

PEPSICO INC
Form 10-K
February 13, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 30, 2017

Commission file number 1-1183

PepsiCo, Inc.

(Exact Name of Registrant as Specified in Its Charter)

North Carolina

13-1584302

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

700 Anderson Hill Road, Purchase, New York

10577

(Address of Principal Executive Offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Common Stock, par value 1-2/3 cents per share	The Nasdaq Stock Market LLC and Chicago Stock Exchange
2.500% Senior Notes Due 2022	New York Stock Exchange
1.750% Senior Notes Due 2021	New York Stock Exchange
2.625% Senior Notes Due 2026	New York Stock Exchange
0.875% Senior Notes Due 2028	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes

☐ No ☒

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

Indicate by check mark whether the registrant 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large

accelerated
Accelerated filer ☐

x

Smaller reporting company ☐

Emerging growth company ☐

..

(Do
not
check
if
a
smaller
reporting
company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

The aggregate market value of PepsiCo, Inc. Common Stock held by nonaffiliates of PepsiCo, Inc. (assuming for these purposes, but without conceding, that all executive officers and directors of PepsiCo, Inc. are affiliates of PepsiCo, Inc.) as of June 16, 2017, the last day of business of our most recently completed second fiscal quarter, was \$166.5 billion (based on the closing sale price of PepsiCo, Inc.'s Common Stock on that date as reported on the New York Stock Exchange).

The number of shares of PepsiCo, Inc. Common Stock outstanding as of February 6, 2018 was 1,419,908,267.

Documents Incorporated by Reference

Portions of the Proxy Statement relating to PepsiCo, Inc.'s 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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PepsiCo, Inc.

Form 10-K Annual Report

For the Fiscal Year Ended December 30, 2017

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Forward-Looking Statements

This Annual Report on Form 10-K 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 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “express,” “forecast,” “future,” “goal,” “guidance,” “intend,” “may,” “objective,” “outlook,” “plan,” “position,” “potential,” “should,” “strategy,” “target,” “will” or similar statements or 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. These risks and uncertainties include, but are not limited to, those described in “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business – Our Business Risks.” 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. The discussion of risks below and elsewhere in this report is by no means all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our future performance.

PART I

Item 1. Business.

When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries, collectively. Certain terms used in this Annual Report on Form 10-K are defined in the Glossary included in Item 7. of this report.

Company Overview

We were incorporated in Delaware in 1919 and reincorporated in North Carolina in 1986. We are a leading global food and beverage company with a complementary portfolio of enjoyable brands, including Frito-Lay, Gatorade, Pepsi-Cola, Quaker and Tropicana. Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of convenient and enjoyable beverages, foods and snacks, serving customers and consumers in more than 200 countries and territories.

Our Operations

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

- 1) Frito-Lay North America (FLNA), which includes our branded food and snack businesses in the United States and Canada;
- 2) Quaker Foods North America (QFNA), which includes our cereal, rice, pasta and other branded food businesses in the United States and Canada;
- 3) North America Beverages (NAB), which includes our beverage businesses in the United States and Canada;
- 4) Latin America, which includes all of our beverage, food and snack businesses in Latin America;
- 5) Europe Sub-Saharan Africa (ESSA), which includes all of our beverage, food and snack businesses in Europe and Sub-Saharan Africa; and

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6) Asia, Middle East and North Africa (AMENA), which includes all of our beverage, food and snack businesses in Asia, Middle East and North Africa.

Our segment net revenue (in millions) and contributions to consolidated net revenue for each of the last three fiscal years were as follows:

	Net Revenue			% of Total Net Revenue					
	2017	2016 ^(a)	2015	2017	2016	2015			
FLNA	\$15,798	\$15,549	\$14,782	25	% 25	% 23	%		
QFNA	2,503	2,564	2,543	4	4	4			
NAB	20,936	21,312	20,618	33	34	33			
Latin America	7,208	6,820	8,228	11	11	13			
ESSA	11,050	10,216	10,510	17	16	17			
AMENA	6,030	6,338	6,375	10	10	10			
	\$63,525	\$62,799	\$63,056	100	% 100	% 100	%		

Our fiscal 2016 results included an extra week of results (53rd reporting week). The 53rd reporting week increased (a) 2016 net revenue by \$657 million, including \$294 million in our FLNA segment, \$43 million in our QFNA segment, \$300 million in our NAB segment and \$20 million in our ESSA segment.

See Note 1 to our consolidated financial statements for financial information about our divisions and geographic areas. See also “Item 1A. Risk Factors” below for a discussion of certain risks associated with our operations, including outside the United States.

Frito-Lay North America

Either independently or in conjunction with third parties, FLNA makes, markets, distributes and sells branded snack foods. These foods include branded dips, Cheetos cheese-flavored snacks, Doritos tortilla chips, Fritos corn chips, Lay’s potato chips, Ruffles potato chips, Santitas tortilla chips and Tostitos tortilla chips. FLNA’s branded products are sold to independent distributors and retailers. In addition, FLNA’s joint venture with Strauss Group makes, markets, distributes and sells Sabra refrigerated dips and spreads.

Quaker Foods North America

Either independently or in conjunction with third parties, QFNA makes, markets, distributes and sells cereals, rice, pasta and other branded products. QFNA’s products include Aunt Jemima mixes and syrups, Cap’n Crunch cereal, Life cereal, Quaker Chewy granola bars, Quaker grits, Quaker oat squares, Quaker oatmeal, Quaker rice cakes, Quaker simply granola and Rice-A-Roni side dishes. These branded products are sold to independent distributors and retailers.

North America Beverages

Either independently or in conjunction with third parties, NAB makes, markets and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Aquafina, Diet Mountain Dew, Diet Pepsi, Gatorade, Mist Twst, Mountain Dew, Pepsi, Propel and Tropicana. NAB also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea and coffee products through joint ventures with Unilever (under the Lipton brand name) and Starbucks, respectively. Further, NAB manufactures and distributes certain brands licensed from Dr Pepper Snapple Group, Inc. (DPSG), including Crush, Dr Pepper and Schweppes, and certain juice brands licensed from Dole Food Company, Inc. (Dole) and Ocean Spray Cranberries, Inc. (Ocean Spray). NAB operates its own bottling plants and distribution facilities and sells branded finished goods directly to independent distributors and retailers. NAB also sells concentrate and finished goods for our brands to authorized and independent bottlers, who in turn sell our branded finished goods to independent distributors and retailers in certain markets.

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Latin America

Either independently or in conjunction with third parties, Latin America makes, markets, distributes and sells a number of snack food brands including Cheetos, Doritos, Emperador, Lay's, Marias Gamesa, Rosquinhas Mabel, Ruffles, Sabritas, Saladitas and Tostitos, as well as many Quaker-branded cereals and snacks. Latin America also, either independently or in conjunction with third parties, makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including 7UP, Diet Pepsi, Gatorade, H2oh!, Manzanita Sol, Mirinda, Pepsi and Toddy. These branded products are sold to authorized bottlers, independent distributors and retailers. Latin America also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name).

See Note 1 to our consolidated financial statements for information about the deconsolidation of our Venezuelan subsidiaries, which was effective as of the end of the third quarter of 2015.

Europe Sub-Saharan Africa

Either independently or in conjunction with third parties, ESSA makes, markets, distributes and sells a number of leading snack food brands including Cheetos, Chipita, Doritos, Lay's, Ruffles and Walkers, as well as many Quaker-branded cereals and snacks, through consolidated businesses as well as through noncontrolled affiliates. ESSA also, either independently or in conjunction with third parties, makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including 7UP, Diet Pepsi, Mirinda, Pepsi, Pepsi Max and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. In certain markets, however, ESSA operates its own bottling plants and distribution facilities. ESSA also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). In addition, ESSA makes, markets, distributes and sells a number of leading dairy products including Agusha, Chudo and Domik v Derevne.

Asia, Middle East and North Africa

Either independently or in conjunction with third parties, AMENA makes, markets, distributes and sells a number of leading snack food brands including Cheetos, Chipsy, Crunchy, Doritos, Kurkure and Lay's, as well as many Quaker branded cereals and snacks, through consolidated businesses, as well as through noncontrolled affiliates. AMENA also makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including 7UP, Aquafina, Mirinda, Mountain Dew, Pepsi and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. In certain markets, however, AMENA operates its own bottling plants and distribution facilities. AMENA also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). Further, we license the Tropicana brand for use in China on co-branded juice products in connection with a strategic alliance with Tingyi (Cayman Islands) Holding Corp. (Tingyi).

Our Distribution Network

Our products are primarily brought to market through direct-store-delivery (DSD), customer warehouse and distributor networks. The distribution system used depends on customer needs, product characteristics and local trade practices.

Direct-Store-Delivery

We, our independent bottlers and our distributors operate DSD systems that deliver beverages, foods and snacks directly to retail stores where the products are merchandised by our employees or our independent bottlers. DSD enables us to merchandise with maximum visibility and appeal. DSD is especially well-suited

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to products that are restocked often and respond to in-store promotion and merchandising.

Customer Warehouse

Some of our products are delivered from our manufacturing plants and warehouses to customer warehouses. These less costly systems generally work best for products that are less fragile and perishable, and have lower turnover.

Distributor Networks

We distribute many of our products through third-party distributors. Third-party distributors are particularly effective when greater distribution reach can be achieved by including a wide range of products on the delivery vehicles. For example, our foodservice and vending business distributes beverages, foods and snacks to restaurants, businesses, schools and stadiums through third-party foodservice and vending distributors and operators.

Our products are also available on a growing number of e-commerce websites and mobile commerce applications as consumer consumption patterns continue to change and retail increasingly expands online.

Ingredients and Other Supplies

The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit, oranges and other fruits, oats, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including polyethylene terephthalate (PET) and polypropylene resins used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel, electricity and natural gas are also important commodities for our businesses due to their use in our and our business partners' facilities and the vehicles delivering our products. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages that would prevent us from meeting our requirements.

Many of these ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. When prices increase, we may or may not pass on such increases to our customers. In addition, we continue to make investments to improve the sustainability and resources of our agricultural supply chain, including the development of our initiative to advance sustainable farming practices by our suppliers and expanding it globally. See Note 9 to our consolidated financial statements for additional information on how we manage our exposure to commodity costs.

Our Brands and Intellectual Property Rights

We own numerous valuable trademarks which are essential to our worldwide businesses, including Agusha, Amp Energy, Aquafina, Aquafina Flavorsplash, Aunt Jemima, Cap'n Crunch, Cheetos, Chester's, Chipsy, Chokis, Chudo, Cracker Jack, Crunchy, Diet Mist Twst, Diet Mountain Dew, Diet Mug, Diet Pepsi, Diet 7UP (outside the United States), Domik v Derevne, Doritos, Duyvis, Elma Chips, Emperador, Frito-Lay, Fritos, Fruktovy Sad, G2, Gamesa, Gatorade, Grandma's, H2oh!, Imunele, Izze, J-7 Tonus, Kas, KeVita, Kurkure, Lay's, Life, Lifewtr, Lifewater, Lubimy, Manzanita Sol, Marias Gamesa, Matutano, Mirinda, Miss Vickie's, Mist Twst, Mother's, Mountain Dew, Mountain Dew Code Red, Mountain Dew Kickstart, Mug, Munchies, Naked, Near East, O.N.E., Paso de los Toros, Pasta Roni, Pepsi, Pepsi Max, Pepsi Next, Pepsi Zero Sugar, Propel, Quaker, Quaker Chewy, Rice-A-Roni, Rold Gold, Rosquinhas Mabel, Ruffles, Sabritas, Sakata, Saladitas, Sandora, Santitas, 7UP (outside the United States), 7UP Free (outside the United States), Simba, Smartfood, Smith's, Snack a Jacks, SoBe, SoBe Lifewater, Sonric's, Stacy's, Sting, SunChips, Toddy,

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Toddynho, Tostitos, Trop 50, Tropicana, Tropicana Farmstand, Tropicana Pure Premium, Tropicana Twister, V Water, Vesely Molochnik, Walkers and Ya. We also hold long-term licenses to use valuable trademarks in connection with our products in certain markets, including Dole and Ocean Spray. We also distribute Rockstar Energy drinks, Muscle Milk protein shakes and various DPSG brands, including Dr Pepper in certain markets, Crush and Schweppes. Joint ventures in which we have an ownership interest either own or have the right to use certain trademarks, such as Lipton, Sabra and Starbucks. Trademarks remain valid so long as they are used properly for identification purposes, and we emphasize correct use of our trademarks. We have authorized, through licensing arrangements, the use of many of our trademarks in such contexts as snack food joint ventures and beverage bottling appointments. In addition, we license the use of our trademarks on merchandise that is sold at retail, which enhances brand awareness. We either own or have licenses to use a number of patents which relate to certain of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. Some of these patents are licensed to others.

Seasonality

Our businesses are affected by seasonal variations. For instance, our beverage sales are higher during the warmer months and certain food and dairy sales are higher in the cooler months. Weekly beverage and snack sales are generally highest in the third quarter due to seasonal and holiday-related patterns, and generally lowest in the first quarter. However, taken as a whole, seasonality has not had a material impact on our consolidated financial results.

Our Customers

Our customers include wholesale and other distributors, foodservice customers, grocery stores, drug stores, convenience stores, discount/dollar stores, mass merchandisers, membership stores, hard discounters, e-commerce retailers and authorized independent bottlers, among others. We normally grant our independent bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements provide us with the right to charge our independent bottlers for concentrate, finished goods and Aquafina royalties and specify the manufacturing process required for product quality. We also grant distribution rights to our independent bottlers for certain beverage products bearing our trademarks for specified geographic areas. We rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products to the consumer. For our independent distributors and retailers, these incentives include volume-based rebates, product placement fees, promotions and displays. For our independent bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, and other promotional offers. Advertising support is directed at advertising programs and supporting independent bottler media. New product support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually. Changes to the retail landscape, including increased consolidation of retail ownership, the rapid growth of sales through e-commerce websites and mobile commerce applications, the integration of physical and digital operations among retailers, as well as the growth in hard discounters, and the current economic environment continue to increase the importance of major customers. In 2017, sales to Walmart Inc. (Walmart), including Sam's Club (Sam's), represented approximately 13% of our consolidated net revenue. Our top five retail customers represented approximately 33% of our 2017 net revenue in North America, with Walmart (including

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Sam's) representing approximately 19%. These percentages include concentrate sales to our independent bottlers, which were used in finished goods sold by them to these retailers.

See "Off-Balance-Sheet Arrangements" in "Our Financial Results – Our Liquidity and Capital Resources" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information on our independent bottlers.

Our Competition

Our beverage, food and snack products are in highly competitive categories and markets and compete against products of international beverage, food and snack companies that, like us, operate in multiple geographies, as well as regional, local and private label manufacturers, economy brands and other competitors. In many countries in which our products are sold, including the United States, The Coca-Cola Company is our primary beverage competitor. Other beverage, food and snack competitors include, but are not limited to, DPSG, Kellogg Company, The Kraft Heinz Company, Mondelēz International, Inc., Monster Beverage Corporation, Nestlé S.A., Red Bull GmbH and Snyder's-Lance, Inc.

Many of our food and snack products hold significant leadership positions in the food and snack industry in the United States and worldwide. In 2017, we and The Coca-Cola Company represented approximately 23% and 20%, respectively, of the U.S. liquid refreshment beverage category by estimated retail sales in measured channels, according to Information Resources, Inc. However, The Coca-Cola Company has significant carbonated soft drink (CSD) share advantage in many markets outside the United States.

Our beverage, food and snack products compete primarily on the basis of brand recognition and loyalty, taste, price, value, quality, product variety, innovation, distribution, advertising, marketing and promotional activity, packaging, convenience, service and the ability to anticipate and effectively respond to consumer preferences and trends, including increased consumer focus on health and wellness and the continued acceleration of e-commerce and other methods of distributing and purchasing products. Success in this competitive environment is dependent on effective promotion of existing products, effective introduction of new products and reformulations of existing products, the effectiveness of our advertising campaigns, marketing programs, product packaging, pricing, increased efficiency in production techniques, new vending and dispensing equipment and brand and trademark development and protection. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allows us to compete effectively.

Research and Development

We engage in a variety of research and development activities and invest in innovation globally with the goal of meeting changing consumer demands and preferences and accelerating sustainable growth. These activities principally involve: development of new ingredients, flavors and products; reformulation and improvement in the quality and appeal of existing products; improvement and modernization of manufacturing processes, including cost reduction; improvements in product quality, safety and integrity; development of, and improvements in, dispensing equipment, packaging technology, package design and portion sizes; efforts focused on identifying opportunities to transform, grow and broaden our product portfolio, including by developing products with improved nutrition profiles that reduce added sugars, sodium or saturated fat, including through the use of sweetener alternatives and flavor modifiers and innovation in existing sweeteners, and by offering more products with positive nutrition including whole grains, fruits and vegetables, dairy, protein and hydration; investments in building our capabilities to support our global e-commerce business; and improvements in energy efficiency and efforts focused on reducing our impact on the environment. Our research centers are located around the world, including in Brazil, China, India, Ireland, Mexico, Russia, the United Arab Emirates, the United Kingdom and the United States, and leverage nutrition science, food

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science, engineering and consumer insights to meet our strategy to continue to develop nutritious and convenient beverages, foods and snacks.

In 2017, we continued to refine our beverage, food and snack portfolio to meet changing consumer demands by reducing added sugars in many of our beverages and sodium and saturated fat in many of our foods and snacks, and by developing a broader portfolio of product choices, including: continuing to expand our beverage options that contain no high-fructose corn syrup and that are made with natural flavors; expanding our state-of-the-art food and beverage healthy vending initiative to increase the availability of convenient, affordable and enjoyable nutrition; further expanding our portfolio of nutritious products by building on our important nutrition platforms and brands — Quaker (grains), Tropicana (juices, lemonades, fruit and vegetable drinks), Gatorade (sports nutrition for athletes), Naked Juice (cold-pressed juices and smoothies) and KeVita (probiotics, tonics and fermented teas); further expanding our whole grain products globally; and further expanding our portfolio of nutritious products in growing categories, such as dairy, hummus and other refrigerated dips, and baked grain snacks. In addition, we continued to make investments to reduce our impact on the environment, including: efforts to conserve raw materials and energy, such as by working to achieve reductions in greenhouse gas emissions across our global businesses, by helping to protect and conserve global water supply especially in high-water-risk locations (including replenishing watersheds that source our operations in high-water-risk locations and promoting the efficient use of water use in our agricultural supply chain), and by incorporating into our operations, improvements in the sustainability and resources of our agricultural supply chain; efforts to reduce waste generated by our operations and disposed of in landfills; efforts to support increased packaging recovery and recycling rates; efforts to increase energy efficiency, including the increased use of renewable energy and resources; efforts to support sustainable agriculture by expanding best practices with our growers and suppliers; and efforts to optimize packaging technology and design to make our packaging increasingly recoverable or recyclable with lower environmental impact, including continuing to invest in developing compostable and biodegradable packaging.

Research and development costs were \$737 million, \$760 million and \$754 million in 2017, 2016 and 2015, respectively, and are reported within selling, general and administrative expenses. Consumer research is excluded from such research and development costs and included in other marketing costs.

Regulatory Matters

The conduct of our businesses, including the production, storage, distribution, sale, display, advertising, marketing, labeling, content, quality, safety, transportation, disposal, recycling and use of our products, as well as our occupational health and safety practices and protection of personal information, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to laws and regulations administered by government entities and agencies in the more than 200 other countries and territories in which our products are made, manufactured, distributed or sold. It is our policy to abide by the laws and regulations around the world that apply to our businesses.

The U.S. laws and regulations that we are subject to include: the Federal Food, Drug and Cosmetic Act and various state laws governing food safety; the Food Safety Modernization Act; the Occupational Safety and Health Act; various federal, state and local environmental protection laws, as discussed below; the Federal Motor Carrier Safety Act; the Federal Trade Commission Act; the Lanham Act; various federal and state laws and regulations governing competition and trade practices; various federal and state laws and regulations governing our employment practices, including those related to equal employment opportunity, such as the Equal Employment Opportunity Act and the National Labor Relations Act and those related to overtime compensation, such as the Fair Labor Standards Act; customs and foreign trade laws and regulations; laws regulating the sale of certain of our products in schools; and laws relating to the payment of taxes. We are also required to comply with the Foreign Corrupt Practices Act and the Trade Sanctions Reform and Export Enhancement Act. We are also subject to various state and local statutes and regulations, including state consumer protection laws such as Proposition 65 in California, which requires that a specific warning appear

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on any product that contains a substance listed by the State of California as having been found to cause cancer or birth defects, unless the amount of such substance in the product is below a safe harbor level.

We are also subject to numerous similar and other laws and regulations outside the United States, including but not limited to laws and regulations governing food safety, occupational health and safety, competition, anti-corruption and data privacy. In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws, including the U.K. Bribery Act. We rely on legal and operational compliance programs, as well as in-house and outside counsel and other experts, to guide our businesses in complying with the laws and regulations around the world that apply to our businesses. In addition, certain jurisdictions have either imposed, or are considering imposing, new or increased taxes on the manufacture, distribution or sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products. These taxes vary in scope and form: some apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Similarly, some measures apply a single tax rate per liquid ounce while others apply a graduated tax rate depending upon the amount of added sugar in the beverage and some apply a flat tax rate on beverages containing a particular substance or ingredient.

In addition, certain jurisdictions have either imposed, or are considering imposing, product labeling or warning requirements or other limitations on the marketing or sale of certain of our products as a result of ingredients or substances contained in such products or the audience to whom products are marketed. These types of provisions have required that we provide a label that highlights perceived concerns about a product or warns consumers to avoid consumption of certain ingredients or substances present in our products. It is possible that similar or more restrictive requirements may be proposed or enacted in the future. Regulators may also restrict consumers' ability to use benefit programs, such as the Supplemental Nutrition Assistance Program in the United States, to purchase certain beverages and foods. In addition, legislation has been enacted in certain U.S. states and in certain other countries where our products are sold that requires collection and recycling of containers or that prohibits the sale of our beverages in certain non-refillable containers, unless a deposit, ecotax or other fee is charged. It is possible that similar or more restrictive requirements may be proposed or enacted in the future.

We are also subject to national and local environmental laws in the United States and in foreign countries in which we do business, including laws related to water consumption and treatment, wastewater discharge and air emissions. In the United States, our facilities must comply with the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and other federal and state laws regarding handling, storage, release and disposal of wastes generated on-site and sent to third-party owned and operated off-site licensed facilities and our facilities outside the United States must comply with similar laws and regulations. In addition, continuing concern over climate change may result in new or increased legal and regulatory requirements (in or outside of the United States) to reduce or mitigate the potential effects of greenhouse gases, or to limit or impose additional costs on commercial water use due to local water scarcity concerns. Our policy is to abide by all applicable environmental laws and regulations, and we have internal programs in place with respect to our global environmental compliance. We have made, and plan to continue making, necessary expenditures for compliance with applicable environmental laws and regulations. While these expenditures have not had a material impact on our business, financial condition or results of operations to date, changes in environmental compliance requirements, and any expenditures necessary to comply with such requirements, could adversely affect our financial performance. In addition, we and our subsidiaries are subject to environmental remediation obligations arising in the normal course of business, as well as remediation and related indemnification obligations in connection with certain historical activities and contractual obligations, including those of businesses acquired by us or our subsidiaries. While these environmental remediation and indemnification

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obligations cannot be predicted with certainty, such obligations have not had, and are not expected to have, a material impact on our capital expenditures, earnings or competitive position.

In addition to the discussion in this section, see also “Item 1A. Risk Factors.”

Employees

As of December 30, 2017, we and our consolidated subsidiaries employed approximately 263,000 people worldwide, including approximately 113,000 people within the United States. In certain countries, our employment levels are subject to seasonal variations. We or our subsidiaries are party to numerous collective bargaining agreements. We expect that we will be able to renegotiate these collective bargaining agreements on satisfactory terms when they expire. We believe that relations with our employees are generally good.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are also available free of charge on our Internet site at <http://www.pepsico.com> as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Investors should note that we currently announce material information to our investors and others using filings with the SEC, press releases, public conference calls, webcasts or our corporate website (www.pepsico.com), including news and announcements regarding our financial performance, key personnel, our brands and our business strategy. Information that we post on our corporate website could be deemed material to investors. We encourage investors, the media, our customers, consumers, business partners and others interested in us to review the information we post on these channels. We may from time to time update the list of channels we will use to communicate information that could be deemed material and will post information about any such change on www.pepsico.com. The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

Item 1A. Risk Factors.

You should carefully consider the risks described below in addition to the other information set forth in this Annual Report on Form 10-K. Any of the factors described below could occur or continue to occur and could have a material adverse effect on our business, financial condition, results of operations or the price of our publicly traded securities. The risks below are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may occur or become material in the future and may also adversely affect our business, reputation, financial condition, results of operations or the price of our publicly traded securities. Therefore, historical operating results, financial and business performance, events and trends may not be a reliable indicator of future operating results, financial and business performance, events or trends.

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Demand for our products may be adversely affected by changes in consumer preferences or any inability on our part to innovate, market or distribute our products effectively, and any significant reduction in demand could adversely affect our business, financial condition or results of operations.

We are a global food and beverage company operating in highly competitive categories and markets. To generate revenues and profits, we rely on continued demand for our products and therefore must understand our customers and consumers and sell products that appeal to them in the sales channel in which they prefer to shop or browse for such products. In general, changes in consumption in our product categories or consumer demographics could result in reduced demand for our products. Demand for our products depends in part on our ability to anticipate and effectively respond to shifts in consumer trends and preferences, including increased demand for products that meet the needs of consumers who are concerned with: health and wellness (including products that have less added sugars, sodium and saturated fat); convenience (including responding to changes in in-home and on-the-go consumption patterns and methods of distribution of our products to customers and consumers); or the location of origin or source of the ingredients and products (including the environmental impact related to the production of our products).

Consumer preferences have been evolving, and are expected to continue to evolve, due to a variety of factors, including: changes in consumer demographics, including the aging of the general population and the emergence of the millennial and younger generations who have differing spending and consumption habits; consumer concerns or perceptions regarding the nutrition profile of certain of our products, including the presence of added sugar, sodium and saturated fat in certain of our products; growing demand for organic or locally sourced ingredients, or consumer concerns or perceptions (whether or not valid) regarding the health effects of ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, artificial flavors and colors, artificial sweeteners, aspartame, caffeine, furfuryl alcohol, high-fructose corn syrup, partially hydrolyzed oils, saturated fat, sodium, sugar, trans fats or other product ingredients, substances or attributes, including genetically engineered ingredients; taxes or other restrictions, including labeling requirements, imposed on our products; consumer concerns or perceptions regarding packaging materials, including their environmental impact; changes in package or portion size; changes in social trends that impact travel, vacation or leisure activity patterns; changes in weather patterns or seasonal consumption cycles; the continued acceleration of e-commerce and other methods of purchasing products; negative publicity (whether or not valid) resulting from regulatory actions, litigation against us or other companies in our industry or negative or inaccurate posts or comments in the media, including social media, about us, our employees, our products or advertising campaigns and marketing programs; perception of social media posts or other information disseminated by us or our employees and agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties; perception of our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties or the business practices of such parties; product boycotts; or a downturn in economic conditions. Any of these factors may reduce consumers' willingness to purchase our products and any inability on our part to anticipate or react to such changes could result in reduced demand for our products and erosion of our competitive and financial position and could adversely affect our business, reputation, financial condition or results of operations.

Demand for our products is also dependent in part on product quality, product and marketing innovation and production and distribution, including our ability to: maintain a robust pipeline of new products; improve the quality of existing products; extend our portfolio of products in growing markets and categories; respond to cultural differences and regional consumer preferences (whether through developing or acquiring new products that are responsive to such preferences); monitor and adjust our use of ingredients (including to respond to applicable regulations); develop or acquire a broader portfolio of product choices, including by continuing to increase non-carbonated beverage offerings and other alternatives to traditional carbonated beverage offerings and, in some cases, reformulations of our traditional carbonated beverage offerings; develop sweetener alternatives and innovation; improve the production, packaging and distribution of our

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products; respond to competitive product and pricing pressures and changes in distribution channels, including in the rapidly growing e-commerce channel; and implement effective advertising campaigns and marketing programs, including successfully adapting to a rapidly changing media environment through the use of social media and online advertising campaigns and marketing programs.

Although we devote significant resources to the items mentioned above, there can be no assurance as to our continued ability to develop, launch, maintain or distribute successful new products or variants of existing products in a timely manner (including to correctly anticipate or effectively react to changes in consumer preferences) or to develop and effectively execute advertising and marketing campaigns that appeal to customers and consumers. Our failure to make the right strategic investments to drive innovation or successfully launch new products or variants of existing products or effectively distribute our products could decrease demand for our existing products by negatively affecting consumer perception of our existing brands and may result in inventory write-offs and other costs that could adversely affect our business, financial condition or results of operations.

Changes in, or failure to comply with, laws and regulations applicable to our products or our business operations could adversely affect our business, financial condition or results of operations.

The conduct of our business is subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as government entities and agencies outside the United States, including laws and regulations relating to the production, storage, distribution, sale, display, advertising, marketing, labeling, content, quality, safety, transportation, disposal, recycling and use of our products, as well as our employment and occupational health and safety practices and protection of personal information. In addition, in many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws. Many of these laws and regulations have differing or conflicting legal standards across the various markets where our products are made, manufactured, distributed or sold and, in certain markets, such as developing and emerging markets, may be less developed or certain. For example, products containing genetically engineered ingredients are subject to varying regulations and restrictions in the jurisdictions in which our products are made, manufactured, distributed or sold. In addition, these laws and regulations and related interpretations may change, sometimes dramatically and unexpectedly, as a result of a variety of factors, including political, economic or social events. Such changes may include changes in: food and drug laws; laws related to product labeling, advertising and marketing practices; laws and treaties related to international trade, including laws regarding the import or export of our products or ingredients used in our products and tariffs; laws and programs restricting the sale and advertising of certain of our products, including restrictions on the audience to whom products are marketed; laws and programs aimed at reducing, restricting or eliminating ingredients or substances in, or attributes of, certain of our products; laws and programs aimed at discouraging the consumption or altering the package or portion size of certain of our products, including laws imposing restrictions on the use of government funds or programs, such as the Supplemental Nutrition Assistance Program (included within the Farm Bill in the United States), to purchase certain of our products; increased regulatory scrutiny of, and increased litigation involving product claims and concerns (whether or not valid) regarding the effects on health of ingredients or substances in, or attributes of, certain of our products, including without limitation those found in energy drinks; state consumer protection laws; laws regulating the protection of personal information; cyber-security regulations; regulatory initiatives, including the imposition or proposed imposition of new or increased taxes or other measures impacting the manufacture, distribution or sale of our products; accounting rules and interpretations; employment laws; privacy laws; laws regulating the price we may charge for our products; laws regulating water rights and access to and use of water or utilities; environmental laws, including laws relating to the regulation of water treatment and discharge of wastewater and air emissions and laws relating to the disposal, recovery or recycling of our products and their packaging. Changes in regulatory requirements, and competing regulations and standards, where our

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products are made, manufactured, distributed or sold, may result in higher compliance costs, capital expenditures and higher production costs, which could adversely affect our business, reputation, financial condition or results of operations.

The imposition by any jurisdiction in the United States or outside the United States of new laws, regulations or governmental policy and their related interpretations, or changes in any of the foregoing, including taxes, labeling, product or production requirements or other limitations on, or pertaining to, the sale or advertisement of certain of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products, may further alter the way in which we do business and, therefore, may continue to increase our costs or liabilities or reduce demand for our products, which could adversely affect our business, financial condition or results of operations. If one jurisdiction imposes or proposes to impose new requirements or restrictions, other jurisdictions may follow and the requirements or restrictions, or proposed requirements or restrictions, may also result in adverse publicity (whether or not valid). For example, if one jurisdiction imposes a tax on sugar-sweetened beverages or foods, or imposes a specific labeling or warning requirement, other jurisdictions may impose similar or other measures that impact the manufacture, distribution or sale of our products. The foregoing may result in decreased demand for our products, adverse publicity or increased concerns about the health implications of consumption of ingredients or substances in our products (whether or not valid).

In addition, studies (whether or not scientifically valid) are underway by third parties purporting to assess the health implications of consumption of certain ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, caffeine, furfuryl alcohol, added sugars, sodium and saturated fat. Third parties have also published documents or studies claiming (whether or not valid) that taxes can address consumer consumption of sugar-sweetened beverages and other foods high in sugar, sodium or saturated fat. If, as a result of these studies and documents or otherwise, there is an increase in consumer concerns (whether or not valid) about the health implications of consumption of our products, an increase in the number of jurisdictions that impose taxes on our products, or an increase in new labeling, product or production requirements or other restrictions on the manufacturing, sale or display of our products, demand for our products could decline, or we could be subject to lawsuits or new regulations that could affect sales of our products, any of which could adversely affect our business, financial condition or results of operations.

Although we have policies and procedures in place that are designed to promote legal and regulatory compliance, our employees, suppliers, or other third parties with whom we do business could take actions, intentional or not, that violate these policies and procedures or applicable laws or regulations or could fail to maintain required documentation sufficient to evidence our compliance with applicable laws or regulations. Violations of laws or regulations could subject us to criminal or civil enforcement actions, including fines, penalties, disgorgement of profits or activity restrictions, any of which could result in adverse publicity or affect our business, financial condition or results of operations. In addition, regulatory authorities under whose laws we operate may have enforcement powers that can subject us to actions such as product recall, seizure of products or assets or other sanctions, which could have an adverse effect on the sales of products in our portfolio or could lead to damage to our reputation.

In addition, we and our subsidiaries are party to a variety of legal and environmental remediation obligations arising in the normal course of business, as well as environmental remediation, product liability, toxic tort and related indemnification proceedings in connection with certain historical activities and contractual obligations, including those of businesses acquired by us or our subsidiaries. Due to regulatory complexities, uncertainties inherent in litigation and the risk of unidentified contaminants on current and former properties of ours and our subsidiaries, the potential exists for remediation, liability and indemnification costs to differ materially from the costs we have estimated. We cannot guarantee that our costs in relation to these matters

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will not exceed our estimates or otherwise have an adverse effect on our business, financial condition or results of operations.

The imposition or proposed imposition of new or increased taxes aimed at our products could adversely affect our business, financial condition or results of operations.

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased taxes on the manufacture, distribution or sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products. These taxes vary in scope and form: some apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Similarly, some measures apply a single tax rate per liquid ounce while others apply a graduated tax rate depending upon the amount of added sugar in the beverage and some apply a flat tax rate on beverages containing a particular substance or ingredient. For example, effective January 2018, the City of Seattle, Washington in the United States enacted a per-ounce surcharge on all sugar-sweetened beverages. By contrast, the United Kingdom enacted a graduated tax, effective April 2018, in which the per-ounce tax rate is tied to the amount of added sugar present in the beverage: the higher the amount of added sugar, the higher the per-ounce tax rate and Saudi Arabia enacted, effective June 2017, a flat tax rate of 50% on the retail price of carbonated soft drinks. These tax measures, whatever their scope or form, could increase the cost of our products, reduce overall consumption of our products, lead to negative publicity (whether based on scientific fact or not) or leave consumers with the perception (whether or not valid) that our products do not meet their health and wellness needs. Such factors could adversely affect our business, financial condition or results of operations.

