallocated expenses, as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses.

In the 12 weeks ended September 6, 2014, we recognized $33 million ($20 million after-tax or $0.01 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses. In the 36 weeks ended September 6, 2014, we recognized $32 million ($21 million after-tax or $0.01 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

In the 12 weeks ended September 7, 2013, we recognized $19 million ($10 million after-tax or $0.01 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses. In the 36 weeks ended September 7, 2013, we recognized $74 million ($47 million after-tax or $0.03 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses.

Merger and Integration Charges

In the 12 and 36 weeks ended September 7, 2013, we recorded merger and integration charges of $9 million ($7 million after-tax with a nominal amount per share) related to our acquisition of Wimm-Bill-Dann Foods OJSC (WBD), all of which were recorded in the Europe segment.

Table of Contents

Restructuring and Impairment Charges

2014 Multi-Year Productivity Plan

In the 12 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $54 million ($39 million after-tax or $0.03 per share) in conjunction with the 2014 Productivity Plan, including $9 million recorded in the FLNA segment, $8 million recorded in the LAF segment, $16 million recorded in the PAB segment, $7 million recorded in the Europe segment, $2 million recorded in the AMEA segment and $12 million recorded in corporate unallocated expenses. In the 36 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $227 million ($167 million after-tax or $0.11 per share) in conjunction with the 2014 Productivity Plan, including $33 million recorded in the FLNA segment, $2 million recorded in the QFNA segment, $14 million recorded in the LAF segment, $131 million recorded in the PAB segment, $22 million recorded in the Europe segment, $11 million recorded in the AMEA segment and $14 million recorded in corporate unallocated expenses.

We expect to incur pre-tax charges of approximately $990 million, of which approximately $705 million represents cash expenditures related to the 2014 Productivity Plan, summarized by period as follows:

	Charges		Cash Expenditures [(b)]
2013	$53		$—
First quarter 2014	96		9
Second quarter 2014	77		66
Third quarter 2014	54		31
	280		106
Fourth quarter 2014 (expected)	130		115
2015 - 2019 (expected)	580		484
	$990	(a)	$705

(a) This total charge will consist of approximately $550 million of severance and other employee-related costs, approximately $190 million for asset impairments (all non-cash) resulting from plant closures and related actions, and approximately $250 million for other costs, including consulting-related costs and costs related to the termination of leases and other contracts.

(b) In the 36 weeks ended September 6, 2014, cash expenditures include $6 million reported on the Condensed Consolidated Statement of Cash Flows in pension and retiree medical plan contributions.

See Note 3 to our condensed consolidated financial statements.

2012 Multi-Year Productivity Plan

In the 12 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $14 million ($12 million after-tax or $0.01 per share) in conjunction with the 2012 Productivity Plan, including $7 million recorded in the Europe segment, $6 million recorded in the AMEA segment, $3 million recorded in corporate unallocated expenses and income of $2 million recorded in the LAF segment representing adjustments of previously recorded amounts. In the 36 weeks ended September 6, 2014, we incurred restructuring and impairment charges of $31 million ($29 million after-tax or $0.02 per share) in conjunction with the 2012 Productivity Plan, including $2 million recorded in the FLNA segment, $7 million recorded in the PAB segment, $15 million recorded in the Europe segment, $8 million recorded in the AMEA segment, $6 million recorded in corporate unallocated expenses and income of $7 million recorded in the LAF segment representing adjustments of previously recorded amounts.

In the 12 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $7 million ($6 million after-tax or a nominal amount per share) in conjunction with the 2012 Productivity Plan, including

Table of Contents

$1 million recorded in the FLNA segment, $1 million recorded in the LAF segment, $3 million recorded in the PAB segment, $2 million recorded in the Europe segment, $1 million recorded in the AMEA segment and income of $1 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 7, 2013, we incurred restructuring and impairment charges of $37 million ($29 million after-tax or $0.02 per share) in conjunction with the 2012 Productivity Plan, including $5 million recorded in the FLNA segment, $6 million recorded in the LAF segment, $8 million recorded in the PAB segment, $14 million recorded in the Europe segment, $3 million recorded in the AMEA segment and $1 million recorded in corporate unallocated expenses.

We expect to incur pre-tax charges of approximately $910 million, of which approximately $704 million represents cash expenditures related to the 2012 Productivity Plan, summarized by period as follows:

	Charges		Cash Expenditures
2011	$383		$30
2012	279		343
2013	110		133
First quarter 2014	2		21
Second quarter 2014	15		22
Third quarter 2014	14		26
	803		575
Fourth quarter 2014 (expected)	50		67
2015 (expected)	57		62
	$910	(a)	$704

(a) This total charge will consist of approximately $560 million of severance and other employee-related costs, approximately $80 million for asset impairments (all non-cash) resulting from plant closures and related actions, and approximately $270 million for other costs, including consulting-related costs and costs related to the termination of leases and other contracts.

See Note 3 to our condensed consolidated financial statements.

