

Edgar Filing: PEPSICO INC - Form 10-Q

PEPSICO INC

Form 10-Q

October 16, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 7, 2013 (36 weeks)

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1183

PepsiCo, Inc.

(Exact Name of Registrant as Specified in its Charter)

North Carolina  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-1584302  
(I.R.S. Employer  
Identification No.)

700 Anderson Hill Road, Purchase, New York  
(Address of Principal Executive Offices)

10577  
(Zip Code)

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

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 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 ☒

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 ☒

Number of shares of Common Stock outstanding as of October 9, 2013: 1,533,599,526



Table of Contents

PepsiCo, Inc. and Subsidiaries

## Table of Contents

Part I Financial Information		Page No.
Item 1.	Condensed Consolidated Financial Statements	<u>3</u>
	<u>Condensed Consolidated Statement of Income –</u>	
	<u>12 and 36 Weeks Ended September 7, 2013 and September 8,</u>	<u>3</u>
	<u>2012</u>	
	<u>Condensed Consolidated Statement of Comprehensive Income –</u>	
	<u>12 and 36 Weeks Ended September 7, 2013 and September 8, 2012</u>	<u>4</u>
	<u>Condensed Consolidated Statement of Cash Flows –</u>	
	<u>36 Weeks Ended September 7, 2013 and September 8, 2012</u>	<u>5</u>
	<u>Condensed Consolidated Balance Sheet –</u>	
	<u>September 7, 2013 and December 29, 2012</u>	<u>7</u>
	<u>Condensed Consolidated Statement of Equity –</u>	
	<u>36 Weeks Ended September 7, 2013 and September 8, 2012</u>	<u>9</u>
	<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>10</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
	Report of Independent Registered Public Accounting Firm	<u>46</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
Item 4.	<u>Controls and Procedures</u>	<u>47</u>
Part II Other Information		
Item 1.	<u>Legal Proceedings</u>	<u>48</u>
Item 1A.	<u>Risk Factors</u>	<u>48</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 6.	<u>Exhibits</u>	<u>50</u>

Table of Contents

## PART I FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements.

## Condensed Consolidated Statement of Income

## PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Net Revenue	\$16,909	\$16,652	\$46,297	\$45,538
Cost of sales	7,946	7,833	21,678	21,637
Selling, general and administrative expenses	6,158	5,992	17,237	16,920
Amortization of intangible assets	25	27	75	82
Operating Profit	2,780	2,800	7,307	6,899
Interest expense	(220)	(204)	(642)	(611)
Interest income and other	17	23	62	47
Income before income taxes	2,577	2,619	6,727	6,335
Provision for income taxes	654	706	1,694	1,788
Net income	1,923	1,913	5,033	4,547
Less: Net income attributable to noncontrolling interests	10	11	35	30
Net Income Attributable to PepsiCo	\$1,913	\$1,902	\$4,998	\$4,517
Net Income Attributable to PepsiCo per Common Share				
Basic	\$1.24	\$1.22	\$3.23	\$2.89
Diluted	\$1.23	\$1.21	\$3.20	\$2.86
Weighted-average common shares outstanding				
Basic	1,542	1,556	1,545	1,562
Diluted	1,561	1,575	1,564	1,580
Cash dividends declared per common share	\$0.5675	\$0.5375	\$1.6725	\$1.59

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

## Condensed Consolidated Statement of Comprehensive Income

PepsiCo, Inc. and Subsidiaries

(in millions, unaudited)

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

	12 Weeks Ended 9/8/2012			36 Weeks Ended 9/8/2012		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$1,913			\$4,547
Other Comprehensive Income						
Currency translation adjustment	\$530	\$—	530	\$(14 )	\$—	(14 )
Cash flow hedges:						
Reclassification of net losses to net income	20	(7 )	13	58	(21 )	37
Net derivative losses	(13 )	(2 )	(15 )	(50 )	10	(40 )
Pension and retiree medical:						
Reclassification of net losses to net income	69	(24 )	45	209	(71 )	138
Remeasurement of net liabilities and translation	(29 )	7	(22 )	(28 )	6	(22 )
Unrealized (losses)/gains on securities	(1 )	—	(1 )	2	—	2
Other	—	—	—	—	36	36
Total Other Comprehensive Income	\$576	\$(26 )	550	\$177	\$(40 )	137
Comprehensive income			2,463			4,684
Comprehensive income attributable to noncontrolling interests			(11 )			(24 )
Comprehensive Income Attributable to PepsiCo			\$2,452			\$4,660

See accompanying notes to the condensed consolidated financial statements.



Table of Contents

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

	36 Weeks Ended	
	9/7/2013	9/8/2012
Operating Activities		
Net income	\$5,033	\$4,547
Depreciation and amortization	1,815	1,837
Stock-based compensation expense	219	193
Merger and integration charges	9	7
Cash payments for merger and integration charges	(21	) (57
Restructuring and impairment charges	37	193
Cash payments for restructuring charges	(100	) (243
Restructuring and other charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	—	163
Cash payments for restructuring and other charges related to the transaction with Tingyi	(26	) (98
Non-cash foreign exchange loss related to Venezuela devaluation	111	—
Excess tax benefits from share-based payment arrangements	(94	) (89
Pension and retiree medical plan contributions	(208	) (1,253
Pension and retiree medical plan expenses	462	414
Deferred income taxes and other tax charges and credits	(66	) 283
Change in accounts and notes receivable	(1,262	) (1,300
Change in inventories	(337	) (234
Change in prepaid expenses and other current assets	(156	) (83
Change in accounts payable and other current liabilities	734	281
Change in income taxes payable	811	736
Other, net	(299	) (179
Net Cash Provided by Operating Activities	6,662	5,118
Investing Activities		
Capital spending	(1,497	) (1,409
Sales of property, plant and equipment	51	58
Cash payments related to the transaction with Tingyi	(3	) (298
Acquisitions and investments in noncontrolled affiliates	(82	) (76
Divestitures	174	7
Short-term investments, by original maturity – three months or less, net	(8	) (21
Other investing, net	(13	) 11
Net Cash Used for Investing Activities	(1,378	) (1,728

---

(Continued on following page)

Table of Contents

## Condensed Consolidated Statement of Cash Flows (continued)

PepsiCo, Inc. and Subsidiaries

(in millions, unaudited)

	36 Weeks Ended	
	9/7/2013	9/8/2012
Financing Activities		
Proceeds from issuances of long-term debt	\$4,185	\$5,207
Payments of long-term debt	(2,954)	(1,357)
Short-term borrowings, by original maturity		
More than three months – proceeds	2	53
More than three months – payments	(476)	(213)
Three months or less, net	662	(2,034)
Cash dividends paid	(2,558)	(2,470)
Share repurchases – common	(2,041)	(2,328)
Share repurchases – preferred	(5)	(5)
Proceeds from exercises of stock options	991	927
Excess tax benefits from share-based payment arrangements	94	89
Acquisition of noncontrolling interests	(20)	(15)
Other financing	(15)	(18)
Net Cash Used for Financing Activities	(2,135)	(2,164)
Effect of exchange rate changes on cash and cash equivalents	(242)	16
Net Increase in Cash and Cash Equivalents	2,907	1,242
Cash and Cash Equivalents, Beginning of Year	6,297	4,067
Cash and Cash Equivalents, End of Period	\$9,204	\$5,309

See accompanying notes to the condensed consolidated financial statements.



Table of Contents

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

	(Unaudited) 9/7/2013	12/29/2012
Assets		
Current Assets		
Cash and cash equivalents	\$9,204	\$6,297
Short-term investments	355	322
Accounts and notes receivable, less allowance: 9/13 – \$155, 12/12 – \$157	8,088	7,041
Inventories		
Raw materials	1,791	1,875
Work-in-process	253	173
Finished goods	1,694	1,533
	3,738	3,581
Prepaid expenses and other current assets	1,546	1,479
Total Current Assets	22,931	18,720
Property, Plant and Equipment	35,914	36,162
Accumulated Depreciation	(17,842)	(17,026)
	18,072	19,136
Amortizable Intangible Assets, net	1,662	1,781
Goodwill	16,534	16,971
Other Nonamortizable Intangible Assets	14,300	14,744
Nonamortizable Intangible Assets	30,834	31,715
Investments in Noncontrolled Affiliates	1,823	1,633
Other Assets	1,492	1,653
Total Assets	\$76,814	\$74,638

---

(Continued on following page)

Table of Contents

## Condensed Consolidated Balance Sheet (continued)

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts)

	(Unaudited) 9/7/2013	12/29/2012
Liabilities and Equity		
Current Liabilities		
Short-term obligations	\$5,256	\$4,815
Accounts payable and other current liabilities	12,214	11,903
Income taxes payable	998	371
Total Current Liabilities	18,468	17,089
Long-Term Debt Obligations	24,293	23,544
Other Liabilities	6,604	6,543
Deferred Income Taxes	5,047	5,063
Total Liabilities	54,412	52,239
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(169)	) (164)
PepsiCo Common Shareholders' Equity		
Common stock, par value 1 <sup>2</sup> / <sub>3</sub> ¢ per share (authorized 3,600 shares, issued, net of repurchased common stock at par value: 1,537 and 1,544 shares, respectively)	26	26
Capital in excess of par value	4,040	4,178
Retained earnings	45,554	43,158
Accumulated other comprehensive loss	(6,907)	) (5,487)
Repurchased common stock, in excess of par value (329 and 322 shares, respectively)	(20,299)	) (19,458)
Total PepsiCo Common Shareholders' Equity	22,414	22,417
Noncontrolling interests	116	105
Total Equity	22,402	22,399
Total Liabilities and Equity	\$76,814	\$74,638