Significant additional labeling or warning requirements or limitations on the marketing or sale of our products may reduce demand for such products and could adversely affect our business, financial condition or results of operations.

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, product labeling or warning requirements or limitations on the marketing or sale of certain of our products as a result of ingredients or substances contained in such products. These types of provisions have required that we provide a label that highlights perceived concerns about a product or warns consumers to avoid consumption of certain ingredients or substances present in our products. For example, in California in the United States, Proposition 65 requires a specific warning on or relating to any product that contains a substance listed by the State of California as having been found to cause cancer or birth defects or other reproductive harm, unless the level of such substance in the product is below a safe harbor level established by the State of California.

In addition, a number of jurisdictions, both in and outside the United States, have imposed or are considering imposing labeling requirements, including color-coded labeling of certain food and beverage products where colors such as red, yellow and green are used to indicate various levels of a particular ingredient, such as sugar, sodium or saturated fat. The imposition or proposed imposition of additional product labeling or warning requirements could reduce overall consumption of our products, lead to negative publicity (whether based on scientific fact or not) or leave consumers with the perception (whether or not valid) that our products do not meet their health and wellness needs. Such factors could adversely affect our business, financial condition or results of operations.

Changes in laws and regulations relating to packaging or disposal of our products could continue to increase our costs and reduce demand for our products or otherwise have an adverse impact on our business, reputation, financial condition or results of operations.

Certain of our products are sold in packaging designed to be recoverable for recycling but not all packaging

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is recovered, whether due to low value, lack of infrastructure or otherwise. The United States and many other jurisdictions have imposed or are considering imposing regulations or policies designed to encourage recycling, including requiring that deposits or certain taxes or fees be charged in connection with the sale, distribution, marketing and use of certain packaging; extended producer responsibility policies which makes brand owners responsible for the costs of recycling products after consumers have used them; and adopting or extending product stewardship policies which could require brand owners to plan for and, if necessary, pay for the recycling or disposal of packaging after consumers have used them. In addition, these jurisdictions may elect to impose regulations or policies to ban the use of certain packaging, such as plastic beverage bottles. Compliance with these laws and regulations could continue to affect our costs or require changes in our distribution model, which could adversely affect our business, financial condition or results of operations. Further, our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to packaging or disposal of our products.

Our business, financial condition or results of operations could suffer if we are unable to compete effectively.

Our beverage, food and snack products are in highly competitive categories and markets and compete against products of international beverage, food and snack companies that, like us, operate in multiple geographies, as well as regional, local, and private label manufacturers, economy brands and other competitors. In many countries in which our products are sold, including the United States, The Coca-Cola Company is our primary beverage competitor. Other beverage, food and snack competitors include, but are not limited to, DPSG, Kellogg Company, The Kraft Heinz Company, Mondelēz International, Inc., Monster Beverage Corporation, Nestlé S.A., Red Bull GmbH and Snyder's-Lance, Inc.

Our beverage, food and snack products compete primarily on the basis of brand recognition and loyalty, taste, price, value, quality, product variety, innovation, distribution, advertising, marketing and promotional activity, packaging, convenience, service and the ability to anticipate and effectively respond to consumer preferences and trends, including increased consumer focus on health and wellness and the continued acceleration of e-commerce and other methods of distributing and purchasing products. If we are unable to effectively promote our existing products or introduce new products, if our advertising or marketing campaigns are not effective or if we are otherwise unable to effectively respond to pricing pressure or compete effectively (including in distributing our products effectively and cost efficiently through all existing and emerging channels of trade, including through e-commerce and hard discounters), we may be unable to grow or maintain sales or category share or we may need to increase capital, marketing or other expenditures, which may adversely affect our business, financial condition or results of operations. Our business, financial condition or results of operations could be adversely affected as a result of political conditions in the markets in which our products are made, manufactured, distributed or sold.

Political conditions in the markets in which our products are made, manufactured, distributed or sold may be difficult to predict and may adversely affect our business, financial condition and results of operations. The results of elections, referendums or other political conditions in the markets in which our products are made, manufactured, distributed or sold could create uncertainty regarding how existing laws and regulations may change, including with respect to sanctions, climate change regulation, taxes, the movement of goods, services and people between countries and other matters, and could result in exchange rate fluctuation, volatility in global stock markets and global economic uncertainty. For example, there is continued uncertainty surrounding the United Kingdom's pending withdrawal from the European Union, including how the United Kingdom will interact with other European Union countries following its departure. Any changes in, or the imposition of new laws, regulations or governmental policy and their related interpretations due to elections,

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referendums or other political conditions could have an adverse impact on our business, financial conditions and results of operations.

Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets.

Our success depends in part on our ability to grow our business in developing and emerging markets, including Mexico, Russia, the Middle East, Brazil, China and India. However, there can be no assurance that our existing products, variants of our existing products or new products that we make, manufacture, distribute or sell will be accepted or be successful in any particular developing or emerging market, due to local or global competition, product price, cultural differences, consumer preferences or otherwise. The following factors could reduce demand for our products or otherwise impede the growth of our business in developing and emerging markets: unstable economic, political or social conditions; acts of war, terrorist acts, and civil unrest; increased competition; volatility in the economic growth of certain of these markets and the related impact on developed countries who export to these markets; volatile oil prices and the impact on the local economy in certain of these markets; our inability to acquire businesses, form strategic business alliances or to make necessary infrastructure investments; our inability to complete divestitures or refranchisings; imposition of new or increased labeling, product or production requirements, or other restrictions; imposition of new or increased sanctions against, or other regulations restricting contact with, certain countries in these markets, or imposition of new or increased sanctions against U.S. multinational corporations operating in these markets; actions, such as removing our products from shelves, taken by retailers in response to U.S. trade sanctions or other governmental action or policy; foreign ownership restrictions; nationalization of our assets or the assets of our suppliers, bottlers, distributors, joint venture partners or other third parties; imposition of taxes on our products or the ingredients or substances used in our products; government-mandated closure, or threatened closure, of our operations or the operations of our suppliers, bottlers, distributors, joint venture partners, customers or other third parties; restrictions on the import or export of our products or ingredients or substances used in our products; regulations relating to the repatriation of funds currently held in foreign jurisdictions to the United States; highly-inflationary economies, devaluation or fluctuation, such as the devaluation of the Egyptian pound, Turkish lira, Pound sterling, Argentine peso and the Mexican peso, or demonetization of currency; regulations on the transfer of funds to and from foreign countries, currency controls or other currency exchange restrictions, which result in significant cash balances in foreign countries, from time to time, or could significantly affect our ability to effectively manage our operations in certain of these markets and could result in the deconsolidation of such businesses; the lack of well-established or reliable legal systems; increased costs of doing business due to compliance with complex foreign and U.S. laws and regulations that apply to our international operations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and the Trade Sanctions Reform and Export Enhancement Act; and adverse consequences, such as the assessment of fines or penalties, for any failure to comply with these laws and regulations. If we are unable to expand our businesses in developing and emerging markets, effectively operate, or manage the risks associated with operating, in these markets, or achieve the return on capital we expect from our investments in these markets, our reputation, business, financial condition or results of operations could be adversely affected. Uncertain or unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations.

Many of the countries in which our products are made, manufactured, distributed and sold have experienced and may, from time to time, continue to experience uncertain or unfavorable economic conditions, such as recessions or economic slowdowns. Our business or financial results may be adversely impacted by uncertain or unfavorable economic conditions in the United States and globally, including: adverse changes in interest rates, tax laws or tax rates; volatile commodity markets, including speculative influences; highly-inflationary

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economies, devaluation, fluctuation or demonetization; contraction in the availability of credit in the marketplace due to legislation or economic conditions; the effects of government initiatives, including demonetization, austerity or stimulus measures to manage economic conditions and any changes to or cessation of such initiatives; the effects of any default by or deterioration in the creditworthiness of the countries in which our products are made, manufactured, distributed or sold or of countries that may then impact countries in which our products are made, manufactured, distributed or sold; reduced demand for our products resulting from volatility in general global economic conditions or a shift in consumer preferences for economic reasons or otherwise to regional, local or private label products or other lower-cost products, or to less profitable sales channels; or a decrease in the fair value of pension or post-retirement assets that could increase future employee benefit costs and/or funding requirements of our pension or post-retirement plans. In addition, we cannot predict how current or future economic conditions will affect our customers, consumers, suppliers, bottlers, distributors, joint venture partners or other third parties and any negative impact on any of the foregoing may also have an adverse impact on our business, financial condition or results of operations.

In addition, some of the major financial institutions with which we execute transactions, including U.S. and non-U.S. commercial banks, insurance companies, investment banks and other financial institutions, may be exposed to a ratings downgrade, bankruptcy, liquidity events, default or similar risks as a result of unfavorable economic conditions, changing regulatory requirements or other factors beyond our control. A ratings downgrade, bankruptcy, receivership, default or similar event involving a major financial institution, or changes in the regulatory environment, may limit the ability or willingness of financial institutions to enter into financial transactions with us, including to provide banking or related cash management services, or to extend credit on terms commercially acceptable to us or at all; may leave us with reduced borrowing capacity or exposed to certain currencies or price risk associated with forecasted purchases of raw materials, including through our use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures; or may result in a decline in the market value of our investments in debt securities, which could have an adverse impact on our business, financial condition or results of operations. Similar risks exist with respect to our customers, suppliers, bottlers, distributors and joint venture partners and could result in their inability to obtain credit to purchase our products or to finance the manufacture and distribution of our products resulting in canceled orders and/or product delays, which could also have an adverse impact on our reputation, business, financial condition or results of operations.

Our business and reputation could suffer if we are unable to protect our information systems against, or effectively respond to, cyberattacks or other cyber incidents or if our information systems, or those of our customers, suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties, are otherwise disrupted. We depend on information systems and technology, some of which are provided by third parties, including public websites and cloud-based services, for many activities important to our business, including: to interface with our customers and consumers; to engage in marketing activities; to enable and improve the effectiveness of our operations; to order and manage materials from suppliers; to manage inventory; to manage our facilities; to conduct research and development; to maintain accurate financial records; to achieve operational efficiencies; to comply with regulatory, financial reporting, legal and tax requirements; to collect and store sensitive data and confidential information; to communicate electronically among our global operations and with our employees and the employees of our customers, suppliers, bottlers, contract manufacturers, distributors, joint venture partners and other third parties; and to communicate with our investors.

As with other global companies, we are regularly subject to cyberattacks. Cyberattacks and other cyber incidents are occurring more frequently, are constantly evolving in nature, are becoming more sophisticated and are being made by groups and individuals (including criminal hackers, hackers, state-sponsored

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institutions, terrorist organizations and individuals or groups participating in organized crime) with a wide range of expertise and motives (including monetization of corporate, payment or other internal or personal data, theft of trade secrets and intellectual property for competitive advantage and leverage for political, social, economic and environmental reasons). Such cyberattacks and cyber incidents can take many forms including cyber extortion, denial of service, social engineering, such as impersonation attempts to fraudulently induce employees or others to disclose information or unwittingly provide access to systems or data, introduction of viruses or malware, such as ransomware through phishing emails, website defacement or theft of passwords and other credentials. Although we may incur significant costs in protecting against or remediating cyberattacks or other cyber incidents, no cyberattack or other cyber incident has, to our knowledge, had a material adverse effect on our business, financial condition or results of operations to date.

If we do not allocate and effectively manage the resources necessary to build and maintain our information technology infrastructure, including monitoring networks and systems, upgrading our security policies and the skills and training of our employees, and requiring our third-party service providers, customers, suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties to do the same, if we or they fail to timely identify or appropriately respond to cyberattacks or other cyber incidents, or if our or their information systems are damaged, compromised, destroyed or shut down (whether as a result of natural disasters, fires, power outages, acts of terrorism or other catastrophic events, network outages, software, equipment or telecommunications failures, technology development defects, user errors, or from deliberate cyberattacks such as malicious or disruptive software, denial of service attacks, malicious social engineering, hackers or otherwise), our business could be disrupted and we could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of, or failure to attract, new customers and consumers; lost revenues resulting from the disruption or shutdown of computer systems or other information technology systems at our offices, plants, warehouses, distribution centers or other facilities, or the loss of a competitive advantage due to the unauthorized use, acquisition or disclosure of, or access to, confidential information; the incurrence of costs to restore data and to safeguard against future extortion attempts; the loss of, or damage to, intellectual property or trade secrets, including the loss or unauthorized disclosure of sensitive data or other assets; alteration, corruption or loss of accounting, financial or other data on which we rely for financial reporting and other purposes, which could cause delays in our financial reporting; damage to our reputation or brands; damage to employee, customer and consumer relations; litigation; regulatory enforcement actions or fines; unauthorized disclosure of confidential personal information of our employees, customers or consumers; the loss of information and/or supply chain disruption resulting from the failure of security patches to be developed and installed on a timely basis; violation of data privacy, security or other laws and regulations; and remediation costs.

Further, our information systems and the information stored therein could be compromised by, and we could experience similar adverse consequences due to, unauthorized outside parties accessing or extracting sensitive data or confidential information, corrupting information or disrupting business processes (or demonstrating an ability to do so) or by inadvertent or intentional actions by our employees, agents or third parties. We continue to devote significant resources to network security, backup and disaster recovery, and other security measures, including training, to protect our systems and data, but these security measures cannot provide absolute security or guarantee that we will be successful in preventing or responding to every such breach or disruption. In addition, due to the constantly evolving nature of these security threats, the form and impact of any future incident cannot be predicted. Similar risks exist with respect to the cloud-based service providers and other third-party vendors that we rely upon for aspects of our information technology support services and administrative functions, including payroll processing, health and benefit plan administration and certain finance and accounting functions, and systems managed, hosted, provided and/or used by third parties and their vendors. The need to coordinate with various third-party vendors may complicate our efforts to resolve any issues that may arise. As a result,

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we are subject to the risk that the activities associated with our third-party vendors may adversely affect our business even if the attack or breach does not directly impact our systems or information. Moreover, our increased use of mobile and cloud technologies could heighten these and other operational risks, as certain aspects of the security of such technologies may be complex, unpredictable or beyond our control.

While we currently maintain insurance coverage that, subject to its terms and conditions, is intended to address costs associated with certain aspects of cyber incidents, network failures and data privacy-related concerns, this insurance coverage may not, depending on the specific facts and circumstances surrounding an incident, cover all losses or all types of claims that may arise from an incident, or the damage to our reputation or brands that may result from an incident.

Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials, energy, water and other supplies.

We and our business partners use various raw materials, energy, water and other supplies in our business. The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit, oranges and other fruits, oats, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including PET and polypropylene resins used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel, electricity and natural gas are also important commodities for our businesses due to their use in our and our business partners' facilities and the vehicles delivering our products. Some of these raw materials and supplies are sourced from countries experiencing civil unrest, political instability or unfavorable economic conditions, and some are available from a limited number of suppliers or a sole supplier or are in short supply when seasonal demand is at its peak. We cannot assure that we will be able to maintain favorable arrangements and relationships with these suppliers or that our contingency plans, including development of ingredients, materials or supplies to replace ingredients, materials or supplies sourced from such suppliers, will be effective in preventing disruptions that may arise from shortages or discontinuation of any ingredient that is sourced from such suppliers. In addition, increasing focus on climate change, deforestation, water, animal welfare and human rights concerns and other risks associated with the global food system may lead to increased activism focusing on consumer goods companies, governmental intervention and consumer response, and could adversely affect our or our suppliers' reputation and business and our ability to procure the materials we need to operate our business. The raw materials and energy, including fuel, that we use for the manufacturing, production and distribution of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by many factors, including changes in global supply and demand, weather conditions (including any potential effects of climate change), fire, natural disasters (such as a hurricane, tornado, earthquake or flooding), disease or pests, agricultural uncertainty, health epidemics or pandemics, governmental incentives and controls (including import/export restrictions), political uncertainties, acts of terrorism, governmental instability or currency exchange rates. Shortage of some of these raw materials and other supplies, sustained interruption in their supply or an increase in their costs could adversely affect our business, financial condition or results of operations. Many of our ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures. If commodity price changes result in unexpected or significant increases in raw materials and energy costs, we may be unwilling or unable to increase our product prices or unable to effectively hedge against commodity price increases to offset these increased costs without suffering reduced volume, revenue, margins and operating results. In addition, certain of the derivatives used to hedge price risk do not qualify for hedge

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accounting treatment and, therefore, can result in increased volatility in our net earnings in any given period due to changes in the spot prices of the underlying commodities.

Water is a limited resource in many parts of the world. The lack of available water of acceptable quality and increasing pressure to conserve water in areas of scarcity and stress may lead to: supply chain disruption; adverse effects on our operations; higher compliance costs; capital expenditures (including additional investments in the development of technologies to enhance water efficiency and reduce water consumption); higher production costs; the cessation of operations at, or relocation of, our facilities or the facilities of our suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties; or damage to our reputation, any of which could adversely affect our business, financial condition or results of operations.

Business disruptions could have an adverse impact on our business, financial condition or results of operations. Our ability, and that of our suppliers and other third parties, including our bottlers, contract manufacturers, joint venture partners, distributors and customers, to make, manufacture, transport, distribute and sell products in our portfolio is critical to our success. Damage or disruption to our or their operations due to any of the following factors could impair the ability to make, manufacture, transport, distribute or sell products in our portfolio: adverse weather conditions (including any potential effects of climate change) or natural disasters, such as a hurricane, tornado, earthquake or flooding; government action; economic or political uncertainties or instability in countries in which such products are made, manufactured, distributed or sold, which may also affect our ability to protect the security of our assets and employees; fire; terrorism; outbreak or escalation of armed hostilities; food safety warnings or recalls, whether related to products in our portfolio or otherwise; health epidemics or pandemics; supply and commodity shortages; unplanned delays or unexpected problems associated with repairs or enhancements of facilities in which such products are made, manufactured, distributed or sold; loss or impairment of key manufacturing sites; cyber incidents, including the disruption or shutdown of computer systems or other information technology systems at our offices, plants, warehouses, distribution centers or other facilities or those of our suppliers and other third parties who make, manufacture, transport, distribute and sell products in our portfolio; industrial accidents or other occupational health and safety issues; telecommunications failures; power or water shortages; strikes and other labor disputes; or other reasons beyond our control or the control of our suppliers and other third parties. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition or results of operations, as well as require additional resources to restore operations.

Product contamination or tampering or issues or concerns with respect to product quality, safety and integrity could adversely affect our business, reputation, financial condition or results of operations.

Product contamination or tampering, the failure to maintain high standards for product quality, safety and integrity, including with respect to raw materials and ingredients obtained from suppliers, or allegations (whether or not valid) of product quality issues, mislabeling, misbranding, spoilage, allergens, adulteration or contamination with respect to products in our portfolio may reduce demand for such products, and cause production and delivery disruptions or increase costs, which could adversely affect our business, reputation, financial condition or results of operations. If any of the products in our portfolio are mislabeled or become unfit for consumption or cause injury, illness or death, or if appropriate resources are not devoted to product quality and safety (particularly as we expand our portfolio into new categories) or to comply with changing food safety requirements, we could decide to, or be required to, recall products in our portfolio and/or we may be subject to liability or government action, which could result in payment of damages or fines, cause certain products in our portfolio to be unavailable for a period of time, result in destruction of product inventory, or result in adverse publicity (whether or not valid), which could reduce consumer demand and

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brand equity. Moreover, even if allegations of product contamination or tampering or suggestions that our products were not fit for consumption are meritless, the negative publicity surrounding assertions against us or products in our portfolio or processes could adversely affect our reputation or brands. Our business could also be adversely affected if consumers lose confidence in product quality, safety and integrity generally, even if such loss of confidence is unrelated to products in our portfolio. Any of the foregoing could adversely affect our business, reputation, financial condition or results of operations. In addition, if we do not have adequate insurance, if we do not have enforceable indemnification from suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties or if indemnification is not available, the liability relating to such product claims or disruption as a result of recall efforts could materially adversely affect our business, financial condition or results of operations.

Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations.

We are a leading global beverage, food and snack company with brands that are respected household names throughout the world. Maintaining a good reputation globally is critical to selling our branded products. Our reputation or brand image could be adversely impacted by any of the following, or by adverse publicity (whether or not valid) relating thereto: the failure to maintain high ethical, social and environmental practices for all of our operations and activities, including with respect to human rights, child labor laws and workplace conditions and safety, or failure to require our suppliers or other third parties to do so; the failure to achieve our goals of reducing added sugars, sodium and saturated fat in certain of our products and of growing our portfolio of product choices; the failure to achieve our other sustainability goals or to be perceived as appropriately addressing matters of social responsibility; the failure to protect our intellectual property, including in the event our brands are used without our authorization; health concerns (whether or not valid) about our products or particular ingredients or substances in, or attributes of, our products, including concerns regarding whether certain of our products contribute to obesity; the imposition or proposed imposition of new or increased taxes, labeling requirements or other limitations on, or pertaining to, the sale, display or advertising of our products; any failure to comply, or perception of a failure to comply, with our policies and goals, including those regarding advertising to children and reducing calorie consumption from sugar-sweetened beverages; our research and development efforts; the recall (voluntary or otherwise) of any products in our portfolio; our environmental impact, including use of agricultural materials, packaging, water, energy use and waste management; any failure to achieve our goals with respect to reducing our impact on the environment, or perception of a failure to act responsibly with respect to water use and the environment; any failure to achieve our goals with respect to human rights throughout our value chain; the practices of our employees, agents, customers, distributors, suppliers, bottlers, contract manufacturers, joint venture partners or other third parties (including others in our industry) with respect to any of the foregoing, actual or perceived; consumer perception of our industry; consumer perception of our advertising campaigns, sponsorship arrangements or marketing programs; consumer perception of our use of social media; consumer perception of statements made by us, our employees and executives, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties (including others in our industry); or our responses or the responses of others in our industry to any of the foregoing.

In addition, we operate globally, which requires us to comply with numerous local regulations, including, without limitation, anti-corruption laws, competition laws and tax laws and regulations of the jurisdictions in which our products are made, manufactured, distributed or sold. In the event that we or our employees engage in or are believed to have engaged in improper activities, we may be subject to regulatory proceedings, including enforcement actions, litigation, loss of sales or other consequences, which may cause us to suffer damage to our reputation in the United States or abroad. Failure to comply with local laws and regulations, to maintain an effective system of internal control or to provide accurate and timely financial information could also hurt our reputation. In addition, water is a limited resource in many parts of the world and demand

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for water continues to rise. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to water use.

Further, the popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. As a result, negative or inaccurate posts or comments about us, our products, policies, practices, advertising campaigns and marketing programs or sponsorship arrangements; our use of social media or of posts or other information disseminated by us or our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties; consumer perception of any of the foregoing, or failure by us to respond effectively to any of the foregoing, may also generate adverse publicity (whether or not valid) that could damage our reputation.

Damage to our reputation or brand image or loss of consumer confidence in our products or employees for any of these or other reasons could result in decreased demand for our products and could adversely affect our business, financial condition or results of operations, as well as require additional resources to rebuild our reputation.

Failure to successfully complete or integrate acquisitions and joint ventures into our existing operations, or to complete or effectively manage divestitures or refranchisings, could adversely affect our business, financial condition or results of operations.

We regularly review our portfolio of businesses and evaluate potential acquisitions, joint ventures, divestitures, refranchisings and other strategic transactions. Potential issues associated with these activities could include, among other things: our ability to realize the full extent of the expected returns, benefits, cost savings or synergies as a result of a transaction, within the anticipated time frame, or at all; receipt of necessary consents, clearances and approvals in connection with a transaction; and diversion of management's attention from day-to-day operations.

With respect to acquisitions, the following factors also pose potential risks: our ability to successfully combine our businesses with the business of the acquired company, including integrating the acquired company's manufacturing, distribution, sales, accounting, financial reporting and administrative support activities and information technology systems with our company; our ability to successfully operate in new categories or territories; motivating, recruiting and retaining executives and key employees; conforming standards, controls (including internal control over financial reporting, environmental compliance, health and safety compliance and compliance with other laws and regulations), procedures and policies, business cultures and compensation structures between us and the acquired company; consolidating and streamlining corporate and administrative infrastructures and avoiding increased operating expenses; consolidating sales and marketing operations; retaining existing customers and attracting new customers; retaining existing distributors; identifying and eliminating redundant and underperforming operations and assets; coordinating geographically dispersed organizations; managing tax costs or inefficiencies associated with integrating our operations following completion of an acquisition; and other unanticipated problems or liabilities, such as contingent liabilities and litigation.

With respect to joint ventures, we share ownership and management responsibility with one or more parties who may or may not have the same goals, strategies, priorities, resources or values as we do. Joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. Business decisions or other actions or omissions of our joint venture partners may adversely affect the value of our investment, result in litigation or regulatory action against us or otherwise damage our reputation and brands and adversely affect our business, financial condition or results of operations.

In addition, acquisitions and joint ventures outside of the United States increase our exposure to risks associated with operations outside of the United States, including fluctuations in exchange rates and

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compliance with the Foreign Corrupt Practices Act and other anti-corruption and anti-bribery laws and laws and regulations outside the United States.

With respect to divestitures and refranchisings, we may not be able to complete or effectively manage such transactions on terms commercially favorable to us or at all and may fail to achieve the anticipated benefits or cost savings from the divestiture or refranchising. Further, as divestitures and refranchisings may reduce our direct control over certain aspects of our business, any failure to maintain good relations with divested or refranchised businesses in our supply or sales chain may adversely impact our sales or business performance.

If an acquisition or joint venture is not successfully completed or integrated into our existing operations, or if a divestiture or refranchising is not successfully completed or managed or does not result in the benefits or cost savings we expect, our business, financial condition or results of operations may be adversely affected.

A change in our estimates and underlying assumptions regarding the future performance of our businesses could result in an impairment charge, which could materially affect our results of operations.

We conduct impairment tests on our goodwill, indefinite-lived intangible assets, as well as other investments and other long-lived assets annually, during our third quarter, or more frequently, if circumstances indicate that the carrying value may not be recoverable or that an other-than-temporary impairment exists. Any changes in our estimates or underlying assumptions regarding the future performance of our reporting units or in determining the fair value of any such reporting unit, including goodwill, indefinite-lived intangible assets, as well as other investments and other long-lived assets, could adversely affect our results of operations. Factors that could result in an impairment include, but are not limited to: significant negative economic or industry trends or competitive operating conditions; significant macroeconomic conditions that may result in a future increase in the weighted-average cost of capital used to estimate fair value; and significant changes in the nature and timing of decisions regarding assets or markets that do not perform consistent with our expectations, including factors we use to estimate future levels of sales, operating profit or cash flows. Future impairment charges could have a significant adverse effect on our results of operations in the periods recognized.

Increases in income tax rates, changes in income tax laws or disagreements with tax authorities could adversely affect our business, financial condition or results of operations.

We are subject to income taxes in the United States and in certain foreign jurisdictions in which we operate. Increases in income tax rates or other changes in income tax laws in any particular jurisdiction could reduce our after-tax income from such jurisdiction and could adversely affect our business, financial condition or results of operations. Our operations outside the United States generate a significant portion of our income. In addition, the United States and many of the other countries in which our products are made, manufactured, distributed or sold, including countries in which we have significant operations, have recently made or are actively considering changes to existing tax laws. For example, on December 22, 2017, the Tax Cuts and Jobs Act (TCJ Act) was signed into law in the United States. The changes in the TCJ Act are broad and complex and we continue to examine the impact the TCJ Act may have on our business and financial results. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings regardless of whether they are repatriated, reduced the U.S. corporate income tax rate from 35% to 21%, imposed limitations on the deductibility of interest and certain other corporate deductions, and moved from a “worldwide” system of taxation that generally allows deferral of U.S. tax on international earnings until repatriated to a “territorial”/dividend exemption system with a minimum tax that will subject international earnings to U.S. tax when earned. In accordance with applicable SEC guidance, we recorded a provisional net tax expense in the fourth quarter of 2017 resulting from the enactment of the TCJ Act. This provisional expense is subject to change, possibly materially, due to, among other things, changes in estimates,

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interpretations and assumptions we have made, changes in Internal Revenue Service (IRS) interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act. For further information regarding the potential impact of the TCJ Act, see “Our Liquidity and Capital Resources” and “Our Critical Accounting Policies” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 5 to our consolidated financial statements.

Additional changes in the U.S. tax regime or in how U.S. multinational corporations are taxed on foreign earnings, including changes in how existing tax laws are interpreted or enforced, could adversely affect our business, financial condition or results of operations.

We are also subject to regular reviews, examinations and audits by the IRS and other taxing authorities with respect to income and non-income based taxes both within and outside the United States. Economic and political pressures to increase tax revenues in jurisdictions in which we operate, or the adoption of new or reformed tax legislation or regulation, may make resolving tax disputes more difficult and the final resolution of tax audits and any related litigation could differ from our historical provisions and accruals, resulting in an adverse impact on our business, financial condition or results of operations. In addition, in connection with the Organisation for Economic Co-operation and Development Base Erosion and Profit Shifting project, companies are required to disclose more information to tax authorities on operations around the world, which may lead to greater audit scrutiny of profits earned in various countries.

Failure to realize anticipated benefits from our productivity initiatives or global operating model could have an adverse impact on our business, financial condition or results of operations.

Our future success and earnings growth depend, in part, on our ability to continue to reduce costs and improve efficiencies. Our productivity initiatives help support our growth initiatives and contribute to our results of operations. We continue to implement strategic plans that we believe will position our business for future success and long-term sustainable growth by allowing us to achieve a lower cost structure and operate more efficiently in the highly competitive beverage, food and snack categories and markets. We are also continuing to implement our global operating model to improve efficiency, decision making, innovation and brand management across the global PepsiCo organization to enable us to compete more effectively. Further, in order to continue to capitalize on our cost reduction efforts and our global operating model, it will be necessary to make certain investments in our business, which may be limited due to capital constraints. Some of these measures could yield unintended consequences, such as business disruptions, distraction of management and employees, reduced employee morale and productivity, and unexpected additional employee attrition, including the inability to attract or retain key personnel. It is critical that we have the appropriate personnel in place to continue to lead and execute our plans, including to effectively manage personnel adjustments and transitions resulting from these initiatives and increased competition for employees with the skills necessary to implement our plans. If we are unable to successfully implement our productivity initiatives and global operating model as planned, fail to implement these initiatives as timely as we anticipate, do not achieve expected savings as a result of these initiatives or incur higher than expected or unanticipated costs in implementing these initiatives, fail to identify and implement additional productivity opportunities in the future, or fail to successfully manage business disruptions or unexpected employee consequences on our workforce, morale or productivity, we may not realize all or any of the anticipated benefits, which could adversely affect our business, financial condition or results of operations.

If we are unable to recruit, hire or retain key employees or a highly skilled and diverse workforce, it could have a negative impact on our business, financial condition or results of operations.

Our continued growth requires us to recruit, hire, retain and develop our leadership bench and a highly skilled and diverse workforce. We compete to recruit and hire new employees and then must train them and develop

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their skills and competencies. Our employees are highly sought after by our competitors and other companies and our continued ability to compete effectively depends on our ability to retain, develop and motivate highly skilled personnel for all areas of our organization. Any unplanned turnover or unsuccessful implementation of our succession plans to backfill current leadership positions, including the Chief Executive Officer, or to hire and retain a highly skilled and diverse workforce could deplete our institutional knowledge base and erode our competitive advantage or result in increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any of the foregoing could adversely affect our reputation, business, financial condition or results of operations.

The loss of, or a significant reduction in sales to, any key customer or disruption in the retail landscape, including rapid growth in hard discounters and the e-commerce channel, could adversely affect our business, financial condition or results of operations.

Our customers include wholesale and other distributors, foodservice customers, grocery stores, drug stores, convenience stores, discount/dollar stores, mass merchandisers, membership stores, hard discounters, e-commerce retailers and authorized independent bottlers, among others. We must maintain mutually beneficial relationships with our key customers, including Wal-Mart, to compete effectively. Any inability to resolve a significant dispute with any of our key customers, a change in the business condition (financial or otherwise) of any of our key customers, even if unrelated to us, a significant reduction in sales to any key customer, or the loss of any of our key customers could adversely affect our business, financial condition or results of operations.

In addition, our industry has been affected by changes to the retail landscape, including the rapid growth in sales through e-commerce websites and mobile commerce applications as well as the integration of physical and digital operations among retailers. We are making significant investments in attracting talent to and building our global e-commerce capabilities. Although we are engaged in e-commerce with respect to many of our products, if we are unable to maintain and develop successful relationships with existing and new e-commerce retailers or otherwise adapt to the growing e-commerce landscape, while simultaneously maintaining relationships with our key customers operating in traditional retail channels, we may be disadvantaged in certain channels and with certain customers and consumers, which could adversely affect our business, financial condition or results of operations. In addition, the growth in e-commerce may result in consumer price deflation, which may affect our relationships with key retail customers. If these e-commerce retailers were to take significant market share away from traditional retailers and/or we fail to adapt to the rapidly changing retail and e-commerce landscapes, our ability to maintain and grow our share of sales or volume and our business, financial condition or results of operations could be adversely affected.

Further, the retail landscape continues to be impacted by the increased consolidation of retail ownership and purchasing power, particularly in North America, Europe and Latin America, resulting in large retailers with increased purchasing power, which may impact our ability to compete in these areas. Such retailers may demand improved efficiency, lower pricing and increased promotional programs. Further, should larger retailers increase utilization of their own distribution networks, other distribution channels such as e-commerce, or private label brands, the competitive advantages we derive from our go-to-market systems and brand equity may be eroded. In addition, the growth of hard discounters that are focused on limiting the number of items they sell and selling predominantly private label brands may reduce our ability to sell our products through such retailers. Failure to appropriately respond to any of the foregoing, including failure to offer effective sales incentives and marketing programs to our customers, could reduce our ability to secure adequate shelf space and product availability at our retailers, adversely affect our ability to maintain or grow our share of sales or volume, and adversely affect our business, financial condition or results of operations.

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Our borrowing costs and access to capital and credit markets may be adversely affected by a downgrade or potential downgrade of our credit ratings.

Rating agencies routinely evaluate us, and their ratings of our long-term and short-term debt are based on a number of factors, including our cash generating capability, levels of indebtedness, policies with respect to shareholder distributions and our financial strength generally, as well as factors beyond our control, such as the then-current state of the economy and our industry generally. Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether as a result of our actions or factors which are beyond our control, could increase our future borrowing costs, impair our ability to access capital and credit markets on terms commercially acceptable to us or at all, and result in a reduction in our liquidity. We expect to maintain Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global credit markets at favorable interest rates. However, 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. Our borrowing costs and access to the commercial paper market could also be adversely affected if a credit rating agency announces that our ratings are under review for a potential downgrade. An increase in our borrowing costs, limitations on our ability to access the global capital and credit markets or a reduction in our liquidity could adversely affect our financial condition and results of operations.