Venezuela Currency Devaluation

In the 36 weeks ended September 7, 2013, we recorded a $111 million net charge related to the devaluation of the bolivar for our Venezuelan businesses. $124 million of this charge was recorded in corporate unallocated expenses, with the balance (equity income of $13 million) recorded in our PAB segment. In total, this net charge had an after-tax impact of $111 million or $0.07 per share.

In the event we remeasure the net monetary assets of our Venezuelan entities at a rate other than the fixed exchange rate, any charge associated with such remeasurement would be reflected in “Items Affecting Comparability.” For additional information on Venezuela, see “Our Business Risks.”

Table of Contents

Non-GAAP Measures

Certain measures contained in this Form 10-Q are financial measures that are adjusted for items affecting comparability (see "Items Affecting Comparability" for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign exchange. These measures are not in accordance with Generally Accepted Accounting Principles (GAAP). Items adjusted for currency assume foreign exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior year average foreign exchange rates. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our ongoing performance and reflect how management evaluates our operational results and trends. These measures are not, and should not be viewed as, substitutes for GAAP reporting measures. See also "Organic Revenue Growth" and "Free Cash Flow."

Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 and 36 weeks ended September 6, 2014, total servings increased 1%. For the 12 and 36 weeks ended September 7, 2013, total servings increased 1% and 3%, respectively. Servings growth in 2013 reflects an adjustment to the base year (2012) for divestitures that occurred in 2012.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by our company-owned and franchise-owned bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report most of our international beverage volume on a monthly basis. Our third quarter includes beverage volume outside of North America for June, July and August. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to independent bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

Table of Contents

Consolidated Results

Total Net Revenue and Operating Profit

	12 Weeks Ended			36 Weeks Ended		
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change
Total net revenue	$17,218	$16,909	2 %	$46,735	$46,297	1 %
Operating profit						
FLNA	$1,025	$977	5 %	$2,824	$2,711	4 %
QFNA	150	137	9 %	449	450	— %
LAF	327	295	11 %	882	829	6 %
PAB	858	843	2 %	2,155	2,290	(6)%
Europe	465	501	(7)%	1,068	1,014	5 %
AMEA	309	295	5 %	884	1,003	(12)%
Corporate Unallocated						
Mark-to-market net (losses)/gains	(33)	(19)		32	(74)	
Restructuring and impairment charges	(15)	1		(20)	(1)	
Venezuela currency devaluation	—	—		—	(124)	
Other	(239)	(250)		(724)	(791)	
	(287)	(268)	7 %	(712)	(990)	(28)%
Total operating profit	$2,847	$2,780	2 %	$7,550	$7,307	3 %
Total operating profit margin	16.5 %	16.4 %	0.1	16.2 %	15.8 %	0.4

See “Results of Operations – Division Review” for a tabular presentation and discussion of key drivers of net revenue.

12 Weeks

On a reported basis, total operating profit increased 2% and operating margin increased 0.1 percentage points. Operating profit growth was primarily driven by effective net pricing and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases, including strategic initiatives related to capacity and capability, and higher commodity costs. Net commodity inflation reduced operating profit growth by 2 percentage points, primarily attributable to inflation in the LAF and Europe segments, partially offset by deflation in the PAB and FLNA segments. Other corporate unallocated expenses decreased 4%, primarily reflecting decreased pension expense. Items affecting comparability (see “Items Affecting Comparability”) reduced total operating profit growth by 2 percentage points and total operating margin by 0.4 percentage points.

Table of Contents

36 Weeks

On a reported basis, total operating profit increased 3% and operating margin increased 0.4 percentage points. Operating profit growth was primarily driven by effective net pricing, planned cost reductions across a number of expense categories and volume growth, partially offset by certain operating cost increases, including strategic initiatives related to capacity and capability, and higher commodity costs. Net commodity inflation reduced operating profit growth by 3.5 percentage points, primarily attributable to inflation in the Europe and LAF segments, partially offset by deflation in the PAB and FLNA segments. Other corporate unallocated expenses decreased 8%, primarily reflecting decreased pension expense. Items affecting comparability (see "Items Affecting Comparability") had a slight positive impact on both total operating profit growth and total operating margin.

Other Consolidated Results

	12 Weeks Ended			36 Weeks Ended		
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change
Interest expense, net	$(192)	$(203)	$11	$(574)	$(580)	$6
Tax rate	24.0%	25.4%		25.0%	25.2%	
Net income attributable to PepsiCo	$2,008	$1,913	5%	$5,202	$4,998	4%
Net income attributable to PepsiCo per common share - diluted	$1.32	$1.23	7%	$3.40	$3.20	6%
Mark-to-market net losses/(gains)	0.01	0.01		(0.01)	0.03	
Merger and integration charges	—	—		—	—	
Restructuring and impairment charges	0.03	—		0.13	0.02	
Venezuela currency devaluation	—	—		—	0.07	
Net income attributable to PepsiCo per common share - diluted, excluding above items (a)	$1.36	$1.24	10%	$3.51 (b)	$3.32	6%
Impact of foreign exchange translation			1			2
Growth in net income attributable to PepsiCo per common share - diluted, excluding above items, on a constant currency basis (a)			11%			8%

(a) See "Non-GAAP Measures."

