PEPSICO INC
Form 10-Q
April 23, 2015
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 21, 2015 (12 weeks)
OR

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

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

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

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

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

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

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

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

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

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

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

Number of shares of Common Stock outstanding as of April 17, 2015 was 1,476,050,863.

Table of Contents

PepsiCo, Inc. and Subsidiaries

Table of Contents

Part I Financial Information		Page No.
Item 1.	Condensed Consolidated Financial Statements	3
	Condensed Consolidated Statement of Income – 12 Weeks Ended March 21, 2015 and March 22, 2014	3
	Condensed Consolidated Statement of Comprehensive Income – 12 Weeks Ended March 21, 2015 and March 22, 2014	4
	Condensed Consolidated Statement of Cash Flows – 12 Weeks Ended March 21, 2015 and March 22, 2014	5
	Condensed Consolidated Balance Sheet – March 21, 2015 and December 27, 2014	7
	Condensed Consolidated Statement of Equity – 12 Weeks Ended March 21, 2015 and March 22, 2014	9
	Notes to the Condensed Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Report of Independent Registered Public Accounting Firm		41
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 4.	Controls and Procedures	42
Part II Other Information		
Item 1.	Legal Proceedings	43
Item 1A.	Risk Factors	43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 5.	Other Information	45
Item 6.	Exhibits	45

Table of Contents

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

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
Net Revenue	$12,217	$12,623
Cost of sales	5,442	5,747
Gross profit	6,775	6,876
Selling, general and administrative expenses	4,962	5,048
Amortization of intangible assets	16	21
Operating Profit	1,797	1,807
Interest expense	(211)	(201)
Interest income and other	15	10
Income before income taxes	1,601	1,616
Provision for income taxes	370	389
Net income	1,231	1,227
Less: Net income attributable to noncontrolling interests	10	11
Net Income Attributable to PepsiCo	$1,221	$1,216
Net Income Attributable to PepsiCo per Common Share		
Basic	$0.82	$0.80
Diluted	$0.81	$0.79
Weighted-average common shares outstanding		
Basic	1,484	1,524
Diluted	1,503	1,540
Cash dividends declared per common share	$0.655	$0.5675

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	12 Weeks Ended 3/21/2015		
	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$1,231
Other Comprehensive Loss			
Currency translation adjustment	$(981)	$—	(981)
Cash flow hedges:			
Reclassification of net losses to net income	179	(70)	109
Net derivative losses	(155)	64	(91)
Pension and retiree medical:			
Reclassification of net losses to net income	51	(17)	34
Remeasurement of net liabilities and translation	31	(7)	24
Unrealized gains on securities	16	(8)	8
Total Other Comprehensive Loss	$(859)	$(38)	(897)
Comprehensive income			334
Comprehensive income attributable to noncontrolling interests			(10)
Comprehensive Income Attributable to PepsiCo			$324
	12 Weeks Ended 3/22/2014		
	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$1,227
Other Comprehensive Loss			
Currency translation adjustment	$(874)	$—	(874)
Cash flow hedges:			
Reclassification of net losses to net income	10	(4)	6
Net derivative gains	16	(5)	11
Pension and retiree medical:			
Reclassification of net losses to net income	48	(16)	32
Remeasurement of net liabilities and translation	3	(1)	2
Unrealized gains on securities	18	(9)	9
Total Other Comprehensive Loss	$(779)	$(35)	(814)
Comprehensive income			413
Comprehensive income attributable to noncontrolling interests			(10)
Comprehensive Income Attributable to PepsiCo			$403

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
Operating Activities		
Net income	$1,231	$1,227
Depreciation and amortization	496	532
Stock-based compensation expense	76	72
Restructuring and impairment charges	36	98
Cash payments for restructuring charges	(47)	(25)
Excess tax benefits from share-based payment arrangements	(38)	(47)
Pension and retiree medical plan expenses	104	119
Pension and retiree medical plan contributions	(83)	(84)
Deferred income taxes and other tax charges and credits	(19)	62
Change in assets and liabilities:		
Accounts and notes receivable	(435)	(358)
Inventories	(414)	(406)
Prepaid expenses and other current assets	(262)	(234)
Accounts payable and other current liabilities	(689)	(813)
Income taxes payable	294	175
Other, net	20	(137)
Net Cash Provided by Operating Activities	270	181
Investing Activities		
Capital spending	(270)	(355)
Sales of property, plant and equipment	11	7
Acquisitions and investments in noncontrolled affiliates	(9)	(24)
Divestitures	68	85
Short-term investments, by original maturity:		
More than three months - purchases	(647)	—
More than three months - maturities	1,164	—
Three months or less, net	3	59
Other investing, net	—	5
Net Cash Provided by/(Used for) Investing Activities	320	(223)

(Continued on following page)