If we are not able to successfully implement shared services or utilize information technology systems and networks effectively, our ability to conduct our business may be negatively impacted.

We have entered into agreements with third-party service providers to utilize certain information technology support services and administrative functions, including payroll processing, health and benefit plan administration and certain finance and accounting functions, and may enter into agreements for shared services in other functions in the future to achieve cost savings and efficiencies. In addition, we utilize cloud-based services and systems and networks managed by third-party vendors to process, transmit and store information and to conduct certain of our business activities and transactions with employees, customers, consumers and other third parties. If any of these third-party service providers or vendors do not perform effectively, or if we fail to adequately monitor their performance, we may not be able to achieve the expected cost savings or we may have to incur additional costs to correct errors made by such service providers and our reputation could be harmed. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property or sensitive data through security breaches or otherwise, adverse effects on financial reporting, litigation or remediation costs, or damage to our reputation, which could have a negative impact on employee morale.

We continue on our multi-year business transformation initiative to migrate certain of our systems, including our financial processing systems, to enterprise-wide systems solutions. 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. If we do not allocate and effectively manage the resources necessary to build and sustain the proper information technology infrastructure, or if we fail to achieve the expected benefits from this initiative, it may impact our ability to process transactions accurately and efficiently, and remain in step with the changing needs of our business, which could result in the loss of customers or consumers and revenue. In addition, the failure to either deliver the applications on time, or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers or consumers and revenue. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of business processes and controls, including our internal control over financial reporting processes, to maintain effective controls over our financial reporting. To date, this transition has not materially affected, and we do not expect it to materially affect, our internal

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control over financial reporting.

Fluctuations in exchange rates impact our business, financial condition and results of operations.

We hold assets, incur liabilities, earn revenues and pay expenses in a variety of currencies other than the U.S. dollar. Because our consolidated financial statements are presented in U.S. dollars, the financial statements of our subsidiaries outside the United States, where the functional currency is other than the U.S. dollar, are translated into U.S. dollars. Our operations outside of the United States, particularly in Mexico, Russia, Canada, the United Kingdom and Brazil, generate a significant portion of our net revenue. In addition, we purchase many of the ingredients, raw materials and commodities used in our business in numerous markets and in numerous currencies. Fluctuations in exchange rates, including as a result of currency controls or other currency exchange restrictions have had, and may continue to have, an adverse impact on our business, financial condition and results of operations.

Climate change, water scarcity or legal, regulatory or market measures to address climate change or water scarcity may negatively affect our business and operations or damage our reputation.

There is concern that carbon dioxide and other greenhouse gases in the atmosphere have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products, such as sugar cane, corn, wheat, rice, oats, oranges and other fruits and potatoes. Natural disasters and extreme weather conditions, such as a hurricane, earthquake or flooding, may disrupt the productivity of our facilities or the operation of our supply chain and unfavorably impact the demand for, or our consumer's ability to purchase, our products. The predicted effects of climate change may also exacerbate challenges regarding the availability and quality of water. As demand for water access continues to increase around the world, we may be subject to decreased availability of water, deteriorated quality of water or less favorable pricing for water, which could adversely impact our manufacturing and distribution operations.

Concern over climate change may result in new or increased regional, federal and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases, or to limit or impose additional costs on commercial water use due to local water scarcity concerns. In the event that such regulation is more stringent than current regulatory obligations or the measures that we are currently undertaking to monitor and improve our energy efficiency and water conservation, we may experience disruptions in, or significant increases in our costs of, operation and delivery and we may be required to make additional investments in facilities and equipment or relocate our facilities. In particular, increasing regulation of fuel emissions could substantially increase the cost of energy, including fuel, required to operate our facilities or transport and distribute our products, thereby substantially increasing the distribution and supply chain costs associated with our products. As a result, the effects of climate change or water scarcity could negatively affect our business and operations.

In addition, any failure to achieve our goals with respect to reducing our impact on the environment or perception (whether or not valid) of our failure to act responsibly with respect to water use and the environment or to effectively respond to new, or changes in, legal or regulatory requirements concerning climate change or water scarcity could result in adverse publicity and could adversely affect our business, reputation, financial condition or results of operations.

There is also increased focus, including by governmental and non-governmental organizations, investors, customers and consumers on these and other environmental sustainability matters, including deforestation, land use, climate impact and water use. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to our impact on the environment.

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A portion of our workforce is represented by unions. Failure to successfully negotiate collective bargaining agreements, or strikes or work stoppages, could cause our business to suffer.

Many of our employees are covered by collective bargaining agreements, and other employees may seek to be covered by collective bargaining agreements. Strikes or work stoppages or other business interruptions could occur if we are unable to renew these agreements on satisfactory terms or enter into new agreements on satisfactory terms or if we are unable to otherwise manage changes in, or that affect, our workforce, which could impair manufacturing and distribution of our products or result in a loss of sales, which could adversely impact our business, financial condition or results of operations. The terms and conditions of existing, renegotiated or new collective bargaining agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency or to adapt to changing business needs or strategy.

If we are not able to adequately protect our intellectual property rights or if we are found to infringe the intellectual property rights of others, the value of our products or brands, or our competitive position, could be reduced, which could have an adverse impact on our business, financial condition or results of operations.

We possess intellectual property rights that are important to our business. These intellectual property rights include ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets that are important to our business and relate to a variety of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. We protect our intellectual property rights globally through a combination of trademark, copyright, patent and trade secret laws, third-party assignment and nondisclosure agreements and monitoring of third-party misuses of our intellectual property. If we fail to obtain or adequately protect our trademarks, copyrights, patents, business processes and trade secrets, including our ingredient formulas, or if there is a change in law that limits or removes the current legal protections of our intellectual property, the value of our products and brands, or our competitive position, could be reduced and there could be an adverse impact on our business, financial condition or results of operations. In addition, if, in the course of developing new products or improving the quality of existing products, we are found to have infringed the intellectual property rights of others, directly or indirectly, such finding could have an adverse impact on our reputation, business, financial condition or results of operations and may limit our ability to introduce new products or improve the quality of existing products. Potential liabilities and costs from litigation, claims, legal or regulatory proceedings, inquiries or investigations could have an adverse impact on our business, financial condition or results of operations.

We and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations, including but not limited to matters related to our advertising, marketing or commercial practices, product labels, claims and ingredients including sugar, sodium and saturated fat, our intellectual property rights, alleged infringement or misappropriation by us of intellectual property rights of others, environmental, privacy, employment, tax and insurance matters and matters relating to our compliance with applicable laws and regulations. We evaluate such matters to assess the likelihood of unfavorable outcomes and estimate, if possible, the amount of potential losses and establish reserves as appropriate. These matters are inherently uncertain and there is no guarantee that we will be successful in defending ourselves in these matters, or that our assessment of the materiality of these matters and the likely outcome or potential losses and established reserves will be consistent with the ultimate outcome of such matters. In the event that management's assessment of actual or potential claims and proceedings proves inaccurate or litigation, claims, proceedings, inquiries or investigations that are material arise in the future, there may be a material adverse effect on our business, financial condition or results of operations. Responding to litigation, claims,

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proceedings, inquiries, and investigations, even those that are ultimately non-meritorious, may also require us to incur significant expense and devote significant resources, and may generate adverse publicity that may damage our reputation or brand image, which could have an adverse impact on our business, financial condition or results of operations.

Many factors may adversely affect the price of our publicly traded securities.

Many factors may adversely affect the price of our common stock and publicly traded debt. Such factors, some of which are beyond our control, may include, but are not limited to: unfavorable economic conditions; changes in financial or tax reporting and changes in accounting principles or practices that materially affect our reported financial condition and results; investor perceptions of our business, strategies and performance or those of our competitors; actions by shareholders or others seeking to influence our business strategies; speculation by the media or investment community regarding our business, strategies and performance or those of our competitors; developments relating to pending litigation, claims, investigations or inquiries; trading activity in our securities or trading activity in derivative instruments with respect to our securities; changes in our credit ratings; the impact of our share repurchase programs or dividend policy; and the outcome of referenda and elections. In addition, corporate actions, such as those we may or may not take from time to time as part of our continuous review of our corporate structure and our strategy, including as a result of business, legal, regulatory and tax considerations, may not have the impact we intend and may adversely affect the price of our securities. The above factors, as well as the other risks included in this “Item 1A. Risk Factors,” could adversely affect the price of our securities.

Item 1B. Unresolved Staff Comments.

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2017 fiscal year and that remain unresolved.

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Item 2. Properties.

Our principal executive offices located in Purchase, New York and our facilities located in Plano, Texas, all of which we own, are our most significant corporate properties.

Each division utilizes plants, warehouses, distribution centers, storage facilities, offices and other facilities, either owned or leased, in connection with making, marketing, distributing and selling our products. The approximate number of such facilities utilized by each division is as follows:

	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Shared ^(a)
Plants ^(b)	35	5	65	50	85	50	5
Other Facilities ^(c)	1,680	3	440	585	340	345	40

(a) Shared properties are in addition to the other properties reported by our six divisions identified in this table.

(b) Includes manufacturing and processing plants as well as bottling and production plants.

(c) Includes warehouses, distribution centers, storage facilities, offices, including division headquarters, research and development facilities and other facilities.

Significant properties by division included in the table above are as follows:

• FLNA's research and development facility in Plano, Texas, which is owned.

• QFNA's food plant in Cedar Rapids, Iowa, which is owned.

• NAB's research and development facility in Valhalla, New York, and a Tropicana plant in Bradenton, Florida, both of which are owned.

• Latin America's three snack plants in Mexico (one in Vallejo, one in Celaya and one in Monterrey) and one in Brazil (Sorocaba), all of which are owned.

• ESSA's snack plant in Leicester, United Kingdom, which is leased; its snack plant in Kashira, Russia, its fruit juice plant in Zeebrugge, Belgium, its beverage plant in Lebedyan, Russia and its dairy plant in Moscow, Russia, all of which are owned.

• AMENA's beverage plants in Tanta City, Egypt and Rayong, Thailand, and its snack plant in Sixth of October City, Egypt, all of which are owned; and its snack plant in Riyadh, Saudi Arabia, which is leased.

• Two concentrate plants in Cork, Ireland, which are shared by our NAB, ESSA and AMENA divisions, both of which are owned.

• Shared service centers in Winston-Salem, North Carolina, and Plano, Texas, which are primarily shared by our FLNA, QFNA and NAB divisions, both of which are leased.

Most of our plants are owned or leased on a long-term basis. In addition to company-owned or leased properties described above, we also utilize a highly distributed network of plants, warehouses and distribution centers that are owned or leased by our contract manufacturers, co-packers, strategic alliances or joint ventures in which we have an equity interest. We believe that our properties generally are in good operating condition and, taken as a whole, are suitable, adequate and of sufficient capacity for our current operations.

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Item 3. Legal Proceedings.

As previously disclosed, in January 2011, Wojewodzka Inspekcja Ochrony Srodowiska, the Polish environmental control authority, began an audit of a bottling plant of our subsidiary, Pepsi-Cola General Bottlers Poland SP, z.o.o. (PCGB), in Michrow, Poland. In July 2013, Wojewodzka Inspekcja Ochrony Srodowiska alleged that the plant was not in compliance in 2009 with applicable regulations governing the taking of water samples for analysis of the plant's waste and sought monetary sanctions of \$650,000 and, in August 2013, PCGB appealed this decision. In April 2015, the General Environmental Inspector for Environmental Protection upheld the sanctions against PCGB and, in May 2015, PCGB further appealed this decision. In October 2015, Viovodeship Administrative Court in Warsaw rejected our appeal and, in December 2015, PCGB filed an extraordinary appeal in the Supreme Administrative Court. In October 2017, the Supreme Administrative Court issued a final, non-appealable decision, rejecting our appeal and we agreed to invest funds up to the penalty amount(s) into the bottling plant to fully resolve the matter.

In addition, we and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations. While the results of such litigation, claims, legal or regulatory proceedings, inquiries and investigations cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our financial condition, results of operations or cash flows. Sanctions imposed by foreign authorities are levied in local currency and disclosed using the U.S. dollar equivalent at the time of imposition and are subject to currency fluctuations. See also "Item 1. Business – Regulatory Matters" and "Item 1A. Risk Factors."

Item 4. Mine Safety Disclosures.

Not applicable.

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Executive Officers of the Registrant

The following is a list of names, ages and backgrounds of our current executive officers:

Name	Age	Title
Albert P. Carey	66	Chief Executive Officer, North America
Sanjeev Chadha	58	Chairman, Asia, Middle East and North Africa
Ruth Fattori	65	Executive Vice President, Human Resources and Chief Human Resources Officer, PepsiCo
Marie T. Gallagher	58	Senior Vice President and Controller, PepsiCo
Hugh F. Johnston	56	Vice Chairman, PepsiCo; Executive Vice President and Chief Financial Officer, PepsiCo
Dr. Mehmood Khan	59	Vice Chairman, PepsiCo; Executive Vice President, PepsiCo Chief Scientific Officer, Global Research and Development
Ramon Laguarta	54	President, PepsiCo
Laxman Narasimhan	50	Chief Executive Officer, Latin America and Europe Sub-Saharan Africa
Indra K. Nooyi	62	Chairman of the Board of Directors and Chief Executive Officer, PepsiCo
Silviu Popovici	50	President, Europe Sub-Saharan Africa
Vivek Sankaran	55	President and Chief Operating Officer, Frito-Lay North America
Mike Spanos	53	Chief Executive Officer, Asia, Middle East and North Africa
Kirk Tanner	49	President and Chief Operating Officer, North America Beverages
David Yawman	49	Executive Vice President, Government Affairs, General Counsel and Corporate Secretary, PepsiCo

Albert P. Carey, 66, was appointed Chief Executive Officer, North America, effective April 2016. Mr. Carey previously served as Chief Executive Officer, North America Beverages from July 2015 to April 2016, as Chief Executive Officer, PepsiCo Americas Beverages from 2011 to July 2015 and as President and Chief Executive Officer of Frito-Lay North America from 2006 to 2011. Mr. Carey began his career with Frito-Lay in 1981 where he spent 20 years in a variety of roles. He served as President, PepsiCo Sales from 2003 until 2006. Prior to that, he served as Chief Operating Officer, PepsiCo Beverages and Foods North America from 2002 to 2003 and as PepsiCo's Senior Vice President, Sales and Retailer Strategies from 1998 to 2002.

Sanjeev Chadha, 58, was appointed Chairman, Asia, Middle East and North Africa, effective January 2018. Mr. Chadha previously served as Chief Executive Officer, Asia, Middle East and North Africa from July 2015 to January 2018, as Chief Executive Officer, PepsiCo Asia, Middle East and Africa from 2013 to July 2015, as President of PepsiCo's Middle East and Africa region from 2011 to 2013 and as President of PepsiCo's India region from 2009 to 2010. Mr. Chadha joined PepsiCo in 1989 and has held a variety of senior positions with the Company. He served as Senior Vice President - Commercial, Asia Pacific, including China and India, Senior General Manager, Vietnam and the Philippines, and held other leadership roles in sales, marketing, innovation and franchise.

Ruth Fattori, 65, was appointed Executive Vice President, Human Resources and Chief Human Resources Officer, PepsiCo effective October 2017. Ms. Fattori previously served as PepsiCo's Senior Vice President, Talent Management, Training and Development from February 2013 until October 2017. Prior to joining PepsiCo, Ms. Fattori was managing partner of Peckslund Partners, LLC from 2009 to February 2013. From 2008 to 2009, Ms. Fattori served as Executive Vice President and Chief Administrative Officer for MetLife, Inc. From 2004 to 2008, Ms. Fattori served as Executive Vice President of Human Resources at Motorola, Inc. and, prior to that, held senior human resources positions at JPMorgan Chase & Co. and Siemens Corporation.

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Marie T. Gallagher, 58, was appointed PepsiCo's Senior Vice President and Controller in May 2011. Ms. Gallagher joined PepsiCo in 2005 as Vice President and Assistant Controller. Prior to joining PepsiCo, Ms. Gallagher was Assistant Controller at Altria Corporate Services from 1992 to 2005 and, prior to that, a senior manager at Coopers & Lybrand.

Hugh F. Johnston, 56, was appointed Vice Chairman, PepsiCo in July 2015 and Executive Vice President and Chief Financial Officer, PepsiCo in March 2010. Mr. Johnston assumed responsibility for the Company's global e-commerce business and the Company's global business and information solutions function in July 2015. He previously held responsibility for the Quaker Foods North America division from 2014 to 2016, the position of Executive Vice President, Global Operations from 2009 to 2010 and the position of President of Pepsi-Cola North America from 2007 to 2009. He was formerly PepsiCo's Executive Vice President, Operations, a position he held from 2006 until 2007. From 2005 until 2006, Mr. Johnston was PepsiCo's Senior Vice President, Transformation. Prior to that, he served as Senior Vice President and Chief Financial Officer of PepsiCo Beverages and Foods from 2002 through 2005, and as PepsiCo's Senior Vice President of Mergers and Acquisitions in 2002. Mr. Johnston joined PepsiCo in 1987 as a Business Planner and held various finance positions until 1999 when he left to join Merck & Co., Inc. as Vice President, Retail, a position which he held until he rejoined PepsiCo in 2002. Prior to joining PepsiCo in 1987, Mr. Johnston was with General Electric Company in a variety of finance positions.

Dr. Mehmood Khan, 59, was appointed Vice Chairman, PepsiCo in February 2015 and Executive Vice President, PepsiCo Chief Scientific Officer, Global Research and Development in May 2012. He previously held the position of Chief Executive Officer of PepsiCo's Global Nutrition Group from 2010 to May 2012 and the position of PepsiCo's Chief Scientific Officer from 2008 to May 2012. Prior to joining PepsiCo, Dr. Khan served for five years at Takeda Pharmaceuticals in various leadership roles including President of Research and Development and Chief Medical Officer. Dr. Khan also served at the Mayo Clinic from 2001 until 2003 as the director of the Diabetes, Endocrinology and Nutrition Clinical Unit and as Consultant Physician in Endocrinology.

Ramon Laguarta, 54, was appointed President, PepsiCo in September 2017. He previously held the positions of Chief Executive Officer, Europe Sub-Saharan Africa from July 2015 to September 2017, Chief Executive Officer, PepsiCo Europe from January 2015 to July 2015, President, Developing & Emerging Markets, PepsiCo Europe from 2012 to January 2015 and President, PepsiCo Eastern Europe Region from 2008 to 2012. Mr. Laguarta joined PepsiCo in 1996 as a marketing vice president for Spain Snacks and served in a variety of positions, including as Commercial Vice President of PepsiCo Europe from 2006 to 2008, General Manager for Iberia Snacks and Juices from 2002 to 2006 and General Manager for Greece Snacks from 1999 to 2001. Prior to joining PepsiCo in 1996, Mr. Laguarta worked for Chupa Chups, S.A., where he worked in several international assignments in Europe, Asia, and the United States.

Laxman Narasimhan, 50, was appointed Chief Executive Officer, Latin America and Europe Sub-Saharan Africa in September 2017. He previously held the positions of Chief Executive Officer, Latin America from 2015 to September 2017, Chief Executive Officer, PepsiCo Latin America Foods from 2014 to July 2015 and Senior Vice President and Chief Financial Officer of PepsiCo Americas Foods, a business unit that had previously included the Company's Frito-Lay North America, Quaker Foods North America and Latin America Foods divisions, from 2012 to 2014. Prior to joining PepsiCo in 2012, Mr. Narasimhan spent 19 years at McKinsey & Company, where he served in various positions, including as a director and location manager of the New Delhi office and co-leader of the global consumer and shopper insights practice.

Indra K. Nooyi, 62, has been PepsiCo's Chief Executive Officer since 2006 and assumed the role of Chairman of PepsiCo's Board of Directors in 2007. She was elected to PepsiCo's Board of Directors and became President and Chief Financial Officer in 2001, after serving as Senior Vice President and Chief Financial Officer since 2000. Ms. Nooyi also served as PepsiCo's Senior Vice President, Corporate Strategy and

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Development from 1996 until 2000, and as PepsiCo's Senior Vice President, Strategic Planning from 1994 until 1996. Prior to joining PepsiCo, Ms. Nooyi spent four years as Senior Vice President of Strategy, Planning and Strategic Marketing for Asea Brown Boveri, Inc. She was also Vice President and Director of Corporate Strategy and Planning at Motorola, Inc. Ms. Nooyi has served as a director of Schlumberger Ltd. since 2015.

Silviu Popovici, 50, was appointed President, Europe Sub-Saharan Africa effective September 2017. Mr. Popovici previously served as President, Russia, Ukraine and CIS (The Commonwealth of Independent States) from August 2015 to September 2017, and as President, PepsiCo Russia from January 2013 to July 2015. Mr. Popovici joined PepsiCo in 2011 following PepsiCo's acquisition of Wimm-Bill-Dann Foods OJSC (WBD) and served as General Manager, WBD Foods Division from February 2011 until December 2012. Prior to the acquisition, Mr. Popovici held senior leadership roles at WBD, running its dairy business from 2008 to 2011 and its beverages business from 2006 to 2008.

Vivek Sankaran, 55, was appointed President and Chief Operating Officer, Frito-Lay North America, effective April 2016. Prior to that, Mr. Sankaran served as Chief Operating Officer, Frito-Lay North America from February 2016 to April 2016; Chief Commercial Officer, North America from 2014 to February 2016; Chief Customer Officer for Frito-Lay North America from 2012 to 2014; Senior Vice President and General Manager, Frito-Lay North America's south business unit from 2011 to 2012; and Senior Vice President, Corporate Strategy and Development from 2009 to 2010. Prior to joining PepsiCo in 2009, Mr. Sankaran was a partner at McKinsey & Company, where he advised Fortune 100 companies with a focus on retail and high tech and co-led the North America purchasing and supply management practice.

Mike Spanos, 53, was appointed Chief Executive Officer, Asia, Middle East and North Africa, effective January 2018. Mr. Spanos previously served as interim head of PepsiCo's Asia, Middle East and North Africa division from October 2017 to January 2018 and as President and Chief Executive Officer, PepsiCo Greater China Region, from September 2014 to January 2018. Prior to that, Mr. Spanos served as Senior Vice President and Chief Customer Officer, PepsiCo North America Beverages from October 2011 to September 2014, as Senior Vice President and General Manager, PepsiCo Beverages Company's west business unit from March 2011 to October 2011 and as Senior Vice President, Retail Sales and Execution, PepsiCo Beverages Company from March 2010 to March 2011. Mr. Spanos joined PepsiCo in 1993 as a territory sales manager and unit manager in the Philadelphia market unit and served in various other leadership roles through March 2010. Prior to joining PepsiCo, Mr. Spanos served in the United States Marines Corps from 1987 to 1993, and with Tallahassee Medical Company as a sales representative in 1993.

Kirk Tanner, 49, was appointed President and Chief Operating Officer, North America Beverages, effective April 2016. Prior to that, Mr. Tanner served as Chief Operating Officer, North America Beverages and President, Global Foodservice from December 2015 to April 2016 and President, Global Foodservice from 2014 to December 2015. Mr. Tanner joined PepsiCo in 1992, where he has worked in numerous domestic and international locations and in a variety of roles, including senior vice president of Frito-Lay North America's west region from 2009 to 2013; vice president, sales of PepsiCo UK and Ireland from 2008 to 2009; region vice president, Frito-Lay North America's Mountain region from 2005 to 2008; region vice president, Frito-Lay North America's Mid-America region from 2002 to 2005; and region vice president, Frito-Lay North America's California region from 2000 to 2002.

David Yawman, 49, was appointed Executive Vice President, Government Affairs, General Counsel and Corporate Secretary, PepsiCo effective October 2017. Prior to that, Mr. Yawman served as Senior Vice President and Deputy General Counsel for PepsiCo and General Counsel for North America and Corporate from July 2017 to October 2017. He previously served as Senior Vice President, PepsiCo Deputy General Counsel, General Counsel, North America Beverages and Quaker Foods North America from July 2015 to July 2017, as Senior Vice President, PepsiCo Deputy General Counsel, General Counsel, PepsiCo America Beverages from April 2014 to July 2015, as Senior Vice President, PepsiCo Chief Compliance and Ethics

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Officer from March 2012 to April 2014 and as Senior Vice President, General Counsel, Pepsi Beverages Company from February 2010 to March 2012. Prior to that, he spent five years in the law department of The Pepsi Bottling Group, Inc. (PBG) and, prior to that, was a member of PepsiCo's corporate law department from the time he joined PepsiCo in 1998 until 2003.

Executive officers are elected by our Board of Directors, and their terms of office continue until the next annual meeting of the Board or until their successors are elected and have qualified. There are no family relationships among our executive officers.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Stock Trading Symbol – PEP

Stock Exchange Listings – Since December 20, 2017, our common stock has traded on The Nasdaq Global Select Market. Before December 20, 2017, our common stock traded on The New York Stock Exchange. Our common stock is also listed on the Chicago Stock Exchange and SIX Swiss Exchange.

Stock Prices – The quarterly composite high and low sales prices for PepsiCo common stock for each fiscal quarter of 2017 and 2016 as reported on The New York Stock Exchange through December 19, 2017 and The Nasdaq Global Select Market from December 20, 2017 through December 30, 2017, are contained in “Item 6. Selected Financial Data.”

Shareholders – As of February 6, 2018, there were approximately 120,156 shareholders of record of our common stock.

Dividends – We have paid consecutive quarterly cash dividends since 1965. The declaration and payment of future dividends are at the discretion of the Board of Directors. Dividends are usually declared in February, May, July and November and paid at the end of March, June and September and the beginning of January. On February 5, 2018, the Board of Directors declared a quarterly dividend of \$0.805 payable March 30, 2018, to shareholders of record on March 2, 2018. For the remainder of 2018, the dividend record dates for these payments are expected to be June 1, September 7 and December 7, 2018, subject to approval of the Board of Directors. Information with respect to the quarterly dividends declared in 2017 and 2016 is contained in “Item 6. Selected Financial Data.”

For information on securities authorized for issuance under our equity compensation plans, see “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

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A summary of our common stock repurchases (in millions, except average price per share) during the fourth quarter of 2017 is set forth in the table below.

Issuer Purchases of Common Stock

Period	Total Number of Shares Repurchased ^(a)	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 ^(b)
9/9/2017				\$ 5,857
9/10/2017 - 10/7/2017	1.5	\$ 112.85	1.5	(167) 5,690
10/8/2017 - 11/4/2017	1.3	\$ 111.00	1.3	(139) 5,551
11/5/2017 - 12/2/2017	1.1	\$ 114.32	1.1	(126) 5,425
12/3/2017 - 12/30/2017	0.6	\$ 117.55	0.6	(72)
Total	4.5	\$ 113.34	4.5	\$ 5,353

(a) All shares were repurchased in open market transactions pursuant to publicly announced repurchase programs.

Includes shares authorized for repurchase under the \$12 billion repurchase program authorized by our Board of Directors and publicly announced on February 11, 2015, which commenced on July 1, 2015 and expires on June 30, 2018. On February 13, 2018, we publicly announced a new repurchase program of up to \$15 billion of our

(b) common stock, which will commence on July 1, 2018 and expire on June 30, 2021, and such shares are excluded from the above table. Such shares may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

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In connection with our merger with The Quaker Oats Company (Quaker) in 2001, shares of our convertible preferred stock were authorized and issued to an employee stock ownership plan (ESOP) fund established by Quaker. In the fourth quarter of 2017, PepsiCo repurchased shares of its convertible preferred stock from the ESOP in connection with share redemptions by ESOP participants. See Note 11 to our consolidated financial statements for additional information on our convertible preferred stock.

The Company does not have any authorized, but unissued, “blank check preferred stock.”

The following table summarizes our convertible preferred share repurchases during the fourth quarter of 2017.

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
9/10/2017 - 10/7/2017	—	\$ —	N/A	N/A
10/8/2017 - 11/4/2017	1,000	\$ 548.21	N/A	N/A
11/5/2017 - 12/2/2017	—	\$ —	N/A	N/A
12/3/2017 - 12/30/2017	900	\$ 578.48	N/A	N/A
Total	1,900	\$ 562.55	N/A	N/A

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Item 6. Selected Financial Data.

Five-Year Summary

(unaudited, in millions except per share amounts)

The following selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements and accompanying notes thereto. Our fiscal year ends on the last Saturday of each December and our fiscal year 2016 comprised fifty-three reporting weeks while all other fiscal years presented in the tables below comprised fifty-two reporting weeks.

	2017	2016	2015	2014	2013
Net revenue ^(a)	\$63,525	\$62,799	\$63,056	\$66,683	\$66,415
Operating profit	\$10,509	\$9,785	\$8,353	\$9,581	\$9,705
Provision for income taxes ^(b)	\$4,694	\$2,174	\$1,941	\$2,199	\$2,104
Net income attributable to PepsiCo ^(b)	\$4,857	\$6,329	\$5,452	\$6,513	\$6,740
Net income attributable to PepsiCo per common share – basic ^(b)	\$3.40	\$4.39	\$3.71	\$4.31	\$4.37
Net income attributable to PepsiCo per common share – diluted ^(b)	\$3.38	\$4.36	\$3.67	\$4.27	\$4.32
Cash dividends declared per common share	\$3.1675	\$2.96	\$2.7625	\$2.5325	\$2.24
Total assets	\$79,804	\$73,490	\$68,976	\$69,634	\$76,762
Long-term debt	\$33,796	\$30,053	\$29,213	\$23,821	\$24,333

Our fiscal 2016 results included an extra week of results. The 53rd reporting week increased 2016 net revenue by (a) \$657 million, including \$294 million in our FLNA segment, \$43 million in our QFNA segment, \$300 million in our NAB segment and \$20 million in our ESSA segment.

(b) Includes the provisional impact of the TCJ Act enacted in 2017. See Note 5 to our consolidated financial statements for additional information.

The following information highlights certain items that impacted our results of operations and financial condition for the five years presented above:

	2017			
	Operating profit	Provision for income taxes ^(c)	Net income attributable to PepsiCo	Net income attributable to PepsiCo per common share – diluted
Mark-to-market net impact ^(d)	\$15	\$(7)	\$ 8	\$ 0.01
Restructuring and impairment charges ^(e)	\$(295)	\$71	\$(224)	\$(0.16)
Provisional net tax expense related to the TCJ Act ^(f)	\$—	\$(2,451)	\$(2,451)	\$(1.70)
Gain on sale of Britvic plc (Britvic) securities ^(g)	\$95	\$(10)	\$ 85	\$ 0.06
Gain on beverage refranchising ^(h)	\$140	\$(33)	\$ 107	\$ 0.07
Gain on sale of assets ⁽ⁱ⁾	\$87	\$(25)	\$ 62	\$ 0.04

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2016

	Operating profit	Interest expense	Provision for income taxes ^(c)	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo	Net income attributable to PepsiCo per common share – diluted
Mark-to-market net impact ^(d)	\$167	\$—	\$ (56)	\$ —	\$ 111	\$ 0.08
Restructuring and impairment charges ^(e)	\$(160)	\$—	\$ 26	\$ 3	\$ (131)	\$ (0.09)
Charge related to the transaction with Tingyi ^(j)	\$(373)	\$—	\$ —	\$ —	\$ (373)	\$ (0.26)
Charge related to debt redemption ^(k)	\$—	\$(233)	\$ 77	\$ —	\$ (156)	\$ (0.11)
Pension-related settlement charge ^(l)	\$(242)	\$—	\$ 80	\$ —	\$ (162)	\$ (0.11)
53 rd reporting week ^(m)	\$126	\$(19)	\$ (44)	\$ (1)	\$ 62	\$ 0.04

2015

	Operating profit	Provision for income taxes ^(c)	Net income attributable to PepsiCo	Net income attributable to PepsiCo per common share – diluted
Mark-to-market net impact ^(d)	\$11	\$ (3)	\$ 8	\$ —
Restructuring and impairment charges ^(e)	\$(230)	\$ 46	\$ (184)	\$ (0.12)
Charge related to the transaction with Tingyi ^(j)	\$(73)	\$ —	\$ (73)	\$ (0.05)
Pension-related settlement benefits ^(l)	\$67	\$(25)	\$ 42	\$ 0.03
Venezuela impairment charges ⁽ⁿ⁾	\$(1,359)	\$ —	\$ (1,359)	\$ (0.91)
Tax benefit ^(o)	\$—	\$ 230	\$ 230	\$ 0.15
Müller Quaker Dairy (MQD) impairment ^(p)	\$(76)	\$ 28	\$ (48)	\$ (0.03)
Gain on beverage refranchising ^(h)	\$39	\$(11)	\$ 28	\$ 0.02
Other productivity initiatives ^(q)	\$(90)	\$ 24	\$ (66)	\$ (0.04)
Joint venture impairment charge ^(r)	\$(29)	\$ —	\$ (29)	\$ (0.02)

2014

	Operating profit	Provision for income taxes ^(c)	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo	Net income attributable to PepsiCo per common share – diluted
Mark-to-market net impact ^(d)	\$(68)	\$ 24	\$ —	\$ (44)	\$ (0.03)
Restructuring and impairment charges ^(e)	\$(418)	\$ 99	\$ 3	\$ (316)	\$ (0.21)
Pension-related settlement charge ^(l)	\$(141)	\$ 53	\$ —	\$ (88)	\$ (0.06)
Venezuela remeasurement charge ^(s)	\$(105)	\$ —	\$ —	\$ (105)	\$ (0.07)
Gain on sale of assets ⁽ⁱ⁾	\$31	\$ 3	\$ —	\$ 34	\$ 0.02
Other productivity initiatives ^(q)	\$(67)	\$ 13	\$ —	\$ (54)	\$ (0.04)

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	2013			
	Operating	Provision for	Net income	Net income
	profit	income taxes ^(c)	attributable to PepsiCo	attributable to PepsiCo per common share – diluted
Mark-to-market net impact ^(d)	\$(72)	\$ 28	\$ (44)	\$ (0.03)
Restructuring and impairment charges ^(e)	\$(163)	\$ 34	\$ (129)	\$ (0.08)
Tax benefit ^(o)	\$—	\$ 209	\$ 209	\$ 0.13
Venezuela remeasurement charge ^(s)	\$(111)	\$ —	\$ (111)	\$ (0.07)
Merger and integration charges ^(t)	\$(10)	\$ 2	\$ (8)	\$ (0.01)
Gain on beverage refranchising ^(h)	\$137	\$ —	\$ 137	\$ 0.09

Provision for income taxes is the expected tax benefit/charge on the underlying item based on the tax laws and (c) income tax rates applicable to the underlying item in its corresponding tax jurisdiction and tax year and, in 2017, the impact of the TCJ Act is presented separately.

(d) Mark-to-market net gains and losses on commodity derivatives in corporate unallocated expenses.

Expenses related to the 2014 Multi-Year Productivity Plan (2014 Productivity Plan) and 2012 Multi-Year Productivity Plan (2012 Productivity Plan). See Note 3 to our consolidated financial statements.

(e) In 2017, provisional net tax expense associated with the enactment of the TCJ Act. See Note 5 to our consolidated financial statements.