(b) Does not sum due to rounding.

12 Weeks

Net interest expense decreased $11 million, reflecting lower interest rates on our debt and higher interest income due to higher average cash balances.

The reported tax rate decreased 1.4 percentage points, primarily due to the favorable resolution of certain tax matters in the current year, as well as the current-year benefit from the resolution with the IRS in the fourth quarter of 2013 of audits for taxable years 2003 through 2009, partially offset by income mix shift.

Net income attributable to PepsiCo increased 5% and net income attributable to PepsiCo per common share increased 7%. Items affecting comparability (see "Items Affecting Comparability") negatively contributed 2 percentage points to performance in both net income attributable to PepsiCo and net income attributable to PepsiCo per common share.

Table of Contents

36 Weeks

Net interest expense decreased $6 million, reflecting lower interest rates on our debt, partially offset by lower gains on the market value of investments used to economically hedge a portion of our deferred compensation costs.

The reported tax rate decreased 0.2 percentage points, primarily due to the current year benefit from the resolution with the IRS in the fourth quarter of 2013 of audits for taxable years 2003 through 2009, the favorable resolution of certain tax matters in the current year, and lapping the impact of the 2013 Venezuela currency devaluation. The improvement in the reported tax rate was partially offset by income mix shift and lapping the prior-year impact of the favorable resolution of certain tax matters.

Net income attributable to PepsiCo increased 4% and net income attributable to PepsiCo per common share increased 6%. Items affecting comparability (see “Items Affecting Comparability”) positively contributed 0.5 percentage points to both net income attributable to PepsiCo growth and net income attributable to PepsiCo per common share growth.

Results of Operations – Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. See “Items Affecting Comparability” for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

Furthermore, in the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries, and “net pricing” reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. Additionally, “acquisitions and divestitures,” except as otherwise noted, reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated joint ventures.

Net Revenue

12 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
9/6/2014	$3,526	$586	$2,178	$5,383	$3,764	$1,781	$17,218
9/7/2013	$3,424	$604	$2,049	$5,406	$3,818	$1,608	$16,909
% Impact of:							
Volume [a]	2 %	(2)%	(3)%	(1)%	(1)%	8 %	— %
Effective net pricing [b]	1	—	12	1	2	3	3
Foreign exchange translation	—	(0.5)	(3)	—	(3)	(1)	(1)
Acquisitions and divestitures	—	—	—	—	—	—	—
Reported Growth [c]	3 %	(3)%	6 %	— %	(1)%	11 %	2 %

36

Table of Contents

Net Revenue

36 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
9/6/2014	$10,132	$1,784	$5,638	$15,090	$9,382	$4,709	$46,735
9/7/2013	$9,879	$1,815	$5,532	$15,086	$9,413	$4,572	$46,297
% Impact of:							
Volume [(a)]	2 %	— %	(3)%	— %	— %	6 %	1 %
Effective net pricing [(b)]	1	—	12	1	4	2.5	3
Foreign exchange translation	(0.5)	(1)	(7)	(1)	(4)	(3)	(2)
Acquisitions and divestitures	—	—	—	—	—	(2)	—
Reported Growth [(c)]	3 %	(2)%	2 %	— %	— %	3 %	1 %

(a) Excludes the impact of acquisitions and divestitures. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our beverage businesses, temporary timing differences between BCS and CSE, as well as the mix of beverage volume sold by our Company-owned and franchise-owned bottlers. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

(b) Includes the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

(c) Amounts may not sum due to rounding.

Organic Revenue Growth

Organic revenue growth is a significant measure that we use to monitor net revenue performance. However, it is not a measure provided by GAAP. Therefore, this measure is not, and should not be viewed as, a substitute for GAAP net revenue growth. In order to compute our organic revenue growth results, we exclude the impact of acquisitions and divestitures and foreign exchange translation from reported net revenue growth. See also “Non-GAAP Measures.”

12 Weeks Ended 9/6/2014	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
Reported Growth	3 %	(3)%	6 %	— %	(1)%	11 %	2 %
% Impact of:							
Foreign exchange translation	—	0.5	3	—	3	1	1
Acquisitions and divestitures	—	—	—	—	—	—	—
Organic Growth [(a)]	3 %	(2)%	9 %	— %	1 %	11 %	3 %

36 Weeks Ended 9/6/2014	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
Reported Growth	3 %	(2)%	2 %	— %	— %	3 %	1 %
% Impact of:							
Foreign exchange translation	0.5	1	7	1	4	3	2
Acquisitions and divestitures	—	—	—	—	—	2	—
Organic Growth [(a)]	3 %	(1)%	9 %	1 %	4 %	8 %	3.5 %

(a) Amounts may not sum due to rounding.

Table of Contents

Frito-Lay North America

	12 Weeks Ended		%	36 Weeks Ended		%	
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change	
Net revenue	$3,526	$3,424	3	$10,132	$9,879	3	
Impact of foreign exchange translation			—			0.5	
Net revenue growth, on a constant currency basis [(a)]			3			3	(b)
Operating profit	$1,025	$977	5	$2,824	$2,711	4	
Restructuring and impairment charges	9	1		35	5		
Operating profit excluding above item [(a)]	$1,034	$978	6	$2,859	$2,716	5	
Impact of foreign exchange translation			—			0.5	
Operating profit growth excluding above item, on a constant currency basis [(a)]			6			6	(b)

(a) See “Non-GAAP Measures.”
(b) Does not sum due to rounding.