Table of Contents

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
Financing Activities		
Proceeds from issuances of long-term debt	$—	$1,990
Payments of long-term debt	(2,052)	(1,652)
Short-term borrowings, by original maturity:		
More than three months - proceeds	10	—
More than three months - payments	(2)	—
Three months or less, net	3,729	2,125
Cash dividends paid	(978)	(888)
Share repurchases - common	(1,124)	(1,249)
Share repurchases - preferred	(1)	(2)
Proceeds from exercises of stock options	171	171
Excess tax benefits from share-based payment arrangements	38	47
Other financing	(1)	—
Net Cash (Used for)/Provided by Financing Activities	(210)	542
Effect of exchange rate changes on cash and cash equivalents	(104)	(36)
Net Increase in Cash and Cash Equivalents	276	464
Cash and Cash Equivalents, Beginning of Year	6,134	9,375
Cash and Cash Equivalents, End of Period	$6,410	$9,839

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	(Unaudited) 3/21/2015	12/27/2014
Assets		
Current Assets		
Cash and cash equivalents	$6,410	$6,134
Short-term investments	2,085	2,592
Accounts and notes receivable, less allowance: 3/15 - $137 and 12/14 - $137	6,963	6,651
Inventories		
Raw materials	1,567	1,593
Work-in-process	274	173
Finished goods	1,621	1,377
	3,462	3,143
Prepaid expenses and other current assets	2,002	2,143
Total Current Assets	20,922	20,663
Property, Plant and Equipment	35,621	36,300
Accumulated Depreciation	(18,943)	(19,056)
	16,678	17,244
Amortizable Intangible Assets, net	1,397	1,449
Goodwill	14,681	14,965
Other Nonamortizable Intangible Assets	12,361	12,639
Nonamortizable Intangible Assets	27,042	27,604
Investments in Noncontrolled Affiliates	2,626	2,689
Other Assets	960	860
Total Assets	$69,625	$70,509

(Continued on following page)

Table of Contents

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

	(Unaudited) 3/21/2015	12/27/2014
Liabilities and Equity		
Current Liabilities		
Short-term obligations	$7,962	$5,076
Accounts payable and other current liabilities	12,165	13,016
Total Current Liabilities	20,127	18,092
Long-term Debt Obligations	22,403	23,821
Other Liabilities	5,882	5,744
Deferred Income Taxes	5,224	5,304
Total Liabilities	53,636	52,961
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(182)	(181)
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: 1,479 and 1,488 shares, respectively)	25	25
Capital in excess of par value	4,129	4,115
Retained earnings	49,335	49,092
Accumulated other comprehensive loss	(11,566)	(10,669)
Repurchased common stock, in excess of par value (387 and 378 shares, respectively)	(25,913)	(24,985)
Total PepsiCo Common Shareholders' Equity	16,010	17,578
Noncontrolling interests	120	110
Total Equity	15,989	17,548
Total Liabilities and Equity	$69,625	$70,509

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	12 Weeks Ended			
	3/21/2015		3/22/2014	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	$41	0.8	$41
Repurchased Preferred Stock				
Balance, beginning of year	(0.7)	(181)	(0.6)	(171)
Redemptions	—	(1)	—	(2)
Balance, end of period	(0.7)	(182)	(0.6)	(173)
Common Stock				
Balance, beginning of year	1,488	25	1,529	25
Repurchased common stock	(9)	—	(10)	—
Balance, end of period	1,479	25	1,519	25
Capital in Excess of Par Value				
Balance, beginning of year		4,115		4,095
Stock-based compensation expense		76		72
Stock option exercises, RSUs, PSUs and PEPunits converted [a]		(36)		(172)
Withholding tax on RSUs and PSUs converted		(22)		(69)
Other		(4)		16
Balance, end of period		4,129		3,942
Retained Earnings				
Balance, beginning of year		49,092		46,420
Net income attributable to PepsiCo		1,221		1,216
Cash dividends declared – common		(971)		(863)
Cash dividends declared – RSUs and PSUs		(7)		(3)
Balance, end of period		49,335		46,770
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(10,669)		(5,127)
Currency translation adjustment		(981)		(873)
Cash flow hedges, net of tax:				
Reclassification of net losses to net income		109		6
Net derivative (losses)/gains		(91)		11
Pension and retiree medical, net of tax:				
Reclassification of net losses to net income		34		32
Remeasurement of net liabilities and translation		24		2
Unrealized gains on securities, net of tax		8		9
Balance, end of period		(11,566)		(5,940)
Repurchased Common Stock				
Balance, beginning of year	(378)	(24,985)	(337)	(21,004)
Share repurchases	(12)	(1,166)	(15)	(1,249)
Stock option exercises	3	204	3	204
Other	—	34	2	157
Balance, end of period	(387)	(25,913)	(347)	(21,892)
Total PepsiCo Common Shareholders' Equity		16,010		22,905
Noncontrolling Interests				
Balance, beginning of year		110		110

Net income attributable to noncontrolling interests	10	11
Currency translation adjustment	—	(1)
Balance, end of period	120	120
Total Equity	$15,989	$22,893

(a) Includes total tax benefits of $29 million in 2015 and $17 million in 2014.
See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries, collectively.