---

 See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	36 Weeks Ended 9/7/2013		9/8/2012	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	\$41	0.8	\$41
Repurchased Preferred Stock				
Balance, beginning of year	(0.6	) (164	) (0.6	) (157
Redemptions	—	(5	) —	(5
Balance, end of period	(0.6	) (169	) (0.6	) (162
Common Stock				
Balance, beginning of year	1,544	26	1,565	26
Repurchased common stock	(7	) —	(13	) —
Balance, end of period	1,537	26	1,552	26
Capital in Excess of Par Value				
Balance, beginning of year		4,178		4,461
Stock-based compensation expense		219		193
Stock option exercises/RSUs converted <sup>(a)</sup>		(266	)	(384
Withholding tax on RSUs converted		(77	)	(65
Other		(14	)	(26
Balance, end of period		4,040		4,179
Retained Earnings				
Balance, beginning of year		43,158		40,316
Net income attributable to PepsiCo		4,998		4,517
Cash dividends declared – common		(2,583	)	(2,482
Cash dividends declared – preferred		—		(1
Cash dividends declared – RSUs		(19	)	(18
Balance, end of period		45,554		42,332
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(5,487	)	(6,229
Currency translation adjustment		(1,650	)	(8
Cash flow hedges, net of tax:				
Reclassification of net losses to net income		46		37
Net derivative losses		(2	)	(40
Pension and retiree medical, net of tax:				
Reclassification of net losses to net income		162		138
Remeasurement of net liabilities and translation		26		(22
Unrealized gains on securities, net of tax		14		2
Other		(16	)	36
Balance, end of period		(6,907	)	(6,086
Repurchased Common Stock				
Balance, beginning of year	(322	) (19,458	) (301	) (17,870
Share repurchases	(27	) (2,125	) (35	) (2,387
Stock option exercises	18	1,146	20	1,225
Other	2	138	2	141
Balance, end of period	(329	) (20,299	) (314	) (18,891
Total PepsiCo Common Shareholders' Equity		22,414		21,560
Noncontrolling Interests				

Edgar Filing: PEPSICO INC - Form 10-Q

Balance, beginning of year	105	311
Net income attributable to noncontrolling interests	35	30
Distributions to noncontrolling interests	(15 )	(15 )
Currency translation adjustment	(3 )	(6 )
Acquisitions and divestitures	(6 )	(175 )
Balance, end of period	116	145
Total Equity	\$22,402	\$21,584

(a) Includes total tax benefits of \$32 million in 2013 and \$57 million in 2012.  
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 divisions and subsidiaries.

Our Condensed Consolidated Balance Sheet as of September 7, 2013, Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 7, 2013 and September 8, 2012 and Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 7, 2013 and September 8, 2012 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 29, 2012. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the full year.

While our North America (United States and Canada) results are reported on a period basis, most of our international operations report on a monthly calendar basis for which the months of June, July and August are reflected in our third quarter results.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives, and certain advertising and marketing costs, in proportion to revenue and 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. Certain reclassifications were made to the prior year’s amounts to conform to the 2013 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

Our Divisions

We are organized into four business units, as follows:

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

Table of Contents

Our four business units comprise six reportable segments (also referred to as divisions), as follows:

FLNA,  
QFNA,  
LAF,  
PAB,  
Europe, and  
AMEA.

	12 Weeks Ended		36 Weeks Ended	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Net Revenue				
FLNA	\$3,424	\$3,269	\$9,879	\$9,472
QFNA	604	615	1,815	1,821
LAF	2,049	1,883	5,532	5,066
PAB	5,406	5,530	15,086	15,330
Europe	3,818	3,691	9,413	9,153
AMEA	1,608	1,664	4,572	4,696
	\$16,909	\$16,652	\$46,297	\$45,538
	12 Weeks Ended		36 Weeks Ended	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Operating Profit				
FLNA	\$977	\$917	\$2,711	\$2,532
QFNA	137	154	450	495
LAF	295	219	829	673
PAB	843	837	2,290	2,202
Europe	501	483	1,014	1,017
AMEA	295	317	1,003	630
Total division	3,048	2,927	8,297	7,549
Corporate Unallocated				
Mark-to-market net (losses)/gains	(19	) 121	(74	) 126
Merger and integration charges	—	2	—	—
Restructuring and impairment charges	1	(7	(1	) (8
Venezuela currency devaluation	—	—	(124	) —
Other	(250	) (243	(791	) (768
	\$2,780	\$2,800	\$7,307	\$6,899

Table of Contents

	Total Assets	
	9/7/2013	12/29/2012
FLNA	\$5,424	\$5,332
QFNA	1,016	966
LAF	4,704	4,993
PAB	31,145	30,899
Europe	18,902	19,218
AMEA	5,496	5,738
Total division	66,687	67,146
Corporate <sup>(a)</sup>	10,127	7,492
	\$76,814	\$74,638

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

## Note 2 - Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued new accounting guidance that requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance are effective as of the beginning of our 2014 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements.

In February 2013, the FASB issued guidance that requires an entity to disclose information showing the effect of the items reclassified from accumulated other comprehensive income on the line items of net income. The provisions of this new guidance were effective prospectively as of the beginning of our 2013 fiscal year. Accordingly, we have included enhanced footnote disclosure for the 12 and 36 weeks ended September 7, 2013 in Note 9.

In July 2012, the FASB issued new accounting guidance that permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. An entity would continue to calculate the fair value of an indefinite-lived intangible asset if the asset fails the qualitative assessment, while no further analysis would be required if it passes. The provisions of the new guidance were effective for, and had no impact on, our 2013 annual indefinite-lived intangible asset impairment test results.

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

Table of Contents

## Note 3 - Restructuring, Impairment and Integration Charges

In the 12 weeks ended September 7, 2013, we incurred restructuring and impairment charges of \$7 million (\$6 million after-tax with a nominal amount per share) in conjunction with our multi-year productivity plan (Productivity Plan). In the 36 weeks ended September 7, 2013, we incurred restructuring and impairment charges of \$37 million (\$29 million after-tax or \$0.02 per share) in conjunction with our Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. The majority of cash payments related to these charges are expected to be paid by the end of 2013.

In the 12 weeks ended September 8, 2012, we incurred restructuring and impairment charges of \$83 million (\$59 million after-tax or \$0.04 per share) in conjunction with our Productivity Plan. In the 36 weeks ended September 8, 2012, we incurred restructuring and impairment charges of \$193 million (\$139 million after-tax or \$0.09 per share) in conjunction with our Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. The majority of cash payments related to these charges were paid by the end of 2012.

The 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 Productivity Plan is expected to enhance PepsiCo's cost-competitiveness, provide a source of funding for future brand-building and innovation initiatives, and serve as a financial cushion for potential macroeconomic uncertainty.

A summary of our Productivity Plan charges is as follows:

	12 Weeks Ended		36 Weeks Ended		
	9/7/2013	9/8/2012	9/7/2013	9/8/2012	
FLNA	\$1	\$8	\$5	\$40	
QFNA	—	1	—	7	
LAF	1	29	6	41	
PAB	3	33	8	76	
Europe <sup>(a)</sup>	2	(1	) 14	(2	)
AMEA	1	6	3	23	
Corporate <sup>(a)</sup>	(1	) 7	1	8	
	\$7	\$83	\$37	\$193	

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

A summary of our Productivity Plan activity in 2013 is as follows:

	Severance and Other Employee Costs	Asset Impairment	Other Costs	Total	
Liability as of December 29, 2012	\$91	\$—	\$36	\$127	
2013 restructuring charges	12	1	24	37	
Cash payments	(71	) —	(29	) (100	)
Non-cash charges and other	(4	) (1	) (6	) (11	)
Liability as of September 7, 2013	\$28	\$—	\$25	\$53	



Table of Contents

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

Substantially all cash payments related to these charges are expected to be paid by the end of 2013.

In the 12 weeks ended September 8, 2012, we incurred merger and integration charges of \$2 million (\$2 million after-tax with a nominal amount per share) related to our acquisition of WBD, including \$4 million recorded in the Europe segment and income of \$2 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 8, 2012, we incurred merger and integration charges of \$7 million (\$6 million after-tax with a nominal amount per share) related to our acquisition of WBD, all of which were recorded in the Europe segment. These charges were recorded in selling, general and administrative expenses.

The majority of cash payments related to these charges were paid by the end of 2012.

A summary of our merger and integration activity in 2013 is as follows:

	Severance and Other Employee Costs	Asset Impairment	Other Costs	Total
Liability as of December 29, 2012	\$18	\$—	\$6	\$24
2013 merger and integration charges <sup>(a)</sup>	(2	) 8	3	9
Cash payments	(14	) —	(7	) (21
Non-cash charges and other	(1	) (8	) —	(9
Liability as of September 7, 2013	\$1	\$—	\$2	\$3

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

## Note 4 - Intangible Assets

	9/7/2013			12/29/2012		
Amortizable intangible assets, net	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired franchise rights	\$910	\$(78	) \$832	\$931	\$(67	) \$864
Reacquired franchise rights	108	(80	) 28	110	(68	) 42
Brands	1,392	(981	) 411	1,422	(980	) 442
Other identifiable intangibles	675	(284	) 391	736	(303	) 433
	\$3,085	\$(1,423	) \$1,662	\$3,199	\$(1,418	) \$1,781

Table of Contents

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

	Balance 12/29/2012	Acquisitions/ (Divestitures)	Translation and Other	Balance 9/7/2013
FLNA				
Goodwill	\$316	\$—	\$(8	) \$308
Brands	31	—	(2	) 29
	347	—	(10	) 337
QFNA				
Goodwill	175	—	—	175
LAF				
Goodwill	716	—	(53	) 663
Brands	223	—	(17	) 206
	939	—	(70	) 869
PAB				
Goodwill	9,988	15	(39	) 9,964
Reacquired franchise rights	7,337	4	(52	) 7,289
Acquired franchise rights	1,573	(8	) (10	) 1,555
Brands	153	—	(7	) 146
	19,051	11	(108	) 18,954
Europe				
Goodwill	5,214	—	(285	) 4,929
Reacquired franchise rights	772	—	(35	) 737
Acquired franchise rights	223	—	—	223
Brands	4,284	—	(297	) 3,987
	10,493	—	(617	) 9,876
AMEA				
Goodwill	562	(4	) (63	) 495
Brands	148	—	(20	) 128
	710	(4	) (83	) 623
Total goodwill	16,971	11	(448	) 16,534
Total reacquired franchise rights	8,109	4	(87	) 8,026
Total acquired franchise rights	1,796	(8	) (10	) 1,778
Total brands	4,839	—	(343	) 4,496
	\$31,715	\$7	\$(888	) \$30,834

Table of Contents

## Note 5 - Income Taxes

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

	9/7/2013	12/29/2012
Balance, beginning of year	\$2,425	\$2,167
Additions for tax positions related to the current year	177	275
Additions for tax positions from prior years	138	161
Reductions for tax positions from prior years	(110)	(172)
Settlement payments	(211)	(17)
Statute of limitations expiration	(26)	(3)
Translation and other	(7)	14
Balance, end of period	\$2,386	\$2,425

In the fourth quarter of 2013, we reached an agreement with the Internal Revenue Service resolving all open matters related to the audits for taxable years 2003 through 2009. As a result, we expect to make net cash tax payments of approximately \$700 million that will reduce our net cash provided by operating activities and our reserves for uncertain tax positions for various jurisdictions in the fourth quarter of 2013. In addition, as previously disclosed, we believe it is reasonably possible that our reserves for uncertain tax positions could be further impacted in the fourth quarter of 2013.