12 Weeks

Net revenue grew 3% and volume grew 2%. Net revenue growth was primarily driven by the volume growth and effective net pricing. The volume growth reflected high-single-digit growth in trademark Doritos, low-single-digit growth in trademark Lay’s and double-digit growth in variety packs. These increases were partially offset by a double-digit decline in trademark SunChips and a mid-single-digit decline in trademark Tostitos.

Operating profit grew 5%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as lower commodity costs, primarily cooking oil and corn, which increased operating profit growth by 3 percentage points. These impacts were partially offset by certain operating cost increases including strategic initiatives.

36 Weeks

Net revenue grew 3% and volume grew 2.5%. Net revenue growth was primarily driven by the volume growth and effective net pricing. The volume growth reflected mid-single-digit growth in trademark Doritos, high-single-digit growth in variety packs, double-digit growth in our Sabra joint venture products and low-single-digit growth in trademark Lay’s. These increases were partially offset by a double-digit decline in trademark SunChips.

Operating profit grew 4%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as lower commodity costs, primarily cooking oil and corn, which increased operating profit growth by 2 percentage points. These impacts were partially offset by certain operating cost increases including strategic initiatives.

Table of Contents

Quaker Foods North America

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/6/2014	9/7/2013		9/6/2014	9/7/2013	
Net revenue	$586	$604	(3)	$1,784	$1,815	(2)
Impact of foreign exchange translation			0.5			1
Net revenue growth, on a constant currency basis [(a)]			(2) [(b)]			(1)
Operating profit	$150	$137	9	$449	$450	—
Restructuring and impairment charges	—	—		2	—	
Operating profit excluding above item [(a)]	$150	$137	10	$451	$450	—
Impact of foreign exchange translation			—			1
Operating profit growth excluding above item, on a constant currency basis [(a)]			10			1

(a) See "Non-GAAP Measures."
(b) Does not sum due to rounding.

12 Weeks

Net revenue and volume each declined 3%. The net revenue performance reflected the volume decline and unfavorable net pricing. The volume performance was driven primarily by double-digit declines in Muller Quaker Dairy (MQD) products and a mid-single-digit decline in ready-to-eat cereals, partially offset by mid-single-digit growth in Oatmeal.

Operating profit increased 9%, reflecting a gain on the divestiture of a cereal business, which contributed 14 percentage points to operating profit growth, and improvement in our share of the operating results of our MQD joint venture, which reflected start-up costs in the prior year. Operating profit growth also reflected planned cost reductions across a number of expense categories and lower advertising and marketing expenses. These increases were partially offset by the net revenue performance and certain operating cost increases.

36 Weeks

Net revenue declined 2% and volume was even with the prior year. The net revenue performance primarily reflected unfavorable net pricing, partially offset by favorable product mix. Unfavorable foreign exchange negatively impacted net revenue performance by 1 percentage point. The volume performance reflects low-single-digit declines in ready-to-eat cereals and Aunt Jemima syrup and mix, offset by mid-single-digit growth in Oatmeal.

Operating profit was even with the prior year, primarily driven by the net revenue performance, certain operating cost increases and the impact of disruptions in oat supplies during the first quarter of 2014. These impacts were partially offset by planned cost reductions across a number of expense categories and an improvement in our share of the operating results of our MQD joint venture, which reflected start-up costs in the prior year. Additionally, the gain on the divestiture of a cereal business contributed 4 percentage points to operating profit performance.

Table of Contents

Latin America Foods

	12 Weeks Ended		%	36 Weeks Ended		%	
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change	
Net revenue	$2,178	$2,049	6	$5,638	$5,532	2	
Impact of foreign exchange translation			3			7	
Net revenue growth, on a constant currency basis [(a)]			9			9	
Operating profit	$327	$295	11	$882	$829	6	
Restructuring and impairment charges	6	1		7	6		
Operating profit excluding above item [(a)]	$333	$296	12	$889	$835	6	
Impact of foreign exchange translation			3			6	
Operating profit growth excluding above item, on a constant currency basis [(a)]			15			13	(b)

(a) See “Non-GAAP Measures.”
(b) Does not sum due to rounding.

12 Weeks
Net revenue increased 6%, primarily reflecting favorable effective net pricing, including the impact of inflation-based pricing in Venezuela, partially offset by volume declines. Unfavorable foreign exchange reduced net revenue growth by 3 percentage points.
Volume declined 2.5%, reflecting a mid-single-digit decline in Brazil, as well as a low-single-digit decline in Mexico due to a tax on certain packaged foods which became effective during the first quarter of 2014.
Operating profit increased 11%, reflecting the net revenue growth and planned cost reductions across a number of expense categories. Additionally, a sales tax benefit in Brazil contributed 2 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases including strategic initiatives, as well as higher commodity costs, led by Venezuela, primarily reflecting potato and packaging inflation, which reduced operating profit growth by 31 percentage points. Unfavorable foreign exchange reduced operating profit growth by 3 percentage points.