Our Condensed Consolidated Balance Sheet as of March 21, 2015 and Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the 12 weeks ended March 21, 2015 and March 22, 2014 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 27, 2014. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 weeks ended March 21, 2015 are not necessarily indicative of the results expected for the full year.

The results of our Venezuelan businesses have been reported under highly inflationary accounting since the beginning of 2010. See further unaudited information in “Our Business Risks” and “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

While our results in the United States and Canada (North America) are reported on a 12-week basis, most of our international operations report on a monthly calendar basis for which the months of January and February are reflected in our first quarter results.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives and certain advertising and marketing costs in proportion to revenue or volume, as applicable, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

Our Divisions

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

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

Table of Contents

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

	12 Weeks Ended			
	Net Revenue		Operating Profit	
	3/21/2015	3/22/2014	3/21/2015	3/22/2014
FLNA	$3,319	$3,219	$920	$862
QFNA [(a)]	639	634	99	160
LAF	1,279	1,338	204	232
PAB	4,433	4,426	468	429
Europe	1,477	1,961	100	152
AMEA [(b)]	1,070	1,045	242	194
Total division	12,217	12,623	2,033	2,029
Corporate Unallocated				
Mark-to-market net (losses)/gains			(1)	34
Restructuring and impairment charges [(c)]			(6)	3
Other			(229)	(259)
	$12,217	$12,623	$1,797	$1,807

(a) Operating profit for QFNA for the 12 weeks ended March 21, 2015 includes a pre-tax impairment charge of $65 million ($50 million after-tax) associated with our Muller Quaker Dairy (MQD) joint venture investment.

(b) Operating profit for AMEA for the 12 weeks ended March 21, 2015 includes a pre-tax gain of $39 million ($28 million after-tax) associated with refranchising a portion of our bottling operations in India.

(c) Income amount represents adjustments for changes in estimates of previously recorded amounts.

Total assets of each division are as follows:

	Total Assets	
	3/21/2015	12/27/2014
FLNA	$5,247	$5,307
QFNA	932	982
LAF	4,661	4,760
PAB	30,560	30,188
Europe	13,232	13,902
AMEA	5,889	5,887
Total division	60,521	61,026
Corporate [(a)]	9,104	9,483
	$69,625	$70,509

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

Note 2 - Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued new accounting guidance intended to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation for debt discounts. The guidance is effective as of the beginning of our 2016 fiscal year and must be applied on a retrospective basis with early adoption permitted. This guidance is not expected to have a material impact on our financial statements and we have not yet early adopted this standard.

Table of Contents

In June 2014, the FASB issued new accounting guidance for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The guidance requires that a performance target that could be achieved after the requisite service period is treated as a performance condition that affects the vesting of the award rather than factored into the grant date fair value. The guidance is effective as of the beginning of our 2016 fiscal year and can be applied prospectively to all share-based payments granted or modified on or after the effective date with early adoption permissible. This guidance is not expected to have any impact on our financial statements and we have not yet early adopted this standard.

In May 2014, the FASB issued new accounting guidance on revenue recognition, which provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. There is no option for early adoption. In April 2015, the FASB proposed a one-year deferral of the effective date of the new revenue standard. Under the proposal, the new guidance will be effective as of the beginning of our 2018 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected a transition approach to implement the standard.

Note 3 - Restructuring, Impairment and Integration Charges

2014 Multi-Year Productivity Plan

The multi-year productivity plan we publicly announced on February 13, 2014 (2014 Productivity Plan) includes the next generation of productivity initiatives that we believe will strengthen our food, snack and beverage businesses by: accelerating our investment in manufacturing automation; further optimizing our global manufacturing footprint, including closing certain manufacturing facilities; re-engineering our go-to-market systems in developed markets; expanding shared services; and implementing simplified organization structures to drive efficiency. The 2014 Productivity Plan is in addition to the productivity plan we began implementing in 2012 and is expected to continue the benefits of that plan.

In the 12 weeks ended March 21, 2015 and March 22, 2014, we incurred restructuring charges of $30 million ($24 million after-tax or $0.02 per share) and $96 million ($73 million after-tax or $0.05 per share), respectively, in conjunction with the 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 contract termination costs. Substantially all of the restructuring accrual at March 21, 2015 is expected to be paid by the end of 2015.

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
FLNA	$6	$12
QFNA	1	2
LAF	2	1
PAB	6	82
Europe	9	2
AMEA	2	2
Corporate [(a)]	4	(5)
	$30	$96

(a) Income amount represents adjustments for changes in estimates of previously recorded amounts.