## Note 6 - Stock-Based Compensation

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

	12 Weeks Ended		36 Weeks Ended	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Stock-based compensation expense	\$70	\$68	\$219	\$193
Merger and integration charges	—	1	—	2
Restructuring and impairment benefits	—	—	—	(7)
Total	\$70	\$69	\$219	\$188

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

	36 Weeks Ended	
	9/7/2013	9/8/2012
Expected life	6 years	6 years
Risk free interest rate	1.0	% 1.3
Expected volatility <sup>(a)</sup>	17	% 17
Expected dividend yield	2.7	% 3.0

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

For the 12 weeks ended September 7, 2013, our grants of stock options, restricted stock units (RSUs) and PepsiCo equity performance units (PEPUnits) were nominal. For the 36 weeks ended September 7, 2013, we granted 2.7 million stock options, 4.2 million RSUs and 0.4 million PEPUnits at weighted-average grant prices of \$76.22, \$76.35 and \$75.75, respectively, under the terms of our 2007 Long-Term Incentive Plan.

Table of Contents

For the 12 weeks ended September 8, 2012, our grants of stock options, RSUs and PEPUnits were nominal. For the 36 weeks ended September 8, 2012, we granted 3.6 million stock options, 4.3 million RSUs and 0.4 million PEPUnits at weighted-average grant prices of \$66.94, \$66.51 and \$66.70, respectively, under the terms of our 2007 Long-Term Incentive Plan.

## 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				Retiree Medical	
	Pension		9/7/2013	9/8/2012	9/7/2013	9/8/2012
	9/7/2013	9/8/2012				
	U.S.		International			
Service cost	\$107	\$93	\$28	\$23	\$10	\$12
Interest cost	122	124	29	27	13	15
Expected return on plan assets	(190)	) (183)	) (39)	) (34)	) (6)	) (5)
Amortization of prior service cost/(benefit)	4	4	—	—	(6)	) (6)
Amortization of net losses	67	60	17	13	—	—
	110	98	35	29	11	16
Settlement/curtailment gain	—	—	—	(2)	—	—
Special termination benefits	—	2	—	—	—	—
Total expense	\$110	\$100	\$35	\$27	\$11	\$16

	36 Weeks Ended				Retiree Medical	
	Pension		9/7/2013	9/8/2012	9/7/2013	9/8/2012
	9/7/2013	9/8/2012				
	U.S.		International			
Service cost	\$323	\$282	\$77	\$65	\$31	\$35
Interest cost	365	370	81	75	38	45
Expected return on plan assets	(570)	) (550)	) (109)	) (95)	) (18)	) (15)
Amortization of prior service cost/(benefit)	13	12	1	1	(16)	) (18)
Amortization of net losses	200	179	46	35	—	—
	331	293	96	81	35	47
Settlement/curtailment (gain)/loss	—	(7)	) 1	1	—	—
Special termination benefits	3	6	—	—	—	4
Total expense	\$334	\$292	\$97	\$82	\$35	\$51

During the first quarter of 2013, we made discretionary contributions of \$13 million to our international pension plans. During the first quarter of 2012, we made discretionary contributions of \$860 million to our U.S. pension plans and \$140 million to our U.S. retiree medical plans.

Table of Contents

Note 8 - Debt Obligations and Commitments

In the first quarter of 2013, we issued:

\$625 million of floating rate notes maturing in February 2016, which bear interest at a rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 21 basis points;

\$625 million of 0.700% senior notes maturing in February 2016; and

\$1.250 billion of 2.750% senior notes maturing in March 2023.

In the third quarter of 2013, we issued:

\$850 million of floating rate notes maturing in July 2015 (2015 Notes), which bear interest at a rate equal to three-month LIBOR plus 20 basis points; and

\$850 million of 2.250% senior notes maturing in January 2019 (2019 Notes).

The net proceeds from the issuances of the notes in the first quarter were used for general corporate purposes, including the repayment of commercial paper. The net proceeds from the issuances of the notes in the third quarter were primarily used for the redemption of our outstanding 3.75% senior notes maturing in March 2014 (2014 Notes), as described below, with the remainder used for general corporate purposes, including the repayment of commercial paper. In the third quarter of 2013, we exercised our option to redeem all of our outstanding 2014 Notes, using approximately \$1 billion of the net proceeds from the 2015 Notes and 2019 Notes issued in the quarter.

In the second quarter of 2013, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement) which expires on June 10, 2018. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to \$2.925 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to \$3.5 billion. Additionally, we may, once a year, request renewal of the agreement for an additional one-year period.

Also, in the second quarter of 2013, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 9, 2014. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to \$2.925 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to \$3.5 billion. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than the then effective termination date.

The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our \$2.925 billion Four-Year Credit Agreement dated as of June 14, 2011 and our \$2.925 billion 364-Day Credit Agreement dated as of June 14, 2011. Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes of PepsiCo and our subsidiaries.

As of September 7, 2013, we had \$2.0 billion of commercial paper outstanding.

Table of ContentsLong-Term Contractual Commitments <sup>(a)</sup>

	Payments Due by Period				
	Total	2013	2014 – 2015	2016 – 2017	2018 and beyond
Long-term debt obligations <sup>(b)</sup>	\$23,826	\$—	\$4,092	\$4,355	\$15,379
Interest on debt obligations <sup>(c)</sup>	8,571	291	1,597	1,357	5,326
Operating leases	1,991	138	735	428	690
Purchasing commitments <sup>(d)</sup>	2,074	300	1,177	289	308
Marketing commitments <sup>(d)</sup>	2,230	96	668	505	961
	\$38,692	\$825	\$8,269	\$6,934	\$22,664

Based on quarter-end foreign exchange rates. We expect to make net cash tax payments of approximately \$700 million in the fourth quarter of 2013, as discussed further in Note 5. 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 other settlements.

Excludes \$3,174 million related to current maturities of long-term debt, \$249 million related to the fair value step-up of debt acquired in connection with our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS) in February 2010 and \$218 million related to the increase in carrying value of long-term debt reflecting the gains on our fair value interest rate swaps.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of September 7, 2013.

(d) Primarily reflects non-cancelable commitments as of September 7, 2013.

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for packaging materials and oranges and orange juice. 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 because they do not represent expected future cash outflows. See Note 7 for additional information regarding our pension and retiree medical obligations.

Table of Contents

## Note 9 - Accumulated Other Comprehensive Loss

The following table summarizes the reclassifications from Accumulated Other Comprehensive Loss to the Condensed Consolidated Statement of Income for the 12 and 36 weeks ended September 7, 2013:

	12 Weeks Ended 9/7/2013 Amount Reclassified from Accumulated Other Comprehensive Loss	36 Weeks Ended 9/7/2013 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	\$2	\$6	Cost of sales
Interest rate derivatives	8	41	Interest expense
Commodity contracts	12	26	Cost of sales
Commodity contracts	(1	) (1	) Selling, general and administrative expenses
Net losses before tax	21	72	
Tax amounts	(7	) (26	)
Net losses after tax	\$14	\$46	
Amortization of pension and retiree medical items:			
Net prior service benefit <sup>(a)</sup>	\$(2	) \$(2	)
Net actuarial losses <sup>(a)</sup>	84	247	
Net losses before tax	82	245	
Tax amounts	(29	) (83	)
Net losses after tax	\$53	\$162	
Total net losses reclassified for the period, net of tax	\$67	\$208	

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

## Note 10 - Financial Instruments

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

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

In the normal course of business, we manage these risks through a variety of strategies, including 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, foreign exchange or interest rate risks are classified as operating activities in the Condensed Consolidated Statement of Cash Flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. See "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.





## Table of Contents

For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within common shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. If the derivative instrument is terminated, we continue to defer the related gain or loss and then include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss on the hedge in net income immediately.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including 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 purchase orders, pricing agreements and derivatives. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for agricultural products, energy and metals. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of \$32 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in corporate unallocated expenses. Our open commodity derivative contracts that qualify for hedge accounting had a face value of \$512 million as of September 7, 2013 and \$488 million as of September 8, 2012.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$947 million as of September 7, 2013 and \$636 million as of September 8, 2012.

Table of Contents

Foreign Exchange

We are also exposed to foreign currency risk from foreign currency purchases and foreign currency assets and liabilities created in the normal course of business. We manage this risk through sourcing purchases from local suppliers, negotiating contracts in local currencies with foreign suppliers and through the use of derivatives, primarily forward contracts with terms of no more than two years. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.

Our foreign currency derivatives had a total face value of \$2.8 billion as of September 7, 2013 and \$2.5 billion as of September 8, 2012. During the next 12 months, we expect to reclassify net gains of \$30 million related to foreign currency contracts that qualify for hedge accounting from accumulated other comprehensive loss into net income. Ineffectiveness was not material for all periods presented. For foreign currency derivatives that do not qualify for hedge accounting treatment, all losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Interest Rates

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

The notional amounts of the interest rate derivative instruments outstanding as of September 7, 2013 and September 8, 2012 were \$7.1 billion and \$7.3 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of \$23 million related to these hedges from accumulated other comprehensive loss into net income.

As of September 7, 2013, approximately 23% of total debt, after the impact of the related interest rate derivative instruments, was exposed to variable rates, compared to 27% as of December 29, 2012.