(f) In 2017, gain in the ESSA segment associated with the sale of our minority stake in Britvic.

In 2017, gain in the AMENA segment associated with refranchising our beverage business in Jordan. See Note 14 to our consolidated financial statements. In 2015 and 2013, gains in the AMENA segment associated with refranchising a portion of our beverage businesses in India and the refranchising of our beverage business in Vietnam, respectively.

In 2017, gains associated with the sale of assets in the following segments: \$17 million in FLNA, \$21 million in (i) NAB, \$21 million in AMENA and \$28 million in corporate unallocated expenses. In 2014, gain in the ESSA segment associated with the sale of agricultural assets in Russia.

In 2016, impairment charge in the AMENA segment to reduce the value of our 5% indirect equity interest in Tingyi-Asahi Beverages Holding Co. Ltd. (TAB) to its estimated fair value. In 2015, write-off in the AMENA (j) segment of the value of a call option to increase our holding in TAB to 20%. See Note 9 to our consolidated financial statements.

In 2016, interest expense primarily representing the premium paid in accordance with the “make-whole” redemption (k) provisions to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of \$1.5 billion and \$750 million, respectively. See Note 8 to our consolidated financial statements.

In 2016, pension settlement charge in corporate unallocated expenses related to the purchase of a group annuity (l) contract. In 2015, benefits in the NAB segment associated with the settlement of pension-related liabilities from previous acquisitions. In 2014, lump sum settlement charges in corporate unallocated expenses related to payments for pension liabilities to certain former employees who had vested benefits.

(m) Our fiscal 2016 results included the 53rd reporting week, the impact of which was fully offset by incremental investments in our business.

In 2015, charges in the Latin America segment related to the impairment of investments in our (n) wholly-owned Venezuelan subsidiaries and beverage joint venture. Beginning in the fourth quarter of 2015, our financial results have not included the results of our Venezuelan businesses. See Note 1 to our consolidated financial statements.

(o)

In 2015, non-cash tax benefit associated with our agreement with the IRS resolving substantially all open matters related to the audits for taxable years 2010 through 2011, which reduced our reserve for uncertain tax positions for the tax years 2010 through 2011. In 2013, non-cash tax benefit associated with our agreement with the IRS resolving all open matters related to the audits for taxable years 2003 through 2009, which reduced our reserve for uncertain tax positions for the tax years 2003 through 2012.

- (p) In 2015, impairment charges in the QFNA segment associated with our MQD joint venture investment, including a charge related to ceasing its operations.
- (q) In 2015 and 2014, expenses related to other productivity initiatives outside the scope of the 2014 and 2012 Productivity Plans.
- (r) In 2015, impairment charge in the AMENA segment associated with a joint venture in the Middle East.
In 2014, net charge related to our remeasurement of the bolivar for certain net monetary assets of our Venezuelan businesses. \$126 million of this charge was in corporate unallocated expenses, with the balance (equity income of (s) \$21 million) in our Latin America segment. In 2013, net charge related to the devaluation of the bolivar for our Venezuelan businesses. \$124 million of this charge was in corporate unallocated expenses, with the balance (equity income of \$13 million) in our Latin America segment.
- (t) In 2013, merger and integration charges in the ESSA segment related to our acquisition of WBD.

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Selected Quarterly Financial Data

Selected financial data for 2017 and 2016 is summarized as follows and highlights certain items that impacted our quarterly results (in millions except per share amounts, unaudited):

	2017				2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenue ^(a)	\$12,049	\$15,710	\$16,240	\$19,526	\$11,862	\$15,395	\$16,027	\$19,515
Gross profit	\$6,763	\$8,654	\$8,874	\$10,449	\$6,711	\$8,565	\$8,743	\$10,571
Operating profit	\$1,933	\$2,990	\$2,993	\$2,593	\$1,619	\$2,964	\$2,821	\$2,381
Mark-to-market net impact ^(b)	\$(14)	\$(26)	\$27	\$28	\$46	\$100	\$(39)	\$60
Restructuring and impairment charges ^(c)	\$(27)	\$(34)	\$(8)	\$(226)	\$(30)	\$(49)	\$(27)	\$(54)
Provisional net tax expense related to the TCJ Act ^(d)	—	—	—	\$(2,451)	—	—	—	—
Gain on sale of Britvic securities ^(e)	—	-\$95	—	—	—	—	—	—
Gain on beverage refranchising ^(f)	—	—	—	\$140	—	—	—	—
Gain on sale of assets ^(g)	—	—	\$21	\$66	—	—	—	—
Charge related to the transaction with Tingyi ^(h)	—	—	—	—	\$(373)	—	—	—
Charge related to debt redemption ⁽ⁱ⁾	—	—	—	—	—	—	—	\$(233)
Pension-related settlement charge ^(j)	—	—	—	—	—	—	—	\$(242)
53 rd reporting week ^(k)	—	—	—	—	—	—	—	\$126
Provision for income taxes ^(l)	\$392	\$656	\$620	\$3,026	\$442	\$718	\$600	\$414
Net income/(loss) attributable to PepsiCo ^(l)	\$1,318	\$2,105	\$2,144	\$(710)	\$931	\$2,005	\$1,992	\$1,401
Net income/(loss) attributable to PepsiCo per common share ^(l)								
Basic	\$0.92	\$1.47	\$1.50	\$(0.50)	\$0.64	\$1.39	\$1.38	\$0.98
Diluted	\$0.91	\$1.46	\$1.49	\$(0.50)	\$0.64	\$1.38	\$1.37	\$0.97
Cash dividends declared per common share	\$0.7525	\$0.805	\$0.805	\$0.805	\$0.7025	\$0.7525	\$0.7525	\$0.7525
Stock price per share ^(m)								
High	\$112.38	\$118.12	\$119.39	\$120.57	\$102.12	\$106.94	\$110.94	\$109.71
Low	\$101.06	\$111.34	\$112.25	\$106.19	\$93.25	\$100.00	\$101.30	\$98.50

Our fiscal 2016 results included a 53rd reporting week which increased 2016 net revenue by \$657 million, (a) including \$294 million in our FLNA segment, \$43 million in our QFNA segment, \$300 million in our NAB segment and \$20 million in our ESSA segment.

(b) Mark-to-market net gains and losses on commodity derivatives in corporate unallocated expenses.

(c) Expenses related to the 2014 and 2012 Productivity Plans. See Note 3 to our consolidated financial statements.

(d) In 2017, provisional net tax expense associated with the enactment of the TCJ Act. See Note 5 to our consolidated financial statements.

(e) In 2017, gain in the ESSA segment associated with the sale of our minority stake in Britvic. See Note 9 to our consolidated financial statements.

(f) In 2017, gain in the AMENA segment associated with refranchising our beverage business in Jordan. See Note 14 to our consolidated financial statements.

(g)

In 2017, gains associated with the sale of assets in the following segments: \$17 million in FLNA, \$21 million in NAB, \$21 million in AMENA and \$28 million in corporate unallocated expenses.

(h) In 2016, impairment charge in the AMENA segment to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value. See Note 9 to our consolidated financial statements.

(i) In 2016, interest expense primarily representing the premium paid in accordance with the “make-whole” redemption provisions to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of \$1.5 billion and \$750 million, respectively. See Note 8 to our consolidated financial statements.

(j) In 2016, pension settlement charge in corporate unallocated expenses related to the purchase of a group annuity contract.

(k) Our fiscal 2016 results included the 53rd reporting week, the impact of which was fully offset by incremental investments in our business.

(l) Includes the provisional impact of the TCJ Act enacted in the fourth quarter of 2017. See Note 5 to our consolidated financial statements for additional information.

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Reflects the quarterly composite high and low sales prices for one share of PepsiCo common stock as reported on (m)The New York Stock Exchange from December 27, 2015 through December 19, 2017 and The Nasdaq Global Select Market from December 20, 2017 through December 30, 2017.

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Our discussion and analysis is intended to help the reader understand our results of operations and financial condition and is provided as an addition to, and should be read in connection with, our consolidated financial statements and the accompanying notes. Definitions of key terms can be found in the glossary beginning on page 130. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common stock per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

OUR BUSINESS

Executive Overview

We are a leading global food and beverage company with a complementary portfolio of enjoyable brands, including Frito-Lay, Gatorade, Pepsi-Cola, Quaker and Tropicana. Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of convenient and enjoyable beverages, foods and snacks, serving customers and consumers in more than 200 countries and territories.

At PepsiCo, we are focused on operating our company in a way that generates sustained financial growth and consistently strong returns and is also responsive to the needs of the world around us. We call this approach Performance with Purpose — it is embedded into our business and our strategy — and it enabled us to deliver another year of strong performance in 2017.

As we look to 2018 and beyond, we believe our Performance with Purpose strategy will enable us to continue delivering strong performance while positioning our Company for long-term sustainable growth.

Our strategies are designed to address key challenges facing our Company, including: macroeconomic and political volatility and the continued rebalancing of the economic world; shifting consumer preferences and increasing demand for more nutritious foods and beverages; the disruption of retail; the expansion of hard discounters; and the emergence of niche brands laying claim to large consumer segments, particularly in developed markets. We intend to focus on the following areas to address and adapt to these challenges:

- Utilizing the strength of our distribution system to offer consumers a wide array of choices, from “fun-for-you” to “better-for-you” to “good-for-you” products to meet consumers’ demand for more nutritious foods and beverages;

- Continuing to strengthen our retail and foodservice relationships to sell our products faster, increase cash flow and engage consumers;

- Minimizing our environmental footprint to streamline costs and mitigate our operational impact on the communities in which we operate;

- Continuing to invest in our associates so that we have the best talent to position our company for continued growth; and

- Continuing our investments in e-commerce and digital solutions to meet changing consumer consumption patterns and capture cost savings while streamlining our operations.

See also “Item 1A. Risk Factors” for additional information about risks and uncertainties that the Company faces.

Our Operations

See “Item 1. Business” for information on our divisions and a description of our distribution network, ingredients and other supplies, brands and intellectual property rights, seasonality, customers and competition. In addition, see Note 1 to our consolidated financial statements for financial information about our divisions

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and geographic areas.

Other Relationships

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. These Board members do not participate in our vendor selection and negotiations nor in our customer negotiations. Our transactions with these vendors and customers are in the normal course of business and are consistent with terms negotiated with other vendors and customers. In addition, certain of our employees serve on the boards of Pepsi Bottling Ventures LLC and other affiliated companies of PepsiCo and do not receive incremental compensation for such services.

Our Business Risks

We are subject to risks in the normal course of business. During 2017 and 2016, certain jurisdictions in which our products are made, manufactured, distributed or sold operated in a challenging environment, experiencing unstable economic, political and social conditions, civil unrest, natural disasters, debt and credit issues, and currency fluctuations. We continue to monitor the economic, operating and political environment in these markets closely and to identify actions to potentially mitigate any unfavorable impacts on our future results.

The hurricanes and earthquakes which occurred in the third and fourth quarters of 2017 in North and Central America did not materially impact our consolidated financial results in 2017.

In addition, certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased taxes on the manufacture, distribution or sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products. These taxes vary in scope and form: some apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Similarly, some measures apply a single tax rate per liquid ounce while others apply a graduated tax rate depending upon the amount of added sugar in the beverage and some apply a flat tax rate on beverages containing a particular substance or ingredient.

We sell a wide variety of beverages, foods and snack in more than 200 countries and territories and the profile of the products we sell, and the amount of revenue attributable to such products, varies by jurisdiction. Because of this, we cannot predict the scope or form potential taxes or other potential limitations on our products may take, and therefore cannot predict the impact of such taxes or limitations on our financial results. In addition, taxes and limitations may impact us and our competitors differently. We continue to monitor existing and proposed taxes in the jurisdictions in which our products are made, manufactured, distributed and sold and to consider actions we may take to potentially mitigate the unfavorable impact, if any, of such taxes or limitations, including advocating alternative measures with respect to the imposition, form and scope of any such taxes or limitations.

In addition, our industry has been affected by disruption of the retail landscape, including the rapid growth in sales through e-commerce websites and mobile commerce applications, the integration of physical and digital operations among retailers and the international expansion of hard discounters. We continue to monitor changes in the retail landscape and to identify actions we may take to build our global e-commerce capabilities, distribute our products effectively through all existing and emerging channels of trade and potentially mitigate any unfavorable impacts on our future results.

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. The changes in the TCJ Act are broad and complex and we continue to examine the impact the TCJ Act may have on our business and financial results. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%. As a result of the enactment of the TCJ Act, we recognized a provisional net tax expense of \$2.5 billion in the fourth quarter of 2017. See further information in “Items Affecting Comparability.” The recorded impact of

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the TCJ Act is provisional and the final amount may differ from the above estimate, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act. For additional information, see “Our Liquidity and Capital Resources,” “Our Critical Accounting Policies” and Note 5 to our consolidated financial statements.

See also “Item 1A. Risk Factors,” “Executive Overview” above and “Market Risks” below for more information about these risks and the actions we have taken to address key challenges.

Risk Management Framework

The achievement of our strategic and operating objectives involves taking risks and that those risks may evolve over time. To identify, assess, prioritize, address, manage, monitor and communicate these risks across the Company’s operations, we leverage an integrated risk management framework. This framework includes the following: PepsiCo’s Board of Directors has oversight responsibility for PepsiCo’s integrated risk management framework. One of the Board’s primary responsibilities is overseeing and interacting with senior management with respect to key aspects of the Company’s business, including risk assessment and risk mitigation of the Company’s top risks. The Board receives updates on key risks throughout the year. In addition, the Board has tasked designated Committees of the Board with oversight of certain categories of risk management, and the Committees report to the Board regularly on these matters.

The Audit Committee of the Board reviews and assesses the guidelines and policies governing PepsiCo’s risk management and oversight processes, and assists the Board’s oversight of financial, compliance and employee safety risks facing PepsiCo;

The Compensation Committee of the Board reviews PepsiCo’s employee compensation policies and practices to assess whether such policies and practices could lead to unnecessary risk-taking behavior;

The Nominating and Corporate Governance Committee assists the Board in its oversight of the Company’s governance structure and other corporate governance matters, including succession planning; and

The Public Policy and Sustainability Committee of the Board assists the Board in its oversight of PepsiCo’s policies, programs and related risks that concern key public policy and sustainability matters.

The PepsiCo Risk Committee (PRC), which is comprised of a cross-functional, geographically diverse, senior management group, including PepsiCo’s Chairman of the Board and Chief Executive Officer, meets regularly to identify, assess, prioritize and address top strategic, financial, operating, compliance, safety, reputational and other risks. The PRC is also responsible for reporting progress on our risk mitigation efforts to the Board;

Division and key country risk committees, comprised of cross-functional senior management teams, meet regularly to identify, assess, prioritize and address division and country-specific business risks;

PepsiCo’s Risk Management Office, which manages the overall risk management process, provides ongoing guidance, tools and analytical support to the PRC and the division and key country risk committees, identifies and assesses potential risks and facilitates ongoing communication between the parties, as well as with PepsiCo’s Board of Directors and the Audit Committee of the Board;

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PepsiCo's Corporate Audit Department evaluates the ongoing effectiveness of our key internal controls through periodic audit and review procedures; and

PepsiCo's Compliance & Ethics Department leads and coordinates our compliance policies and practices.

Market Risks

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. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. Our global purchasing programs include fixed-price contracts and purchase orders and pricing agreements. See "Uncertain or unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations." and "Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials, energy, water and other supplies." in "Item 1A. Risk Factors." See "Our Liquidity and Capital Resources" for further information on our non-cancelable purchasing commitments.

The fair value of our derivatives fluctuates based on market rates and prices. The sensitivity of our derivatives to these market fluctuations is discussed below. See Note 9 to our consolidated financial statements for further discussion of these derivatives and our hedging policies. See "Our Critical Accounting Policies" for a discussion of the exposure of our pension and retiree medical plan assets and liabilities to risks related to market fluctuations.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products. See "Item 1A. Risk Factors" for further discussion.

Commodity Prices

Our commodity derivatives had a total notional value of \$0.9 billion as of December 30, 2017 and \$0.8 billion as of December 31, 2016. At the end of 2017, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have decreased our net unrealized gains in 2017 by \$96 million.

Foreign Exchange

Our operations outside of the United States generated 42% of our net revenue in 2017, with Mexico, Russia, Canada, the United Kingdom and Brazil comprising approximately 20% of our net revenue in 2017. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. During 2017, unfavorable foreign exchange had a net nominal impact on net revenue growth due to declines in the Egyptian pound, Turkish lira and Pound sterling, offset by appreciation in the Russian ruble, Brazilian real and euro. Currency declines against the U.S. dollar which are not offset could adversely impact our future financial results.

In addition, volatile economic, political and social conditions and civil unrest in certain markets in which our products are made, manufactured, distributed or sold, including in Brazil, China, India, Mexico, the

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Middle East, Russia and Turkey, and currency fluctuations in certain of these international markets continue to result in challenging operating environments. We also continue to monitor the economic and political developments related to the United Kingdom's pending withdrawal from the European Union, including how the United Kingdom will interact with other European Union countries following its departure, and the potential impact for the ESSA segment and our other businesses.

Starting in 2014, Russia announced economic sanctions against the United States and other nations that include a ban on imports of certain ingredients and finished goods from specific countries. These sanctions have not had and are not expected 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. For the years ended December 30, 2017, December 31, 2016 and December 26, 2015, net revenue generated by our operations in Russia represented 5%, 4% and 4% of our consolidated net revenue, respectively. As of December 30, 2017, our long-lived assets in Russia were \$4.7 billion.

Our foreign currency derivatives had a total notional value of \$1.6 billion as of December 30, 2017 and December 31, 2016. The total notional amount of our debt instruments designated as net investment hedges was \$1.5 billion as of December 30, 2017 and \$0.8 billion as of December 31, 2016. At the end of 2017, we estimate that an unfavorable 10% change in the underlying exchange rates would have increased our net unrealized losses in 2017 by \$125 million. Due to exchange restrictions and other conditions that significantly impact our ability to effectively manage our businesses in Venezuela and realize earnings generated by our Venezuelan businesses, effective at the end of the third quarter of 2015, we deconsolidated our Venezuelan subsidiaries and began accounting for our investments in our Venezuelan subsidiaries and joint venture using the cost method of accounting. In 2015, we recorded pre- and after-tax charges of \$1.4 billion in our income statement to reduce the value of the cost method investments to their estimated fair values, resulting in a full impairment. The factors that led to our conclusions at the end of the third quarter of 2015 continued to exist through the end of 2017, and we expect these conditions will continue for the foreseeable future.

We do not have any guarantees related to our Venezuelan entities, and our ongoing contractual commitments to our Venezuelan businesses are not material. We will recognize income from dividends and sales of inventory to our Venezuelan entities, which have not been and are not expected to be material, to the extent cash in U.S. dollars is received. We have not received any cash in U.S. dollars from our Venezuelan entities since our deconsolidation at the end of the third quarter of 2015. We continue to monitor the conditions in Venezuela and their impact on our accounting and disclosures. For further information, please refer to Note 1 to our consolidated financial statements and "Items Affecting Comparability."

Interest Rates

Our interest rate derivatives had a total notional value of \$14.2 billion as of December 30, 2017 and \$11.2 billion as of December 31, 2016. Assuming year-end 2017 investment levels and variable rate debt, a 1-percentage-point increase in interest rates would have decreased our net interest expense in 2017 by \$25 million due to higher cash and cash equivalents and short-term investments levels as compared with our variable rate debt.

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OUR FINANCIAL RESULTS

Results of Operations — Consolidated Review

In the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries 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 equity investees. The impact of the structural change related to the deconsolidation of our Venezuelan businesses is presented separately.

Volume

Our beverage volume in the NAB, Latin America, ESSA and AMENA segments reflects sales to authorized bottlers, independent distributors and retailers, as well as the sale of beverages bearing Company-owned or licensed trademarks that have been sold through our authorized independent bottlers. Bottler case sales (BCS) and concentrate shipments and equivalents (CSE) are not necessarily equal during any given period due to seasonality, timing of product launches, product mix, bottler inventory practices and other factors. While our beverage revenues are not entirely based on BCS volume, as there are independent bottlers in the supply chain, we believe that BCS is a valuable measure as it quantifies the sell-through of our beverage products at the consumer level. Sales of products from our unconsolidated joint ventures are reflected in our reported volume. NAB, Latin America, ESSA and AMENA, either independently or in conjunction with third parties, make, market, distribute and sell ready-to-drink tea products through a joint venture with Unilever (under the Lipton brand name), and NAB further, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink coffee products through a joint venture with Starbucks. In addition, AMENA licenses the Tropicana brand for use in China on co-branded juice products in connection with a strategic alliance with Tingyi.

Our food and snacks volume in the FLNA, QFNA, Latin America, ESSA and AMENA segments is reported on a system-wide basis, which includes our own sales and the sales by our noncontrolled affiliates of snacks bearing Company-owned or licensed trademarks.

Servings

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions’ physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

In 2017, total servings decreased 1% compared to 2016. In 2016, total servings increased 3% compared to 2015. Excluding the impact of the 53rd reporting week in 2016, total servings in 2017 was even with the prior year and total servings in 2016 increased 2% compared to 2015. Servings growth reflects adjustments to the prior year results for divestitures and other structural changes, including the deconsolidation of our Venezuelan businesses effective as of the end of the third quarter of 2015.

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Consolidated Net Revenue and Operating Profit

			Change	
	2017	2016	2015	2017 2016
Net revenue	\$63,525	\$62,799	\$63,056	1 % — %
Operating profit	\$10,509	\$9,785	\$8,353	7 % 17 %
Operating profit margin	16.5 %	15.6 %	13.2 %	1.0 2.3

See “Results of Operations – Division Review” for a tabular presentation and discussion of key drivers of net revenue. 2017

Operating profit increased 7% and operating margin improved 1.0 percentage points. Operating profit growth was driven by the benefit of actions associated with our productivity initiatives, which contributed more than \$1 billion in cost reductions across a number of expense categories, as well as effective net pricing. Items affecting comparability (see “Items Affecting Comparability”) also contributed 4 percentage points to operating profit growth and increased operating profit margin by 0.5 percentage points, primarily reflecting a prior-year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value. Additionally, the impact of refranchising our beverage business in Jordan and a gain associated with the sale of our minority stake in Britvic each contributed 1 percentage point to operating profit growth. These impacts were partially offset by certain operating cost increases, higher commodity costs and unfavorable foreign exchange. Commodity inflation reduced operating profit growth by 6 percentage points, primarily attributable to inflation in the AMENA, Latin America, ESSA, NAB and FLNA segments. Corporate unallocated expenses (see Note 1 to our consolidated financial statements) decreased 9%, reflecting the impact of higher prior-year contributions to The PepsiCo Foundation, Inc. to fund charitable and social programs.

2016

Operating profit increased 17% and operating margin increased 2.3 percentage points. Operating profit growth was driven by the benefit of actions associated with our productivity initiatives, which contributed more than \$1 billion in cost reductions across a number of expense categories, effective net pricing and volume growth. Additionally, the impact of recording an impairment charge in 2015 and ceasing the operations of our MQD joint venture contributed 1 percentage point to operating profit growth. These impacts were partially offset by certain operating cost increases, higher advertising and marketing expenses, unfavorable foreign exchange and higher commodity costs, as well as the deconsolidation of our Venezuelan businesses, which reduced operating profit growth by 2 percentage points. Items affecting comparability (see “Items Affecting Comparability”) contributed 13 percentage points to operating profit growth and increased operating profit margin by 1.5 percentage points, primarily reflecting a 17-percentage-point contribution from the 2015 Venezuela impairment charges. Higher commodity inflation reduced operating profit growth by 1 percentage point, primarily attributable to inflation in the Latin America, ESSA and AMENA segments, partially offset by deflation in the NAB, FLNA and QFNA segments. The impact of our 53rd reporting week was fully offset by incremental investments we made in our business. Corporate unallocated expenses (see Note 1 to our consolidated financial statements) decreased 1%, driven by lower pension expense reflecting the change to the full yield curve approach, lower foreign exchange transaction losses and decreases in other corporate expenses, partially offset by increased contributions to The PepsiCo Foundation, Inc. to fund charitable and social programs and the net impact of items affecting comparability mentioned above included in corporate unallocated expenses.

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Other Consolidated Results

	2017		2016		2015		Change	
	2017	2016	2017	2016	2017	2016	2017	2016
Net interest expense	\$ (907)	\$ (1,232)	\$ (911)	\$ (911)	\$ 325	\$ (321)		
Annual tax rate ^(a)	48.9 %	25.4 %	26.1 %	26.1 %				
Net income attributable to PepsiCo	\$4,857	\$6,329	\$5,452	\$5,452	(23)	16	%	%
Net income attributable to PepsiCo per common share – diluted	\$3.38	\$4.36	\$3.67	\$3.67	(23)	19	%	%
Mark-to-market net impact	(0.01)	(0.08)	—	—				
Restructuring and impairment charges	0.16	0.09	0.12	0.12				
Provisional net tax expense related to the TCJ Act ^(a)	1.70	—	—	—				
Charges related to the transaction with Tingyi	—	0.26	0.05	0.05				
Charge related to debt redemption	—	0.11	—	—				
Pension-related settlement charge/(benefits)	—	0.11	(0.03)	(0.03)				
Venezuela impairment charges	—	—	0.91	0.91				
Tax benefit	—	—	(0.15)	(0.15)				
Net income attributable to PepsiCo per common								
share – diluted, excluding above items ^(b)	\$5.23	\$4.85	\$4.57	\$4.57	8	6	%	%
Impact of foreign exchange translation					1	3		
Growth in net income attributable to PepsiCo per								
common share – diluted, excluding above items, on					9	9	%	%

a constant currency basis ^(b)

(a) See Note 5 to our consolidated financial statements.

(b) See “Non-GAAP Measures.”

2017

Net interest expense decreased \$325 million reflecting a prior-year charge of \$233 million representing the premium paid in accordance with the “make-whole” redemption provisions to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of \$1.5 billion and \$750 million, respectively. This decrease also reflects higher interest income due to higher interest rates and average cash balances, as well as gains on the market value of investments used to economically hedge a portion of our deferred compensation liability. These impacts were partially offset by higher interest expense due to higher average debt balances.

The reported tax rate increased 23.5 percentage points primarily as a result of the provisional net tax expense related to the TCJ Act, which contributed 26 percentage points to the increase, partially offset by the impact of the prior-year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value, which had no corresponding tax benefit, as well as the impact of recognizing excess tax benefits in the provision for income taxes as a result of the changes in accounting for certain aspects of share-based payments to employees in the current year. See Note 2 and Note 5 to our consolidated financial statements for additional information.

Net income attributable to PepsiCo and net income attributable to PepsiCo per common share both decreased 23%. Items affecting comparability (see “Items Affecting Comparability”) negatively impacted both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 30 percentage points, primarily as a result of the provisional net tax expense related to the TCJ Act.

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2016

Net interest expense increased \$321 million reflecting a charge of \$233 million representing the premium paid in accordance with the “make-whole” redemption provisions to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of \$1.5 billion and \$750 million, respectively. This increase also reflects higher average debt balances, partially offset by higher interest income due to higher average cash balances, as well as gains on the market value of investments used to economically hedge a portion of our deferred compensation liability.

The reported tax rate decreased 0.7 percentage points due to the impact of the 2015 Venezuela impairment charges, which had no corresponding tax benefit, partially offset by the 2015 favorable resolution with the IRS of substantially all open matters related to the audits for taxable years 2010 and 2011, as well as the 2016 impairment charge recorded to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value, which had no corresponding tax benefit.

Net income attributable to PepsiCo increased 16% and net income attributable to PepsiCo per common share increased 19%. Items affecting comparability (see “Items Affecting Comparability”) positively contributed 12 percentage points to net income attributable to PepsiCo and 13 percentage points to net income attributable to PepsiCo per common share.

Non-GAAP Measures

Certain financial measures contained in this Form 10-K adjust for the impact of specified items and are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). We use non-GAAP financial measures internally to make operating and strategic decisions, including the preparation of our annual operating plan, evaluation of our overall business performance and as a factor in determining compensation for certain employees. We believe presenting non-GAAP financial measures in this Form 10-K provides additional information to facilitate comparison of our historical operating results and trends in our underlying operating results, and provides additional transparency on how we evaluate our business. We also believe presenting these measures in this Form 10-K allows investors to view our performance using the same measures that we use in evaluating our financial and business performance and trends.

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include: amounts related to mark-to-market gains or losses (non-cash); charges related to restructuring programs; charges or adjustments related to the enactment of new laws, rules or regulations, such as significant tax law changes; gains or losses associated with mergers, acquisitions, divestitures and other structural changes; debt redemptions; pension and retiree medical related items; amounts related to the resolution of tax positions; asset impairments (non-cash); and remeasurements of net monetary assets. See below and “Items Affecting Comparability” for a description of adjustments to our U.S. GAAP financial measures in this Form 10-K.

Non-GAAP information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP. In addition, our non-GAAP financial measures may not be the same as or comparable to similar non-GAAP measures presented by other companies.

The following non-GAAP financial measures are contained in this Form 10-K:

- cost of sales, gross profit, selling, general and administrative expenses, interest expense, noncontrolling interests and provision for income taxes, each adjusted for items affecting comparability;

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operating profit/loss, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, and the corresponding constant currency growth rates;
 organic revenue;

free cash flow; and

return on invested capital (ROIC) and net ROIC, excluding items affecting comparability.

Cost of Sales, Gross Profit, Selling, General and Administrative Expenses, Interest Expense, Noncontrolling Interests and Provision for Income Taxes, Adjusted for Items Affecting Comparability; Operating Profit/Loss, Adjusted for Items Affecting Comparability, and Net Income Attributable to PepsiCo per Common Share – Diluted, Adjusted for Items Affecting Comparability, and the Corresponding Constant Currency Growth Rates

Cost of sales, gross profit, selling, general and administrative expenses, interest expense, noncontrolling interests and provision for income taxes, adjusted for items affecting comparability; operating profit/loss, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, exclude the net impact of mark-to-market gains and losses on centrally managed commodity derivatives that do not qualify for hedge accounting, restructuring and impairment charges related to our 2014 and 2012 Productivity Plans, a provisional net tax expense associated with the enactment of the TCJ Act, charges related to the transaction with Tingyi, a charge related to debt redemption, pension-related settlements, Venezuela impairment charges and a tax benefit (see “Items Affecting Comparability” for a detailed description of each of these items). We also evaluate performance on operating profit/loss, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, on a constant currency basis, which measure our financial results assuming constant foreign currency 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 these measures provide useful information in evaluating the results of our business because they exclude items that we believe are not indicative of our ongoing performance.

Organic Revenue

We define organic revenue as net revenue adjusted for the impact of foreign exchange translation, as well as the impact from acquisitions, divestitures and other structural changes, including the Venezuela deconsolidation, for the comparable period. The Venezuela deconsolidation impact excluded the results of our Venezuelan businesses for the first three quarters of 2015. In addition, our fiscal 2016 reported results included an extra week of results. Organic revenue excludes the impact of the 53rd reporting week in the fourth quarter of 2016.

We believe organic revenue provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year.

See “Organic Revenue Growth” in “Results of Operations – Division Review.”

Free Cash Flow

We define free cash flow as net cash provided by operating activities less capital spending, plus sales of property, plant and equipment. 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

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activities. Free cash flow is used by us primarily for financing activities, including debt repayments, dividends and share repurchases. Free cash flow is not a measure of cash available for discretionary expenditures since we have certain non-discretionary obligations such as debt service that are not deducted from the measure.

See “Free Cash Flow” in “Our Liquidity and Capital Resources.”

ROIC and Net ROIC, Excluding Items Affecting Comparability

We define ROIC as net income attributable to PepsiCo plus interest expense after-tax divided by the sum of quarterly average debt obligations and quarterly average common shareholders’ equity. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by management to calculate ROIC may differ from the methods other companies use to calculate their ROIC.

We believe this metric serves as a measure of how well we use our capital to generate returns. In addition, we use net ROIC, excluding items affecting comparability, to compare our performance over various reporting periods on a consistent basis because it removes from our operating results the impact of items that are not indicative of our ongoing performance and reflects how management evaluates our operating results and trends. We define net ROIC, excluding items affecting comparability, as ROIC, adjusted for quarterly average cash, cash equivalents and short-term investments, after-tax interest income and items affecting comparability. We believe the calculation of ROIC and net ROIC, excluding items affecting comparability, provides useful information to investors and is an additional relevant comparison of our performance to consider when evaluating our capital allocation efficiency.

See “Return on Invested Capital” in “Our Liquidity and Capital Resources.”

Items Affecting Comparability

Our reported financial results in this Form 10-K are impacted by the following items in each of the following years:

		2017								
		Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Provision for income taxes ^(a)	Net income attributable to PepsiCo			
Reported, GAAP Measure		\$28,785	\$34,740	\$ 24,231	\$ 10,509	\$ 4,694	\$ 4,857			
Items Affecting Comparability										
Mark-to-market net impact		8	(8	) 7	(15	) (7	) (8	)		
Restructuring and impairment charges		—	—	(295	) 295	71	224			
Provisional net tax expense related to the TCJ Act		—	—	—	—	(2,451	) 2,451			
Core, Non-GAAP Measure		\$28,793	\$34,732	\$ 23,943	\$ 10,789	\$ 2,307	\$ 7,524			
		2016								
		Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Interest expense	Provision for income taxes ^(a)	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo	
Reported, GAAP Measure		\$28,209	\$34,590	\$ 24,805	\$9,785	\$1,342	\$2,174	\$ 50	\$ 6,329	
Items Affecting Comparability										
Mark-to-market net impact		78	(78	) 89	(167	) —	(56	) —	(111	)
Restructuring and impairment charges		—	—	(160	) 160	—	26	3	131	
Charge related to the transaction with Tingyi		—	—	(373	) 373	—	—	—	373	
Charge related to debt redemption		—	—	—	—	(233	) 77	—	156	
		—	—	(242	) 242	—	80	—	162	

Pension-related settlement
charge

Core, Non-GAAP Measure	\$28,287	\$34,512	\$ 24,119	\$10,393	\$1,109	\$2,301	\$ 53	\$ 7,040
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	2015						
	Cost of sales	Gross profit	Selling, general and administrative expenses	Venezuela impairment charges	Operating profit	Provision for income taxes ^(a)	Net income attributable to PepsiCo
Reported, GAAP Measure	\$28,731	\$34,325	\$ 24,613	\$ 1,359	\$ 8,353	\$ 1,941	\$ 5,452
Items Affecting Comparability							
Mark-to-market net impact	(18)	18	29	—	(11)	(3)	(8)
Restructuring and impairment charges	—	—	(230)	—	230	46	184
Charge related to the transaction with Tingyi	—	—	(73)	—	73	—	73
Pension-related settlement benefits	—	—	67	—	(67)	(25)	(42)
Venezuela impairment charges	—	—	—	(1,359)	1,359	—	1,359
Tax benefit	—	—	—	—	—	230	(230)
Core, Non-GAAP Measure	\$28,713	\$34,343	\$ 24,406	\$ —	\$ 9,937	\$ 2,189	\$ 6,788

Provision for income taxes is the expected tax benefit/charge on the underlying item based on the tax laws and (a) income tax rates applicable to the underlying item in its corresponding tax jurisdiction and tax year and, in 2017, the impact of the TCJ Act is presented separately.

Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include agricultural products, energy and metals. Commodity derivatives 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. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses.

Restructuring and Impairment Charges**2014 Multi-Year Productivity Plan**

To build on the successful implementation of the 2014 Productivity Plan to date, we expanded and extended the program through the end of 2019 to take advantage of additional opportunities within the initiatives of the 2014 Productivity Plan to further strengthen our food, snack and beverage businesses. We now expect to incur pre-tax charges and cash expenditures of approximately \$1.3 billion and \$985 million, respectively, as compared to our previous estimate of pre-tax charges and cash expenditures of approximately \$990 million and \$705 million, respectively.

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The expected pre-tax charges and cash expenditures are summarized by year as follows:

	Charges	Cash Expenditures	
2013	\$ 53	\$ —	
2014	357	175	(b)
2015	169	165	(b)
2016	160	95	
2017	295	113	
2018 (expected)	254	396	
2019 (expected)	17	41	
	\$ 1,305 ^(a)	\$ 985	

(a) This total pre-tax charge is expected to consist of approximately \$795 million of severance and other employee-related costs, approximately \$165 million for asset impairments (all non-cash) resulting from plant closures and related actions, and approximately \$345 million for other costs associated with the implementation of our initiatives, including contract termination costs. This charge is expected to impact reportable segments and Corporate approximately as follows: FLNA 14%, QFNA 3%, NAB 30%, Latin America 15%, ESSA 25%, AMENA 4% and Corporate 9%.

(b) In 2015 and 2014, cash expenditures include \$2 million and \$10 million, respectively, reported on our cash flow statement in pension and retiree medical plan contributions.

See Note 3 to our consolidated financial statements for further information related to our 2014 and 2012 Productivity Plans.

We regularly evaluate different productivity initiatives beyond the productivity plans and other initiatives discussed above and in Note 3 to our consolidated financial statements.

Provisional Net Tax Expense Related to the TCJ Act

In 2017, we recorded a provisional net tax expense of \$2.5 billion (\$1.70 per share) associated with the enactment of the TCJ Act in the fourth quarter of 2017. Included in the net tax expense of \$2.5 billion is a provisional mandatory one-time transition tax of approximately \$4 billion on undistributed international earnings, included in other liabilities. This mandatory one-time transition tax was partially offset by a provisional \$1.5 billion benefit resulting from the required remeasurement of our deferred tax assets and liabilities to the new, lower U.S. corporate income tax rate. See Note 5 to our consolidated financial statements.

Charges Related to the Transaction with Tingyi

In 2016, we recorded a pre- and after-tax impairment charge of \$373 million (\$0.26 per share) in the AMENA segment to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value.

In 2015, we recorded a pre- and after-tax charge of \$73 million (\$0.05 per share) in the AMENA segment related to a write-off of the value of a call option to increase our holding in TAB to 20%.

See Note 9 to our consolidated financial statements.

Charge Related to Debt Redemption

In 2016, we paid \$2.5 billion to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of \$1.5 billion and \$750 million, respectively, and terminated certain interest rate swaps. As a result, we recorded a pre-tax charge of \$233 million (\$156 million after-tax or \$0.11 per share) to interest expense, primarily representing the premium paid in accordance with the “make-whole” redemption provisions.

See Note 8 to our consolidated financial statements.

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Pension-Related Settlements

In 2016, we recorded a pre-tax pension settlement charge in corporate unallocated expenses of \$242 million (\$162 million after-tax or \$0.11 per share) related to the purchase of a group annuity contract. See Note 7 to our consolidated financial statements.

In 2015, we recorded pre-tax benefits of \$67 million (\$42 million after-tax or \$0.03 per share) in the NAB segment associated with the settlement of pension-related liabilities from previous acquisitions. These benefits were recognized in selling, general and administrative expenses.

Venezuela Impairment Charges

In 2015, we recorded pre- and after-tax charges of \$1.4 billion (\$0.91 per share) in the Latin America segment related to the impairment of investments in our wholly-owned Venezuelan subsidiaries and beverage joint venture.

See Note 1 to our consolidated financial statements and “Our Business Risks.”

Tax Benefit

In 2015, we recognized a non-cash tax benefit of \$230 million (\$0.15 per share) associated with our agreement with the IRS resolving substantially all open matters related to the audits for taxable years 2010 through 2011, which reduced our reserve for uncertain tax positions for the tax years 2010 and 2011.

See Note 5 to our consolidated financial statements.

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Results of Operations — Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Accordingly, volume growth measures for 2016 reflect adjustments to the base year for divestitures and other structural changes, including the deconsolidation of our Venezuelan businesses effective as of the end of the third quarter of 2015. See “Non-GAAP Measures” and “Items Affecting Comparability” for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Net Revenue, 2017	\$15,798	\$2,503	\$20,936	\$7,208	\$11,050	\$6,030	\$63,525
Net Revenue, 2016	\$15,549	\$2,564	\$21,312	\$6,820	\$10,216	\$6,338	\$62,799
% Impact of:							
Volume ^(a)	1	% —	% (2.5)	)% (2	)% 3	% —	% —
Effective net pricing ^(b)	2.5	(1)	1	7	2	5	3
Foreign exchange translation	—	—	—	1	3	(10)	—
Acquisitions and divestitures	—	—	1	(0.5)	—	—	—
53 rd reporting week ^(c)	(2)	(2)	(1)	—	—	—	(1)
Reported growth ^(e)	2	% (2)	)% (2	)% 6	% 8	% (5)	)% 1
	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Net Revenue, 2016	\$15,549	\$2,564	\$21,312	\$6,820	\$10,216	\$6,338	\$62,799
Net Revenue, 2015	\$14,782	\$2,543	\$20,618	\$8,228	\$10,510	\$6,375	\$63,056
% Impact of:							
Volume ^(a)	2	% —	% 1	% 3	% 1.5	% 6	% 2
Effective net pricing ^(b)	2	(1)	1	7	2.5	(1)	2
Foreign exchange translation	—	—	—	(11)	(7)	(5)	(3)
Acquisitions and divestitures	—	—	—	(1)	—	—	—
Venezuela deconsolidation ^(d)	—	—	—	(14)	—	—	(2)
53 rd reporting week ^(c)	2	2	1.5	—	—	—	1
Reported growth ^(e)	5	% 1	% 3	% (17)	)% (3	)% (1	)% —

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 (a) beverage businesses, temporary timing differences between BCS and CSE, as well as the mix of beverage volume sold by our Company-owned and franchised-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.

Our fiscal 2016 results included a 53rd reporting week which increased 2016 net revenue by \$657 million, (c) including \$294 million in our FLNA segment, \$43 million in our QFNA segment, \$300 million in our NAB segment and \$20 million in our ESSA segment.

(d) The impact of the exclusion of the 2015 results of our Venezuelan businesses, which were deconsolidated effective as of the end of the third quarter of 2015.

(e) Amounts may not sum due to rounding.

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Organic Revenue Growth

Organic revenue is a non-GAAP financial measure. For further information on organic revenue see “Non-GAAP Measures.”

2017	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Reported Growth	2 %	(2)%	(2)%	6 %	8 %	(5)%	1 %
% Impact of:							
Foreign exchange translation	—	—	—	(1)	(3)	10	—
Acquisitions and divestitures	—	—	(1)	0.5	—	—	—
53 rd reporting week ^(a)	2	2	1	—	—	—	1
Organic Growth ^(c)	3 %	(1)%	(2)%	5 %	6 %	5 %	2 %

2016	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Reported Growth	5 %	1 %	3 %	(17)%	(3)%	(1)%	— %
% Impact of:							
Foreign exchange translation	—	—	—	11	7	5	3
Acquisitions and divestitures	—	—	—	1	—	—	—
Venezuela deconsolidation ^(b)	—	—	—	14	—	—	2
53 rd reporting week ^(a)	(2)	(2)	(1.5)	—	—	—	(1)
Organic Growth ^(c)	3.5 %	— %	2 %	9 %	4 %	5 %	4 %

Our fiscal 2016 results included a 53rd reporting week which increased 2016 net revenue by \$657 million, including \$294 million in our FLNA segment, \$43 million in our QFNA segment, \$300 million in our NAB segment and \$20 million in our ESSA segment. Our 2017 organic revenue growth excludes the impact of the 53rd reporting week from our 2016 results.

(a) The impact of the exclusion of the 2015 results of our Venezuelan businesses, which were deconsolidated effective as of the end of the third quarter of 2015.

(c) Amounts may not sum due to rounding.

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Frito-Lay North America

				% Change	
	2017	2016	2015	2017	2016
Net revenue	\$15,798	\$15,549	\$14,782	2	5
Impact of foreign exchange translation				—	—
Impact of 53 rd reporting week				2	(2)
Organic revenue growth ^(a)				3	(b) 3.5
Operating profit	\$4,823	\$4,659	\$4,304	3.5	8
Restructuring and impairment charges	67	13	26		
Operating profit excluding above item ^(a)	\$4,890	\$4,672	\$4,330	5	8
Impact of foreign exchange translation				—	—
Operating profit growth excluding above item, on a constant currency basis ^(a)				4.5	(b) 8

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

2017

Net revenue grew 2%, primarily reflecting effective net pricing, partially offset by the impact of the 53rd reporting week in the prior year, which reduced net revenue growth by 2 percentage points.

Volume declined 1%, reflecting mid-single-digit declines in trademark Lay’s and Fritos and a low-single-digit decline in trademark Doritos, partially offset by high-single-digit growth in variety packs. The 53rd reporting week in the prior year negatively impacted volume performance by 2 percentage points.

Operating profit grew 3.5%, primarily reflecting planned cost reductions across a number of expense categories and the effective net pricing, as well as the impact of prior-year incremental investments into our business, which contributed 1 percentage point to operating profit growth. These impacts were partially offset by certain operating cost increases, including strategic initiatives, as well as higher commodity costs, primarily cooking oil, which reduced operating profit growth by 1 percentage point. The 53rd reporting week in the prior year reduced operating profit growth by 2 percentage points.

2016

Net revenue grew 5%, driven by volume growth and effective net pricing. The 53rd reporting week contributed 2 percentage points to the net revenue growth.

Volume grew 3%, reflecting high-single-digit growth in variety packs, and mid-single-digit growth in trademark Doritos and Cheetos. These gains were partially offset by a mid-single-digit decline in our Sabra joint venture products. The 53rd reporting week contributed 2 percentage points to the volume growth.

Operating profit grew 8%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as lower commodity costs, which contributed 3 percentage points to operating profit growth, primarily fuel and cooking oil. These impacts were partially offset by certain operating cost increases, including strategic initiatives, and higher advertising and marketing expenses. The 53rd reporting week contributed 2 percentage points to operating profit growth, partially offset by incremental investments in our business, which reduced operating profit growth by 1.5 percentage points.

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Quaker Foods North America

				% Change	
	2017	2016	2015	2017	2016
Net revenue	\$2,503	\$2,564	\$2,543	(2)	1
Impact of foreign exchange translation				—	—
Impact of 53 rd reporting week				2	(2)
Organic revenue growth ^(a)				(1) ^(b)	— ^(b)
Operating profit	\$642	\$653	\$560	(2)	16
Restructuring and impairment charges	11	1	3		
Operating profit excluding above item ^(a)	\$653	\$654	\$563	—	16
Impact of foreign exchange translation				—	—
Operating profit growth excluding above item, on a constant currency basis ^(a)				—	16

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

2017

Net revenue declined 2%, reflecting the impact of the 53rd reporting week in the prior year, which negatively impacted net revenue performance by 2 percentage points, as well as unfavorable mix.

Volume declined 2%, reflecting a low-single-digit decline in ready-to-eat cereals and high-single-digit declines in trademark Roni and Gamesa, in part reflecting the impact of the 53rd reporting week in the prior year which negatively impacted volume performance by 2 percentage points.

Operating profit decreased 2%, reflecting certain operating cost increases and the net revenue performance. The 53rd reporting week in the prior year negatively impacted operating profit performance by 2 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories and lower advertising and marketing expenses, as well as the impact of prior-year incremental investments into our business, which positively contributed 1.5 percentage points to operating profit performance. Restructuring and impairment charges in the above table (see “Items Affecting Comparability”) negatively impacted operating profit performance by 1.5 percentage points.

2016

Net revenue grew 1%, driven by the 53rd reporting week which contributed 2 percentage points to the net revenue growth, partially offset by unfavorable net pricing and mix and unfavorable foreign exchange.

Volume grew 2%, reflecting mid-single-digit growth in Aunt Jemima syrup and mix and low-single-digit growth in ready-to-eat cereals, oatmeal and bars. The 53rd reporting week contributed 2 percentage points to the volume growth. Operating profit increased 16%, impacted by 2015 impairment charges related to our dairy joint venture and ceasing its operations, which contributed 17 percentage points to operating profit growth. This increase also reflects planned cost reductions across a number of expense categories, as well as lower commodity costs, which contributed 6 percentage points to operating profit growth. These impacts were partially offset by higher advertising and marketing expenses, certain operating cost increases and the unfavorable net pricing and mix. The 53rd reporting week contributed 2 percentage points to operating profit growth, partially offset by incremental investments in our business, which reduced operating profit growth by 1.5 percentage points.

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North America Beverages

				% Change	
	2017	2016	2015	2017	2016
Net revenue	\$20,936	\$21,312	\$20,618	(2)	3
Impact of foreign exchange translation				—	—
Impact of acquisitions and divestitures				(1)	—
Impact of 53 rd reporting week				1	(1.5)
Organic revenue growth ^(a)				(2)	2 ^(b)
Operating profit	\$2,707	\$2,959	\$2,785	(9)	6
Restructuring and impairment charges	54	35	33		
Pension-related settlement benefits	—	—	(67)		
Operating profit excluding above items ^(a)	\$2,761	\$2,994	\$2,751	(8)	9
Impact of foreign exchange translation				—	—
Operating profit growth excluding above items, on a constant currency basis ^(a)				(8)	9

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

2017

Net revenue decreased 2%, primarily reflecting a decline in volume, partially offset by effective net pricing, as well as acquisitions which positively contributed 1 percentage point to the net revenue performance. The 53rd reporting week in the prior year negatively impacted net revenue performance by 1 percentage point.

Volume decreased 3.5%, driven by a 5% decline in CSD volume and a 1% decline in non-carbonated beverage volume. The non-carbonated beverage volume decrease primarily reflected mid-single-digit declines in Gatorade sports drinks and in our juice and juice drinks portfolio, partially offset by a mid-single-digit increase in our overall water portfolio and a low-single-digit increase in Lipton ready-to-drink teas. Acquisitions had a nominal positive contribution to the volume performance. The 53rd reporting week in the prior year negatively impacted volume performance by 1.5 percentage points.

Operating profit decreased 9%, primarily reflecting certain operating cost increases and the net revenue performance, as well as higher commodity costs which negatively impacted operating profit performance by 2 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories and lower advertising and marketing expenses. Costs related to the hurricanes that occurred in the current year negatively impacted operating profit performance by 1 percentage point and were offset by a gain associated with a sale of an asset. In addition, the 53rd reporting week in the prior year negatively impacted operating profit performance by 1 percentage point and was offset by incremental investments in our business in the prior year.

2016

Net revenue increased 3%, primarily reflecting effective net pricing and volume growth. The 53rd reporting week contributed 1.5 percentage points to the net revenue growth.

Volume increased 2%, driven by a 7% increase in non-carbonated beverage volume, partially offset by a 1% decline in CSD volume. The non-carbonated beverage volume increase primarily reflected a double-digit increase in our overall water portfolio, a mid-single-digit increase in Gatorade sports drinks, and a high-

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single-digit increase in Lipton ready-to-drink teas. The 53rd reporting week contributed 1.5 percentage points to the volume growth.

Operating profit increased 6%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as lower commodity costs which contributed 6 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases and higher advertising and marketing expenses. The 53rd reporting week contributed 1.5 percentage points to the operating profit growth. This was partially offset by incremental investments in our business which reduced operating profit growth by 1 percentage point. Items affecting comparability in the above table (see “Items Affecting Comparability”) reduced operating profit growth by 3 percentage points.

Latin America

				% Change	
	2017	2016	2015	2017	2016
Net revenue	\$7,208	\$6,820	\$8,228	6	(17)
Impact of foreign exchange translation				(1)	11
Impact of acquisitions and divestitures				0.5	1
Impact of Venezuela deconsolidation				—	14
Organic revenue growth ^(a)				5	^(b) 9
Operating profit/(loss)	\$908	\$887	\$(206)	2	n/m
Restructuring and impairment charges	63	27	36		
Venezuela impairment charges	—	—	1,359		
Operating profit excluding above items ^(a)	\$971	\$914	\$1,189	6	(23)
Impact of foreign exchange translation				1	14
Operating profit growth excluding above items, on a constant currency basis ^(a)				7	(9)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

n/m - Not meaningful due to the impact of impairment charges associated with a change in accounting for our Venezuela operations in 2015.

2017

Net revenue increased 6%, reflecting effective net pricing, partially offset by volume declines. Favorable foreign exchange contributed 1 percentage point to net revenue growth.

Snacks volume declined 1.5%, reflecting low-single-digit declines in Brazil and Mexico.

Beverage volume declined 2%, reflecting a mid-single-digit decline in Brazil and a low-single-digit decline in Argentina, partially offset by high-single-digit growth in Guatemala. Additionally, Mexico experienced a slight decline.

Operating profit increased 2%, reflecting the effective net pricing and planned cost reductions across a number of expense categories. These impacts were partially offset by certain operating cost increases and the volume declines, as well as higher commodity costs which reduced operating profit growth by 17 percentage points. Restructuring and impairment charges in the above table (see “Items Affecting Comparability”) reduced operating profit growth by 4 percentage points.

2016

Net revenue decreased 17%, reflecting the impact of the deconsolidation of our Venezuelan businesses,

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effective as of the end of the third quarter of 2015, and unfavorable foreign exchange, which negatively impacted net revenue performance by 14 percentage points and 11 percentage points, respectively. These impacts were partially offset by effective net pricing and net volume growth.

Snacks volume grew 3%, reflecting a mid-single-digit increase in Mexico. Additionally, Brazil experienced a slight increase.

Beverage volume decreased 2%, reflecting a double-digit decline in Argentina and low-single-digit declines in Mexico and Honduras, partially offset by a low-single-digit increase in Brazil and a mid-single-digit increase in Guatemala.

Operating profit improvement primarily reflected the 2015 Venezuela impairment charges, included in items affecting comparability in the above table (see “Items Affecting Comparability”). This improvement also reflects the effective net pricing, planned cost reductions across a number of expense categories and the net volume growth. Additionally, the impact of 2015 charges associated with productivity initiatives outside the scope of the 2014 and 2012 Productivity Plans contributed 4 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases, as well as the deconsolidation of our Venezuelan businesses, which reduced operating profit growth by 19 percentage points. Additionally, higher commodity costs reduced operating profit growth by 22 percentage points, largely due to transaction-related foreign exchange on purchases of raw materials, driven by a strong U.S. dollar. Operating profit was also reduced by higher advertising and marketing expenses, as well as incremental investments in our business, which reduced operating profit growth by 4 percentage points. Unfavorable foreign exchange translation reduced operating profit growth by 14 percentage points.

Europe Sub-Saharan Africa

				% Change	
	2017	2016	2015	2017	2016
Net revenue	\$11,050	\$10,216	\$10,510	8	(3)
Impact of foreign exchange translation				(3)	7
Impact of 53 rd reporting week				—	—
Organic revenue growth ^(a)				6	^(b) 4
Operating profit	\$1,354	\$1,108	\$1,081	22	2.5
Restructuring and impairment charges	53	60	89		
Operating profit excluding above item ^(a)	\$1,407	\$1,168	\$1,170	20	—
Impact of foreign exchange translation				—	6
Operating profit growth excluding above item, on a constant currency basis ^(a)				20	6

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

2017

Net revenue increased 8%, reflecting volume growth and effective net pricing, as well as favorable foreign exchange, which contributed 3 percentage points to net revenue growth.

Snacks volume grew 5%, reflecting high-single-digit growth in Russia, partially offset by a slight decline in the United Kingdom and a low-single-digit decline in Spain. Additionally, Turkey, South Africa and the Netherlands experienced mid-single-digit growth.

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Beverage volume grew 1%, reflecting mid-single-digit growth in Poland and Nigeria and low-single-digit growth in Turkey and France, partially offset by mid-single-digit declines in Russia and Germany, and a low-single-digit decline in the United Kingdom.

Operating profit increased 22%, reflecting the net revenue growth and planned cost reductions across a number of expense categories. Additionally, a gain associated with the sale of our minority stake in Britvic in the second quarter of 2017 contributed 8 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases and higher advertising and marketing expenses, as well as higher commodity costs, which reduced operating profit growth by 7 percentage points.

2016

Net revenue decreased 3%, primarily reflecting unfavorable foreign exchange, which negatively impacted net revenue performance by 7 percentage points. These impacts were partially offset by effective net pricing and volume growth.

Snacks volume grew 3%, primarily reflecting mid-single-digit growth in South Africa and low-single-digit growth in the Netherlands, partially offset by a low-single-digit decline in Russia. Additionally, the United Kingdom, Turkey and Spain experienced low-single-digit growth.

Beverage volume grew 2%, primarily reflecting double-digit growth in Nigeria and high-single-digit growth in the United Kingdom and Poland, partially offset by a mid-single-digit decline in Russia and a low-single-digit decline in Germany. Additionally, Turkey and France each experienced low-single-digit growth.

Operating profit increased 2.5%, reflecting planned cost reductions across a number of expense categories, the effective net pricing and the volume growth. These impacts were partially offset by higher commodity costs, which reduced operating profit growth by 19 percentage points, largely due to transaction-related foreign exchange on purchases of raw materials led by a strong U.S. dollar. Additionally, certain operating cost increases and higher advertising and marketing expenses reduced operating profit growth. The impact of unfavorable foreign exchange translation and incremental investments in our business also reduced operating profit growth by 6 percentage points and 2 percentage points, respectively.

Asia, Middle East and North Africa

				% Change	
	2017	2016	2015	2017	2016
Net revenue	\$6,030	\$6,338	\$6,375	(5)	(1)
Impact of foreign exchange translation				10	5
Impact of acquisitions and divestitures				—	—
Organic revenue growth ^(a)				5	5 (b)
Operating profit	\$1,073	\$619	\$941	73	(34)
Restructuring and impairment charges	(3)	14	30		
Charges related to the transaction with Tingyi	—	373	73		
Operating profit excluding above items ^(a)	\$1,070	\$1,006	\$1,044	6	(4)
Impact of foreign exchange translation				8	2
Operating profit growth excluding above items, on a constant currency basis ^(a)				15	(b) (1.5) (b)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

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2017

Net revenue decreased 5%, reflecting unfavorable foreign exchange, which negatively impacted net revenue performance by 10 percentage points, primarily driven by a weak Egyptian pound. This impact was partially offset by effective net pricing.

Snacks volume grew 5%, driven by high-single-digit growth in China and India and double-digit growth in Pakistan. Additionally, the Middle East experienced low-single-digit growth and Australia experienced mid-single-digit growth. Beverage volume declined 1%, reflecting a double-digit decline in India and a mid-single-digit decline in the Middle East, partially offset by mid-single-digit growth in China, high-single-digit growth in Pakistan and low-single-digit growth in the Philippines.

Operating profit improvement primarily reflected a prior-year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value, included in items affecting comparability in the above table (see “Items Affecting Comparability”). The effective net pricing and planned cost reductions across a number of expense categories also increased operating profit growth. Additionally, the impact of refranchising our beverage business in Jordan contributed 14 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases, as well as higher commodity costs, which reduced operating profit growth by 32 percentage points, primarily due to transaction-related foreign exchange on raw material purchases driven by the weak Egyptian pound. Unfavorable foreign exchange translation reduced operating profit growth by 8 percentage points.

2016

Net revenue declined 1%, reflecting unfavorable foreign exchange, which negatively impacted net revenue performance by 5 percentage points, as well as unfavorable net pricing. These impacts were partially offset by volume growth.

Snacks volume grew 7%, reflecting double-digit growth in China and the Middle East and high-single-digit growth in Pakistan. Additionally, India experienced low-single-digit growth and Australia experienced mid-single-digit growth. Beverage volume grew 4%, driven by high-single-digit growth in Pakistan, double-digit growth in the Philippines and mid-single-digit growth in China. Additionally, the Middle East experienced low-single-digit growth and India experienced mid-single-digit growth.

Operating profit decreased 34%, primarily reflecting the items affecting comparability in the above table (see “Items Affecting Comparability”). Additionally, operating profit performance was negatively impacted by certain operating cost increases, including strategic initiatives, higher advertising and marketing expenses and the unfavorable net pricing, partially offset by the volume growth and planned cost reductions across a number of expense categories. The impact from a 2015 gain related to the refranchising of a portion of our beverage business in India negatively impacted operating profit performance by 4 percentage points. This impact was partially offset by a 2015 impairment charge associated with a joint venture in the Middle East which positively contributed 3 percentage points to operating profit performance.

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, such as commercial paper borrowings and long-term debt financing, will be adequate to meet our operating, investing and financing needs. Our primary sources of cash available to fund cash outflows, such as our anticipated share repurchases, dividend payments and scheduled debt maturities, include cash from operations and proceeds obtained from issuances of commercial paper and long-term debt. 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 Note 8 to our consolidated financial statements for a description of our credit facilities. See also “Our Business Risks” and “Uncertain or unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations.” in “Item 1A. Risk Factors.” As of December 30, 2017, we had cash, cash equivalents and short-term investments in our consolidated subsidiaries of \$18.9 billion outside the United States. The TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings, including the \$18.9 billion held in our consolidated subsidiaries outside the United States as of December 30, 2017, as a result of which we recognized a provisional mandatory transition tax liability of approximately \$4 billion in the fourth quarter of 2017. Under the provisions of the TCJ Act, this transition tax must be paid over eight years; we currently expect to pay this liability over the period 2019 to 2026. The recorded impact of the TCJ Act is provisional and the final amount may differ from the above estimate, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act.

In addition, as a result of this transition tax, we may access and repatriate our cash, cash equivalents and short-term investments held in our foreign subsidiaries during 2018 without such funds being subject to further U.S. income tax liability. We are currently evaluating when to repatriate such funds currently held by our foreign subsidiaries and how to utilize such funds, including whether to utilize such funds or other available methods of debt financing, such as commercial paper borrowings, for our anticipated share repurchases, dividend payments, scheduled debt maturities, discretionary benefit plan contributions, capital expenditures, certain investments into our business or other uses. See “Item 1A. Risk Factors,” “Our Business Risks,” “Items Affecting Comparability” and “Our Critical Accounting Policies” as well as Note 5 to our consolidated financial statements.

As of December 30, 2017, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material.

Furthermore, our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related sales patterns, and generally lowest in the first quarter. On a continuing basis, we consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures, joint ventures, dividends, share repurchases, productivity and other efficiency initiatives, and other structural changes. These transactions may result in future cash proceeds or payments.

The table below summarizes our cash activity:

	2017	2016	2015
Net cash provided by operating activities	\$9,994	\$10,673	\$10,864
Net cash used for investing activities	\$(4,403)	\$(7,148)	\$(3,569)
Net cash used for financing activities	\$(4,186)	\$(3,211)	\$(4,112)

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Operating Activities

During 2017, net cash provided by operating activities was approximately \$10 billion, compared to \$10.7 billion in the prior year. The operating cash flow performance primarily reflects unfavorable working capital comparisons to the prior year. This decrease is mainly due to higher current year payments to vendors and customers, coupled with higher net cash tax payments in the current year, partially offset by lower pension and retiree medical plan contributions in the current year.

In February 2018, we received approval from our Board of Directors to make discretionary contributions of \$1.4 billion to the PepsiCo Employees Retirement Plan A (Plan A) in the United States that we intend to invest in fixed income securities. As of February 13, 2018, we contributed \$750 million of the approved amount; we expect to contribute the remaining \$650 million in the first quarter of 2018.

During 2016, net cash provided by operating activities was \$10.7 billion, compared to \$10.9 billion in the prior year. The operating cash flow performance reflects discretionary pension contributions of \$459 million. In addition, working capital reflects unfavorable comparisons to the prior year. These decreases were partially offset by lower net cash tax payments in the current year.

Investing Activities

During 2017, net cash used for investing activities was \$4.4 billion, primarily reflecting net capital spending of \$2.8 billion and net purchases of debt securities with maturities greater than three months of \$1.9 billion.

During 2016, net cash used for investing activities was \$7.1 billion, primarily reflecting net purchases of debt securities with maturities greater than three months of \$4.1 billion and net capital spending of \$2.9 billion.

See Note 1 to our consolidated financial statements for further discussion of capital spending by division; see Note 9 to our consolidated financial statements for further discussion of our investments in debt securities.

We expect 2018 net capital spending to be approximately \$3.6 billion.

Financing Activities

During 2017, net cash used for financing activities was \$4.2 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of \$6.5 billion and net payments of short-term borrowings of \$1.1 billion, partially offset by net proceeds from long-term debt of \$3.1 billion and proceeds from exercises of stock options of \$0.5 billion.

During 2016, net cash used for financing activities was \$3.2 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of \$7.2 billion, debt redemptions of \$2.5 billion, and withholding tax payments on restricted stock units (RSUs), performance stock units (PSUs) and PepsiCo equity performance units (PEPunits) converted of \$0.1 billion, partially offset by net proceeds from long-term debt of \$4.7 billion, net proceeds from short-term borrowings of \$1.5 billion, and proceeds from exercises of stock options of \$0.5 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. On February 11, 2015, we announced a share repurchase program providing for the repurchase of up to \$12.0 billion of PepsiCo common stock commencing from July 1, 2015 and expiring on June 30, 2018. On February 13, 2018, we announced a new share repurchase program providing for the repurchase of up to \$15.0 billion of PepsiCo common stock commencing on July 1, 2018 and expiring on June 30, 2021. In addition, on February 13, 2018, we announced a 15.2% increase in our annualized dividend to \$3.71 per share from \$3.22 per share, effective with the dividend expected to be paid in June 2018. We expect to return a total of approximately \$7 billion to shareholders in 2018 through share repurchases of approximately \$2 billion and dividends of approximately \$5 billion.

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Free Cash Flow

Free cash flow is a non-GAAP financial measure. For further information on free cash flow see “Non-GAAP Measures.” The table below reconciles net cash provided by operating activities, as reflected in our cash flow statement, to our free cash flow.

				% Change	
	2017	2016	2015	2017	2016
Net cash provided by operating activities	\$9,994	\$10,673	\$10,864	(6)	(2)
Capital spending	(2,969)	(3,040)	(2,758)		
Sales of property, plant and equipment	180	99	86		
Free cash flow ^(a)	\$7,205	\$7,732	\$8,192	(7)	(6)

See “Non-GAAP Measures.” In addition, when evaluating free cash flow, we also consider the following items impacting comparability: \$6 million and \$459 million in discretionary pension contributions and associated net cash tax benefits of \$1 million and \$151 million in 2017 and 2016, respectively; \$113 million, \$125 million and \$214 million of payments related to restructuring charges and associated net cash tax benefits of \$30 million, \$22 (a) million and \$51 million in 2017, 2016 and 2015, respectively; net cash received related to interest rate swaps of \$5 million in 2016; net cash tax benefit related to debt redemption charge of \$83 million in 2016; and \$88 million in pension-related settlements and associated net cash tax benefits of \$31 million in 2015. We will also consider payments related to the provisional transition tax liability of approximately \$4 billion, which we currently expect to be paid over the period 2019 to 2026 under the provisions of the TCJ Act, as an item impacting comparability.

We use free cash flow primarily for financing activities, including debt repayments, dividends and share repurchases. We expect to continue to return free cash flow to our shareholders through dividends and share repurchases while maintaining Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. However, see “Our borrowing costs and access to capital and credit markets may be adversely affected by a downgrade or potential downgrade of our credit ratings.” in “Item 1A. Risk Factors” and “Our Business Risks” for certain factors that may impact our 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 “Our borrowing costs and access to capital and credit markets may be adversely affected by a downgrade or potential downgrade of our credit ratings.” in “Item 1A. Risk Factors,” “Our Business Risks” and Note 8 to our consolidated financial statements.

Credit Facilities and Long-Term Contractual Commitments

See Note 8 to our consolidated financial statements for a description of our credit facilities.

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The following table summarizes our long-term contractual commitments by period:

	Payments Due by Period ^(a)				
	Total	2018	2019 – 2020	2021 – 2022	2023 and beyond
Long-term debt obligations ^(b)	\$33,793	\$—	\$7,803	\$7,209	\$18,781
Interest on debt obligations ^(c)	13,371	1,114	1,966	1,637	8,654
Operating leases ^(d)	1,894	452	700	375	367
Purchasing commitments ^(e)	2,910	1,076	1,394	342	98
Marketing commitments ^(e)	1,886	410	794	480	202
	\$53,854	\$3,052	\$12,657	\$10,043	\$28,102

Based on year-end foreign exchange rates. Reserves for uncertain tax positions are excluded from the table above as we are unable to reasonably predict the ultimate amount or timing of any such settlements. However, under the provisions of the TCJ Act, our provisional transition tax liability of approximately \$4 billion, recorded in other liabilities on our balance sheet, must be paid over eight years. We expect to pay approximately \$0.3 billion per year in 2019-2023, \$0.6 billion in 2024, \$0.9 billion in 2025 and \$1.0 billion in 2026 and these amounts are excluded from the table above.

Excludes \$4,020 million related to current maturities of debt, \$3 million related to the fair value adjustments for debt acquired in acquisitions and interest rate swaps and payments of \$155 million related to unamortized net discount.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of December 30, 2017.

(d) See Note 13 to our consolidated financial statements for additional information on operating leases.

(e) Primarily reflects non-cancelable commitments as of December 30, 2017.

Long-term contractual commitments, except for our long-term debt obligations and provisional transition tax liability, are generally not recorded on our balance sheet. Operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for oranges, orange juice and certain other commodities. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding to independent bottlers is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. Accrued liabilities for pension and retiree medical plans are not reflected in our long-term contractual commitments. See Note 7 to our consolidated financial statements for additional information regarding our pension and retiree medical obligations.

Off-Balance-Sheet Arrangements

We do not have guarantees or other off-balance-sheet financing arrangements, including variable interest entities, that we believe could have a material impact on our financial condition or liquidity.

We coordinate, on an aggregate basis, the contract negotiations of raw material requirements, including sweeteners, aluminum cans and plastic bottles and closures for us and certain of our independent bottlers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, transactions between our independent bottlers and suppliers are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our independent bottlers, but we consider this exposure to be remote.

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Return on Invested Capital

ROIC is a non-GAAP financial measure. For further information on ROIC, see “Non-GAAP Measures.”