Table of Contents

A summary of our 2014 Productivity Plan activity in 2015 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	11	1	18	30
Cash payments	(16)	—	(20)	(36)
Non-cash charges	(3)	(1)	(1)	(5)
Liability as of March 21, 2015	$81	$—	$21	$102

2012 Multi-Year Productivity Plan

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

In the 12 weeks ended March 21, 2015 and March 22, 2014, we incurred restructuring charges of $6 million ($5 million after-tax with a nominal amount per share) and $2 million ($3 million after-tax with a nominal amount per share), respectively, in conjunction with our 2012 Productivity Plan. All of these charges were recorded in selling, general and administrative expenses and primarily relate to severance and other employee-related costs and contract termination costs. Substantially all of the restructuring accrual at March 21, 2015 is expected to be paid by the end of 2015.

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
FLNA	$—	$1
QFNA	—	—
LAF [(a)]	—	(5)
PAB	1	4
Europe [(a)]	3	(2)
AMEA	—	2
Corporate	2	2
	$6	$2

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

Table of Contents

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

	Severance and Other Employee Costs	Other Costs	Total
Liability as of December 27, 2014	$28	$5	$33
2015 restructuring charges	1	5	6
Cash payments	(5)	(6)	(11)
Non-cash charges	(1)	—	(1)
Liability as of March 21, 2015	$23	$4	$27

Note 4 - Intangible Assets

A summary of our amortizable intangible assets is as follows:

	3/21/2015			12/27/2014		
Amortizable intangible assets, net	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired franchise rights	$858	$(91)	$767	$879	$(89)	$790
Reacquired franchise rights	106	(96)	10	107	(95)	12
Brands	1,339	(995)	344	1,361	(1,004)	357
Other identifiable intangibles	576	(300)	276	595	(305)	290
	$2,879	$(1,482)	$1,397	$2,942	$(1,493)	$1,449

Table of Contents

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

	Balance 12/27/2014	Translation and Other	Balance 3/21/2015
FLNA			
Goodwill	$291	$(12)	$279
Brands	27	(3)	24
	318	(15)	303
QFNA			
Goodwill	175	—	175
LAF			
Goodwill	601	(26)	575
Brands	189	(9)	180
	790	(35)	755
PAB			
Goodwill	9,889	(52)	9,837
Reacquired franchise rights	7,193	(78)	7,115
Acquired franchise rights	1,538	(16)	1,522
Brands	142	(3)	139
	18,762	(149)	18,613
Europe			
Goodwill	3,539	(174)	3,365
Reacquired franchise rights	571	(41)	530
Acquired franchise rights	199	(14)	185
Brands	2,663	(109)	2,554
	6,972	(338)	6,634
AMEA			
Goodwill	470	(20)	450
Brands	117	(5)	112
	587	(25)	562
Total goodwill	14,965	(284)	14,681
Total reacquired franchise rights	7,764	(119)	7,645
Total acquired franchise rights	1,737	(30)	1,707
Total brands	3,138	(129)	3,009
	$27,604	$(562)	$27,042

Table of Contents

Note 5 - Income Taxes

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

	3/21/2015	12/27/2014
Balance, beginning of year	$1,587	$1,268
Additions for tax positions related to the current year	40	349
Additions for tax positions from prior years	1	215
Reductions for tax positions from prior years	(1)	(81)
Settlement payments	(3)	(70)
Statutes of limitations expiration	(25)	(42)
Translation and other	(9)	(52)
Balance, end of period	$1,590	$1,587

Note 6 - Stock-Based Compensation

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
Stock-based compensation expense	$76	$72
Restructuring and impairment benefits	—	(3)
Total	$76	$69

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
Expected life	7 years	6 years
Risk free interest rate	1.8%	1.8%
Expected volatility [(a)]	15%	16%
Expected dividend yield	2.7%	2.9%

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

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

	12 Weeks Ended			
	3/21/2015		3/22/2014	
	Granted [(a)]	Weighted-Average Grant Price	Granted [(a)]	Weighted-Average Grant Price
Stock options	1.6	$ 99.25	3.0	$ 79.75
Restricted stock units (RSUs) and Performance stock units (PSUs)	2.6	$ 99.25	4.2	$ 79.76
PepsiCo equity performance units (PEPunits)	0.3	$ 99.25	0.4	$ 79.75

(a) In millions.

Table of Contents

Note 7 - Pension and Retiree Medical Benefits

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	3/21/2015	3/22/2014	3/21/2015	3/22/2014	3/21/2015	3/22/2014
	U.S.		International			
Service cost	$101	$91	$19	$19	$8	$8
Interest cost	126	134	22	24	12	14
Expected return on plan assets	(196)	(181)	(33)	(32)	(6)	(6)
Amortization of prior service (credit)/cost	(1)	5	—	—	(9)	(5)
Amortization of net losses/(gains)	47	40	14	9	—	(1)
	77	89	22	20	5	10
Special termination benefits	4	8	—	—	1	—
Total expense	$81	$97	$22	$20	$6	$10

Note 8 - Debt Obligations and Commitments

In the first quarter of 2015, $2.1 billion of senior notes matured and were paid. As of March 21, 2015, we had $4.4 billion of commercial paper outstanding.