36 Weeks
Net revenue increased 2%, primarily reflecting favorable effective net pricing, including the impact of inflation-based pricing in Venezuela, partially offset by volume declines. Unfavorable foreign exchange reduced net revenue growth by 7 percentage points.
Volume declined 2.5%, reflecting a mid-single-digit decline in Mexico due to a tax on certain packaged foods which became effective during the first quarter of 2014. Additionally, Brazil experienced a low-single-digit decline.
Operating profit increased 6%, reflecting the net revenue growth and planned cost reductions across a number of expense categories. These impacts were partially offset by certain operating cost increases including strategic initiatives, as well as higher commodity costs, led by Venezuela, primarily reflecting potato and packaging inflation, which reduced operating profit growth by 24 percentage points. Unfavorable foreign exchange reduced operating profit growth by 6 percentage points.

Table of Contents

PepsiCo Americas Beverages

	12 Weeks Ended		%	36 Weeks Ended		%
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change
Net revenue	$5,383	$5,406	—	$15,090	$15,086	—
Impact of foreign exchange translation			—			1
Net revenue growth, on a constant currency basis [a]			—			1
Operating profit	$858	$843	2	$2,155	$2,290	(6)
Restructuring and impairment charges	16	3		138	8	
Venezuela currency devaluation	—	—		—	(13)	
Operating profit excluding above items [a]	$874	$846	3	$2,293	$2,285	—
Impact of foreign exchange translation			1			2
Operating profit growth excluding above items, on a constant currency basis [a]			4			2

(a) See “Non-GAAP Measures.”

12 Weeks

Net revenue was even with the prior year. A slight negative impact from foreign exchange was offset by favorable effective net pricing.

Volume increased 1%, which included a contribution of nearly 1 percentage point from certain of our bottler’s brands relating to our new joint venture in Chile. Latin America volume increased 5%, primarily reflecting a mid-single-digit increase in Venezuela and a low-single-digit increase in Mexico, partially offset by a low-single-digit decline in Brazil. Latin America volume growth also included 2 percentage points from certain of our bottler’s brands in Chile. North America volume declined 1%, driven by a 1.5% decline in CSD volumes, partially offset by a slight increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected a mid-single-digit increase in Lipton RTD teas and low-single-digit increases in Gatorade sports drinks and our overall water portfolio, partially offset by a high-single-digit decline in our juice and juice drinks portfolio.

Operating profit increased 2%, primarily reflecting lower commodity costs, which positively impacted operating profit performance by 9 percentage points, planned cost reductions across a number of expense categories and the favorable effective net pricing, including the impact of inflation-based pricing in Venezuela. These impacts were partially offset by certain operating cost increases. Excluding the items affecting comparability in the above table (see “Items Affecting Comparability”), operating profit increased 3%.

36 Weeks

Net revenue was even with the prior year, primarily reflecting favorable effective net pricing, offset by unfavorable foreign exchange, which reduced net revenue growth by 1 percentage point.

Volume increased 0.5%, which included a slight contribution from certain of our bottler’s brands relating to our new joint venture in Chile. Latin America volume increased 3.5%, reflecting nearly 2 percentage points from certain of our bottler’s brands in Chile, a mid-single-digit increase in Brazil and a slight increase in Mexico. North America volume declined slightly, driven by a 1% decline in CSD volumes, partially offset by a 1% increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected mid-single-digit increases in Gatorade sports drinks and Lipton RTD teas and a low-

Table of Contents

single-digit increase in our overall water portfolio, partially offset by a high-single-digit decline in our juice and juice drinks portfolio.

Operating profit decreased 6%. Excluding the items affecting comparability in the above table (see “Items Affecting Comparability”), operating profit increased slightly. This increase primarily reflected favorable effective net pricing, including the impact of inflation-based pricing in Venezuela, planned cost reductions across a number of expense categories, as well as lower commodity costs, which positively impacted reported operating profit performance by 5 percentage points. These gains were mostly offset by certain operating cost increases. Unfavorable foreign exchange negatively impacted reported operating profit performance by 2 percentage points.

Europe

	12 Weeks Ended		%	36 Weeks Ended		%
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change
Net revenue	$3,764	$3,818	(1)	$9,382	$9,413	—
Impact of foreign exchange translation			3			4
Net revenue growth, on a constant currency basis [a]			1 [b]			4
Operating profit	$465	$501	(7)	$1,068	$1,014	5
Merger and integration charges	—	9		—	9	
Restructuring and impairment charges	14	2		37	14	
Operating profit excluding above items [a]	$479	$512	(6)	$1,105	$1,037	7
Impact of foreign exchange translation			—			—
Operating profit growth excluding above items, on a constant currency basis [a]			(6)			7

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

12 Weeks

Net revenue decreased 1%, primarily reflecting unfavorable foreign exchange, which negatively impacted net revenue performance by 3 percentage points, partially offset by favorable effective net pricing.