	2017	2016	2015
Net income attributable to PepsiCo	\$4,857 ^(a)	\$6,329	\$5,452 ^(b)
Interest expense	1,151	1,342	970
Tax on interest expense	(415)	(483)	(349)
	\$5,593	\$7,188	\$6,073
Average debt obligations ^(c)	\$38,707	\$35,308	\$31,169
Average common shareholders' equity ^(d)	12,004	11,943	15,147
Average invested capital	\$50,711	\$47,251	\$46,316

Return on invested capital 11.0 % ^(a) 15.2 % 13.1 % ^(b)

(a) Includes the provisional impact of the TCJ Act enacted in 2017. See Note 5 to our consolidated financial statements for additional information.

(b) Reflects the impact of the Venezuela impairment charges in 2015.

(c) Average debt obligations includes a quarterly average of short-term and long-term debt obligations.

(d) Average common shareholders' equity includes a quarterly average of common stock, capital in excess of par value, retained earnings, accumulated other comprehensive loss and repurchased common stock.

The table below reconciles ROIC as calculated above to net ROIC, excluding items affecting comparability.

	2017	2016	2015
ROIC	11.0 %	15.2 %	13.1 %
Impact of:			
Average cash, cash equivalents and short-term investments	7.6	6.0	4.1
Interest income	(0.5)	(0.2)	(0.1)
Tax on interest income	0.2	0.1	—
Commodity mark-to-market net impact	—	(0.2)	—
Restructuring and impairment charges	0.3	0.1	0.2
Provisional net tax expense related to the TCJ Act	4.5	—	—
Charges related to the transaction with Tingyi	(0.1)	0.6	0.1
Pension-related settlement charge/(benefits)	—	0.3	(0.1)
Venezuela impairment charges	(0.2)	(0.5)	2.7
Tax benefits	0.1	0.1	(0.4)
Net ROIC, excluding items affecting comparability	22.9 %	21.5 %	19.6 %

OUR CRITICAL ACCOUNTING POLICIES

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. Other than our accounting for pension and retiree medical plans, our critical accounting policies do not involve a choice between alternative methods of accounting. With the exception of our provisional net tax expense related to the TCJ Act and the change in 2016 to the full yield approach to estimate the service and interest cost components for our pension and retiree medical plans described below, we applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented. We have discussed our critical accounting policies with our Audit Committee.

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Our critical accounting policies are:

- revenue recognition;
- goodwill and other intangible assets;
- income tax expense and accruals; and
- pension and retiree medical plans.

Revenue Recognition

We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and certain chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. As a result, we record reserves, based on estimates, for anticipated damaged and out-of-date products.

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the United States, and generally within 30 to 90 days internationally, and may allow discounts for early payment. We estimate and reserve for our bad debt exposure based on our experience with past due accounts and collectibility, the aging of accounts receivable and our analysis of customer data.

Our policy is to provide customers with product when needed. In fact, our commitment to freshness and product dating serves to regulate the quantity of product shipped or delivered. In addition, DSD products are placed on the shelf by our employees with customer shelf space and storerooms limiting the quantity of product. For product delivered through other distribution networks, we monitor customer inventory levels.

As discussed in “Our Customers” in “Item 1. Business,” we offer sales incentives and discounts through various programs to customers and consumers. Total marketplace spending includes sales incentives, discounts, advertising and other marketing activities. Sales incentives and discounts are primarily accounted for as a reduction of revenue and include payments to customers for performing activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. Sales incentives and discounts also include support provided to our independent bottlers.

See Note 2 to our consolidated financial statements for additional information on our revenue recognition and related policies, including total marketplace spending, and the transition to the new revenue recognition guidance, which becomes effective in the first quarter of 2018.

Goodwill and Other Intangible Assets

We sell products under a number of brand names, many of which were developed by us. Brand development costs are expensed as incurred. We also purchase brands and other intangible assets in acquisitions. In a business combination, the consideration is first assigned to identifiable assets and liabilities, including brands and other intangible assets, based on estimated fair values, with any excess recorded as goodwill. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, product life cycles, market share, consumer awareness, brand history and future expansion expectations, amount and timing of future cash flows and the discount rate applied to the cash flows.

We believe that a brand has an indefinite life if it has a history of strong revenue and cash flow performance

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and we have the intent and ability to support the brand with marketplace spending for the foreseeable future. If these perpetual brand criteria are not met, brands are amortized over their expected useful lives, which generally range from 20 to 40 years. Determining the expected life of a brand requires management judgment and is based on an evaluation of a number of factors, including market share, consumer awareness, brand history, future expansion expectations and regulatory restrictions, as well as the macroeconomic environment of the countries in which the brand is sold.

In connection with previous acquisitions, we reacquired certain franchise rights which provided the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. In determining the useful life of these franchise rights, many factors were considered, including the pre-existing perpetual bottling arrangements, the indefinite period expected for these franchise rights to contribute to our future cash flows, as well as the lack of any factors that would limit the useful life of these franchise rights to us, including legal, regulatory, contractual, competitive, economic or other factors. Therefore, certain of these franchise rights are considered as indefinite-lived, with the balance amortized over the remaining contractual period of the contract in which the right was granted.

Indefinite-lived intangible assets and goodwill are not amortized and are assessed for impairment at least annually, using either a qualitative or quantitative approach. We perform this annual assessment during our third quarter. Where we use the qualitative assessment, first we determine if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include macroeconomic, industry and competitive conditions, legal and regulatory environment, historical financial performance and significant changes in the brand or reporting unit. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed.

The quantitative assessment requires an analysis of several estimates including future cash flows or income consistent with management's strategic business plans, annual sales growth rates, perpetuity growth assumptions and the selection of assumptions underlying a discount rate (weighted-average cost of capital) based on market data available at the time. Significant management judgment is necessary to estimate the impact of competitive operating, macroeconomic and other factors to estimate future levels of sales, operating profit or cash flows. All assumptions used in our impairment evaluations for nonamortizable intangible assets, such as forecasted growth rates and weighted-average cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. These assumptions could be adversely impacted by certain of the risks described in "Item 1A. Risk Factors" and "Our Business Risks."

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

See Note 2 and Note 4 to our consolidated financial statements for additional information.

Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we likely will not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit. See "Increases in income tax rates, changes in income tax laws or disagreements with tax authorities could adversely affect our business, financial condition or results of operations." in "Item 1A. Risk Factors."

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An estimated annual effective tax rate is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item. We consider the tax adjustments from the resolution of prior year tax matters to be among such items.

Tax law requires items to be included in our tax returns at different times than the items are reflected in our financial statements. As a result, our annual tax rate reflected in our financial statements is different than that reported in our tax returns (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expense for which we have already taken a deduction in our tax return but have not yet recognized as expense in our financial statements.

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional net tax expense of \$2.5 billion in the fourth quarter of 2017. See further information in “Items Affecting Comparability.”

Included in the provisional net tax expense of \$2.5 billion is a provisional mandatory one-time transition tax of approximately \$4 billion on undistributed international earnings, included in other liabilities. This provisional mandatory one-time transition tax was partially offset by a provisional \$1.5 billion benefit resulting from the required remeasurement of our deferred tax assets and liabilities to the new, lower U.S. corporate income tax rate, effective January 1, 2018. The effect of the remeasurement was recorded in the fourth quarter of 2017, consistent with the enactment date of the TCJ Act and reflected in our provision for income taxes.

The recorded impact of the TCJ Act is provisional and the final amount may differ, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act.

In 2017, our annual tax rate was 48.9% compared to 25.4% in 2016, as discussed in “Other Consolidated Results.” The tax rate increased 23.5 percentage points compared to 2016, primarily as a result of the provisional net tax expense related to the TCJ Act, which contributed 26 percentage points to the increase, partially offset by the impact of the prior-year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value, which had no corresponding tax benefit, as well as the impact of recognizing excess tax benefits in the provision for income taxes as a result of the changes in accounting for certain aspects of share-based payments to employees in the current year. See Note 2 and Note 5 to our consolidated financial statements for additional information.

The TCJ Act is currently expected to reduce our annual tax rate, in percentage terms, to the low twenties in 2018. However, we continue to evaluate the impact of the TCJ Act on our annual tax rate due to certain provisions, such as the global intangible low-tax income (GILTI) provision which may impact our tax rate in future years.

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Pension and Retiree Medical Plans

Our pension plans cover certain employees in the United States and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. Certain U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts, which vary based upon years of service, with retirees contributing the remainder of the cost. In addition, we have been phasing out certain subsidies of retiree medical benefits.

In 2016, we approved an amendment to reorganize the U.S. qualified defined benefit pension plans that resulted in the combination of two plans effective December 31, 2016, and the spinoff of a portion of the combined plan into a pre-existing plan effective January 1, 2017. The benefits offered to the plans' participants were unchanged. The result of the reorganization was the creation of Plan A and the PepsiCo Employees Retirement Plan I (Plan I). The reorganization was made to facilitate a targeted investment strategy over time and to provide additional flexibility in evaluating opportunities to reduce risk and volatility. Actuarial gains and losses associated with Plan A are amortized over the average remaining service life of the active participants, while the actuarial gains and losses associated with Plan I are amortized over the remaining life expectancy of the inactive participants. As a result of these changes, the pre-tax net periodic benefit cost decreased by \$42 million (\$27 million after-tax, reflecting tax rates effective for the 2017 tax year, or \$0.02 per share) in 2017, primarily impacting corporate unallocated expenses. See Note 7 to our consolidated financial statements.

In 2016, the U.S. qualified defined benefit pension plans purchased a group annuity contract whereby an unrelated insurance company assumed the obligation to pay and administer future annuity payments for certain retirees. In 2016, we made discretionary contributions of \$452 million primarily to fund the transfer of the obligation. This transaction triggered a pre-tax settlement charge of \$242 million (\$162 million after-tax or \$0.11 per share). See "Items Affecting Comparability" and Note 7 to our consolidated financial statements.

Our Assumptions

The determination of pension and retiree medical expenses and obligations requires the use of assumptions to estimate the amount of benefits that employees earn while working, as well as the present value of those benefits. Annual pension and retiree medical expense amounts are principally based on four components: (1) the value of benefits earned by employees for working during the year (service cost), (2) the increase in the projected benefit obligation due to the passage of time (interest cost), and (3) other gains and losses as discussed in Note 7 to our consolidated financial statements, reduced by (4) the expected return on assets for our funded plans.

Significant assumptions used to measure our annual pension and retiree medical expenses include:

- certain employee-related demographic factors, such as turnover, retirement age and mortality;
- the expected return on assets in our funded plans;
- for pension expense, the rate of salary increases for plans where benefits are based on earnings;
- for retiree medical expense, health care cost trend rates; and
- for pension and retiree medical expense, the spot rates along the yield curve used to determine the present value of liabilities and, beginning in 2016, to determine service and interest costs.

Certain assumptions reflect our historical experience and management's best judgment regarding future expectations. All actuarial assumptions are reviewed annually, except in the case of an interim remeasurement due to a significant event such as a curtailment or settlement. Due to the significant management judgment

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involved, our assumptions could have a material impact on the measurement of our pension and retiree medical expenses and obligations.

At each measurement date, the discount rates are based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to those of our liabilities. Our U.S. obligation and pension and retiree medical expense is based on the discount rates determined using the Mercer Above Mean Curve. This curve includes bonds that closely match the timing and amount of our expected benefit payments and reflects the portfolio of investments we would consider to settle our liabilities.

Beginning 2016, we changed the method we use to estimate the service and interest cost components of net periodic benefit cost for our U.S. and the majority of our significant international pension and retiree medical plans.

Historically, we estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation (or accumulated post-retirement benefit obligation for the retiree medical plans) at the beginning of the period. We now use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates, which we believe will result in a more precise measurement of service and interest costs. This change does not affect the measurement of our benefit obligation. We have accounted for this change in estimate on a prospective basis as of the beginning of 2016. The pre-tax reduction in net periodic benefit cost associated with this change was \$125 million (\$81 million after-tax or \$0.06 per share) for the full year 2016.

See Note 7 to our consolidated financial statements for information about the expected rate of return on plan assets and our plans' investment strategy. Although we review our expected long-term rates of return on an annual basis, our asset returns in a given year do not significantly influence our evaluation of long-term rates of return.

The health care trend rate used to determine our retiree medical plans' liability and expense is reviewed annually. Our review is based on our claims experience, information provided by our health plans and actuaries, and our knowledge of the health care industry. Our review of the trend rate considers factors such as demographics, plan design, new medical technologies and changes in medical carriers.

Weighted-average assumptions for pension and retiree medical expense are as follows:

	2018	2017	2016
Pension			
Service cost discount rate	3.7 %	4.3 %	4.5 %
Interest cost discount rate	3.2 %	3.5 %	3.8 %
Expected rate of return on plan assets ^(a)	6.9 %	7.2 %	7.2 %
Expected rate of salary increases	3.2 %	3.2 %	3.2 %
Retiree medical			
Service cost discount rate	3.6 %	4.0 %	4.3 %
Interest cost discount rate	3.0 %	3.2 %	3.3 %
Expected rate of return on plan assets ^(a)	6.5 %	7.5 %	7.5 %
Current health care cost trend rate	5.8 %	5.9 %	6.0 %

Expected rate of return on plan assets in 2018 reflects a \$1.4 billion contribution to Plan A in the United States that (a) we intend to invest in fixed income securities, as well as our 2018 target investment allocations disclosed in Note 7 to our consolidated financial statements.

In general, lower discount rates increase the size of the projected benefit obligation and pension expense in the following year, while higher discount rates reduce the size of the projected benefit obligation and pension expense. Based on our assumptions, we expect our total pension and retiree medical expense to remain

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consistent in 2018 primarily driven by cost savings due to the recognition of prior experience gains on plan assets and the impact of approved plan contributions, partially offset by the change in discount rates.

Sensitivity of Assumptions

A decrease in each of the collective discount rates or in the expected rate of return assumptions would increase expense for our benefit plans. A 25-basis-point decrease in each of the above discount rates and expected rate of return assumptions would increase 2018 pre-tax pension and retiree medical expense as follows:

Assumption	Amount
Discount rates used in the calculation of expense	\$47
Expected rate of return	\$42

See Note 7 to our consolidated financial statements for additional information about the sensitivity of our retiree medical cost assumptions.

Funding

We make contributions to pension trusts that provide plan benefits for certain pension plans. These contributions are made in accordance with applicable tax regulations that provide for current tax deductions for our contributions and taxation to the employee only upon receipt of plan benefits. Generally, we do not fund our pension plans when our contributions would not be currently tax deductible. As our retiree medical plans are not subject to regulatory funding requirements, we generally fund these plans on a pay-as-you-go basis, although we periodically review available options to make additional contributions toward these benefits.

In February 2018, we received approval from our Board of Directors to make discretionary contributions of \$1.4 billion to Plan A in the United States that we intend to invest in fixed income securities. As of February 13, 2018, we contributed \$750 million of the approved amount; we expect to contribute the remaining \$650 million in the first quarter of 2018. These contributions are reflected in our 2018 long-term expected rate of return on plan assets and target investment allocations.

Our pension and retiree medical contributions are subject to change as a result of many factors, such as changes in interest rates, deviations between actual and expected asset returns and changes in tax or other benefit laws. We regularly evaluate different opportunities to reduce risk and volatility associated with our pension and retiree medical plans. See Note 7 to our consolidated financial statements for our past and expected contributions and estimated future benefit payments.

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Consolidated Statement of Income

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2017, December 31, 2016 and December 26, 2015

(in millions except per share amounts)

	2017	2016	2015
Net Revenue	\$63,525	\$62,799	\$63,056
Cost of sales	28,785	28,209	28,731
Gross profit	34,740	34,590	34,325
Selling, general and administrative expenses	24,231	24,805	24,613
Venezuela impairment charges	—	—	1,359
Operating Profit	10,509	9,785	8,353
Interest expense	(1,151)	(1,342)	(970)
Interest income and other	244	110	59
Income before income taxes	9,602	8,553	7,442
Provision for income taxes (See Note 5)	4,694	2,174	1,941
Net income	4,908	6,379	5,501
Less: Net income attributable to noncontrolling interests	51	50	49
Net Income Attributable to PepsiCo	\$4,857	\$6,329	\$5,452
Net Income Attributable to PepsiCo per Common Share			
Basic	\$3.40	\$4.39	\$3.71
Diluted	\$3.38	\$4.36	\$3.67
Weighted-average common shares outstanding			
Basic	1,425	1,439	1,469
Diluted	1,438	1,452	1,485
Cash dividends declared per common share	\$3.1675	\$2.96	\$2.7625

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Comprehensive Income

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2017, December 31, 2016 and December 26, 2015

(in millions)

	2017	2016	2015
Net income	\$4,908	\$6,379	\$5,501
Other comprehensive income/(loss), net of taxes:			
Net currency translation adjustment	1,109	(302)	(2,827)
Net change on cash flow hedges	(36)	46	3
Net pension and retiree medical adjustments	(159)	(316)	171
Net change on securities	(68)	(24)	1
Other	16	—	—
	862	(596)	(2,652)
Comprehensive income	5,770	5,783	2,849
Comprehensive income attributable to noncontrolling interests	(51)	(54)	(47)
Comprehensive Income Attributable to PepsiCo	\$5,719	\$5,729	\$2,802

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Cash Flows

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2017, December 31, 2016 and December 26, 2015

(in millions)

	2017	2016	2015
Operating Activities			
Net income	\$4,908	\$6,379	\$5,501
Depreciation and amortization	2,369	2,368	2,416
Share-based compensation expense	292	284	295
Restructuring and impairment charges	295	160	230
Cash payments for restructuring charges	(113)	(125)	(208)
Charges related to the transaction with Tingyi	—	373	73
Venezuela impairment charges	—	—	1,359
Pension and retiree medical plan expenses	221	501	467
Pension and retiree medical plan contributions	(220)	(695)	(205)
Deferred income taxes and other tax charges and credits	619	452	78
Provisional net tax expense related to the TCJ Act	2,451	—	—
Change in assets and liabilities:			
Accounts and notes receivable	(202)	(349)	(461)
Inventories	(168)	(75)	(244)
Prepaid expenses and other current assets	20	10	(50)
Accounts payable and other current liabilities	201	997	1,692
Income taxes payable	(338)	329	55
Other, net	(341)	64	(134)
Net Cash Provided by Operating Activities	9,994	10,673	10,864
Investing Activities			
Capital spending	(2,969)	(3,040)	(2,758)
Sales of property, plant and equipment	180	99	86
Acquisitions and investments in noncontrolled affiliates	(61)	(212)	(86)
Reduction of cash due to Venezuela deconsolidation	—	—	(568)
Divestitures	267	85	76
Short-term investments, by original maturity:			
More than three months - purchases	(18,385)	(12,504)	(4,428)
More than three months - maturities	15,744	8,399	4,111
More than three months - sales	790	—	—
Three months or less, net	2	16	3
Other investing, net	29	9	(5)
Net Cash Used for Investing Activities	(4,403)	(7,148)	(3,569)
Financing Activities			
Proceeds from issuances of long-term debt	7,509	7,818	8,702
Payments of long-term debt	(4,406)	(3,105)	(4,095)
Debt redemptions	—	(2,504)	—
Short-term borrowings, by original maturity:			
More than three months - proceeds	91	59	15
More than three months - payments	(128)	(27)	(43)
Three months or less, net	(1,016)	1,505	53
Cash dividends paid	(4,472)	(4,227)	(4,040)

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Share repurchases - common	(2,000)	(3,000)	(5,000)
Share repurchases - preferred	(5)	(7)	(5)
Proceeds from exercises of stock options	462	465	504
Withholding tax payments on RSUs, PSUs and PEPunits converted	(145)	(130)	(151)
Other financing	(76)	(58)	(52)
Net Cash Used for Financing Activities	(4,186)	(3,211)	(4,112)
Effect of exchange rate changes on cash and cash equivalents	47	(252)	(221)
Net Increase in Cash and Cash Equivalents	1,452	62	2,962
Cash and Cash Equivalents, Beginning of Year	9,158	9,096	6,134
Cash and Cash Equivalents, End of Year	\$10,610	\$9,158	\$9,096

See accompanying notes to the consolidated financial statements.

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Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
December 30, 2017 and December 31, 2016
(in millions except per share amounts)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,610	\$ 9,158
Short-term investments	8,900	6,967
Accounts and notes receivable, net	7,024	6,694
Inventories	2,947	2,723
Prepaid expenses and other current assets	1,546	908
Total Current Assets	31,027	26,450
Property, Plant and Equipment, net	17,240	16,591
Amortizable Intangible Assets, net	1,268	1,237
Goodwill	14,744	14,430
Other nonamortizable intangible assets	12,570	12,196
Nonamortizable Intangible Assets	27,314	26,626
Investments in Noncontrolled Affiliates	2,042	1,950
Other Assets	913	636
Total Assets	\$ 79,804	\$ 73,490
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt obligations	\$ 5,485	\$ 6,892
Accounts payable and other current liabilities	15,017	14,243
Total Current Liabilities	20,502	21,135
Long-Term Debt Obligations	33,796	30,053
Other Liabilities	11,283	6,669
Deferred Income Taxes	3,242	4,434
Total Liabilities	68,823	62,291
Commitments and contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(197)	(192)
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: 1,420 and 1,428 shares, respectively)	24	24
Capital in excess of par value	3,996	4,091
Retained earnings	52,839	52,518
Accumulated other comprehensive loss	(13,057)	(13,919)
Repurchased common stock, in excess of par value (446 and 438 shares, respectively)	(32,757)	(31,468)
Total PepsiCo Common Shareholders' Equity	11,045	11,246
Noncontrolling interests	92	104
Total Equity	10,981	11,199
Total Liabilities and Equity	\$ 79,804	\$ 73,490

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Equity

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2017, December 31, 2016 and December 26, 2015

(in millions)

	2017		2016		2015	
	Shares	Amount	Shares	Amount	Shares	Amount
Preferred Stock	0.8	\$41	0.8	\$41	0.8	\$41
Repurchased Preferred Stock						
Balance, beginning of year	(0.7)	(192)	(0.7)	(186)	(0.7)	(181)
Redemptions	—	(5)	—	(6)	—	(5)
Balance, end of year	(0.7)	(197)	(0.7)	(192)	(0.7)	(186)
Common Stock						
Balance, beginning of year	1,428	24	1,448	24	1,488	25
Change in repurchased common stock	(8)	—	(20)	—	(40)	(1)
Balance, end of year	1,420	24	1,428	24	1,448	24
Capital in Excess of Par Value						
Balance, beginning of year		4,091		4,076		4,115
Share-based compensation expense		290		289		299
Stock option exercises, RSUs, PSUs and PEPunits converted ^(a)		(236)		(138)		(182)
Withholding tax on RSUs, PSUs and PEPunits converted		(145)		(130)		(151)
Other		(4)		(6)		(5)
Balance, end of year		3,996		4,091		4,076
Retained Earnings						
Balance, beginning of year		52,518		50,472		49,092
Net income attributable to PepsiCo		4,857		6,329		5,452
Cash dividends declared - common		(4,536)		(4,282)		(4,071)
Cash dividends declared - preferred		—		(1)		(1)
Balance, end of year		52,839		52,518		50,472
Accumulated Other Comprehensive Loss						
Balance, beginning of year		(13,919)		(13,319)		(10,669)
Other comprehensive income/(loss) attributable to PepsiCo		862		(600)		(2,650)
Balance, end of year		(13,057)		(13,919)		(13,319)
Repurchased Common Stock						
Balance, beginning of year	(438)	(31,468)	(418)	(29,185)	(378)	(24,985)
Share repurchases	(18)	(2,000)	(29)	(3,000)	(52)	(4,999)
Stock option exercises, RSUs, PSUs and PEPunits converted	10	708	9	712	12	794
Other	—	3	—	5	—	5
Balance, end of year	(446)	(32,757)	(438)	(31,468)	(418)	(29,185)
Total PepsiCo Common Shareholders' Equity		11,045		11,246		12,068
Noncontrolling Interests						
Balance, beginning of year		104		107		110
Net income attributable to noncontrolling interests		51		50		49
Distributions to noncontrolling interests		(62)		(55)		(48)
Currency translation adjustment		—		4		(2)
Other, net		(1)		(2)		(2)
Balance, end of year		92		104		107
Total Equity		\$10,981		\$11,199		\$12,030

(a) Includes total tax benefits of \$110 million in 2016 and \$107 million in 2015.
See accompanying notes to the consolidated financial statements.

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Notes to Consolidated Financial Statements

Note 1 — Basis of Presentation and Our Divisions

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. GAAP and include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates using the equity method based on our economic ownership interest, our ability to exercise significant influence over the operating or financial decisions of these affiliates or our ability to direct their economic resources. We do not control these other affiliates, as our ownership in these other affiliates is generally 50% or less. Intercompany balances and transactions are eliminated.

Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw materials 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 preparation of our consolidated financial statements requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used in determining, among other items, sales incentives accruals, tax reserves, share-based compensation, pension and retiree medical accruals, amounts and useful lives for intangible assets and future cash flows associated with impairment testing for perpetual brands, goodwill and other long-lived assets. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effect cannot be determined with precision, actual results could differ significantly from these estimates.

Effective as of the end of the third quarter of 2015, we deconsolidated our Venezuelan subsidiaries from our consolidated financial statements and began accounting for our investments in our wholly-owned Venezuelan subsidiaries and joint venture using the cost method of accounting. See subsequent discussion of “Venezuela.”

Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years. Our fiscal 2016 results included an extra week. While our North America results are reported on a weekly calendar basis, most of our international operations report on a monthly calendar basis. Certain operations in our ESSA segment report on a weekly calendar basis. The following chart details our quarterly reporting schedule:

Quarter	United States and Canada	International
First Quarter	12 weeks	January, February
Second Quarter	12 weeks	March, April and May
Third Quarter	12 weeks	June, July and August
Fourth Quarter	16 weeks (17 weeks for 2016)	September, October, November and December

See “Our Divisions” below, and for additional unaudited information on items affecting the comparability of our consolidated results, see further unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Unless otherwise noted, 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. Certain reclassifications were made to the prior years’ financial statements to conform to the current

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year presentation, including the adoption of the recently issued accounting pronouncements disclosed in Note 2.

Our Divisions

Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of convenient and enjoyable beverages, foods and snacks, serving customers and consumers in more than 200 countries and territories with our largest operations in North America, Mexico, Russia, the United Kingdom and Brazil. Division results are based on how our Chief Executive Officer assesses the performance of and allocates resources to our divisions and are considered our reportable segments. For additional unaudited information on our divisions, see “Our Operations” contained in “Item 1. Business.” The accounting policies for the divisions are the same as those described in Note 2, except for the following allocation methodologies:

- share-based compensation expense;
- pension and retiree medical expense; and
- derivatives.

Share-Based Compensation Expense

Our divisions are held accountable for share-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost. The allocation of share-based compensation expense in 2017 was approximately 13% to FLNA, 1% to QFNA, 18% to NAB, 7% to Latin America, 9% to ESSA, 9% to AMENA and 43% to corporate unallocated expenses. In 2016, the allocation of share-based compensation expense was approximately 14% to FLNA, 2% to QFNA, 22% to NAB, 7% to Latin America, 11% to ESSA, 10% to AMENA and 34% to corporate unallocated expenses. We had similar allocations of share-based compensation expense to our divisions in 2015. The expense allocated to our divisions excludes any impact of changes in our assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

Pension and Retiree Medical Expense

Pension and retiree medical service costs measured at fixed discount rates, as well as amortization of costs related to certain pension plan amendments and gains and losses due to demographics (including mortality assumptions and salary experience) are reflected in division results. Division results also include interest costs, measured at fixed discount rates, for retiree medical plans. Interest costs for the pension plans, pension asset returns and the impact of pension funding, and gains and losses other than those due to demographics, are all reflected in corporate unallocated expenses. In addition, corporate unallocated expenses include the difference between the service costs included in division results and total service costs determined using the plans’ discount rates as disclosed in Note 7.

Derivatives

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include agricultural products, energy and metals. Commodity derivatives 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. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses. These derivatives hedge underlying commodity price risk and were not entered into for trading or speculative purposes.

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Net revenue and operating profit/(loss) of each division are as follows:

	Net Revenue			Operating Profit/(Loss) ^(a)		
	2017	2016	2015	2017	2016	2015
FLNA	\$15,798	\$15,549	\$14,782	\$4,823	\$4,659	\$4,304
QFNA	2,503	2,564	2,543	642	653	560
NAB	20,936	21,312	20,618	2,707	2,959	2,785
Latin America	7,208	6,820	8,228	908	887	(206)
ESSA	11,050	10,216	10,510	1,354	1,108	1,081
AMENA	6,030	6,338	6,375	1,073	619	941
Total division	63,525	62,799	63,056	11,507	10,885	9,465
Corporate unallocated —	—	—	—	(998)	(1,100)	(1,112)
	\$63,525	\$62,799	\$63,056	\$10,509	\$9,785	\$8,353

(a) For further unaudited information on certain items that impacted our financial performance, see “Item 6. Selected Financial Data.”

Corporate Unallocated

Corporate unallocated includes costs of our corporate headquarters, centrally managed initiatives such as research and development projects, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, commodity derivative gains and losses, our ongoing business transformation initiatives and certain other items.

Other Division Information

Total assets and capital spending of each division are as follows:

	Total Assets		Capital Spending		
	2017	2016	2017	2016	2015
FLNA	\$5,979	\$5,731	\$665	\$801	\$608
QFNA	804	811	44	41	40
NAB	28,592	28,172	904	769	695
Latin America	4,976	4,568	481	507	368
ESSA	13,556	12,302	481	439	404
AMENA	5,668	5,261	308	381	441
Total division	59,575	56,845	2,883	2,938	2,556
Corporate ^(a)	20,229	16,645	86	102	202
	\$79,804	\$73,490	\$2,969	\$3,040	\$2,758

Corporate assets consist principally of certain cash and cash equivalents, short-term investments, derivative (a) instruments, property, plant and equipment and tax assets. In 2017, the change in total Corporate assets was primarily due to an increase in short-term investments and cash and cash equivalents.

Amortization of intangible assets and depreciation and other amortization of each division are as follows:

	Amortization of Intangible Assets			Depreciation and Other Amortization		
	2017	2016	2015	2017	2016	2015
FLNA	\$ 7	\$ 7	\$ 7	\$449	\$435	\$427
QFNA	—	—	—	47	50	51
NAB	31	37	38	780	809	813
Latin America	5	5	7	245	211	238
ESSA	22	18	20	329	321	353
AMENA	3	3	3	257	294	293
Total division	68	70	75	2,107	2,120	2,175
Corporate	—	—	—	194	178	166
	\$ 68	\$ 70	\$ 75	\$2,301	\$2,298	\$2,341

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Net revenue and long-lived assets by country are as follows:

	Net Revenue			Long-Lived Assets ^(a)	
	2017	2016	2015	2017	2016
United States	\$36,546	\$36,732	\$35,266	\$28,418	\$28,382
Mexico	3,650	3,431	3,687	1,205	998
Russia ^(b)	3,232	2,648	2,797	4,708	4,373
Canada	2,691	2,692	2,677	2,739	2,499
United Kingdom	1,650	1,737	1,966	817	852
Brazil	1,427	1,305	1,289	777	796
All other countries	14,329	14,254	15,374	9,200	8,504
	\$63,525	\$62,799	\$63,056	\$47,864	\$46,404

Long-lived assets represent property, plant and equipment, nonamortizable intangible assets, amortizable intangible (a) assets and investments in noncontrolled affiliates. These assets are reported in the country where they are primarily used.

(b) Change in net revenue and long-lived assets in 2017 primarily reflects appreciation of the Russian ruble.

Venezuela

Due to exchange restrictions and other conditions that significantly impact our ability to effectively manage our businesses in Venezuela and realize earnings generated by our Venezuelan businesses, effective at the end of the third quarter of 2015, we deconsolidated our Venezuelan subsidiaries and began accounting for our investments in our Venezuelan subsidiaries and joint venture using the cost method of accounting. We recorded pre- and after-tax charges of \$1.4 billion in our income statement to reduce the value of the cost method investments to their estimated fair values, resulting in a full impairment. The factors that led to our conclusions at the end of the third quarter of 2015 continued to exist through the end of 2017.

We do not have any guarantees related to our Venezuelan entities, and our ongoing contractual commitments to our Venezuelan businesses are not material. We will recognize income from dividends and sales of inventory to our Venezuelan entities, which have not been and are not expected to be material, to the extent cash in U.S. dollars is received. We have not received any cash in U.S. dollars from our Venezuelan entities since our deconsolidation at the end of the third quarter of 2015. We continue to monitor the conditions in Venezuela and their impact on our accounting and disclosures. For further unaudited information, see “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.

Note 2 — Our Significant Accounting Policies

Revenue Recognition

We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and certain chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. As a result, we record reserves, based on estimates, for anticipated damaged and out-of-date products. Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the United States, and generally within 30 to 90 days internationally, and may allow discounts for early payment.

We estimate and reserve for our bad debt exposure based on our experience with past due accounts and collectibility, the aging of accounts receivable and our analysis of customer data. Bad debt expense is classified within selling, general and administrative expenses in our income statement.

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We are exposed to concentration of credit risk from our major customers, including Walmart. In 2017, sales to Walmart (including Sam's) represented approximately 13% of our consolidated net revenue, including concentrate sales to our independent bottlers, which were used in finished goods sold by them to Walmart. We have not experienced credit issues with these customers.

Total Marketplace Spending

We offer sales incentives and discounts through various programs to customers and consumers. Total marketplace spending includes sales incentives, discounts, advertising and other marketing activities. Sales incentives and discounts are primarily accounted for as a reduction of revenue and include payments to customers for performing activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. Sales incentives and discounts also include support provided to our independent bottlers.

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. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year as incurred. The terms of most of our incentive arrangements do not exceed a year, and, therefore, do not require highly uncertain long-term estimates. Certain arrangements, such as fountain pouring rights, may extend beyond one year. Up-front payments to customers under these arrangements are recognized over the shorter of the economic or contractual life, primarily as a reduction of revenue, and the remaining balances of \$262 million as of December 30, 2017 and \$291 million as of December 31, 2016 are included in prepaid expenses and other current assets and other assets on our balance sheet. For additional unaudited information on our sales incentives, see "Our Customers" in "Item 1. Business" and "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 certain advertising and other marketing activities. Our annual financial statements are not impacted by this interim allocation methodology.

Advertising and other marketing activities, reported as selling, general and administrative expenses, totaled \$4.1 billion in 2017, \$4.2 billion in 2016 and \$3.9 billion in 2015, including advertising expenses of \$2.4 billion in 2017, \$2.5 billion in 2016 and \$2.4 billion in 2015. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments;
- promotional materials in inventory; and
- production costs of future media advertising.

Deferred advertising costs of \$46 million and \$32 million as of December 30, 2017 and December 31, 2016, respectively, are classified as prepaid expenses and other current assets on our balance sheet.

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Distribution Costs

Distribution costs, including the costs of shipping and handling activities, which include certain merchandising activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were \$9.9 billion in 2017, \$9.7 billion in 2016 and \$9.4 billion in 2015.

Cash Equivalents

Cash equivalents are highly liquid investments with original maturities of three months or less.