Table of Contents

Note 9 - Accumulated Other Comprehensive Loss

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

	12 Weeks Ended		
	3/21/2015	3/22/2014	
	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Condensed Consolidated Statement of Income
Losses/(Gains) on cash flow hedges:			
Foreign exchange contracts	$(22)	$(6)	Cost of sales
Interest rate derivatives	193	5	Interest expense
Commodity contracts	5	12	Cost of sales
Commodity contracts	3	(1)	Selling, general and administrative expenses
Net losses before tax	179	10	
Tax amounts	(70)	(4)	
Net losses after tax	$109	$6	
Pension and retiree medical items:			
Amortization of prior service credit [a]	$(10)	$—	
Amortization of net losses [a]	61	48	
Net losses before tax	51	48	
Tax amounts	(17)	(16)	
Net losses after tax	$34	$32	
Total net losses reclassified for the period, net of tax	$143	$38	

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

Note 10 - Financial Instruments

Derivatives

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 purchase orders and pricing agreements.

Our hedging strategies include the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity price, foreign exchange or interest rate risks are classified as operating activities in the Condensed Consolidated Statement of Cash

Table of Contents

Flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item.
For cash flow hedges, the effective portion of changes in fair value are deferred in accumulated other comprehensive loss within common shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item.
Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. 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 open commodity derivative contracts had a notional value of $1.1 billion as of March 21, 2015 and $1.2 billion as of December 27, 2014.
Foreign Exchange
We are exposed to foreign exchange risk from foreign currency purchases and foreign currency assets and liabilities created in the normal course of business. We manage this risk through sourcing purchases from local suppliers, negotiating contracts in local currencies with foreign suppliers and through the use of derivatives, primarily forward contracts with terms of no more than two years. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.
Our foreign currency derivatives had a total notional value of $2.3 billion as of March 21, 2015 and $2.7 billion as of December 27, 2014. Ineffectiveness for those 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 losses and gains were offset by changes in the underlying hedged items, resulting in no material net impact on earnings.

Table of Contents

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross-currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. Certain of our fixed rate indebtedness has been swapped to floating rates. The notional amount, interest payment and maturity date of the interest rate and cross-currency interest rate swaps match the principal, interest payment and maturity date of the related debt. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.

The notional values of the interest rate derivative instruments outstanding as of March 21, 2015 and December 27, 2014 were $7.8 billion and $9.3 billion, respectively. Ineffectiveness for those derivatives that qualify for cash flow hedge accounting treatment was not material for all periods presented.

As of March 21, 2015, approximately 31% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to approximately 25% as of December 27, 2014.

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 March 21, 2015 were not material. The pre-tax unrealized gains on our investments in marketable equity securities were $126 million and $111 million as of March 21, 2015 and December 27, 2014, respectively. Changes in the fair value of available-for-sale securities impact net income only when such securities are sold or an other-than-temporary impairment is recognized. We regularly review our investment portfolio to determine if any security is other-than-temporarily impaired. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and our intent to sell, or whether we will more likely than not be required to sell, the security before recovery of its amortized cost basis. Our assessment 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 for the 12 weeks ended March 21, 2015 and March 22, 2014, respectively.

Tingyi-Asahi Beverages Holding Co. Ltd. Call Option

In connection with our transaction with Tingyi (Cayman Islands) Holding Corp. in the second quarter of 2012, we received a call option to increase our holding in Tingyi-Asahi Beverages Holding Co. Ltd. to 20% that expires in the fourth quarter of 2015. If the Company decides not to exercise this call option, we would record a charge to write off the recorded value of the option. Such a charge would be reflected in "Items Affecting Comparability" in the period recognized.

Table of Contents

Fair Value Measurements

The fair values of our financial assets and liabilities as of March 21, 2015 and December 27, 2014 are categorized as follows:

	3/21/2015		12/27/2014	
	Assets [a]	Liabilities [a]	Assets [a]	Liabilities [a]
Available-for-sale securities:				
Equity securities [b]	$139	$—	$124	$—
Debt securities [c]	4,104	—	3,167	—
	$4,243	$—	$3,291	$—
Short-term investments [d]	$200	$—	$197	$—
Prepaid forward contracts [e]	$25	$—	$26	$—
Deferred compensation [f]	$—	$503	$—	$504
Derivatives designated as fair value hedging instruments:				
Interest rate [g]	$162	$—	$140	$—
Derivatives designated as cash flow hedging instruments:				
Foreign exchange [h]	$95	$24	$76	$12
Interest rate [h]	—	310	1	117
Commodity [i]	1	7	3	10
	$96	$341	$80	$139
Derivatives not designated as hedging instruments:				
Foreign exchange [h]	$8	$4	$12	$13
Interest rate [g]	62	78	57	75
Commodity [i]	11	152	18	166
	$81	$234	$87	$254
Total derivatives at fair value [j]	$339	$575	$307	$393
Total	$4,807	$1,078	$3,821	$897

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

(b) Based on the price of common stock. Categorized as a Level 1 asset. These equity securities are classified as investments in noncontrolled affiliates.