Table of Contents

## Fair Value Measurements

The fair values of our financial assets and liabilities as of September 7, 2013 and September 8, 2012 are categorized as follows:

	2013		2012	
	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>
Available-for-sale securities <sup>(b)</sup>	\$105	\$—	\$61	\$—
Short-term investments – index funds <sup>(c)</sup>	\$169	\$—	\$164	\$—
Prepaid forward contracts <sup>(d)</sup>	\$38	\$—	\$41	\$—
Deferred compensation <sup>(e)</sup>	\$—	\$486	\$—	\$503
Derivatives designated as fair value hedging instruments:				
Interest rate derivatives <sup>(f)</sup>	\$167	\$5	\$293	\$—
Derivatives designated as cash flow hedging instruments:				
Interest rate derivatives <sup>(f)</sup>	\$3	\$—	\$—	\$—
Foreign exchange contracts <sup>(g)</sup>	33	3	10	31
Commodity contracts <sup>(h)</sup>	6	36	13	38
	\$42	\$39	\$23	\$69
Derivatives not designated as hedging instruments:				
Interest rate derivatives <sup>(f)</sup>	\$64	\$89	\$128	\$159
Foreign exchange contracts <sup>(g)</sup>	27	12	30	6
Commodity contracts <sup>(h)</sup>	16	97	84	25
	\$107	\$198	\$242	\$190
Total derivatives at fair value	\$316	\$242	\$558	\$259
Total	\$628	\$728	\$824	\$762

Financial assets are classified on our balance sheet within prepaid expenses and other current assets and other assets, with the exception of available-for-sale securities and short-term investments, which are classified as (a) short-term investments. Financial liabilities are classified on our balance sheet within accounts payable and other current liabilities and other liabilities. Unless specifically indicated, all financial assets and liabilities are categorized as Level 2 assets or liabilities.

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

(c) Based on price changes in index funds used to manage a portion of market risk arising from our deferred compensation liability. Categorized as a Level 1 asset.

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

Based on the fair value of investments corresponding to employees' investment elections. As of September 7, 2013, (e) all balances are categorized as Level 2 liabilities. As of September 8, 2012, \$11 million are categorized as Level 1 liabilities and the remaining balances are categorized as Level 2 liabilities.

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

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

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

The fair value of our debt obligations as of September 7, 2013 was \$30 billion, based upon prices of similar instruments in the marketplace.

Table of Contents

The effective portion of the pre-tax (gains)/losses on our derivative instruments is categorized in the tables below.

	12 Weeks Ended		Cash Flow Hedges		Losses/(Gains)	
	Fair Value/Non-				Reclassified from	
	designated Hedges				Accumulated Other	
	(Gains)/Losses		(Gains)/Losses		Comprehensive Loss	
	Recognized in		Recognized in		into Income	
	Income Statement <sup>(a)</sup>		Accumulated Other		Statement <sup>(b)</sup>	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Foreign exchange contracts	\$(8 )	\$(9 )	\$(5 )	\$41	\$2	\$(6 )
Interest rate derivatives	53	(5 )	(9 )	—	8	6
Commodity contracts	36	(99 )	10	(28 )	11	20
Total	\$81	\$(113 )	\$(4 )	\$13	\$21	\$20

	36 Weeks Ended		Cash Flow Hedges		Losses/(Gains)	
	Fair Value/Non-				Reclassified from	
	designated Hedges				Accumulated Other	
	(Gains)/Losses		(Gains)/Losses		Comprehensive Loss	
	Recognized in		Recognized in		into Income	
	Income Statement <sup>(a)</sup>		Accumulated Other		Statement <sup>(b)</sup>	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Foreign exchange contracts	\$(3 )	\$(16 )	\$(38 )	\$37	\$6	\$(4 )
Interest rate derivatives	104	3	3	4	41	15
Commodity contracts	85	(76 )	49	9	25	47
Total	\$186	\$(89 )	\$14	\$50	\$72	\$58

Interest rate derivatives gains/losses are primarily from fair value hedges and are included in interest expense.

(a) These gains/losses are substantially offset by increases/decreases in the value of the underlying debt, which are also included in interest expense. Foreign exchange contracts gains/losses are included in selling, general and administrative expenses. Commodity contracts gains/losses are primarily included in cost of sales.

(b) Interest rate derivatives losses are included in interest expense. All other gains/losses are primarily included in cost of sales.

Table of Contents

## Note 11 - Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended		9/8/2012	
	9/7/2013		9/8/2012	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income attributable to PepsiCo	\$1,913		\$1,902	
Preferred shares:				
Dividends	—		—	
Redemption premium	—		(1	)
Net income available for PepsiCo common shareholders	\$1,913	1,542	\$1,901	1,556
Basic net income attributable to PepsiCo per common share	\$1.24		\$1.22	
Net income available for PepsiCo common shareholders	\$1,913	1,542	\$1,901	1,556
Dilutive securities:				
Stock options and RSUs <sup>(b)</sup>	—	18	—	18
Employee stock ownership plan (ESOP) convertible preferred stock	—	1	1	1
Diluted	\$1,913	1,561	\$1,902	1,575
Diluted net income attributable to PepsiCo per common share	\$1.23		\$1.21	
	36 Weeks Ended		9/8/2012	
	9/7/2013		9/8/2012	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income attributable to PepsiCo	\$4,998		\$4,517	
Preferred shares:				
Dividends	(1	)	(1	)
Redemption premium	(4	)	(4	)
Net income available for PepsiCo common shareholders	\$4,993	1,545	\$4,512	1,562
Basic net income attributable to PepsiCo per common share	\$3.23		\$2.89	
Net income available for PepsiCo common shareholders	\$4,993	1,545	\$4,512	1,562
Dilutive securities:				
Stock options and RSUs <sup>(b)</sup>	—	18	—	17
ESOP convertible preferred stock	5	1	5	1
Diluted	\$4,998	1,564	\$4,517	1,580
Diluted net income attributable to PepsiCo per common share	\$3.20		\$2.86	

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

For the 12 weeks ended September 7, 2013, the calculation of diluted earnings per common share was unadjusted because there were no out-of-the-money options during the period. Options to purchase 0.9 million shares for the 36 weeks ended September 7, 2013 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money. These out-of-the-money options had an average exercise price of \$75.69. Options to purchase 0.6 million and 13.5 million shares, respectively, for the 12 and 36 weeks ended September 8, 2012 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 for the 12 and 36 weeks ended September 8, 2012 had average exercise prices of \$72.26 and \$67.51, respectively.

Table of Contents

Note 12 - Divestitures

Suntory Holdings Limited

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

Tingyi-Asahi Beverages Holding Co. Ltd.

On March 31, 2012, we completed a transaction with Tingyi. Under the terms of the agreement, we contributed our company-owned and joint venture bottling operations in China to Tingyi's beverage subsidiary, Tingyi-Asahi Beverages Holding Co. Ltd. (TAB), and received as consideration a 5% indirect equity interest in TAB. As a result of this transaction, TAB is now our franchise bottler in China. We also have a call option to increase our indirect holding in TAB to 20% by 2015. We recorded restructuring and other charges of \$150 million (\$176 million after-tax or \$0.11 per share), primarily consisting of employee-related charges, in our 2012 results, of which \$137 million (\$163 million after-tax or \$0.10 per share) was recorded in our results for the 36 weeks ended September 8, 2012. This charge is reflected in items affecting comparability. See "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

FINANCIAL REVIEW

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

Our Critical Accounting Policies

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. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year incurred.

## Table of Contents

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 in the interim period as they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for other marketplace spending, which includes the costs of 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.

### Our Business Risks

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as "believe," "expect," "intend," "estimate," "project," "anticipate," "v" 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 statements. 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.

Our operations outside of the U.S. generated 48% of our net revenue in the 36 weeks ended September 7, 2013. As a result, we are exposed to foreign currency risks and unstable economic and political conditions and civil unrest in the markets in which we operate. During 2012 and 2013, certain countries in Europe continued to experience debt and credit issues as well as currency fluctuations and, as a result, the operating environment in Europe remains challenging. In addition, continued political and civil unrest in the Middle East continues to result in a challenging operating environment in this region. We continue to monitor the economic and operating environment in these regions closely and have identified actions to potentially mitigate the unfavorable impact, if any, on the balance of our 2013 year financial results. In the 12 weeks ended September 7, 2013, unfavorable foreign currency decreased net revenue growth by 1 percentage point, primarily due to depreciation of the Venezuelan bolivar fuerte (bolivar), the Canadian dollar, the Brazilian real and the Egyptian pound, partially offset by appreciation of the Mexican peso. In the 36 weeks ended September 7, 2013, unfavorable foreign currency decreased net revenue growth by 1 percentage point, primarily due to depreciation of the Venezuelan bolivar, the Brazilian real, the Egyptian pound and the Russian ruble, partially offset by appreciation of the Mexican peso. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

Table of Contents

The results of our Venezuelan businesses have been reported under hyperinflationary accounting since the beginning of our 2010 fiscal year, at which time the functional currency of our Venezuelan entities was changed from the bolivar to the U.S. dollar. In 2013 and 2012, the majority of our transactions and net monetary assets qualified to be remeasured at the official exchange rate of obtaining U.S. dollars for dividends through the government-operated Foreign Exchange Administration Board (CADIVI). Effective February 2013, the Venezuelan government devalued the bolivar by resetting the official exchange rate from 4.3 bolivars per dollar to 6.3 bolivars per dollar. Additionally, the Transaction System for Foreign Currency Denominated Securities (SITME) administered by the Central Bank of Venezuela for non-CADIVI transactions was eliminated. To replace the SITME, the government announced a new auction-based foreign exchange system (SICAD) that will function as the official channel to acquire dollars, for non-CADIVI transactions, at a rate higher than the official exchange rate. The devaluation resulted in an after-tax net charge of \$111 million in the first quarter of 2013 associated with the remeasurement of bolivar-denominated net monetary assets reflected in items affecting comparability (see “Items Affecting Comparability”). We expect that the impact of this devaluation on PepsiCo’s 2013 net revenue and operating profit will not be material. We continue to use available options to obtain U.S. dollars to meet our operational needs.

We expect to be able to reduce the impact of volatility in our raw material and energy costs through our hedging strategies and ongoing sourcing initiatives.

See Note 10 to our condensed consolidated financial statements for further discussion of our derivative instruments, including their fair values as of September 7, 2013 and September 8, 2012. Cautionary statements included 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 29, 2012, should be considered when evaluating our trends and future results.