Snacks volume grew 2%, primarily reflecting high-single-digit growth in South Africa, mid-single-digit growth in the United Kingdom, Turkey and Spain and low-single-digit growth in the Netherlands, partially offset by a mid-single-digit decline in Russia.

Beverage volume declined 2%, primarily reflecting mid-single-digit declines in Russia and Germany, partially offset by mid-single-digit growth in Poland. Additionally, Turkey experienced a slight decline and the United Kingdom experienced a low-single-digit decline.

Operating profit declined 7%, primarily reflecting certain operating cost increases including strategic initiatives, as well as higher commodity costs, primarily milk, which negatively impacted operating profit performance by 11 percentage points. Additionally, operating profit performance was negatively impacted by 4.5 percentage points due to an impairment charge associated with a brand in Greece. These impacts were partially offset by the effective net pricing as well as planned cost reductions across a number of expense categories.

Table of Contents

36 Weeks

Net revenue was even with the prior year, primarily reflecting unfavorable foreign exchange, which negatively impacted net revenue performance by 4 percentage points, offset by favorable effective net pricing.

Snacks volume grew 2%, primarily reflecting high-single-digit growth in South Africa, mid-single-digit growth in Turkey and low-single-digit growth in Spain, partially offset by low-single-digit declines in Russia and the Netherlands. Additionally, the United Kingdom experienced low-single-digit growth.

Beverage volume was even with the prior year, primarily reflecting high-single-digit growth in France and mid-single-digit growth in the United Kingdom, partially offset by a mid-single-digit decline in Russia and low-single-digit declines in Turkey and Germany.

Operating profit increased 5%, primarily reflecting the effective net pricing and planned cost reductions across a number of expense categories. The impact of a one-time gain associated with the sale of agricultural assets in Russia during the first quarter of 2014 and the lapping of incremental investments into our business in the prior year contributed 3 percentage points and nearly 2 percentage points, respectively, to operating profit growth. These impacts were partially offset by certain operating cost increases including strategic initiatives, as well as higher commodity costs, primarily milk, which reduced operating profit growth by 22 percentage points. In addition, an impairment charge associated with a brand in Greece and items affecting comparability in the above table (see "Items Affecting Comparability") each reduced operating profit growth by 2 percentage points.

Asia, Middle East & Africa

	12 Weeks Ended		%	36 Weeks Ended		%
	9/6/2014	9/7/2013	Change	9/6/2014	9/7/2013	Change
Net revenue	$1,781	$1,608	11	$4,709	$4,572	3
Impact of foreign exchange translation			1			3
Net revenue growth, on a constant currency basis [a]			11 [b]			6
Operating profit	$309	$295	5	$884	$1,003	(12)
Restructuring and impairment charges	8	1		19	3	
Operating profit excluding above item [a]	$317	$296	7	$903	$1,006	(10)
Impact of foreign exchange translation			1			2
Operating profit growth excluding above item, on a constant currency basis [a]			8			(9) [b]

(a) See "Non-GAAP Measures."

(b) Does not sum due to rounding.

12 Weeks

Net revenue increased 11%, reflecting volume growth and favorable effective net pricing.

Snacks volume grew 11%, reflecting double-digit growth in China, the Middle East and India, partially offset by a mid-single-digit decline in Thailand. Additionally, Australia experienced high-single-digit growth.

Beverage volume grew 3%, driven by double-digit growth in India and high-single-digit growth in the Middle East, partially offset by a high-single-digit decline in China and a mid-single-digit decline in Pakistan.

Table of Contents

Operating profit increased 5%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as lapping the impact of incremental investments into our business in the prior year, which contributed 8 percentage points to operating profit growth. The impact of a one-time gain associated with the sale of a bottling business in the Middle East, partially offset by the lapping of gains from net divestitures in the prior year, positively contributed 1 percentage point to operating profit growth. These increases were mostly offset by operating cost increases including strategic initiatives, as well as higher advertising and marketing expenses. Items affecting comparability in the above table (see "Items Affecting Comparability") reduced operating profit growth by 2 percentage points.

36 Weeks
Net revenue increased 3%, reflecting volume growth and favorable effective net pricing, partially offset by the negative impact of the prior year refranchising of our Vietnam beverage business, which reduced net revenue growth by 2 percentage points. Unfavorable foreign exchange reduced net revenue growth by 3 percentage points.

Snacks volume grew 8%, reflecting double-digit growth in China, partially offset by a low-single-digit decline in Thailand. Additionally, the Middle East experienced high-single-digit growth and India and Australia both experienced mid-single-digit growth.

Beverage volume grew 2%, driven by high-single-digit growth in India and mid-single-digit growth in the Middle East, partially offset by a high-single-digit decline in China and a low-single-digit decline in Pakistan.
Operating profit declined 12%, primarily reflecting operating cost increases including strategic initiatives, as well as the impact of lapping structural changes associated with the prior year refranchising of our Vietnam beverage business, which negatively impacted operating performance by 14 percentage points and primarily reflected a one-time gain of $137 million. These impacts were partially offset by the net revenue growth and planned cost reductions across a number of expense categories, as well as lapping the impact of incremental investments into our business in the prior year, which positively contributed 2 percentage points to operating profit performance. Additionally, the items affecting comparability in the above table (see "Items Affecting Comparability") and unfavorable foreign exchange each negatively impacted operating profit performance by 2 percentage points.