(c) Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data. As of March 21, 2015, $2.2 billion and $1.9 billion of debt securities were classified as cash equivalents and short-term investments, respectively. As of December 27, 2014, $0.8 billion and $2.4 billion of debt securities were classified as cash equivalents and short-term investments, respectively. All of the Company’s available-for-sale debt securities have contractual maturities of one year or less.

(d) Based on the price of index funds. Categorized as a Level 1 asset. These investments are classified as short-term investments 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. As of March 21, 2015 and December 27, 2014, amounts related to non-designated instruments are presented as a net liability on our Condensed Consolidated Balance Sheet.

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

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

(j) Unless otherwise noted, derivative assets and liabilities are presented on a gross basis on our Condensed Consolidated Balance Sheet. Amounts subject to enforceable master netting arrangements or similar agreements

which are not offset on the Condensed Consolidated Balance Sheet as of March 21, 2015 and December 27, 2014 were immaterial. Collateral received against any of our asset positions was immaterial.

Table of Contents

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 March 21, 2015 and December 27, 2014 was $33 billion and $31 billion, respectively, based upon prices of similar instruments in the marketplace.

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

	12 Weeks Ended Fair Value/Non-designated Hedges		Cash Flow Hedges			
	Losses/(Gains) Recognized in Income Statement [(a)]		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement [(b)]	
	3/21/2015	3/22/2014	3/21/2015	3/22/2014	3/21/2015	3/22/2014
Foreign exchange	$(8)	$(17)	$(41)	$(18)	$(22)	$(6)
Interest rate	(23)	1	194	(5)	193	5
Commodity	54	(9)	2	7	8	11
Total	$23	$(25)	$155	$(16)	$179	$10

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

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

During the next 12 months, we expect to reclassify net gains of $39 million related to our cash flow hedges from accumulated other comprehensive loss into net income.

Table of Contents

Note 11 - Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended			
	3/21/2015		3/22/2014	
	Income	Shares [(a)]	Income	Shares [(a)]
Net income attributable to PepsiCo	$1,221		$1,216	
Preferred shares:				
Dividends	—		—	
Redemption premium	(1)		(1)	
Net income available for PepsiCo common shareholders	$1,220	1,484	$1,215	1,524
Basic net income attributable to PepsiCo per common share	$0.82		$0.80	
Net income available for PepsiCo common shareholders	$1,220	1,484	$1,215	1,524
Dilutive securities:				
Stock options, RSUs, PSUs, PEPunits and Other [(b)]	—	18	—	15
Employee stock ownership plan (ESOP) convertible preferred stock	1	1	1	1
Diluted	$1,221	1,503	$1,216	1,540
Diluted net income attributable to PepsiCo per common share	$0.81		$0.79	

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

(b) In the 12 weeks ended March 21, 2015 and March 22, 2014, options to purchase 1.6 million shares and 0.2 million shares, respectively, were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. These out-of-the-money options had average exercise prices of $99.25 and $82.25 in the 12 weeks ended March 21, 2015 and March 22, 2014, respectively.

Table of Contents

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

FINANCIAL REVIEW

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 condensed consolidated financial statements and the accompanying notes. Also refer to Note 1 of our condensed consolidated financial statements. 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 Critical Accounting Policies

The critical accounting policies below should be read in conjunction with those outlined in our Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