Table of Contents

## Results of Operations – Consolidated Review

## Items Affecting Comparability

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

	12 Weeks Ended		36 Weeks Ended	
	9/7/2013	9/8/2012	9/7/2013	9/8/2012
Operating profit				
Mark-to-market net (losses)/gains	\$ (19	) \$ 121	\$ (74	) \$ 126
Merger and integration charges	\$ (9	) \$ (2	) \$ (9	) \$ (7
Restructuring and impairment charges	\$ (7	) \$ (83	) \$ (37	) \$ (193
Venezuela currency devaluation	\$ —	\$ —	\$ (111	) \$ —
Restructuring and other charges related to the transaction with Tingyi	\$ —	\$ —	\$ —	\$ (137
Net income attributable to PepsiCo				
Mark-to-market net (losses)/gains	\$ (10	) \$ 70	\$ (47	) \$ 75
Merger and integration charges	\$ (7	) \$ (2	) \$ (7	) \$ (6
Restructuring and impairment charges	\$ (6	) \$ (59	) \$ (29	) \$ (139
Venezuela currency devaluation	\$ —	\$ —	\$ (111	) \$ —
Restructuring and other charges related to the transaction with Tingyi	\$ —	\$ —	\$ —	\$ (163
Net income attributable to PepsiCo per common share – diluted				
Mark-to-market net (losses)/gains	\$ (0.01	) \$ 0.05	\$ (0.03	) \$ 0.05
Merger and integration charges	\$ ( — )	\$ ( — )	\$ ( — )	\$ ( — )
Restructuring and impairment charges	\$ ( — )	\$ (0.04	) \$ (0.02	) \$ (0.09
Venezuela currency devaluation	\$ —	\$ —	\$ (0.07	) \$ —
Restructuring and other charges related to the transaction with Tingyi	\$ —	\$ —	\$ —	\$ (0.10

## Mark-to-Market Net Impact

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

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

In the 12 weeks ended September 8, 2012, we recognized \$121 million (\$70 million after-tax or \$0.05 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses. In the 36 weeks ended September 8, 2012, we recognized \$126 million (\$75 million after-tax or \$0.05 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

## Table of Contents

### Merger and Integration Charges

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

In the 12 weeks ended September 8, 2012, we incurred merger and integration charges of \$2 million (\$2 million after-tax with a nominal amount per share) related to our acquisition of WBD, including \$4 million recorded in the Europe segment and income of \$2 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 8, 2012, we incurred merger and integration charges of \$7 million (\$6 million after-tax with a nominal amount per share) related to our acquisition of WBD, all of which were recorded in the Europe segment.

### Restructuring and Impairment Charges

In the 12 weeks ended September 7, 2013, we incurred restructuring and impairment charges of \$7 million (\$6 million after-tax with a nominal amount per share) in conjunction with our Productivity Plan, including \$1 million recorded in the FLNA segment, \$1 million recorded in the LAF segment, \$3 million recorded in the PAB segment, \$2 million recorded in the Europe segment, \$1 million recorded in the AMEA segment and income of \$1 million recorded in corporate unallocated expenses representing adjustments of previously recorded amounts. In the 36 weeks ended September 7, 2013, we incurred restructuring and impairment charges of \$37 million (\$29 million after-tax or \$0.02 per share) in conjunction with our Productivity Plan, including \$5 million recorded in the FLNA segment, \$6 million recorded in the LAF segment, \$8 million recorded in the PAB segment, \$14 million recorded in the Europe segment, \$3 million recorded in the AMEA segment and \$1 million recorded in corporate unallocated expenses.

In the 12 weeks ended September 8, 2012, we incurred restructuring and impairment charges of \$83 million (\$59 million after-tax or \$0.04 per share) in conjunction with our Productivity Plan, including \$8 million recorded in the FLNA segment, \$1 million recorded in the QFNA segment, \$29 million recorded in the LAF segment, \$33 million recorded in the PAB segment, \$6 million recorded in the AMEA segment, \$7 million recorded in corporate unallocated expenses and income of \$1 million recorded in the Europe segment representing adjustments of previously recorded amounts. In the 36 weeks ended September 8, 2012, we incurred restructuring and impairment charges of \$193 million (\$139 million after-tax or \$0.09 per share) in conjunction with our Productivity Plan, including \$40 million recorded in the FLNA segment, \$7 million recorded in the QFNA segment, \$41 million recorded in the LAF segment, \$76 million recorded in the PAB segment, \$23 million recorded in the AMEA segment, \$8 million recorded in corporate unallocated expenses and income of \$2 million recorded in the Europe segment representing adjustments of previously recorded amounts.

In conjunction with our Productivity Plan, we expect to incur pre-tax charges of approximately \$910 million, \$383 million of which was reflected in our 2011 results, \$279 million of which was reflected in our 2012 results, \$37 million of which was reflected in our results through the third quarter of 2013, with approximately \$100 million of additional charges during the remainder of 2013 and the balance of which will be reflected in our 2014 through 2015 results. These charges will consist of approximately \$530 million of severance and other employee-related costs; approximately \$300 million for other costs, including consulting-related costs and the termination of leases and other contracts; and approximately \$80 million for asset impairments (all non-cash) resulting from plant closures and related actions. These charges resulted in cash expenditures of \$30 million in 2011, \$343 million in 2012, \$100 million through the third quarter of 2013, with approximately \$40 million of additional cash expenditures expected in the remainder of 2013 and the balance of approximately \$200 million expected in 2014 through 2015. See Note 3 to our condensed consolidated financial statements. The Company continues to explore opportunities to further drive productivity.

## Table of Contents

### Venezuela Currency Devaluation

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

### Restructuring and Other Charges Related to the Transaction with Tingyi

In the 36 weeks ended September 8, 2012, we recorded restructuring and other charges of \$137 million (\$163 million after-tax or \$0.10 per share) related to the transaction with Tingyi.

### Non-GAAP Measures

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

### Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. For the 12 and 36 weeks ended September 7, 2013, total servings increased 1% and 3%, respectively. For the 12 and 36 weeks ended September 8, 2012, total servings increased 4% and 3%, respectively. 2013 and 2012 servings growth reflects adjustments to the base years (2012 and 2011) for divestitures that occurred in 2012 and 2011, as applicable.

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

Table of Contents

## Consolidated Results

## Total Net Revenue and Operating Profit

	12 Weeks Ended				36 Weeks Ended			
	9/7/2013	9/8/2012	Change		9/7/2013	9/8/2012	Change	
Total net revenue	\$16,909	\$16,652	1.5	%	\$46,297	\$45,538	2	%
Operating profit								
FLNA	\$977	\$917	7	%	\$2,711	\$2,532	7	%
QFNA	137	154	(11)	)%	450	495	(9)	)%
LAF	295	219	35	%	829	673	23	%
PAB	843	837	1	%	2,290	2,202	4	%
Europe	501	483	3.5	%	1,014	1,017	—	%
AMEA	295	317	(7)	)%	1,003	630	59	%
Corporate Unallocated								
Mark-to-market net (losses)/gains	(19)	) 121	n/m		(74)	) 126	n/m	
Merger and integration charges	—	2	n/m		—	—	—	
Restructuring and impairment charges	1	(7)	) n/m		(1)	) (8)	) (86)	)%
Venezuela currency devaluation	—	—	—		(124)	) —	n/m	
Other	(250)	) (243)	) 3	%	(791)	) (768)	) 3	%
Total operating profit	\$2,780	\$2,800	(1)	)%	\$7,307	\$6,899	6	%
Total operating profit margin	16.4	% 16.8	% (0.4)	)	15.8	% 15.1	% 0.7	

n/m = not meaningful

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

12 Weeks

On a reported basis, total operating profit decreased 1% and operating margin decreased 0.4 percentage points. Operating profit performance was primarily driven by certain operating cost increases including strategic initiatives related to capacity and capability, as well as higher commodity costs, partially offset by effective net pricing and planned cost reductions across a number of expense categories. Items affecting comparability (see “Items Affecting Comparability”) negatively impacted operating profit performance by 3 percentage points and decreased total operating margin by 0.4 percentage points. Higher commodity inflation reduced operating profit growth by 2 percentage points, primarily attributable to inflation in the Europe, LAF and QFNA segments, partially offset by deflation in the PAB and FLNA segments. Incremental investments into our business, primarily in the AMEA segment and in corporate unallocated expenses, negatively impacted reported operating profit performance by 1 percentage point. We intend to continue to make similar incremental investments into our business in the fourth quarter of 2013. For the full year, we expect these incremental investments will fully offset the impact of the gain from structural changes due to the beverage refranchising in our Vietnam business reported in the second quarter of 2013 (see Note 12 to our condensed consolidated financial statements).

Table of Contents

## 36 Weeks

On a reported basis, total operating profit increased 6% and operating margin increased 0.7 percentage points. Operating profit growth was primarily driven by effective net pricing and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases including strategic initiatives related to capacity and capability, as well as higher advertising and marketing expenses. Items affecting comparability (see “Items Affecting Comparability”) had a slight negative impact on both operating profit growth and total operating margin. The gain from structural changes in the second quarter of 2013 due to the beverage refranchising in our Vietnam business increased reported operating profit growth by 2 percentage points (see Note 12 to our condensed consolidated financial statements). This gain was partially offset by incremental investments into our business, primarily in the AMEA, Europe, LAF and QFNA segments and in corporate unallocated expenses, which reduced reported operating profit growth by 1 percentage point. Higher commodity inflation reduced operating profit growth by 1 percentage point, primarily attributable to inflation in the Europe and LAF segments, partially offset by deflation in the PAB segment.