Table of Contents

Our Liquidity and Capital Resources

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing (including long-term debt financing which, depending upon market conditions, we may use to replace a portion of our commercial paper borrowings), will be adequate to meet our operating, investing and financing needs. Sources of cash available to us to fund cash outflows, such as our anticipated share repurchases and dividend payments, include cash from operations and proceeds obtained in the U.S. debt markets. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us, or at all. See “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

As of September 6, 2014, we had cash, cash equivalents and short-term investments of $12.0 billion outside the U.S. To the extent foreign earnings are repatriated, such amounts would be subject to income tax liabilities, both in the U.S. and in various applicable foreign jurisdictions. In addition, currency restrictions enacted by the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. For additional information on Venezuela, see “Our Business Risks” and “Items Affecting Comparability.”

Operating Activities

During the 36 weeks in 2014, net cash provided by operating activities of $6.7 billion was even with the prior year. Also see “Free Cash Flow” below for certain other items impacting net cash provided by operating activities.

Investing Activities

During the 36 weeks in 2014, net cash used for investing activities was $6.7 billion, primarily reflecting purchases of marketable debt securities of $5.4 billion, as well as net capital spending of $1.5 billion. See Note 10 to our condensed consolidated financial statements for further discussion of our marketable debt securities.

We expect 2014 net capital spending to be approximately $3.0 billion, within our long-term capital spending target of less than or equal to 5% of net revenue.

Financing Activities

During the 36 weeks in 2014, net cash used for financing activities was $2.0 billion, primarily reflecting the return of operating cash flow to our shareholders through share repurchases and dividend payments of $6.0 billion, largely offset by net proceeds from short-term borrowings of $2.1 billion, net proceeds from long-term debt borrowings of $1.2 billion and proceeds from exercises of stock options of $0.6 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. On February 13, 2014, we announced a 15% increase in our annualized dividend to $2.62 per share from $2.27 per share, effective with the dividend paid in June 2014. We expect to return a total of $8.7 billion to shareholders in 2014 through share repurchases of approximately $5.0 billion and dividends of approximately $3.7 billion. See “Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” for a description of our share repurchase program.

Table of Contents

Free Cash Flow

We focus on free cash flow as an important element in evaluating our performance. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Additionally, we consider certain items (included in the table below) in evaluating free cash flow. We believe investors should consider these items in evaluating our free cash flow results. Free cash flow excluding certain items is the primary measure we use to monitor cash flow performance. However, free cash flow and free cash flow excluding certain items are not measures provided by GAAP. Therefore, these measures are not, and should not be viewed as, substitutes for GAAP cash flow measures.

The table below reconciles net cash provided by operating activities, as reflected in our cash flow statement, to our free cash flow excluding the impact of the items below.

	36 Weeks Ended		
	9/6/2014	9/7/2013	% Change
Net cash provided by operating activities	$6,693	$6,662	0.5
Capital spending	(1,540)	(1,497)	
Sales of property, plant and equipment	60	51	
Free cash flow	5,213	5,216	—
Discretionary pension and retiree medical contributions (after-tax)	13	11	
Merger and integration payments (after-tax)	—	18	
Payments related to restructuring charges (after-tax)	164	97	
Payments related to income tax settlements	—	113	
Net capital investments related to restructuring plan	4	1	
Payments for restructuring and other charges related to the transaction with Tingyi	—	26	
Free cash flow excluding above items	$5,394	$5,482	(2)

Free cash flow is used primarily to repurchase shares and pay dividends. We expect to continue to return free cash flow to our shareholders through share repurchases and dividends while maintaining Tier 1 commercial paper access, which we believe will ensure appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. However, see “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, as well as “Our Business Risks” above for certain factors that may impact credit ratings or our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether or not as a result of our actions or factors which are beyond our control, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 and Note 8 to our condensed consolidated financial statements.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of September 6, 2014, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 6, 2014 and September 7, 2013, and the related Condensed Consolidated Statements of Cash Flows and Equity for the thirty-six weeks ended September 6, 2014 and September 7, 2013. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 28, 2013, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 14, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 28, 2013, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP
New York, New York
October 9, 2014

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" and Note 10 to our condensed consolidated financial statements. In addition, see "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

ITEM 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Executive Vice President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During our third fiscal quarter of 2014, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting during our third fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

The following information should be read in conjunction with the discussion set forth under Part I, Item 3. "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 22, 2014 and June 14, 2014.