Sales Incentives and Advertising and Marketing Costs

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

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

Income Taxes

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

Table of Contents

Our Business Risks

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (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,” “expre confidence,” “forecast,” “future,” “goals,” “guidance,” “intend,” “may,” “objectives,” “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. Such risks and uncertainties include, but are not limited to: changes in demand for PepsiCo’s products, as a result of changes in consumer preferences or otherwise; changes in the legal and regulatory environment; imposition of new taxes, disagreements with tax authorities or additional tax liabilities; PepsiCo’s ability to compete effectively; PepsiCo’s ability to grow its business in developing and emerging markets or unstable political conditions, civil unrest or other developments and risks in the markets where PepsiCo’s products are made, manufactured, distributed or sold; unfavorable economic conditions in the countries in which PepsiCo operates; increased costs, disruption of supply or shortages of raw materials and other supplies; failure to realize anticipated benefits from PepsiCo’s productivity initiatives or global operating model; disruption of PepsiCo’s supply chain; product contamination or tampering or issues or concerns with respect to product quality, safety and integrity; damage to PepsiCo’s reputation or brand image; failure to successfully complete or integrate acquisitions and joint ventures into PepsiCo’s existing operations or to complete or manage divestitures or refranchisings; PepsiCo’s ability to hire or retain key employees or a highly skilled and diverse workforce; loss of any key customer or changes to the retail landscape; any downgrade or potential downgrade of PepsiCo’s credit ratings; the ability to protect information systems against or effectively respond to a cybersecurity incident or other disruption; PepsiCo’s ability to implement shared services or utilize information technology systems and networks effectively; fluctuations or other changes in exchange rates, including changes in currency exchange mechanisms or additional governmental actions in Venezuela; climate change, or legal, regulatory or market measures to address climate change; failure to successfully negotiate collective bargaining agreements or strikes or work stoppages; any infringement of or challenge to PepsiCo’s intellectual property rights; potential liabilities and costs from litigation or legal proceedings; and other factors that may adversely affect the price of PepsiCo’s common stock and financial performance including those described in “Risk Factors” in Item 1A. and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 and in Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” of this Quarterly Report on Form 10-Q. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

In the first quarter of 2015, our operations outside of North America reflect the months of January and February. Our operations outside of the U.S. generated 37% of our net revenue, with Mexico, Canada, Russia, the United Kingdom and Brazil comprising approximately 17% of our net revenue. As a result, we are exposed to foreign exchange risks in many of the international markets in which we operate. In addition, unstable economic, political and social conditions and civil unrest in certain markets in which our products are sold, including in Russia, Ukraine and the Middle East, and currency fluctuations in certain of these international

markets and in Venezuela (discussed below), continue to result in challenging operating environments. In the 12 weeks ended March 21, 2015, unfavorable foreign exchange negatively impacted net revenue performance by 8 percentage points, primarily due to the Russian ruble, Venezuelan bolivar, euro, Mexican peso and the Canadian dollar. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

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

As of March 21, 2015, there was a three-tiered exchange rate mechanism in Venezuela for exchanging bolivars into U.S. dollars:

- The government-operated National Center of Foreign Commerce (CENCOEX), which has a fixed exchange rate of 6.3 bolivars per U.S. dollar (fixed exchange rate) mainly intended for the import of essential goods and services by designated industry sectors.
- The auction-based Supplementary Foreign Currency Administration System (now known as SICAD, resulting from the unification in February 2015 of SICAD I and II), which is intended for certain transactions, including foreign investments.
- An open market Marginal Foreign Exchange System (SIMADI), established in February 2015, which is available to companies and individuals to exchange foreign currency based on supply and demand.

At the end of each period, we remeasure the net monetary assets of our Venezuela entities from the bolivar to the U.S. dollar at the rate we believe is legally available to us, including for the payment of dividends. Based on our analysis, we continue to believe that, except as noted below, the SICAD exchange rate is the most appropriate rate to remeasure our net monetary assets. We remeasure certain other net monetary assets at the fixed exchange rate, since we believe that requests for remittance of dividends submitted to CENCOEX in certain prior years at the fixed exchange rate and payables for imports of essential goods approved by CENCOEX continue to qualify for settlement at the fixed exchange rate.

In the first quarter of 2015, our results of operations in Venezuela, which reflect the months of January and February, generated 2% of our net revenue and 1% of our operating profit. As of March 21, 2015, our operations in Venezuela comprised 9% of our cash and cash equivalents balance. Our bolivar-denominated net monetary assets in Venezuela, which primarily include cash and cash equivalents, approximated $505 million at March 21, 2015. At March 21, 2015, we had pending requests with the Venezuelan government for remittance of dividends of approximately $310 million at the fixed exchange rate. These requests pertain to the years from 2006 to 2012. We are unable to predict the likelihood of Venezuelan government approvals of these requests or any requests that we may file in the future or, if any such requests are approved, the estimated time for remittance. We continue to evaluate available options to obtain U.S. dollars to meet our operational needs in Venezuela. Our non-monetary assets in Venezuela, which primarily include an equity investment in our bottler, intangible assets, inventory and property, plant and equipment, approximated $635 million at March 21, 2015.