## Other Consolidated Results

	12 Weeks Ended			36 Weeks Ended		
	9/7/2013	9/8/2012	Change	9/7/2013	9/8/2012	Change
Interest expense, net	\$(203 )	\$(181 )	\$(22 )	\$(580 )	\$(564 )	\$(16 )
Tax rate	25.4 %	26.9 %		25.2 %	28.2 %	
Net income attributable to PepsiCo	\$1,913	\$1,902	1 %	\$4,998	\$4,517	11 %
Net income attributable to PepsiCo per common share - diluted	\$1.23	\$1.21	1.5 %	\$3.20	\$2.86	12 %
Mark-to-market net losses/(gains)	0.01	(0.05 )		0.03	(0.05 )	
Merger and integration charges	—	—		—	—	
Restructuring and impairment charges	—	0.04		0.02	0.09	
Venezuela currency devaluation	—	—		0.07	—	
Restructuring and other charges related to the transaction with Tingyi	—	—		—	0.10	
Net income attributable to PepsiCo per common share - diluted, excluding above items <sup>(a)</sup>	\$1.24	\$1.20	3 %	\$3.32	\$3.01 <sup>(b)</sup>	10 %
Impact of foreign exchange translation			2			2
Growth in net income attributable to PepsiCo per common share - diluted, excluding above items, on a constant currency basis <sup>(a)</sup>			5 %			12 %

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

Table of Contents

12 Weeks

Net interest expense increased \$22 million, primarily reflecting higher average debt balances and higher rates on our debt balances as well as lower gains on the market value of investments used to economically hedge a portion of our deferred compensation costs.

The reported tax rate decreased 1.5 percentage points compared to the prior year, primarily due to the current year income mix, the lapping of prior year adjustments to our international deferred taxes and net tax expense related to gains recognized on commodity hedges, partially offset by the lapping of prior year tax benefits generated by international acquisitions.

Net income attributable to PepsiCo increased 1% and net income attributable to PepsiCo per common share increased 1.5%. Items affecting comparability (see “Items Affecting Comparability”) decreased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 2 percentage points.

36 Weeks

Net interest expense increased \$16 million, primarily reflecting higher average debt balances, partially offset by an increase in interest income resulting from higher average cash and cash equivalents balances and higher gains on the market value of investments used to economically hedge a portion of our deferred compensation costs.

The reported tax rate decreased 3 percentage points compared to the prior year, primarily due to the current year income mix, favorable resolution of certain tax matters, the reversal of international tax reserves resulting from the expiration of a statute of limitations and the lapping of the tax impact of restructuring and other charges related to the transaction with Tingyi in 2012. These decreases were partially offset by the lapping of a 2012 tax benefit related to the pre-payment of Medicare subsidy liabilities and the impact of the 2013 Venezuela devaluation.

Net income attributable to PepsiCo increased 11% and net income attributable to PepsiCo per common share increased 12%. Items affecting comparability (see “Items Affecting Comparability”) increased both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 1 percentage point.

Table of Contents

## 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, 2013 volume growth measures reflect an adjustment to the base year (2012) for divestitures that occurred in 2012. See “Items Affecting Comparability” for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

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

## Net Revenue

12 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total	
9/7/2013	\$3,424	\$604	\$2,049	\$5,406	\$3,818	\$1,608	\$16,909	
9/8/2012	\$3,269	\$615	\$1,883	\$5,530	\$3,691	\$1,664	\$16,652	
% Impact of:								
Volume <sup>(a)</sup>	3	% —	% 3	% (5	)% —	% (0.5	)% (1	)%
Effective net pricing <sup>(b)</sup>	2	(1	) 12	3	3	6	4	
Foreign exchange translation	—	(0.5	) (6	) (1	) —	(4	) (1	)
Acquisitions and divestitures	—	—	—	—	—	(5	) —	
Reported Growth <sup>(c)</sup>	5	% (2	)% 9	% (2	)% 3	% (3	)% 1.5	%
36 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total	
9/7/2013	\$9,879	\$1,815	\$5,532	\$15,086	\$9,413	\$4,572	\$46,297	
9/8/2012	\$9,472	\$1,821	\$5,066	\$15,330	\$9,153	\$4,696	\$45,538	
% Impact of:								
Volume <sup>(a)</sup>	3	% 1	% 2	% (4	)% 1	% 6	% —	%
Effective net pricing <sup>(b)</sup>	1.5	(1	) 11	3	3	6	4	
Foreign exchange translation	—	—	(4	) (0.5	) (1	) (3	) (1	)
Acquisitions and divestitures	—	—	—	—	—	(11	) (1	)
Reported Growth <sup>(c)</sup>	4	% —	% 9	% (2	)% 3	% (3	)% 2	%

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 franchise-owned bottlers. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

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

(c) Amounts may not sum due to rounding.

Table of Contents

## Organic Revenue Growth

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

12 Weeks Ended 9/7/2013	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total	
Reported Growth	5	% (2	)% 9	% (2	)% 3	% (3	)% 1.5	%
% Impact of:								
Foreign exchange translation	—	0.5	6	1	—	4	1	
Acquisitions and divestitures	—	—	—	—	—	5	—	
Organic Growth <sup>(a)</sup>	5	% (1	)% 14	% (1.5	)% 3	% 6	% 3	%
36 Weeks Ended 9/7/2013	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total	
Reported Growth	4	% —	% 9	% (2	)% 3	% (3	)% 2	%
% Impact of:								
Foreign exchange translation	—	—	4	0.5	1	3	1	
Acquisitions and divestitures	—	—	—	—	—	11	1	
Organic Growth <sup>(a)</sup>	4.5	% —	% 13	% (1	)% 4	% 11	% 4	%

(a) Amounts may not sum due to rounding.



Table of Contents

## Frito-Lay North America

	12 Weeks Ended		%	36 Weeks Ended		%
	9/7/2013	9/8/2012	Change	9/7/2013	9/8/2012	Change
Net revenue	\$3,424	\$3,269	5	\$9,879	\$9,472	4
Impact of foreign exchange translation			—			—
Net revenue growth, on a constant currency basis <sup>(a)</sup>			5			4.5
						(b)
Operating profit	\$977	\$917	7	\$2,711	\$2,532	7
Restructuring and impairment charges	1	8		5	40	
Operating profit excluding above item <sup>(a)</sup>	\$978	\$925	6	\$2,716	\$2,572	6
Impact of foreign exchange translation			—			—
Operating profit growth excluding above item, on a constant currency basis <sup>(a)</sup>			6			6

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

## 12 Weeks

Net revenue grew 5% and pound volume grew 3%. Net revenue growth was driven by the volume growth and effective net pricing. The volume growth reflects double-digit growth in trademark Cheetos and our Sabra joint venture, low-single-digit growth in trademark Lay’s and high-single-digit growth in variety packs, partially offset by a mid-single-digit decline in trademark SunChips.

Operating profit grew 7%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as lower commodity costs, which increased operating profit growth by 1.5 percentage points. These impacts were partially offset by certain operating cost increases including strategic initiatives and higher advertising and marketing expenses.

## 36 Weeks

Net revenue grew 4% and pound volume grew 3%. Net revenue growth was driven by the volume growth and effective net pricing. The volume growth reflects high-single-digit growth in trademark Cheetos and in variety packs, low-single-digit growth in trademark Lay’s and double-digit growth in our Sabra joint venture. These gains were partially offset by a double-digit decline in trademark SunChips.

Operating profit grew 7%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases including strategic initiatives.

Table of Contents

## Quaker Foods North America

	12 Weeks Ended		%		36 Weeks Ended		%	
	9/7/2013	9/8/2012	Change		9/7/2013	9/8/2012	Change	
Net revenue	\$604	\$615	(2	)	\$1,815	\$1,821	—	
Impact of foreign exchange translation			0.5				—	
Net revenue growth, on a constant currency basis <sup>(a)</sup>			(1	) <sup>(b)</sup>			—	
Operating profit	\$137	\$154	(11	)	\$450	\$495	(9	)
Restructuring and impairment charges	—	1			—	7		
Operating profit excluding above item <sup>(a)</sup>	\$137	\$155	(12	)	\$450	\$502	(10	)
Impact of foreign exchange translation			—				—	
Operating profit growth excluding above item, on a constant currency basis <sup>(a)</sup>			(11	) <sup>(b)</sup>			(10	)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

## 12 Weeks

Net revenue declined 2% and volume increased 3%. The net revenue decline reflects unfavorable product mix, partially offset by favorable net pricing. The volume growth primarily reflects growth in Müller Quaker Dairy (MQD) products (launched in the prior year), high-single-digit growth in Cap’n Crunch cereal and low-single-digit growth in Oatmeal.

Operating profit declined 11%, reflecting our share of the operating results of our MQD joint venture, which negatively impacted operating profit performance by 8 percentage points, the unfavorable product mix, certain operating cost increases, as well as higher commodity costs, which negatively impacted operating profit performance by 4 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories and the favorable net pricing.

## 36 Weeks

Net revenue was flat and volume increased 4%. Net revenue performance benefited from the volume growth, offset by unfavorable product mix. The volume growth primarily reflects growth in MQD products and mid-single-digit growth in Aunt Jemima syrup and mix.

Operating profit declined 9%, primarily reflecting our share of the operating results of our MQD joint venture, which negatively impacted operating profit performance by 6 percentage points, the unfavorable product mix, and certain operating cost increases, as well as the impact of incremental investments into our business, which negatively impacted operating profit performance by 1 percentage point. These impacts were partially offset by planned cost reductions across a number of expense categories and the volume growth.

Table of Contents

## Latin America Foods

	12 Weeks Ended		%	36 Weeks Ended		%
	9/7/2013	9/8/2012	Change	9/7/2013	9/8/2012	Change
Net revenue	\$2,049	\$1,883	9	\$5,532	\$5,066	9
Impact of foreign exchange translation			6			4
Net revenue growth, on a constant currency basis <sup>(a)</sup>			14	(b)		13
Operating profit	\$295	\$219	35	\$829	\$673	23
Restructuring and impairment charges	1	29		6	41	
Operating profit excluding above item <sup>(a)</sup>	\$296	\$248	20	\$835	\$714	17
Impact of foreign exchange translation			4			4
Operating profit growth excluding above item, on a constant currency basis <sup>(a)</sup>			24			21

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

## 12 Weeks

Net revenue increased 9%, primarily reflecting favorable effective net pricing and volume growth. Unfavorable foreign exchange reduced net revenue growth by 6 percentage points.

Volume increased 3%, reflecting broad-based increases, including a high-single-digit increase in Brazil. Additionally, Mexico experienced low-single-digit growth.

Operating profit increased 35%, reflecting the net revenue growth and planned cost reductions across a number of expense categories, 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 22 percentage points. Lower restructuring and impairment charges increased operating profit growth by 15 percentage points. Unfavorable foreign exchange reduced operating profit growth by 4 percentage points.