Software Costs

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs include (i) external direct costs of materials and services utilized in developing or obtaining computer software, (ii) compensation and related benefits for employees who are directly associated with the software projects and (iii) interest costs incurred while developing internal-use computer software. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line basis when placed into service over the estimated useful lives of the software, which approximate five to 10 years. Software amortization totaled \$224 million in 2017, \$214 million in 2016 and \$202 million in 2015. Net capitalized software and development costs were \$686 million and \$791 million as of December 30, 2017 and December 31, 2016, respectively.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, certain taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional unaudited information on our commitments, see “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Research and Development

We engage in a variety of research and development activities and continue to invest to accelerate growth and to drive innovation globally. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were \$737 million, \$760 million and \$754 million in 2017, 2016 and 2015, respectively, and are reported within selling, general and administrative expenses.

See “Research and Development” in “Item 1. Business” for additional unaudited information about our research and development activities.

Goodwill and Other Intangible Assets

Indefinite-lived intangible assets and goodwill are not amortized and are assessed for impairment at least annually, using either a qualitative or quantitative approach. We perform this annual assessment during our third quarter. Where we use the qualitative assessment, first we determine if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include macroeconomic, industry and competitive conditions, legal and regulatory environment, historical financial performance and significant changes in the brand or reporting unit. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed.

In the quantitative assessment of indefinite-lived intangible assets, if the carrying amount of the indefinite-lived intangible asset exceeds its estimated fair value, as determined by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. Quantitative assessment of goodwill is performed using a two-step impairment test at the reporting unit level. A reporting unit can be a division or

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business within a division. The first step compares the carrying value of a reporting unit, including goodwill, with its estimated fair value, as determined by its discounted cash flows. If the carrying value of a reporting unit exceeds its estimated fair value, we complete the second step to determine the amount of goodwill impairment loss that we should record, if any. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the estimated fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the carrying value of the goodwill over the implied fair value of that goodwill. The quantitative assessment described above requires an analysis of several estimates including future cash flows or income consistent with management's strategic business plans, annual sales growth rates, perpetuity growth assumptions and the selection of assumptions underlying a discount rate (weighted average cost of capital) based on market data available at the time. Significant management judgment is necessary to estimate the impact of competitive operating, macroeconomic and other factors to estimate future levels of sales, operating profit or cash flows. All assumptions used in our impairment evaluations for nonamortizable intangible assets, such as forecasted growth rates and weighted-average cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

See also Note 4, and for additional unaudited information on goodwill and other intangible assets, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

• **Basis of Presentation** – Note 1 - Basis of Presentation for a description of our policies regarding use of estimates, basis of presentation and consolidation.

• **Property, Plant and Equipment** – Note 4.

• **Income Taxes** – Note 5, and for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

• **Share-Based Compensation** – Note 6.

• **Pension, Retiree Medical and Savings Plans** – Note 7, and for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

• **Financial Instruments** – Note 9, and for additional unaudited information, see "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

• **Inventories** – Note 13. Inventories are valued at the lower of cost or net realizable value. Cost is determined using the average; first-in, first-out (FIFO) or last-in, first-out (LIFO) methods.

• **Translation of Financial Statements of Foreign Subsidiaries** – Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within common shareholders' equity as currency translation adjustment.

Recently Issued Accounting Pronouncements - Adopted

In 2017, the SEC issued guidance related to the TCJ Act which allows recording of provisional tax expense using a measurement period, not to exceed one year, when information necessary to complete the accounting

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for the effects of the TCJ Act is not available. We elected to apply the measurement period provisions of this guidance to certain income tax effects of the TCJ Act when it became effective during our fourth quarter of 2017, resulting in a provisional net tax expense of \$2.5 billion. This provisional net tax expense was recorded based on information available to us prior to the issuance of our 2017 consolidated financial statements, may be subject to further revision as disclosed in Note 5, and will be finalized no later than the end of 2018.

In 2016, the Financial Accounting Standards Board (FASB) issued guidance that changes the accounting for certain aspects of share-based payments to employees. We adopted the provisions of this guidance during our first quarter of 2017, resulting in the following impacts to our financial statements:

Income tax effects of vested or settled awards were recognized in the provision for income taxes on our income statement on a prospective basis. Previously, these tax effects were recorded on our equity statement in capital in excess of par value. For the year ended December 30, 2017, our excess tax benefits were \$115 million, resulting in a \$0.08 increase to diluted net income attributable to PepsiCo per common share. For the years ended December 31, 2016 and December 26, 2015, our excess tax benefits recognized were \$110 million and \$107 million, respectively. If we had applied this standard in 2016 and 2015, there would have been a \$0.07 increase to diluted net income attributable to PepsiCo per common share for both years. The ongoing impact on our financial statements is dependent on the timing of when awards vest or are exercised, our tax rate and the intrinsic value when awards vest or are exercised.

Excess tax benefits are retrospectively presented within operating activities and withholding tax payments upon vesting of RSUs, PSUs and PEPunits are retrospectively presented within financing activities in the cash flow statement. The adoption resulted in an increase of \$295 million, \$269 million and \$284 million in our operating cash flow with a corresponding decrease in our financing cash flow for the years ended December 30, 2017, December 31, 2016 and December 26, 2015, respectively.

The guidance also allows for the employer to repurchase more of an employee's shares, up to the maximum statutory rate, for tax withholding purposes and not classify the award as a liability that requires valuation on a mark-to-market basis. Our accounting treatment for outstanding awards was not impacted by our adoption of this provision. In addition, the guidance allows for a policy election to account for forfeitures as they occur. We will continue to apply our policy of estimating forfeitures.

In 2016, the FASB issued guidance that eliminates the requirement that an investor retrospectively apply equity method accounting for an investment originally accounted for by another method. The guidance requires that an equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investor's ability to exercise significant influence over the investment is achieved. We adopted the provisions of this guidance prospectively during our first quarter of 2017; the adoption did not impact our financial statements.

In 2015, the FASB issued guidance that requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. We adopted the provisions of this guidance retrospectively during our first quarter of 2017, resulting in the reclassification of \$639 million of deferred taxes from current to non-current on our balance sheet as of December 31, 2016.

Recently Issued Accounting Pronouncements - Not Yet Adopted

In 2017, the FASB issued guidance to amend and simplify the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, as well as eases certain hedge effectiveness assessment requirements. The guidance is effective beginning

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in 2019 with early adoption permitted. We are currently evaluating the impact of this guidance, including transition elections and required disclosures, on our financial statements and the timing of adoption.

In 2017, the FASB issued guidance that requires companies to retrospectively present the service cost component of net periodic benefit cost for pension and retiree medical plans along with other compensation costs in operating profit and present the other components of net periodic benefit cost below operating profit in the income statement. The guidance also allows only the service cost component of net periodic benefit cost to be eligible for capitalization within inventory or fixed assets on a prospective basis. We will adopt the guidance when it becomes effective in the first quarter of 2018. We will also update our allocation of service costs to our divisions starting in 2018 to better approximate actual service cost. In connection with this adoption, we expect to record a decrease in operating profit of \$233 million for the year ended December 30, 2017 and an increase in operating profit of \$19 million for the year ended December 31, 2016, primarily impacting selling, general and administrative expenses. See Note 7 for further information on our service cost and other components of net periodic benefit cost for pension and retiree medical plans.

In 2016, the FASB issued guidance to clarify how restricted cash should be presented in the cash flow statement. We will adopt the guidance when it becomes effective in the first quarter of 2018. The guidance is not expected to have a material impact on our financial statements.

In 2016, the FASB issued guidance that requires companies to account for the income tax effects of intercompany transfers of assets, other than inventory, when the transfer occurs versus deferring income tax effects until the transferred asset is sold to an outside party or otherwise recognized. We will adopt the guidance when it becomes effective in the first quarter of 2018. The guidance is not expected to have a material impact on our financial statements.

In 2016, the FASB issued guidance that requires lessees to recognize most leases on the balance sheet, but record expenses on the income statement in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective beginning in 2019 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet and the impact on our current lease portfolio from both a lessor and lessee perspective. To facilitate this, we are utilizing a comprehensive approach to review our lease portfolio, as well as assessing system requirements and control implications. We have identified our significant leases by geography and by asset type that will be impacted by the new guidance, as well as a software tool to begin tracking the requirements of the guidance. In addition, we are currently evaluating the timing of adoption of this guidance. See Note 13 for our minimum lease payments under non-cancelable operating leases.

In 2016, the FASB issued guidance that requires companies to measure investments in certain equity securities at fair value and recognize any changes in fair value in net income. We will adopt the guidance when it becomes effective in the first quarter of 2018. The guidance is not expected to have a material impact on our financial statements. In the second quarter of 2017, we sold our minority stake in Britvic, representing all of our available-for-sale equity securities, which reduced the risk and volatility of these investments in our income statement in the future. See Note 9 for further information on our available-for-sale securities.

In 2014, the FASB issued guidance on revenue recognition, with final amendments issued in 2016. The guidance provides for a five-step model to determine the revenue recognized for the transfer of goods or services to customers that reflects the expected entitled consideration in exchange for those goods or services. It also provides clarification for principal versus agent considerations and identifying performance obligations. In addition, the FASB introduced practical expedients related to disclosures of remaining performance obligations, as well as other amendments related to guidance on collectibility, non-cash consideration and the presentation of sales and other similar taxes. Financial statement disclosures required under the guidance will enable users to understand the nature, amount, timing, judgments and uncertainty of revenue and cash flows relating to customer contracts. The two permitted transition methods under the

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guidance are the full retrospective approach or a cumulative effect adjustment to the opening retained earnings in the year of adoption (cumulative effect approach). We will adopt the guidance using the cumulative effect approach when it becomes effective in the first quarter of 2018.

We are utilizing a comprehensive approach to assess the impact of the guidance on our contract portfolio by reviewing our current accounting policies and practices to identify potential differences that would result from applying the new requirements to our revenue contracts, including evaluation of our performance obligations, principal versus agent considerations and variable consideration. We are substantially complete with our contract and business process reviews and implemented changes to our controls to support recognition and disclosures under the new guidance. As a result of implementing certain changes to our accounting policies upon adoption, we plan to record an adjustment to opening retained earnings to reflect marketplace spending that our customers and independent bottlers expect to be entitled to in line with revenue recognition; exclude all sales, use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions from net revenue and cost of sales; and to record shipping and handling activities that are performed after a customer obtains control of the product as a fulfillment cost. Based on the foregoing, we currently do not expect this guidance to have a material impact on our financial statements or disclosures.

Note 3 — Restructuring and Impairment Charges

A summary of our restructuring and impairment charges and other productivity initiatives is as follows:

	2017	2016	2015
2014 Productivity Plan	\$ 295	\$ 160	\$ 169
2012 Productivity Plan	—	—	61
Total restructuring and impairment charges	295	160	230
Other productivity initiatives	16	12	90
Total restructuring and impairment charges and other productivity initiatives	\$ 311	\$ 172	\$ 320

2014 Multi-Year Productivity Plan

The 2014 Productivity Plan, publicly announced on February 13, 2014, 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 structures to drive efficiency. To build on the successful implementation of the 2014 Productivity Plan to date, we expanded and extended the program through the end of 2019 to take advantage of additional opportunities within the initiatives described above to further strengthen our food, snack and beverage businesses.

In 2017, 2016 and 2015, we incurred restructuring charges of \$295 million (\$224 million after-tax or \$0.16 per share), \$160 million (\$131 million after-tax or \$0.09 per share) and \$169 million (\$134 million after-tax

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or \$0.09 per share), respectively, in conjunction with our 2014 Productivity Plan. All of these charges were recorded in selling, general and administrative expenses and primarily relate to severance and other employee-related costs, asset impairments (all non-cash), and other costs associated with the implementation of our initiatives, including contract termination costs. Substantially all of the restructuring accrual at December 30, 2017 is expected to be paid by the end of 2018.

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

	2017				2016				2015			
	Severance and Other	Asset	Other	Total	Severance and Other	Asset	Other	Total	Severance and Other	Asset	Other	Total
	Employee Costs	Impairments	Costs		Employee Costs	Impairments	Costs		Employee Costs	Impairments	Costs	
FLNA ^(a)	\$67	\$ —	\$ —	\$67	\$10	\$ —	\$ 3	\$13	\$18	\$ (1)	\$ 9	\$26
QFNA	11	—	—	11	—	—	1	1	—	—	3	3
NAB	52	1	1	54	18	8	9	35	10	4	17	31
Latin America ^(a)	57	16	(10)	63	29	—	(2)	27	2	10	16	28
ESSA	46	4	3	53	21	22	17	60	26	11	25	62
AMENA ^(b)	2	—	(5)	(3)	4	6	4	14	2	—	8	10
Corporate	45	—	5	50	6	—	4	10	1	—	8	9
	\$280	\$ 21	\$ (6)	\$295	\$88	\$ 36	\$36	\$160	\$59	\$ 24	\$ 86	\$169

(a) Income amounts represent adjustments for changes in estimates.

(b) Income amount primarily reflects a gain on the sale of property, plant and equipment.

Since the inception of the 2014 Productivity Plan, we incurred restructuring charges of \$1,034 million:

	2014 Productivity Plan Costs to Date			
	Severance and Other	Asset	Other	Total
	Employee Costs	Impairments	Costs	
FLNA	\$131	\$ 9	\$ 23	\$163
QFNA	26	—	6	32
NAB	149	69	83	301
Latin America	109	29	14	152
ESSA	127	41	59	227
AMENA	23	6	15	44
Corporate	62	—	53	115
	\$627	\$ 154	\$ 253	\$1,034

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

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 27, 2014	\$ 89	\$ —	\$ 24	\$113
2015 restructuring charges	59	24	86	169
Cash payments	(76)	—	(87)	(163)
Non-cash charges and translation	(11)	(24)	(3)	(38)
Liability as of December 26, 2015	61	—	20	81
2016 restructuring charges	88	36	36	160
Cash payments	(46)	—	(49)	(95)
Non-cash charges and translation	(15)	(36)	1	(50)
Liability as of December 31, 2016	88	—	8	96
2017 restructuring charges	280	21	(6)	295
Cash payments	(91)	—	(22)	(113)
Non-cash charges and translation	(65)	(21)	34	(52)
Liability as of December 30, 2017	\$ 212	\$ —	\$ 14	\$226

2012 Multi-Year Productivity Plan

The 2012 Productivity Plan, publicly announced on February 9, 2012, included actions in every aspect of our business that we believe would strengthen our complementary food, snack and beverage businesses.

In 2015, we incurred restructuring charges of \$61 million (\$50 million after-tax or \$0.03 per share) in conjunction with our 2012 Productivity Plan. All of these charges were recorded in selling, general and administrative expenses and primarily related to severance and other employee-related costs, asset impairments (all non-cash) and contract termination costs. The 2012 Productivity Plan was completed in 2016 and all cash payments were paid by the end of 2016.

A summary of our 2012 Productivity Plan charges in 2015 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
FLNA	\$ —	\$ —	\$ —	\$ —
QFNA	—	—	—	—
NAB	—	—	2	2
Latin America	6	1	1	8
ESSA	15	—	12	27
AMENA	15	3	2	20
Corporate	3	—	1	4
	\$ 39	\$ 4	\$ 18	\$ 61

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Since the inception of the 2012 Productivity Plan, we incurred restructuring charges of \$894 million:

2012 Productivity Plan Costs to Date				
	Severance and Other Employee Costs		Asset Impairments	Other Costs Total
FLNA	\$91	\$ 8	\$ 25	\$124
QFNA	18	—	10	28
NAB	107	44	48	199
Latin America	98	11	18	127
ESSA	136	23	66	225
AMENA	75	5	17	97
Corporate	35	—	59	94
	\$560	\$ 91	\$ 243	\$894

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

	Severance and Other Employee Costs		Asset Impairments	Other Costs	Total
Liability as of December 27, 2014	\$ 28	\$	—	\$ 5	\$33
2015 restructuring charges	39	4		18	61
Cash payments	(24)	—		(21)	(45)
Non-cash charges and translation	(8)	(4)		1	(11)
Liability as of December 26, 2015	35	—		3	38
Cash payments	(28)	—		(2)	(30)
Non-cash charges and translation	(7)	—		(1)	(8)
Liability as of December 31, 2016	\$ —	\$	—	\$ —	\$—

Other Productivity Initiatives

There were no material charges related to other productivity and efficiency initiatives outside the scope of the 2014 and 2012 Productivity Plans in 2017 and 2016. In 2015, we incurred charges of \$90 million (\$66 million after-tax or \$0.04 per share) related to other productivity and efficiency initiatives outside the scope of the 2014 and 2012 Productivity Plans. These charges were recorded in selling, general and administrative expenses and primarily reflect severance and other employee-related costs and asset impairments (all non-cash). These initiatives were not included in items affecting comparability.

We regularly evaluate different productivity initiatives beyond the productivity plans and other initiatives described above.

See additional unaudited information in “Items Affecting Comparability” and “Results of Operations – Division Review” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Note 4 — Property, Plant and Equipment and Intangible Assets

A summary of our property, plant and equipment is as follows:

	Average Useful Life (Years)	2017	2016	2015
Property, plant and equipment, net				
Land		\$1,148	\$1,153	
Buildings and improvements	15 - 44	8,796	8,306	
Machinery and equipment, including fleet and software	5 - 15	27,018	25,277	
Construction in progress		2,144	2,082	
		39,106	36,818	
Accumulated depreciation		(21,866)	(20,227)	

	\$17,240	\$16,591	
Depreciation expense	\$2,227	\$2,217	\$2,248

Property, plant and equipment is recorded at historical cost. Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service.

A summary of our amortizable intangible assets is as follows:

Amortizable intangible assets, net	Average Useful Life (Years)	2017			2016			2015	
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net		
Acquired franchise rights	56 – 60	\$858	\$ (128)	\$730	\$827	\$ (108)	\$719		
Reacquired franchise rights	5 – 14	106	(104)	2	106	(102)	4		
Brands	20 – 40	1,322	(1,026)	296	1,277	(977)	300		
Other identifiable intangibles	10 – 24	521	(281)	240	522	(308)	214		
		\$2,807	\$ (1,539)	\$1,268	\$2,732	\$ (1,495)	\$1,237		
Amortization expense				\$68			\$70	\$75	

Amortization of intangible assets for each of the next five years, based on existing intangible assets as of December 30, 2017 and using average 2017 foreign exchange rates, is expected to be as follows:

	2018	2019	2020	2021	2022
Five-year projected amortization	\$ 69	\$ 64	\$ 64	\$ 62	\$ 60

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Depreciable and amortizable assets are evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need for revision. For additional unaudited information on our policies for amortizable brands, see “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Nonamortizable Intangible Assets

We did not recognize any impairment charges for goodwill in each of the fiscal years ended December 30, 2017, December 31, 2016 and December 26, 2015. We recognized no material impairment charges for nonamortizable intangible assets in each of the fiscal years ended December 30, 2017, December 31, 2016 and December 26, 2015. As of December 30, 2017, the estimated fair values of our indefinite-lived reacquired and acquired franchise rights recorded at NAB exceeded their carrying values. However, there could be an impairment of the carrying value of NAB’s reacquired and acquired franchise rights if future revenues and their contribution to the operating results of NAB’s CSD business do not achieve our expected future cash flows or if macroeconomic conditions result in a future increase in the weighted-average cost of capital used to estimate fair value. We have also analyzed the impact of the macroeconomic conditions in Russia and Brazil on the estimated fair value of our indefinite-lived intangible assets in these countries and have concluded that there is no impairment as of December 30, 2017. However, there could be an impairment of the carrying value of certain brands in these countries if there is a deterioration in these conditions, if future revenues and their contributions to the operating results do not achieve our expected future cash flows or if macroeconomic conditions result in a future increase in the weighted-average cost of capital used to estimate fair value. For additional information on our policies for nonamortizable intangible assets, see Note 2.

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

	Balance, Beginning 2016	Translation and Other	Balance, End of 2016	Translation and Other	Balance, End of 2017
FLNA					
Goodwill	\$ 267	\$ 3	\$270	\$ 10	\$280
Brands	22	1	23	2	25
	289	4	293	12	305
QFNA					
Goodwill	175	—	175	—	175
NAB					
Goodwill ^(a)	9,754	89	9,843	11	9,854
Reacquired franchise rights	7,042	22	7,064	62	7,126
Acquired franchise rights	1,507	5	1,512	13	1,525
Brands ^(a)	108	206	314	39	353
	18,411	322	18,733	125	18,858
Latin America					
Goodwill	521	32	553	2	555
Brands	137	13	150	(9)	141
	658	45	703	(7)	696
ESSA ^(b)					
Goodwill	3,042	135	3,177	275	3,452
Reacquired franchise rights	488	—	488	61	549
Acquired franchise rights	190	(6)	184	11	195
Brands	2,212	146	2,358	187	2,545
	5,932	275	6,207	534	6,741
AMENA					
Goodwill	418	(6)	412	16	428
Brands	105	(2)	103	8	111
	523	(8)	515	24	539
Total goodwill	14,177	253	14,430	314	14,744
Total reacquired franchise rights	7,530	22	7,552	123	7,675
Total acquired franchise rights	1,697	(1)	1,696	24	1,720
Total brands	2,584	364	2,948	227	3,175
	\$ 25,988	\$ 638	\$26,626	\$ 688	\$27,314

(a) The change in 2016 is primarily related to our acquisition of KeVita, Inc.

(b) The change in 2017 primarily reflects the currency appreciation of the Russian ruble and euro. The change in 2016 primarily reflects the currency appreciation of the Russian ruble.

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Note 5 — Income Taxes

The components of income before income taxes are as follows:

	2017	2016	2015
United States	\$3,452	\$2,630	\$2,879
Foreign	6,150	5,923	4,563
	\$9,602	\$8,553	\$7,442

The provision for income taxes consisted of the following:

	2017	2016	2015
Current:			
U.S. Federal	\$4,925	\$1,219	\$1,143
Foreign	724	824	773
State	136	77	65
	5,785	2,120	1,981
Deferred:			
U.S. Federal	(1,159)	109	(14)
Foreign	(9)	(33)	(32)
State	77	(22)	6
	(1,091)	54	(40)
	\$4,694	\$2,174	\$1,941

A reconciliation of the U.S. Federal statutory tax rate to our annual tax rate is as follows:

2017	2016	2015
U.S. Federal statutory tax rate	35.0 %	35.0 %
State income tax, net of U.S. Federal tax benefit	0.4	0.6
Lower taxes on foreign results	(0.4)	(8.0)
Impact of Venezuela impairment charges	6.4	(10.5)
Provisional one-time mandatory	—	—

transition			
tax			
-			
TCJ			
Act			
Provisional			
remeasurement			
of			
deferred			
(15.9)	—		—
taxes			
-			
TCJ			
Act			
Tax			
settlements	—	(3.1)	
Other,			
(3.1)	(2.0)		(2.3)
net			
Annual			
48.9 %	25.4 %		26.1 %
rate			

Tax Cuts and Jobs Act

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional net tax expense of \$2.5 billion in the fourth quarter of 2017. See further unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Included in the provisional net tax expense of \$2.5 billion is a provisional mandatory one-time transition tax of approximately \$4 billion on undistributed international earnings, included in other liabilities. This provisional mandatory one-time transition tax was partially offset by a provisional \$1.5 billion benefit resulting from the required remeasurement of our deferred tax assets and liabilities to the new, lower U.S. corporate income tax rate, effective January 1, 2018. The effect of the remeasurement was recorded in the fourth quarter of 2017, consistent with the enactment date of the TCJ Act, and reflected in our provision for income taxes.

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The TCJ Act also creates a new requirement that certain income earned by foreign subsidiaries, known as GILTI, must be included in the gross income of their U.S. shareholder. The FASB allows an accounting policy election of either recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years or recognizing such taxes as a current-period expense when incurred. Due to the complexity of calculating GILTI under the new law, we have not determined which method we will apply. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements. We expect to elect an accounting policy in the first quarter of 2018.

The components of the provisional net tax expense recorded in 2017 are based on currently available information and additional information needs to be prepared, obtained and/or analyzed to determine the final amounts. The provisional tax expense for the mandatory repatriation of undistributed international earnings will require further analysis of certain foreign exchange gains or losses, substantiation of foreign tax credits, as well as estimated cash and cash equivalents as of November 30, 2018, the tax year-end of our foreign subsidiaries. The provisional tax benefit for the remeasurement of deferred taxes will require additional information necessary for the preparation of our U.S. federal tax return, and further analysis and interpretation of certain provisions of the TCJ Act impacting deferred taxes, for example 100% expensing of qualified assets as well as our accounting policy election for recognizing deferred taxes for GILTI, could impact our deferred tax balance as of December 30, 2017.

Tax effects for these items will be recorded in subsequent quarters, as discrete adjustments to our income tax provision, once complete. The SEC has issued guidance that allows for a measurement period of up to one year after the enactment date of the TCJ Act to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of 2018.

The recorded impact of the TCJ Act is provisional and the final amount may differ, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act.

For further unaudited information and discussion of the potential impact of the TCJ Act, refer to “Item 1A. Risk Factors,” “Our Business Risks,” “Our Liquidity and Capital Resources” and “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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Deferred tax liabilities and assets are comprised of the following:

Deferred Tax Liabilities

	2017	2016
Debt guarantee of wholly-owned subsidiary	\$578	\$839
Property, plant and equipment	1,397	1,967
Intangible assets other than nondeductible goodwill	3,169	4,124
Other	50	245
Gross deferred tax liabilities	5,194	7,175
Deferred tax assets		
Net carryforwards	1,400	1,255
Share-based compensation	107	219
Retiree medical benefits	198	316
Other employee-related benefits	338	614
Pension benefits	22	419
Deductible state tax and interest benefits	157	189
Other	893	839
Gross deferred tax assets	3,115	3,851
Valuation allowances	(1,163)	(1,110)
Deferred tax assets, net	1,952	2,741
Net deferred tax liabilities	\$3,242	\$4,434

A summary of our valuation allowance activity is as follows:

	2017	2016	2015
Balance, beginning of year	\$1,110	\$1,136	\$1,230
Provision/(benefit)	33	13	(26)
Other additions/(deductions)	20	(39)	(68)
Balance, end of year	\$1,163	\$1,110	\$1,136

For additional unaudited information on our income tax policies, including our reserves for income taxes, see “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Reserves

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions and the related open tax audits are as follows:

Jurisdiction	Years Open to Audit	Years Currently Under Audit
United States	2012-2016	2012-2013
Mexico	2014-2016	2014
United Kingdom	2014-2016	None
Canada (Domestic)	2013-2016	2013-2014
Canada (International)	2010-2016	2010-2014
Russia	2012-2016	2012-2016

While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any

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particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution. For further unaudited information on the impact of the resolution of open tax issues, see “Other Consolidated Results” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

In 2015, we reached an agreement with the IRS resolving substantially all open matters related to the audits of taxable years 2010 and 2011. The agreement resulted in a 2015 non-cash tax benefit totaling \$230 million.

As of December 30, 2017, the total gross amount of reserves for income taxes, reported in other liabilities, was \$2.2 billion. We accrue interest related to reserves for income taxes in our provision for income taxes and any associated penalties are recorded in selling, general and administrative expenses. The gross amount of interest accrued, reported in other liabilities, was \$283 million as of December 30, 2017, of which \$89 million of expense was recognized in 2017. The gross amount of interest accrued, reported in other liabilities, was \$193 million as of December 31, 2016, of which \$61 million of expense was recognized in 2016.

A reconciliation of unrecognized tax benefits, is as follows:

	2017	2016
Balance, beginning of year	\$1,885	\$1,547
Additions for tax positions related to the current year	309	349
Additions for tax positions from prior years	86	139
Reductions for tax positions from prior years	(51)	(70)
Settlement payments	(4)	(26)
Statutes of limitations expiration	(33)	(27)
Translation and other	20	(27)
Balance, end of year	\$2,212	\$1,885

Carryforwards and Allowances

Operating loss carryforwards totaling \$12.6 billion at year-end 2017 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: \$0.2 billion in 2018, \$11.1 billion between 2019 and 2037 and \$1.3 billion may be carried forward indefinitely. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Undistributed International Earnings

As of December 30, 2017, we had approximately \$42.5 billion of undistributed international earnings. We intend to repatriate approximately \$20 billion of our foreign earnings back to the United States and have recognized all tax expense on these earnings in the fourth quarter of 2017. We intend to continue to reinvest the remaining \$22.5 billion of earnings outside the United States for the foreseeable future and while U.S. federal tax expense has been recognized as a result of the TCJ Act, no deferred tax liabilities with respect to items such as certain foreign exchange gains or losses, foreign withholding taxes or state taxes have been recognized. It is not practicable for us to determine the amount of unrecognized tax expense on these reinvested international earnings.

Note 6 — Share-Based Compensation

Our share-based compensation program is designed to attract and retain employees while also aligning employees’ interests with the interests of our shareholders. PepsiCo has granted stock options, RSUs, PSUs, PEPunits and long-term cash awards to employees under the shareholder-approved PepsiCo, Inc. Long-Term

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Incentive Plan (LTIP). Executives who are awarded long-term incentives based on their performance may generally elect to receive their grant in the form of stock options or RSUs, or a combination thereof. Executives who elect stock options receive four stock options for every one RSU that would have otherwise been granted. Certain executive officers and other senior executives do not have a choice and, beginning in 2016, were granted 66% PSUs and 34% long-term cash, each of which are subject to pre-established performance targets. Previously, they were granted a combination of 60% PEPunits measuring both absolute and relative stock price performance and 40% long-term cash based on achievement of specific performance operating metrics.

The Company may use authorized and unissued shares to meet share requirements resulting from the exercise of stock options and the vesting of RSUs, PSUs and PEPunits.

As of December 30, 2017, 74 million shares were available for future share-based compensation grants under the LTIP.

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

	2017	2016	2015
Share-based compensation expense - equity awards	\$292	\$284	\$295
Share-based compensation expense - liability awards	13	5	—
Restructuring and impairment (credits)/charges	(2)	5	4
Total	\$303	\$294	\$299
Income tax benefits recognized in earnings related to share-based compensation	\$89 (a)	\$91	\$77

(a) Reflects tax rates effective for the 2017 tax year.

As of December 30, 2017, there was \$314 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation cost is expected to be recognized over a weighted-average period of two years.

Method of Accounting and Our Assumptions

The fair value of share-based award grants is amortized to expense over the vesting period, primarily three years. Awards to employees eligible for retirement prior to the award becoming fully vested are amortized to expense over the period through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn the award. In addition, we use historical data to estimate forfeiture rates and record share-based compensation expense only for those awards that are expected to vest.

We do not backdate, reprice or grant share-based compensation awards retroactively. Repricing of awards would require shareholder approval under the LTIP.

Stock Options

A stock option permits the holder to purchase shares of PepsiCo common stock at a specified price. We account for our employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and generally have a 10-year term.

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

	2017	2016	2015
Expected life	5 years	6 years	7 years
Risk-free interest rate	2.0 %	1.4 %	1.8 %
Expected volatility	11 %	12 %	15 %
Expected dividend yield	2.7 %	2.7 %	2.7 %

The expected life is the period over which our employee groups are expected to hold their options. It is based on our historical experience with similar grants. The risk-free interest rate is based on the expected U.S. Treasury rate over the expected life. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Dividend yield is estimated over the expected life based on our stated dividend policy and forecasts of net income, share repurchases and stock price.

A summary of our stock option activity for the year ended December 30, 2017 is as follows:

	Options ^(a)	Weighted-Average Exercise Price	Weighted-Average Life Remaining (years)	Contractual Aggregate Intrinsic Value ^(b)
Outstanding at December 31, 2016	25,190	\$ 69.88		
Granted	1,481	\$ 110.15		
Exercised	(7,136)	\$ 65.31		
Forfeited/expired	(522)	\$ 88.36		
Outstanding at December 30, 2017	19,013	\$ 74.23	4.22	\$ 868,750
Exercisable at December 30, 2017	14,589	\$ 65.60	3.02	\$ 792,560
Expected to vest as of December 30, 2017	3,994	\$ 102.50	8.15	\$ 69,578

(a) Options are in thousands and include options previously granted under the PBG plan. No additional options or shares were granted under the PBG plan after 2009.

(b) In thousands.

Restricted Stock Units and Performance Stock Units

Each RSU represents our obligation to deliver to the holder one share of PepsiCo common stock when the award vests at the end of the service period. PSUs are awards pursuant to which a number of shares are delivered to the holder upon vesting at the end of the service period based on PepsiCo's performance against specified financial and/or operational performance metrics. The number of shares may be increased to the maximum or reduced to the minimum threshold based on the results of these performance metrics in accordance with the terms established at the time of the award. During the vesting period, RSUs and PSUs accrue dividend equivalents that pay out in cash (without interest) if and when the applicable RSU or PSU vests and becomes payable.

The fair value of RSUs is measured at the market price of the Company's stock on the date of grant. The fair value of PSUs is measured at the market price of the Company's stock on the date of grant with the exception of awards with market conditions, for which we use the Monte-Carlo simulation model to determine the fair value. The Monte-Carlo simulation model uses the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair-value determination the possibility that the market condition may not be satisfied. Compensation costs related to these awards are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

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A summary of our RSU and PSU activity for the year ended December 30, 2017 is as follows:

	RSUs/PSUs ^(a)	Weighted-Average Grant-Date Fair Value	Weighted-Average Contractual Life Remaining (years)	Aggregate Intrinsic Value ^(a)
Outstanding at December 31, 2016	8,237	\$ 91.81		
Granted ^(b)	2,824	\$ 109.92		
Converted	(3,226)	\$ 82.56		
Forfeited	(608)	\$ 100.17		
Actual performance change ^(c)	66	\$ 100.33		
Outstanding at December 30, 2017 ^(d)	7,293	\$ 102.30	1.33	\$ 874,517
Expected to vest as of December 30, 2017	6,695	\$ 102.00	1.26	\$ 802,826

(a) In thousands.

(b) Grant activity for all PSUs are disclosed at target.

(c) Reflects the net number of PSUs above and below target levels based on actual performance measured at the end of the performance period.

(d) The outstanding PSUs for which the performance period has not ended as of December 30, 2017, at the threshold, target and maximum award levels were zero, 0.9 million and 1.5 million, respectively.

PEPunits

PEPunits provide an opportunity to earn shares of PepsiCo common stock with a value that adjusts based upon changes in PepsiCo's absolute stock price as well as PepsiCo's Total Shareholder Return relative to the S&P 500 over a three-year performance period.

The fair value of PEPunits is measured using the Monte-Carlo simulation model.

A summary of our PEPunit activity for the year ended December 30, 2017 is as follows:

	PEPunits ^(a)	Weighted-Average Grant-Date Fair Value	Weighted-Average Contractual Life Remaining (years)	Aggregate Intrinsic Value ^(a)
Outstanding at December 31, 2016	533	\$ 59.86		
Converted	(363)	\$ 49.11		
Forfeited	(13)	\$ 68.94		
Actual performance change ^(b)	91	\$ 50.74		
Outstanding at December 30, 2017 ^(c)	248	\$ 68.94	0.17	\$ 29,734
Expected to vest as of December 30, 2017	234	\$ 68.94	0.17	\$ 28,034

(a) In thousands.