We believe that significant uncertainty exists regarding the exchange mechanisms in Venezuela, including the nature of transactions that are eligible to flow through CENCOEX, SICAD or SIMADI, or any other new exchange mechanism that may emerge, how any such mechanisms will operate in the future, as well as the availability of U.S. dollars under each mechanism. We continue to monitor developments closely and may determine in the future that rates other than the SICAD exchange rate or the fixed exchange rate, as applicable, are appropriate for remeasurement of the net monetary assets of our Venezuelan entities. If, at the end of the first quarter of 2015, we had used the SICAD exchange rate, which was 12 bolivars per U.S. dollar as of that date, to remeasure the net monetary assets that are currently recorded at the fixed exchange rate, we would

Table of Contents

have incurred a net charge of approximately $160 million. If, at the end of the first quarter of 2015, we had remeasured all net monetary assets of our Venezuela businesses at the SIMADI exchange rate, which was approximately 177 bolivars per U.S. dollar as of that date, we would have incurred a net charge of approximately $480 million. In addition, if we were to conclude that the SIMADI exchange rate is the appropriate rate for remeasurement of our Venezuelan entities, our results of operations in Venezuela for the remainder of 2015 would expect to generate 0% of our net revenue and 0% of our operating profit and it would also lead to an impairment of our non-monetary assets, which were approximately $635 million at March 21, 2015. Any such remeasurement and potential impairment charges, if recognized, would be reflected in "Items Affecting Comparability." Any further devaluation of the bolivar, change in the currency exchange mechanisms, additional governmental actions or fluctuation of the auction-based SICAD exchange rate could adversely affect our financial position, including a potential impairment of non-monetary assets, results of operations, both for any period in which we determine to remeasure using another rate and on a going forward basis following any such remeasurement, and our ability to make effective business decisions with respect to our Venezuela operations.

During 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. The sanctions did not have 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. In each of the 12 week periods ended March 21, 2015 and March 22, 2014, 3% and 5.5%, respectively, of our total net revenue was generated by our operations in Russia. As of March 21, 2015, our long-lived assets in Russia were $4.3 billion. Our operations in Ukraine are not significant in relation to our consolidated results or financial position.

See Note 10 to our condensed consolidated financial statements for a discussion of our financial instruments, including their fair values as of March 21, 2015 and March 22, 2014. Cautionary statements included above and in "Item 1A. Risk Factors" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2014, should be considered when evaluating our trends and future results.

Results of Operations – Consolidated Review

Items Affecting Comparability

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

	12 Weeks Ended	
	3/21/2015	3/22/2014
Operating profit		
Mark-to-market net (losses)/gains	$ (1)	$34
Restructuring and impairment charges	$ (36)	$(98)
Net income attributable to PepsiCo		
Mark-to-market net (losses)/gains	$ (1)	$21
Restructuring and impairment charges	$ (29)	$(76)
Net income attributable to PepsiCo per common share – diluted		
	$ (—)	$0.01
Restructuring and impairment charges	$ (0.02)	$(0.05)

Table of Contents

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.

In the 12 weeks ended March 21, 2015, we recognized $1 million ($1 million after-tax with a nominal amount per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses, with an $18 million net loss recognized in cost of sales and a $17 million net gain recognized in selling, general and administrative expenses.

In the 12 weeks ended March 22, 2014, we recognized $34 million ($21 million after-tax or $0.01 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses, with a $46 million net gain recognized in cost of sales and a $12 million net loss recognized in selling, general and administrative expenses.

Restructuring and Impairment Charges

2014 Multi-Year Productivity Plan

In the 12 weeks ended March 21, 2015 and March 22, 2014, we incurred restructuring charges of $30 million ($24 million after-tax or $0.02 per share) and $96 million ($73 million after-tax or $0.05 per share), respectively, in conjunction with the 2014 Productivity Plan. See Note 3 to our condensed consolidated financial statements for further information.

We expect to incur pre-tax charges of approximately $990 million, of which approximately $690 million represents cash expenditures related to the 2014 Productivity Plan, summarized by period as follows:

	Charges		Cash Expenditures	
2013	$53		$—	
2014	357		175	(b)
First quarter 2015	30		36	
	440		211	
Remainder of 2015 (expected)	210		186	
2016 - 2019 (expected)	340		293	
	$990	(a)	$690	

(a) This total pre-tax charge is expected to consist of approximately $530 million of severance and other employee-related costs, approximately $180 million for asset impairments (all non-cash) resulting from plant closures and related actions, and approximately $280 million for other costs, including costs related to the termination of leases and other contracts. This charge is expected to impact reportable segments approximately as follows: FLNA 13%, QFNA 2%, LAF 15%, PAB 35%, Europe 25%, AMEA 4% and Corporate 6%.

(b) In 2014, cash expenditures include $10 million reported on the Condensed Consolidated Statement of Cash Flows in pension and retiree medical plan contributions.

Table of Contents

2012 Multi-Year Productivity Plan

In the 12 weeks ended March 21, 2015 and March 22, 2014, we incurred restructuring charges of $6 million ($5 million after-tax with a nominal amount per share) and $2 million ($3 million after-tax with a nominal amount per share), respectively, in conjunction with the 2012 Productivity Plan. See Note 3 to our condensed consolidated financial statements for further information.

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

	Charges	Cash Expenditures
2011	$383	$30
2012	279	343
2013	110	133
2014	61	101
First quarter 2015	6	11
	839	618
Remainder of 2015 (expected)	71	