## 36 Weeks

Net revenue increased 9%, primarily reflecting favorable effective net pricing. Unfavorable foreign exchange reduced net revenue growth by 4 percentage points.

Volume increased 2%, reflecting broad-based increases, including a low-single-digit increase in Brazil. Additionally, Mexico volume increased slightly.

Operating profit increased 23%, reflecting the net revenue growth and planned cost reductions across a number of expense categories, 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 16 percentage points. Lower restructuring and impairment charges increased operating profit growth by 6 percentage points. The impact of incremental investments into our business reduced operating profit growth by 1 percentage point and unfavorable foreign exchange reduced operating profit growth by over 4 percentage points.

Table of Contents

## PepsiCo Americas Beverages

	12 Weeks Ended		%	36 Weeks Ended		%
	9/7/2013	9/8/2012	Change	9/7/2013	9/8/2012	Change
Net revenue	\$5,406	\$5,530	(2 )	\$15,086	\$15,330	(2 )
Impact of foreign exchange translation			1			0.5
Net revenue growth, on a constant currency basis (a)			(1 )			(1 ) (b)
Operating profit	\$843	\$837	1	\$2,290	\$2,202	4
Restructuring and impairment charges	3	33		8	76	
Venezuela currency devaluation	—	—		(13 )	—	
Operating profit excluding above items (a)	\$846	\$870	(3 )	\$2,285	\$2,278	—
Impact of foreign exchange translation			3			2
Operating profit growth excluding above items, on a constant currency basis (a)			—			2

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

## 12 Weeks

Net revenue decreased 2%, reflecting volume declines, partially offset by favorable effective net pricing. Unfavorable foreign exchange negatively impacted net revenue performance by 1 percentage point.

Volume decreased 4%, primarily reflecting North America volume declines of 5%, while Latin America volume increased 0.5%. North America volume declines were driven by a 6% decline in CSD volume and a 3% decline in non-carbonated beverage volume. The non-carbonated beverage volume decline primarily reflected a double-digit decline in our overall water portfolio. The Latin America volume increase primarily reflected a low-single-digit increase in Mexico, a double-digit increase in Venezuela and a slight increase in Argentina, partially offset by a double-digit decrease in Brazil.

Reported operating profit increased 1%. Excluding the items affecting comparability in the above table (see “Items Affecting Comparability”), operating profit decreased 3%, primarily reflecting the volume declines and certain operating cost increases. These impacts were partially offset by the favorable effective net pricing and planned cost reductions across a number of expense categories, as well as lower commodity costs, which increased reported operating profit by 5.5 percentage points. Unfavorable foreign exchange reduced operating profit growth by 3 percentage points.

## 36 Weeks

Net revenue decreased 2%, reflecting volume declines, partially offset by favorable effective net pricing. Unfavorable foreign exchange negatively impacted net revenue performance by 0.5 percentage points.

Volume decreased 3.5%, primarily reflecting North America volume declines of 4.5% while Latin America volume was even with the prior year. North America volume declines were driven by a 6% decline in CSD volume and a 3% decline in non-carbonated beverage volume. The non-carbonated beverage volume decline primarily reflected a double-digit decline in our overall water portfolio. The Latin America volume primarily reflected a double-digit increase in Venezuela and a low-single-digit increase in Mexico, offset by a double-digit decrease in Brazil and a mid-single-digit decrease in Argentina.

Table of Contents

Reported operating profit increased 4%. Excluding the items affecting comparability in the above table (see “Items Affecting Comparability”), operating profit was even with the prior year, primarily reflecting the favorable effective net pricing and planned cost reductions across a number of expense categories, as well as lower commodity costs, which increased reported operating profit by 8 percentage points. These impacts were partially offset by the volume declines and certain operating cost increases. Unfavorable foreign exchange reduced operating profit growth by 2 percentage points.

## Europe

	12 Weeks Ended		%	36 Weeks Ended		%
	9/7/2013	9/8/2012	Change	9/7/2013	9/8/2012	Change
Net revenue	\$3,818	\$3,691	3	\$9,413	\$9,153	3
Impact of foreign exchange translation			—			1
Net revenue growth, on a constant currency basis (a)			3			4
Operating profit	\$501	\$483	3.5	\$1,014	\$1,017	—
Merger and integration charges	9	4		9	7	
Restructuring and impairment charges	2	(1)	)	14	(2)	)
Operating profit excluding above items (a)	\$512	\$486	5	\$1,037	\$1,022	1
Impact of foreign exchange translation			—			1
Operating profit growth excluding above items, on a constant currency basis (a)			5			2.5

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

## 12 Weeks

Net revenue increased 3%, primarily reflecting effective net pricing.

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

Beverage volume declined 1%, primarily reflecting a low-single-digit decline in Turkey and a mid-single-digit decline in Spain, partially offset by mid-single-digit growth in the United Kingdom and low-single-digit growth in Germany. Additionally, Russia volume was even with the prior year.

Operating profit grew 3.5%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases reflecting strategic initiatives, as well as higher commodity costs, which reduced operating profit growth by 12 percentage points. The impact of one-time charges in the current year were offset by certain one-time net charges in the prior year.

## 36 Weeks

Net revenue increased 3%, primarily reflecting effective net pricing and volume growth. Unfavorable foreign exchange reduced net revenue growth by 1 percentage point.

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

Table of Contents

Beverage volume declined 0.5%, primarily reflecting a high-single-digit decline in Spain and a slight decline in the United Kingdom, partially offset by low-single-digit growth in Russia and Germany and slight growth in Turkey. Operating profit declined slightly, primarily reflecting higher commodity costs, which reduced operating profit by 12 percentage points, as well as certain operating cost increases reflecting strategic initiatives, partially offset by the net revenue growth and planned cost reductions across a number of expense categories. The impact of prior year impairment charges and more-favorable settlements of promotional spending accruals in the current year contributed 2 percentage points and 1.5 percentage points to operating profit performance, respectively. In addition, incremental investments into our business and a pricing adjustment for certain commodity purchases negatively impacted operating profit performance by 2 percentage points and 1 percentage point, respectively.

## Asia, Middle East &amp; Africa

	12 Weeks Ended		%	36 Weeks Ended		%
	9/7/2013	9/8/2012	Change	9/7/2013	9/8/2012	Change
Net revenue	\$1,608	\$1,664	(3 )	\$4,572	\$4,696	(3 )
Impact of foreign exchange translation			4			3
Net revenue growth, on a constant currency basis <sup>(a)</sup>			1			—
Operating profit	\$295	\$317	(7 )	\$1,003	\$630	59
Restructuring and impairment charges	1	6		3	23	
Restructuring and other charges related to the transaction with Tingyi	—	—		—	137	
Operating profit excluding above items <sup>(a)</sup>	\$296	\$323	(8 )	\$1,006	\$790	27
Impact of foreign exchange translation			2			2
Operating profit growth excluding above items, on a constant currency basis <sup>(a)</sup>			(7 ) <sup>(b)</sup>			29

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

## 12 Weeks

Net revenue declined 3%, primarily reflecting the impact of the beverage refranchising in our Vietnam business which negatively impacted net revenue performance by 5 percentage points, which was more than offset by favorable effective net pricing. Unfavorable foreign exchange negatively impacted net revenue performance by over 4 percentage points.

Snacks volume grew 4%, driven by double-digit growth in China, high-single-digit growth in India and mid-single-digit growth in Thailand, partially offset by a low-single-digit decline in the Middle East and a high-single-digit decline in Australia.

Beverage volume grew 7%, driven by double-digit growth in China (including co-branded juice products distributed through our strategic alliance with Tingyi) and double-digit growth in Pakistan, partially offset by a double-digit decline in India and a low-single-digit decline in the Middle East.

Operating profit declined 7% reflecting the net revenue decline, certain operating cost increases and higher advertising and marketing expenses, partially offset by the favorable effective net pricing and planned cost reductions across a number of expense categories. The impact of incremental investments into our business contributed 7 percentage points to the operating profit decline. The net impact of divestitures positively

## Table of Contents

contributed 3 percentage points to reported operating profit performance. Unfavorable foreign exchange negatively impacted reported operating profit performance by nearly 2 percentage points.

### 36 Weeks

Net revenue declined 3%, reflecting the impact of the prior year transaction with Tingyi, the Vietnam beverage refranchising and the prior year deconsolidation of International Dairy and Juice Limited, which negatively impacted net revenue performance by 8 percentage points, 3 percentage points and 0.5 percentage points, respectively. These impacts were offset by volume growth and favorable effective net pricing. Unfavorable foreign exchange negatively impacted net revenue performance by 3 percentage points.

Snacks volume grew 7%, reflecting double-digit growth in China and high-single-digit growth in India, partially offset by a high-single-digit decline in Australia. Additionally, Thailand and the Middle East both experienced mid-single-digit growth.

Beverage volume grew 14%, driven by double-digit growth in China (including the co-branded juice products distributed through our strategic alliance with Tingyi) and double-digit growth in Pakistan, partially offset by a double-digit decline in Thailand. Additionally, the Middle East experienced low-single-digit growth and India experienced a slight decline.

Operating profit grew 59%, reflecting the impact of restructuring and other charges related to the prior year transaction with Tingyi included in the above table (see “Items Affecting Comparability”) and a one-time gain of \$137 million associated with the Vietnam beverage refranchising (which contributed 22 percentage points to reported operating profit growth). Excluding items affecting comparability, operating profit grew 27%, reflecting the one-time gain associated with the Vietnam beverage refranchising (which contributed 17 percentage points to operating profit growth excluding items affecting comparability). Operating profit performance also reflected the effective net pricing, volume growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases and higher advertising and marketing expenses. The impact of incremental investments into our business and unfavorable foreign exchange reduced operating profit growth by 3.5 and 2 percentage points, respectively.

### Our Liquidity and Capital Resources

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing (including long-term debt financing which, depending upon market conditions, we may use to replace a portion of our commercial paper borrowings), will be adequate to meet our operating, investing and financing needs. Sources of cash available to us to fund cash outflows, such as our anticipated share repurchases and dividend payments, include cash from operations and proceeds obtained in the U.S. debt markets. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us, or at all.