We and our subsidiaries are party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. While the results of these proceedings, claims and inquiries cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows. See "Item 1. Business – Regulatory Environment and Environmental Compliance.", "Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.", "Item 1A. Risk Factors – Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our financial performance.", "Item 1A. Risk Factors – Our financial performance could be adversely affected if we are unable to grow our business in emerging and developing markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are sold." and "Item 1A. Risk Factors – Potential liabilities and costs from litigation or legal proceedings could have an adverse impact on our business, financial condition and results of operations." in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

Table of Contents

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

A summary of our common stock repurchases (in millions, except average price per share) during the 12 weeks ended September 6, 2014 under the $10.0 billion repurchase program authorized by our Board of Directors and publicly announced in the first quarter of 2013, which commenced on July 1, 2013 and expires on June 30, 2016, is set forth in the table below. All such shares of common stock were repurchased pursuant to this authorization in open market transactions, other than 26,100 shares of common stock which were repurchased pursuant to a privately negotiated block trade transaction.

Issuer Purchases of Common Stock

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
6/14/2014				$6,102
6/15/2014 - 7/12/2014	4.2	$88.93	4.2	(370)
				5,732
7/13/2014 - 8/9/2014	4.0	$90.07	4.0	(366)
				5,366
8/10/2014 - 9/6/2014	2.9	$92.34	2.9	(266)
Total	11.1	$90.23	11.1	$5,100

Table of Contents

In connection with our merger with The Quaker Oats Company in 2001, shares of our convertible preferred stock were authorized and issued to an ESOP fund established by Quaker. The preferences, limitations and relative rights of the shares of convertible preferred stock are set forth in Exhibit A to our amended and restated articles of incorporation. Quaker made the final award to the ESOP in June 2001. The Company does not have any authorized, but unissued, "blank check preferred stock." PepsiCo repurchases shares of its convertible preferred stock from the ESOP in connection with share redemptions by ESOP participants.

The following table summarizes our convertible preferred share repurchases during the 12 weeks ended September 6, 2014.

Issuer Purchases of Convertible Preferred Stock

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
6/15/2014 - 7/12/2014	4,600	$442.22	N/A	N/A
7/13/2014 - 8/9/2014	2,000	$441.21	N/A	N/A
8/10/2014 - 9/6/2014	1,600	$458.93	N/A	N/A
Total	8,200	$445.24	N/A	N/A

ITEM 5. Other Information.

The Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA) requires disclosure of certain activities relating to Iran by PepsiCo or its affiliates. As previously disclosed, one of our foreign subsidiaries historically maintained a small office in Iran, which provided sales support to independent bottlers in Iran in connection with in-country sales of foreign-owned beverage brands, and which was not in contravention of any applicable U.S. sanctions laws. In 2012, our foreign subsidiary took steps to close its office in Iran, including terminating all three of its employees, and the office has ceased all commercial activity since the enactment of ITRA. During our 2013 fiscal year, our foreign subsidiary continued the process of winding down its office in Iran pursuant to a general license from the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) until the expiration of such license in March 2013. In addition, the office of the foreign subsidiary had one local bank account, containing aggregate deposits of approximately $180, with a bank identified on the list of "Specially Designated Nationals" maintained by OFAC. During the second quarter of 2014, our foreign subsidiary received a license from OFAC authorizing it to engage in activities related to the winding down of the office in Iran and to close the bank account. Following receipt of this license, our foreign subsidiary restarted the process of winding down its office and closed the bank account. This license expired during the third quarter of 2014 and the foreign subsidiary ceased the process of winding down its office upon expiration of the license. The foreign subsidiary did not engage in any activities in Iran other than wind-down activities in the third quarter of 2014, or have any revenues or profits attributable to activities in Iran during the third quarter of 2014. Subsequent to the end of the third quarter, the foreign subsidiary received a license from OFAC authorizing continuation and completion of wind-down activities and recommenced such activities.

ITEM 6. Exhibits.

See “Index to Exhibits” on page 54.

Table of Contents

SIGNATURES

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

		PepsiCo, Inc. (Registrant)
Date:	October 9, 2014	/s/ Marie T. Gallagher Marie T. Gallagher Senior Vice President and Controller
Date:	October 9, 2014	/s/ Cynthia Nastanski Cynthia Nastanski Senior Vice President, Corporate Law and Deputy Corporate Secretary (Duly Authorized Officer)

Table of Contents

INDEX TO EXHIBITS
ITEM 6
EXHIBITS

Exhibit 2.1	Purchase Agreement dated as of December 1, 2010 among PepsiCo, Inc., Pepsi-Cola (Bermuda) Limited, Gavril A. Yushvaev, David Iakobachvili, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov, Mikhail I. Vishnaykov, Aladaro Limited, Tony D. Maher, Dmitry Ivanov, Wimm Bill Dann Finance Cyprus Ltd. and Wimm-Bill-Dann Finance Co. Ltd. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2010.
Exhibit 3.1	Articles of Incorporation of PepsiCo, Inc., as amended and restated, effective as of May 9, 2011, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2011.
Exhibit 3.2	By-laws of PepsiCo, Inc., as amended, effective as of November 22, 2013, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 27, 2013.
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 15	Letter re: Unaudited Interim Financial Information.
Exhibit 24	Power of Attorney, which is incorporated herein by reference to Exhibit 24 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 12, 2014.
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 6, 2014 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) the Condensed Consolidated Balance Sheet, (v) the Condensed Consolidated Statement of Equity, and (vi) Notes to the Condensed Consolidated Financial Statements.