(b) Reflects the net number of PEPunits above and below target levels based on actual performance measured at the end of the performance period.

(c) The outstanding PEPunits for which the performance period has not ended as of December 30, 2017, at the threshold, target and maximum award levels were zero, 0.2 million and 0.4 million, respectively.

Long-Term Cash

Beginning in 2016, certain executive officers and other senior executives were granted long-term cash awards for which final payout is based on PepsiCo's Total Shareholder Return relative to a specific set of peer companies and achievement of a specified performance target over a three-year performance period.

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Long-term cash awards that qualify as liability awards under share-based compensation guidance are valued through the end of the performance period on a mark-to-market basis using the Monte Carlo simulation model until actual performance is determined.

A summary of our long-term cash activity for the year ended December 30, 2017 is as follows:

	Long-Term Cash Award ^(a)	Balance Sheet Date Fair Value ^(a)	Contractual Life Remaining (years)
Outstanding at December 31, 2016	\$ 15,670		
Granted ^(b)	19,060		
Forfeited	(1,530)		
Outstanding at December 30, 2017 ^(c)	\$ 33,200	\$ 32,592	1.73
Expected to vest as of December 30, 2017	\$ 29,590	\$ 29,092	1.71

(a) In thousands.

(b) Grant activity for all long-term cash awards are disclosed at target.

(c) The outstanding long-term cash awards for which the performance period has not ended as of December 30, 2017, at the threshold, target and maximum award levels were zero, \$33.2 million and \$66.4 million, respectively.

Other Share-Based Compensation Data

The following is a summary of other share-based compensation data:

	2017	2016	2015
Stock Options			
Total number of options granted ^(a)	1,481	1,743	1,884
Weighted-average grant-date fair value of options granted	\$8.25	\$6.94	\$10.80
Total intrinsic value of options exercised ^(a)	\$327,860	\$290,131	\$366,188
Total grant-date fair value of options vested ^(a)	\$23,122	\$18,840	\$21,837
RSUs/PSUs			
Total number of RSUs/PSUs granted ^(a)	2,824	3,054	2,759
Weighted-average grant-date fair value of RSUs/PSUs granted	\$109.92	\$99.06	\$99.17
Total intrinsic value of RSUs/PSUs converted ^(a)	\$380,269	\$359,401	\$375,510
Total grant-date fair value of RSUs/PSUs vested ^(a)	\$264,923	\$257,648	\$257,831
PEPunits			
Total number of PEPunits granted ^(a)	—	—	300
Weighted-average grant-date fair value of PEPunits granted	\$—	\$—	\$68.94
Total intrinsic value of PEPunits converted ^(a)	\$39,782	\$38,558	\$37,705
Total grant-date fair value of PEPunits vested ^(a)	\$18,833	\$16,572	\$22,286

(a) In thousands.

As of December 30, 2017 and December 31, 2016, there were approximately 250,000 and 254,000 outstanding awards, respectively, consisting primarily of phantom stock units that were granted under the PepsiCo Director Deferral Program and will be settled in shares of PepsiCo common stock pursuant to the LTIP at the end of the applicable deferral period, not included in the tables above.

Note 7 — Pension, Retiree Medical and Savings Plans

Effective January 1, 2017, the U.S. qualified defined benefit pension plans were reorganized into Plan A and Plan I. Actuarial gains and losses associated with Plan A are amortized over the average remaining service

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life of the active participants, while the actuarial gains and losses associated with Plan I are amortized over the remaining life expectancy of the inactive participants. As a result of this change, the pre-tax net periodic benefit cost decreased by \$42 million (\$27 million after-tax, reflecting tax rates effective for the 2017 tax year, or \$0.02 per share) in 2017, primarily impacting corporate unallocated expenses. See “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

In 2016, the U.S. qualified defined benefit pension plans purchased a group annuity contract whereby an unrelated insurance company assumed the obligation to pay and administer future annuity payments for certain retirees. In 2016, we made discretionary contributions of \$452 million primarily to fund the transfer of the obligation. This transaction triggered a pre-tax settlement charge of \$242 million (\$162 million after-tax or \$0.11 per share). See additional unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Effective as of the beginning of 2016, we prospectively changed the method we use to estimate the service and interest cost components of net periodic benefit cost. The pre-tax reduction in net periodic benefit cost associated with this change in 2016 was \$125 million (\$81 million after-tax or \$0.06 per share). See “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on this change in accounting estimate.

Gains and losses resulting from actual experience differing from our assumptions, including the difference between the actual return on plan assets and the expected return on plan assets, as well as changes in our assumptions, are determined at each measurement date. These differences are recognized as a component of net gain or loss in accumulated other comprehensive loss. If this net accumulated gain or loss exceeds 10% of the greater of the market-related value of plan assets or plan liabilities, a portion of the net gain or loss is included in expense for the following year based upon the average remaining service life for participants in Plan A (approximately 11 years) and retiree medical (approximately 7 years), or the remaining life expectancy for participants in Plan I (approximately 27 years). The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service (credit)/cost) is included in earnings on a straight-line basis over the average remaining service life for participants in Plan A or the remaining life expectancy for participants in Plan I.

We regularly evaluate different opportunities to reduce risk and volatility associated with our pension and retiree medical plans.

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Selected financial information for our pension and retiree medical plans is as follows:

	Pension U.S.		International		Retiree Medical	
	2017	2016	2017	2016	2017	2016
Change in projected benefit liability						
Liability at beginning of year	\$13,192	\$13,033	\$3,124	\$2,872	\$1,208	\$1,300
Service cost	401	393	91	80	28	31
Interest cost	468	484	89	94	36	41
Plan amendments	10	18	2	—	(5)	(15)
Participant contributions	—	—	2	2	—	—
Experience loss/(gain)	1,529	614	5	560	21	(51)
Benefit payments	(825)	(347)	(104)	(83)	(107)	(100)
Settlement/curtailment	(58)	(1,014)	(22)	(19)	—	—
Special termination benefits	60	11	—	1	2	1
Other, including foreign currency adjustment	—	—	303	(383)	4	1
Liability at end of year	\$14,777	\$13,192	\$3,490	\$3,124	\$1,187	\$1,208
Change in fair value of plan assets						
Fair value at beginning of year	\$11,458	\$11,397	\$2,894	\$2,823	\$320	\$354
Actual return on plan assets	1,935	880	288	409	52	30
Employer contributions/funding	60	541	104	118	56	36
Participant contributions	—	—	2	2	—	—
Benefit payments	(825)	(347)	(104)	(83)	(107)	(100)
Settlement	(46)	(1,013)	(18)	(22)	—	—
Other, including foreign currency adjustment	—	—	294	(353)	—	—
Fair value at end of year	\$12,582	\$11,458	\$3,460	\$2,894	\$321	\$320
Funded status	\$(2,195)	\$(1,734)	\$(30)	\$(230)	\$(866)	\$(888)
Amounts recognized						
Other assets	\$286	\$—	\$85	\$51	\$—	\$—
Other current liabilities	(74)	(42)	(1)	(1)	(75)	(54)
Other liabilities	(2,407)	(1,692)	(114)	(280)	(791)	(834)
Net amount recognized	\$(2,195)	\$(1,734)	\$(30)	\$(230)	\$(866)	\$(888)
Amounts included in accumulated other comprehensive loss (pre-tax)						
Net loss/(gain)	\$3,520	\$3,220	\$782	\$884	\$(189)	\$(193)
Prior service cost/(credit)	29	20	(3)	(5)	(71)	(91)
Total	\$3,549	\$3,240	\$779	\$879	\$(260)	\$(284)
Changes recognized in net loss/(gain) included in other comprehensive loss						
Net loss/(gain) arising in current year	\$431	\$568	\$(115)	\$314	\$(9)	\$(57)
Amortization and settlement recognition	(131)	(413)	(60)	(46)	12	1
Foreign currency translation loss/(gain)	—	—	73	(117)	1	1
Total	\$300	\$155	\$(102)	\$151	\$4	\$(55)

Accumulated benefit obligation at end of year \$13,732 \$12,211 \$2,985 \$2,642

The amounts we report as pension and retiree medical cost consist of the following components:

Service cost is the value of benefits earned by employees for working during the year.

Interest cost is the accrued interest on the projected benefit obligation due to the passage of time.

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Expected return on plan assets is the long-term return we expect to earn on plan investments for our funded plans that will be used to settle future benefit obligations.

Amortization of prior service cost/(credit) represents the recognition in the income statement of benefit changes resulting from plan amendments.

Amortization of net loss/(gain) represents the recognition in the income statement of changes in the amount of plan assets and the projected benefit obligation based on changes in assumptions and actual experience.

Settlement/curtailment loss/(gain) represents the result of actions that effectively eliminate all or a portion of related projected benefit obligations. Settlements are triggered when payouts to settle the projected benefit obligation of a plan due to lump sums or other events exceed the annual service and interest cost. Settlements are recognized when actions are irrevocable and we are relieved of the primary responsibility and risk for projected benefit obligations.

Curtailments are due to events such as plant closures or the sale of a business resulting in a reduction of future service or benefits. Curtailment losses are recognized when an event is probable and estimable, while curtailment gains are recognized when an event has occurred (when the related employees terminate or an amendment is adopted).

Special termination benefits are the additional benefits offered to employees upon departure due to actions such as restructuring.

The components of benefit expense are as follows:

	Pension			International			Retiree Medical		
	U.S.								
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Components of benefit expense									
Service cost	\$401	\$393	\$435	\$91	\$80	\$99	\$28	\$31	\$35
Interest cost	468	484	546	89	94	115	36	41	52
Expected return on plan assets	(849)	(834)	(850)	(176)	(163)	(174)	(22)	(24)	(27)
Amortization of prior service cost/(credit)	1	(1)	(3)	—	—	—	(25)	(38)	(39)
Amortization of net loss/(gain)	123	168	205	53	40	71	(12)	(1)	2
	144	210	333	57	51	111	5	9	23
Settlement/curtailment loss/(gain) ^(a)	8	245	—	11	9	3	—	(14)	—
Special termination benefits	60	11	18	—	1	1	2	1	1
Total	\$212	\$466	\$351	\$68	\$61	\$115	\$7	\$(4)	\$24

U.S. includes a settlement charge of \$242 million related to the group annuity contract purchase in 2016. See (a) additional unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The estimated amounts to be amortized from accumulated other comprehensive loss/(gain) into pre-tax expense in 2018 for our pension and retiree medical plans are as follows:

	Pension		Retiree
	U.S.	International	Medical
Net loss/(gain)	\$179	\$ 46	\$ (10)
Prior service cost/(credit)	3	—	(20)
Total	\$182	\$ 46	\$ (30)

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The following table provides the weighted-average assumptions used to determine projected benefit liability and benefit expense for our pension and retiree medical plans:

	Pension						Retiree Medical					
	U.S.			International								
	2017	2016	2015	2017	2016	2015	2017	2016	2015			
Weighted-average assumptions												
Liability discount rate	3.7 %	4.4 %	4.5 %	3.0 %	3.1 %	4.0 %	3.5 %	4.0 %	4.2 %			
Expense discount rate ^(a)	n/a	n/a	4.2 %	n/a	n/a	3.8 %	n/a	n/a	3.8 %			
Service cost discount rate ^(a)	4.5 %	4.6 %	n/a	3.6 %	4.1 %	n/a	4.0 %	4.3 %	n/a			
Interest cost discount rate ^(a)	3.7 %	3.8 %	n/a	2.8 %	3.5 %	n/a	3.2 %	3.3 %	n/a			
Expected return on plan assets	7.5 %	7.5 %	7.5 %	6.0 %	6.2 %	6.5 %	7.5 %	7.5 %	7.5 %			
Liability rate of salary increases	3.1 %	3.1 %	3.1 %	3.7 %	3.6 %	3.6 %						
Expense rate of salary increases	3.1 %	3.1 %	3.5 %	3.6 %	3.6 %	3.6 %						

Effective as of the beginning of 2016, we prospectively changed the method we use to estimate the service and interest cost components of pension and retiree medical expense. See additional unaudited information in “Our ^(a) Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following table provides selected information about plans with accumulated benefit obligation and total projected benefit liability in excess of plan assets:

	Pension				Retiree Medical	
	U.S.		International			
	2017	2016	2017	2016	2017	2016
Selected information for plans with accumulated benefit obligation in excess of plan assets						
Liability for service to date	\$(8,355)	\$(12,211)	\$(161)	\$(134)		
Fair value of plan assets	\$6,919	\$11,458	\$119	\$110		
Selected information for plans with projected benefit liability in excess of plan assets						
Benefit liability	\$(9,400)	\$(13,192)	\$(1,273)	\$(2,773)	\$(1,187)	\$(1,208)
Fair value of plan assets	\$6,919	\$11,458	\$1,158	\$2,492	\$321	\$320

Of the total projected pension benefit liability as of December 30, 2017, approximately \$905 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.

Future Benefit Payments

Our estimated future benefit payments are as follows:

	2018	2019	2020	2021	2022	2023 - 27
Pension	\$890	\$985	\$825	\$875	\$925	\$5,210
Retiree medical ^(a)	\$120	\$120	\$110	\$110	\$105	\$455

Expected future benefit payments for our retiree medical plans do not reflect any estimated subsidies expected to be received under the 2003 Medicare Act. Subsidies are expected to be approximately \$2 million for each of the years from 2018 through 2022 and approximately \$6 million in total for 2023 through 2027.

These future benefit payments to beneficiaries include payments from both funded and unfunded plans.

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Funding

Contributions to our pension and retiree medical plans were as follows:

	Pension			Retiree Medical		
	2017	2016	2015	2017	2016	2015
Discretionary ^(a)	\$6	\$459	\$—	\$—	\$—	\$—
Non-discretionary	158	200	162	56	36	43
Total	\$164	\$659	\$162	\$56	\$36	\$43

(a) Includes \$452 million in 2016 relating to the funding of the group annuity contract purchase from an unrelated insurance company.

In February 2018, we received approval from our Board of Directors to make discretionary contributions of \$1.4 billion to Plan A in the United States that we intend to invest in fixed income securities. As of February 13, 2018, we contributed \$750 million of the approved amount; we expect to contribute the remaining \$650 million in the first quarter of 2018. These contributions are reflected in our 2018 long-term expected rate of return on plan assets and target investment allocations. In addition, in 2018, we expect to make non-discretionary contributions of approximately \$175 million to our U.S. and international plans for pension benefits and approximately \$75 million for retiree medical benefits.

Plan Assets

Our pension plan investment strategy includes the use of actively managed accounts and is reviewed periodically in conjunction with plan liabilities, an evaluation of market conditions, tolerance for risk and cash requirements for benefit payments. This strategy is also applicable to funds held for the retiree medical plans. Our investment objective includes ensuring that funds are available to meet the plans' benefit obligations when they become due. Assets contributed to our pension plans are no longer controlled by us, but become the property of our individual pension plans. However, we are indirectly impacted by changes in these plan assets as compared to changes in our projected liabilities. Our overall investment policy is to prudently invest plan assets in a well-diversified portfolio of equity and high-quality debt securities and real estate to achieve our long-term return expectations. Our investment policy also permits the use of derivative instruments, such as futures and forward contracts, to reduce interest rate and foreign currency risks. Futures contracts represent commitments to purchase or sell securities at a future date and at a specified price. Forward contracts consist of currency forwards.

For 2018 and 2017, our expected long-term rate of return on U.S. plan assets is 7.2% and 7.5%, respectively. Our target investment allocations for U.S. plan assets are as follows:

	2018		2017	
Fixed income	47	%	40	%
U.S. equity	29	%	33	%
International equity	20	%	22	%
Real estate	4	%	5	%

Actual investment allocations may vary from our target investment allocations due to prevailing market conditions. We regularly review our actual investment allocations and periodically rebalance our investments.

The expected return on plan assets is based on our investment strategy and our expectations for long-term rates of return by asset class, taking into account volatility and correlation among asset classes and our historical experience. We also review current levels of interest rates and inflation to assess the reasonableness of the long-term rates. We evaluate our expected return assumptions annually to ensure that they are reasonable. To calculate the expected return on plan assets, our market-related value of assets for fixed income is the actual fair value. For all other asset categories, such as equity securities, we use a method that recognizes

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investment gains or losses (the difference between the expected and actual return based on the market-related value of assets) over a five-year period. This has the effect of reducing year-to-year volatility.

Plan assets measured at fair value as of fiscal year-end 2017 and 2016 are categorized consistently by level, and are as follows:

	2017				2016
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. plan assets ^(a)					
Equity securities, including preferred stock ^(b)	\$6,904	\$ 6,896	\$ 8	\$ —	\$6,489
Government securities ^(c)	1,365	—	1,365	—	1,173
Corporate bonds ^(c)	3,429	—	3,429	—	3,012
Mortgage-backed securities ^(c)	217	—	217	—	187
Contracts with insurance companies ^(d)	8	—	—	8	7
Cash and cash equivalents	236	236	—	—	196
Sub-total U.S. plan assets	12,159	\$ 7,132	\$ 5,019	\$ 8	11,064
Real estate commingled funds measured at net asset value ^(e)	675				651
Dividends and interest receivable, net of payables	69				63
Total U.S. plan assets	\$12,903				\$11,778
International plan assets					
Equity securities ^(b)	\$1,928	\$ 1,895	\$ 33	\$ —	\$1,556
Government securities ^(c)	492	—	492	—	432
Corporate bonds ^(c)	493	—	493	—	453
Fixed income commingled funds ^(f)	383	383	—	—	316
Contracts with insurance companies ^(d)	36	—	—	36	35
Cash and cash equivalents	19	19	—	—	12
Sub-total international plan assets	3,351	\$ 2,297	\$ 1,018	\$ 36	2,804
Real estate commingled funds measured at net asset value ^(e)	102				84
Dividends and interest receivable	7				6
Total international plan assets	\$3,460				\$2,894

(a) 2017 and 2016 amounts include \$321 million and \$320 million, respectively, of retiree medical plan assets that are restricted for purposes of providing health benefits for U.S. retirees and their beneficiaries.

The equity securities portfolio was invested in U.S. and international common stock and commingled funds, and the preferred stock portfolio in the U.S. was invested in domestic and international corporate preferred stock investments. The common stock is based on quoted prices in active markets. The U.S. commingled funds are based on fair values of the investments owned by these funds that are benchmarked against various U.S. large, mid-cap and small company indices, and includes one large-cap fund that represents 19% of total U.S. plan assets for 2017 and 2016. The international commingled funds are based on the fair values of the investments owned by these funds that track various non-U.S. equity indices. The preferred stock investments are based on quoted bid prices for comparable securities in the marketplace and broker/dealer quotes in active markets.

These investments are based on quoted bid prices for comparable securities in the marketplace and broker/dealer quotes in active markets. Corporate bonds of U.S.-based companies represent 23% and 22% of total U.S. plan assets for 2017 and 2016, respectively.

(d)

Based on the fair value of the contracts as determined by the insurance companies using inputs that are not observable. The changes in Level 3 amounts were not significant in the years ended December 30, 2017 and December 31, 2016.

(e) The real estate commingled funds include investments in limited partnerships. These funds are based on the net asset value of the appraised value of investments owned by these funds as determined by independent third parties using inputs that are not observable. The majority of the funds are redeemable quarterly subject to availability of cash and have notice periods ranging from 45 to 90 days.

(f) Based on the fair value of the investments owned by these funds that track various government and corporate bond indices.

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Retiree Medical Cost Trend Rates

	2018		2017
Average increase assumed	6	%	6 %
Ultimate projected increase	5	%	5 %
Year of ultimate projected increase	2039		2039

These assumed health care cost trend rates have an impact on the retiree medical plan expense and liability, however the cap on our share of retiree medical costs limits the impact. A 1-percentage-point change in the assumed health care trend rate would have the following effects:

	1%	1%
	Increase	Decrease
2017 service and interest cost components	\$ 3	\$ (3)
2017 benefit liability	\$ 39	\$ (34)

Savings Plan

Certain U.S. employees are eligible to participate in 401(k) savings plans, which are voluntary defined contribution plans. The plans are designed to help employees accumulate additional savings for retirement, and we make Company matching contributions for certain employees on a portion of eligible pay based on years of service.

Certain U.S. salaried employees, who are not eligible to participate in a defined benefit pension plan, are also eligible to receive an employer contribution to the 401(k) savings plan based on age and years of service regardless of employee contribution.

In 2017, 2016 and 2015, our total Company contributions were \$176 million, \$164 million and \$148 million, respectively.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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Note 8 — Debt Obligations

The following table summarizes the Company's debt obligations:

	2017 ^(a)	2016 ^(a)
Short-term debt obligations ^(b)		
Current maturities of long-term debt	\$4,020	\$4,401
Commercial paper (1.3% and 0.6%)	1,385	2,257
Other borrowings (4.7% and 4.4%)	80	234
	\$5,485	\$6,892
Long-term debt obligations ^(b)		
Notes due 2017 (1.4%)	\$—	\$4,398
Notes due 2018 (2.4% and 2.3%)	4,016	2,561
Notes due 2019 (2.1% and 1.7%)	3,933	2,837
Notes due 2020 (3.1% and 2.6%)	3,792	3,816
Notes due 2021 (2.4% and 2.4%)	3,300	2,249
Notes due 2022 (2.6% and 2.8%)	3,853	2,655
Notes due 2023-2047 (3.7% and 3.8%)	18,891	15,903
Other, due 2017-2026 (1.3% and 1.4%)	31	35
	37,816	34,454
Less: current maturities of long-term debt obligations	(4,020)	(4,401)
Total	\$33,796	\$30,053

(a) Amounts are shown net of unamortized net discounts of \$155 million and \$142 million for 2017 and 2016, respectively.

The interest rates presented reflect weighted-average rates at year-end. Certain of our fixed rate indebtedness have (b) been swapped to floating rates through the use of interest rate derivative instruments. See Note 9 for additional information regarding our interest rate derivative instruments.

In 2017, we issued the following senior notes:

Interest Rate	Maturity Date	Amount ^(a)
Floating rate	May 2019	\$ 350
Floating rate	May 2022	\$ 400
1.550 %	May 2019	\$ 750
2.250 %	May 2022	\$ 750
4.000 %	May 2047	\$ 750
2.150 %	May 2024	C\$ 750 ^(b)
Floating rate	October 2018	\$ 1,500
2.000 %	April 2021	\$ 1,000
3.000 %	October 2027	\$ 1,500

(a) Represents gross proceeds from issuances of long-term debt excluding debt issuance costs, discounts and premiums.

(b) These notes, issued in Canadian dollars, were designated as a net investment hedge to partially offset the effects of foreign currency on our investments in certain of our foreign subsidiaries.

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

In 2017, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement) which expires on June 5, 2022. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to \$3.75 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.

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Also in 2017, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 4, 2018. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to \$3.75 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 anniversary of the then effective termination date. The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our \$3.7225 billion five-year credit agreement and our \$3.7225 billion 364-day credit agreement both dated as of June 6, 2016. 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 December 30, 2017, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

In 2016, we paid \$2.5 billion to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of \$1.5 billion and \$750 million, respectively, and terminated certain interest rate swaps. As a result, we recorded a pre-tax charge of \$233 million (\$156 million after-tax or \$0.11 per share) to interest expense, primarily representing the premium paid in accordance with the “make-whole” redemption provisions. See further unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

In addition, as of December 30, 2017, our international debt of \$73 million was related to borrowings from external parties including various lines of credit. These lines of credit are subject to normal banking terms and conditions and are fully committed at least to the extent of our borrowings.

See “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our borrowings and long-term contractual commitments. Note 9 — Financial Instruments

Derivatives and Hedging

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. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. Our global purchasing programs include fixed-price contracts and purchase orders and pricing agreements.

Our hedging strategies include the use of derivatives and, in the case of our net investment hedges, debt instruments. 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 cash flow statement. 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.

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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 derivative instruments, which include swaps and futures. 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 agricultural products, energy and metals.

Ineffectiveness for those derivatives that qualify for hedge accounting treatment was not material for all periods presented. 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.

Our commodity derivatives had a total notional value of \$0.9 billion as of December 30, 2017 and \$0.8 billion as of December 31, 2016.

Foreign Exchange

Our operations outside of the United States generated 42% of our net revenue in 2017, with Mexico, Russia, Canada, the United Kingdom and Brazil comprising approximately 20% of our net revenue in 2017. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold.

Additionally, we are exposed to foreign exchange risk from net investments in foreign subsidiaries, 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. We also use net investment hedges to partially offset the effects of foreign currency on our investments in certain of our foreign subsidiaries.

Our foreign currency derivatives had a total notional value of \$1.6 billion as of December 30, 2017 and December 31, 2016. The total notional amount of our debt instruments designated as net investment hedges was \$1.5 billion as of December 30, 2017 and \$0.8 billion as of December 31, 2016. Ineffectiveness for derivatives and non-derivatives that qualify for hedge accounting treatment was not material for all periods presented. For foreign currency derivatives that do not qualify for hedge accounting treatment, all gains and losses were offset by changes in the underlying hedged items, resulting in no material net 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,

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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 have 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.

Our interest rate derivatives had a total notional value of \$14.2 billion as of December 30, 2017 and \$11.2 billion as of December 31, 2016. Ineffectiveness for derivatives that qualify for cash flow hedge accounting treatment was not material for all periods presented.

As of December 30, 2017, approximately 43% of total debt, after the impact of the related interest rate derivative instruments, was subject to variable rates, compared to approximately 38% as of December 31, 2016.

Available-for-Sale Securities

Investments in debt and marketable equity 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 debt securities as of December 30, 2017 were not material. In 2017, we recorded a pre-tax gain of \$95 million (\$85 million after-tax or \$0.06 per share), net of discount and fees, associated with the sale of our minority stake in Britvic. This gain was recorded in our ESSA segment in selling, general and administrative expenses. The pre-tax unrealized gain on these available-for-sale equity securities was \$72 million as of December 31, 2016. See Note 2 for additional information on investments in certain equity securities.

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 of 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 on our available-for-sale securities for the years ended December 30, 2017, December 31, 2016 and December 26, 2015.

Tingyi-Asahi Beverages Holding Co. Ltd.

During 2016, we concluded that the decline in estimated fair value of our 5% indirect equity interest in TAB was other than temporary based on significant negative economic trends in China and changes in assumptions associated with TAB's future financial performance arising from the disclosure by TAB's parent company, Tingyi, regarding the operating results of its beverage business. As a result, we recorded a pre- and after-tax impairment charge of \$373 million (\$0.26 per share) in 2016 in the AMENA segment. This charge was recorded in selling, general and administrative expenses in our income statement and reduced the value of our 5% indirect equity interest in TAB to its estimated fair value. The estimated fair value was derived using both an income and market approach, and is considered a non-recurring Level 3 measurement within the fair value hierarchy. The carrying value of the investment in TAB was \$166 million as of December 30, 2017.

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and December 31, 2016. We continue to monitor the impact of economic and other developments on the remaining value of our investment in TAB.

In connection with our transaction with Tingyi in 2012, we received a call option to increase our holding in TAB to 20% with an expiration date in 2015. Prior to its expiration, we concluded that the probability of exercising the option was remote and, accordingly, we recorded a pre- and after-tax charge of \$73 million (\$0.05 per share) to write off the recorded value of this call option in 2015.

See further unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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Fair Value Measurements

The fair values of our financial assets and liabilities as of December 30, 2017 and December 31, 2016 are categorized as follows:

	Fair Value Hierarchy Levels ^(a)	2017		2016	
		Assets ^(a)	Liabilities ^(a)	Assets ^(a)	Liabilities ^(a)
Available-for-sale securities:					
Equity securities ^(b)	1	\$—	\$ —	\$82	\$ —
Debt securities ^(c)	2	14,510	—	11,369	—
		\$14,510	\$ —	\$11,451	\$ —
Short-term investments ^(d)	1	\$228	\$ —	\$193	\$ —
Prepaid forward contracts ^(e)	2	\$27	\$ —	\$25	\$ —
Deferred compensation ^(f)	2	\$—	\$ 503	\$—	\$ 472
Derivatives designated as fair value hedging instruments:					
Interest rate ^(g)	2	\$24	\$ 130	\$66	\$ 71
Derivatives designated as cash flow hedging instruments:					
Foreign exchange ^(h)	2	\$15	\$ 31	\$51	\$ 8
Interest rate ^(h)	2	—	213	—	408
Commodity ⁽ⁱ⁾	1	—	2	—	1
Commodity ^(j)	2	2	—	2	—
		\$17	\$ 246	\$53	\$ 417
Derivatives not designated as hedging instruments:					
Foreign exchange ^(h)	2	\$10	\$ 3	\$2	\$ 15
Commodity ⁽ⁱ⁾	1	—	19	1	1
Commodity ^(j)	2	85	12	60	25
		\$95	\$ 34	\$63	\$ 41
Total derivatives at fair value ^(k)		\$136	\$ 410	\$182	\$ 529
Total		\$14,901	\$ 913	\$11,851	\$ 1,001

Fair value hierarchy levels are defined in Note 7. Unless otherwise noted, financial assets are classified on our (a) balance sheet within prepaid expenses and other current assets and other assets. Financial liabilities are classified on our balance sheet within accounts payable and other current liabilities and other liabilities.

(b) Based on the price of common stock. These equity securities were classified as investments in noncontrolled affiliates.

Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data.

As of December 30, 2017, \$5.8 billion and \$8.7 billion of debt securities were classified as cash equivalents and (c) short-term investments, respectively. As of December 31, 2016, \$4.6 billion and \$6.8 billion of debt securities were classified as cash equivalents and short-term investments, respectively. All of our available-for-sale debt securities have maturities of one year or less.

(d) Based on the price of index funds. These investments are classified as short-term investments and are used to manage a portion of market risk arising from our deferred compensation liability.

(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.

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

(i) Based on quoted contract prices on futures exchange markets.

(j) Based on recently reported market transactions of swap arrangements.

Unless otherwise noted, derivative assets and liabilities are presented on a gross basis on our balance sheet.

(k) Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on the balance sheet as of December 30, 2017 and December 31, 2016 were not material. Collateral received against any of our asset positions was not material.

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The carrying amounts of our cash and cash equivalents and short-term investments approximate fair value due to their short-term maturity. The fair value of our debt obligations as of December 30, 2017 and December 31, 2016 was \$41 billion and \$38 billion, respectively, based upon prices of similar instruments in the marketplace, which are considered Level 2 inputs.

Losses/(gains) on our hedging instruments are categorized as follows:

	Fair Value/Non-designated Hedges		Cash Flow and Net Investment Hedges		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss and Income Statement ^(b)	
	Losses/(Gains) Recognized in Income Statement ^(a)		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss and Income Statement ^(b)		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss and Income Statement ^(b)	
	2017	2016	2017	2016	2017	2016
Foreign exchange	\$ (15)	\$ 74	\$ 62	\$ (24)	\$ 10	\$ (44)
Interest rate	101	105	(195)	97	(184)	187
Commodity	(48)	(52)	3	1	3	7
Net investment	—	—	157	(39)	—	—
Total	\$ 38	\$ 127	\$ 27	\$ 35	\$ (171)	\$ 150

Foreign exchange derivative losses/gains are primarily included in selling, general and administrative expenses.

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

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

Based on current market conditions, we expect to reclassify net losses of \$33 million related to our cash flow hedges from accumulated other comprehensive loss into net income during the next 12 months.

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Note 10 — 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:

	2017		2016		2015	
	Income	Shares ^(a)	Income	Shares ^(a)	Income	Shares ^(a)
Net income attributable to PepsiCo	\$4,857		\$6,329		\$5,452	
Preferred shares:						
Dividends	—		(1)		(1)	
Redemption premium	(4)		(5)		(5)	
Net income available for PepsiCo common shareholders	\$4,853	1,425	\$6,323	1,439	\$5,446	1,469
Basic net income attributable to PepsiCo per common share	\$3.40		\$4.39		\$3.71	
Net income available for PepsiCo common shareholders	\$4,853	1,425	\$6,323	1,439	\$5,446	1,469
Dilutive securities:						
Stock options, RSUs, PSUs, PEPunits and Other	—	12	1	12	—	15
ESOP convertible preferred stock	4	1	5	1	6	1
Diluted	\$4,857	1,438	\$6,329	1,452	\$5,452	1,485
Diluted net income attributable to PepsiCo per common share	\$3.38		\$4.36		\$3.67	

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

Out-of-the-money options excluded from the calculation of diluted earnings per common share are as follows:

	2017	2016	2015
Out-of-the-money options ^(a)	0.4	0.7	1.5
Average exercise price per option	\$110.12	\$99.98	\$99.25

(a) In millions.

Note 11 — Preferred Stock

As of December 30, 2017 and December 31, 2016, there were 3 million shares of convertible preferred stock authorized. The preferred stock was issued for an ESOP established by Quaker. Quaker made the final award to its ESOP in June 2001. As of December 30, 2017 and December 31, 2016, there were 803,953 preferred shares issued and 114,753 and 122,553 shares outstanding, respectively. The outstanding preferred shares had a fair value of \$68 million as of December 30, 2017 and \$64 million as of December 31, 2016.

Activities of our preferred stock are included in the equity statement.

In January 2018, all of the outstanding shares of our convertible preferred stock were converted into an aggregate of 550,102 shares of our common stock at the conversion ratio set forth in Exhibit A to our amended and restated articles of incorporation. As a result, there are no shares of our convertible preferred stock outstanding as of February 13, 2018.

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Note 12 — Accumulated Other Comprehensive Loss Attributable to PepsiCo

The changes in the balances of each component of accumulated other comprehensive loss attributable to PepsiCo are as follows:

	Currency Translation Adjustment	Cash Flow Hedges	Pension and Retiree Medical	Available-For-Sale Securities	Other	Accumulated Other Comprehensive Loss Attributable to PepsiCo
Balance as of December 27, 2014 ^(a)	\$ (8,255)	\$ 34	\$ (2,500)	\$ 87	\$(35)	\$ (10,669)
Other comprehensive (loss)/income before reclassifications ^(b)	(2,936)	(95)	(88)	3	—	(3,116)
Amounts reclassified from accumulated other comprehensive loss	111	97	266	—	—	474
Net current year other comprehensive (loss)/income	(2,825)	2	178	3	—	(2,642)
Tax amounts	—	1	(7)	(2)	—	(8)
Balance as of December 26, 2015 ^(a)	(11,080)	37	(2,329)	88	(35)	(13,319)
Other comprehensive (loss)/income before reclassifications	(313)	(74)	(750)	(43)	—	(1,180)
Amounts reclassified from accumulated other comprehensive loss	—	150	407	—	—	557
Net current year other comprehensive (loss)/income	(313)	76	(343)	(43)	—	(623)
Tax amounts	7	(30)	27	19	—	23
Balance as of December 31, 2016 ^(a)	(11,386)	83	(2,645)	64	(35)	(13,919)
Other comprehensive (loss)/income before reclassifications ^(c)	1,049	130	(375)	25	—	829
Amounts reclassified from accumulated other comprehensive loss	—	(171)	158	(99)	—	(112)
Net current year other comprehensive (loss)/income	1,049					