As of September 7, 2013, we had cash, cash equivalents and short-term investments of \$8.6 billion outside the U.S. To the extent foreign earnings are repatriated, such amounts would be subject to income tax liabilities, both in the U.S. and in various applicable foreign jurisdictions. In addition, currency restrictions enacted by the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. Effective February 2013, the Venezuelan government devalued the bolivar by resetting the official exchange rate from 4.3 bolivars to 6.3 bolivars per dollar. As of September 7, 2013, our operations in Venezuela comprised approximately 5% of our cash and cash equivalents balance. For additional information on the impact of the devaluation, see “Our Business Risks” and “Items Affecting Comparability.”

## Table of Contents

### Operating Activities

During the 36 weeks in 2013, net cash provided by operating activities was \$6.7 billion, compared to net cash provided of \$5.1 billion in the prior year period. The increase in operating cash flow primarily reflects the discretionary pension and retiree medical contributions of \$1 billion (\$770 million after-tax) made in the prior year and working capital improvements.

Also see “Management Operating Cash Flow” below for certain other items impacting net cash provided by operating activities.

### Investing Activities

During the 36 weeks in 2013, net cash used for investing activities was \$1.4 billion, primarily reflecting \$1.4 billion for net capital spending.

We expect 2013 net capital spending to be approximately \$3 billion, within our long-term capital spending target of less than or equal to 5% of net revenue.

### Financing Activities

During the 36 weeks in 2013, net cash used for financing activities was \$2.1 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of \$4.6 billion, partially offset by net proceeds from long-term debt of \$1.2 billion and stock option proceeds of \$1.0 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. In the first quarter of 2013, we approved a new share repurchase program providing for the repurchase of up to \$10 billion of PepsiCo common stock from July 1, 2013 through June 30, 2016, which succeeded the repurchase program that expired on June 30, 2013. In addition, we announced a 5.6% increase in our annualized dividend to \$2.27 per share from \$2.15 per share, effective with the dividend paid in June 2013. Under these programs, we expect to return a total of \$6.4 billion to shareholders in 2013 through dividends of approximately \$3.4 billion and share repurchases of approximately \$3.0 billion.

### Management Operating Cash Flow

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



Table of Contents

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

	36 Weeks Ended	
	9/7/2013	9/8/2012
Net cash provided by operating activities	\$6,662	\$5,118
Capital spending	(1,497	) (1,409
Sales of property, plant and equipment	51	58
Management operating cash flow	5,216	3,767
Discretionary pension and retiree medical contributions (after-tax)	11	770
Merger and integration payments (after-tax)	18	44
Payments related to restructuring charges (after-tax)	97	203
Payments related to income tax settlements	113	—
Capital investments related to the PBG/PAS integration	—	8
Net capital investments related to restructuring plan	1	12
Payments for restructuring and other charges related to the transaction with Tingyi	26	98
Management operating cash flow excluding above items	\$5,482	\$4,902

In the fourth quarter of 2013, net cash tax payments of approximately \$700 million related to the agreement reached with the IRS in the fourth quarter of 2013, as discussed further in Note 5 to our condensed consolidated financial statements, will be reflected in net cash provided by operating activities and excluded from management operating cash flow in computing that non-GAAP measure.

In all periods presented, management operating cash flow was used primarily to repurchase shares and pay dividends. We expect to continue to return management operating cash flow to our shareholders through dividends and share repurchases while maintaining credit ratings that provide us with ready access to global capital and credit markets. However, see “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks”, included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 for certain factors that may impact our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, could increase our future borrowing costs or impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks”, included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 and Note 8 to our condensed consolidated financial statements.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of September 7, 2013, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 7, 2013 and September 8, 2012, and the related Condensed Consolidated Statements of Cash Flows and Equity for the thirty-six weeks ended September 7, 2013 and September 8, 2012. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 29, 2012, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 21, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 29, 2012, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

New York, New York

October 16, 2013

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks” and Note 10 to our condensed consolidated financial statements. In addition, see “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks” in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

ITEM 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. During our third fiscal quarter of 2013, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. Moreover, we continue to integrate our WBD business, which was acquired in 2011. In connection with these implementations and integration, and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting during our third fiscal quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

The following information supplements and amends and should be read in conjunction with the discussion set forth under Part I, Item 3. “Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 23, 2013 and June 15, 2013.

As previously disclosed, on January 6, 2011, Wojewodzka Inspekcja Ochrony Srodowiska, the Polish environmental control authority (the Polish Authority), began an audit of a bottling plant of our subsidiary, Pepsi-Cola General Bottlers Poland SP, z.o.o. (PCGB), in Michrow, Poland. On February 18, 2011, the Polish Authority alleged that in 2009 the plant was not in compliance with applicable regulations requiring the use of approved laboratories for the analysis of the plant’s waste and sought monetary sanctions of \$700,000. As previously disclosed, PCGB appealed this decision and, on January 15, 2013, the Supreme Administrative Court issued a final, non-appealable decision finding that the sanctions against PCGB were imposed in violation of applicable environmental law and released PCGB from all liability with respect to such sanctions. On July 30, 2013, the Polish Authority 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. PCGB has appealed this decision and the appeal is pending.

Also as previously disclosed, on May 8, 2011, Kozep-Duna-Volgyi Kornyezetvedelmi, Termeszvetvedelmi es Vizugyi Felugyeloseg (Budapest), the regional Hungarian governmental authority (the Hungarian Authority), notified our subsidiary, Fovarosi Asvanyviz- es Uditoipari Zrt. (FAU), that it assessed monetary sanctions of approximately \$220,000 for alleged violation of applicable wastewater discharge standards in 2010. Also as previously disclosed, on August 9, 2012, the Hungarian Authority notified FAU that it assessed monetary sanctions of approximately \$153,000 for alleged violation of applicable wastewater discharge standards in 2011. Following an appeal of this decision by FAU, the Orszagos Kornyezetvedelmi, Termeszvetvedelmi es Vizugyi Felugyeloseg (Budapest) increased the 2011 sanctions to \$320,000 and the 2012 sanctions to \$170,000, on July 22, 2013 and August 12, 2013, respectively, on the grounds that certain pollutant factors had not been taken into account by the Hungarian Authority. FAU has appealed these decisions and the appeals are pending at the Fovarosi Kozigazgatasi es Munkaugyi Birosag (Budapest).

In addition, we and our subsidiaries are party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. While the results of these proceedings, claims and inquiries cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows. See “Item 1. Business - Regulatory Environment and Environmental Compliance” in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

Table of Contents

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

On June 30, 2013, our \$15.0 billion repurchase program, authorized by our Board of Directors and publicly announced on March 15, 2010, expired. In the first quarter of 2013, we announced a new \$10 billion repurchase program for repurchases of our common stock that commenced on July 1, 2013 and expires on June 30, 2016. A summary of our common stock repurchases (in millions, except average price per share) during the 12 weeks ended September 7, 2013 is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions.

## Issuer Purchases of Common Stock

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
2010 Repurchase Program				
6/16/2013 - 6/30/2013	3.0	\$81.18	3.0	—
Total	3.0	\$81.18	3.0	
2013 Repurchase Program				
				\$10,000
7/1/2013 - 7/13/2013	1.4	\$81.95	1.4	(118 ) 9,882
7/14/2013 - 8/10/2013	4.7	\$85.17	4.7	(398 ) 9,484
8/11/2013 - 9/7/2013	3.1	\$79.47	3.1	(244 )
Total	9.2	\$82.76	9.2	9,240
Total Repurchase Programs	12.2	\$82.37	12.2	\$9,240

Table of Contents

PepsiCo also repurchases shares of its convertible preferred stock from an ESOP fund established by Quaker in connection with share redemptions by ESOP participants. The following table summarizes our convertible preferred share repurchases during the third quarter.

## Issuer Purchases of Convertible Preferred Stock

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
6/16/2013 - 7/13/2013	—	\$—	N/A	N/A
7/14/2013 - 8/10/2013	2,400	\$421.71	N/A	N/A
8/11/2013 - 9/7/2013	—	\$—	N/A	N/A
Total	2,400	\$421.71	N/A	N/A

## ITEM 6. Exhibits

See “Index to Exhibits” on page 52.

Table of Contents

SIGNATURES

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

PepsiCo, Inc.  
(Registrant)

Date: October 16, 2013

/s/ Marie T. Gallagher  
Marie T. Gallagher  
Senior Vice President and Controller

Date: October 16, 2013

/s/ Kelly Mahon Tullier  
Kelly Mahon Tullier  
Senior Vice President,  
Deputy General Counsel  
(Duly Authorized Officer)

Table of Contents

INDEX TO EXHIBITS

ITEM 6

EXHIBITS

Exhibit 2.1	Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., The Pepsi Bottling Group, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2009.
Exhibit 2.2	Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., PepsiAmericas, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.2 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2009.
Exhibit 2.3	Purchase Agreement dated as of December 1, 2010 among PepsiCo, Inc., Pepsi-Cola (Bermuda) Limited, Gavril A. Yushvaev, David Iakobachvili, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov, Mikhail I. Vishnaykov, Aladaro Limited, Tony D. Maher, Dmitry Ivanov, Wimm Bill Dann Finance Cyprus Ltd. and Wimm-Bill-Dann Finance Co. Ltd. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2010.
Exhibit 3.1	Articles of Incorporation of PepsiCo, Inc., as amended and restated, effective as of May 9, 2011, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2011.
Exhibit 3.2	By-laws of PepsiCo, Inc., as amended, effective as of March 8, 2012, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 12, 2012.
Exhibit 4.1	Form of Floating Rate Notes due 2014, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2013.
Exhibit 4.2	Form of 2.250% Senior Notes due 2019, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2013.
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 15	Letter re: Unaudited Interim Financial Information.
Exhibit 24	Power of Attorney executed by Indra K. Nooyi, Hugh F. Johnston, Marie T. Gallagher, Shona L. Brown, George W. Buckley, Ian M. Cook, Dina Dublon, Victor J. Dzau, Ray L. Hunt, Alberto Ibargüen, Sharon Percy Rockefeller, James J. Schiro, Lloyd G. Trotter, Daniel Vasella and Alberto Weissner, which is incorporated herein by reference to Exhibit 24 to PepsiCo, Inc.'s





Table of Contents

Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 7, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) the Condensed Consolidated Balance Sheet, (v) the Condensed Consolidated Statement of Equity, and (vi) Notes to the Condensed Consolidated Financial Statements.