PEPSICO INC
Form 10-K
February 12, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 27, 2014

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of PepsiCo, Inc. Common Stock held by nonaffiliates of PepsiCo, Inc. (assuming for these purposes, but without conceding, that all executive officers and directors of PepsiCo, Inc. are affiliates of PepsiCo, Inc.) as of June 13, 2014, the last day of business of our most recently completed second fiscal quarter, was $131.6 billion (based on the closing sale price of PepsiCo, Inc.'s Common Stock on that date as reported on the New York Stock Exchange).

The number of shares of PepsiCo, Inc. Common Stock outstanding as of February 6, 2015 was 1,482,368,514.

Documents Incorporated by Reference

Portions of the Proxy Statement relating to PepsiCo, Inc.'s 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Form 10-K Annual Report
For the Fiscal Year Ended December 27, 2014
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Forward-Looking Statements

This Annual Report on Form 10-K contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “expre confidence,” “forecast,” “future,” “goals,” “guidance,” “intend,” “may,” “objectives,” “outlook,” “plan,” “position,” “potential, “should,” “strategy,” “target,” “will” or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. These risks and uncertainties include, but are not limited to, those described in “Risk Factors” in Item 1A. and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business – Our Business Risks” in Item 7. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. The discussion of risks below and elsewhere in this report is by no means all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our future performance.

PART I

Item 1. Business.

PepsiCo, Inc. was incorporated in Delaware in 1919 and was reincorporated in North Carolina in 1986. When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries, collectively.

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

Performance with Purpose is our goal to deliver sustained value by providing a wide range of beverages, foods and snacks, from treats to healthy eats; finding innovative ways to minimize our impact on the environment and lower our costs through energy and water conservation as well as reduce our use of packaging material; providing a safe and inclusive workplace for our employees globally; and respecting, supporting and investing in the local communities in which we operate. PepsiCo was again recognized for its leadership in this area in 2014 by earning a place on the prestigious Dow Jones World Index for the eighth consecutive year and on the North America Index for the ninth consecutive year.

Certain terms used in this Annual Report on Form 10-K are defined in the Glossary included in Item 7. of this report.

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Our Operations

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

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

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

Frito-Lay North America

Either independently or in conjunction with third parties, FLNA makes, markets, distributes and sells branded snack foods. These foods include Lay's potato chips, Doritos tortilla chips, Cheetos cheese-flavored snacks, Tostitos tortilla chips, branded dips, Ruffles potato chips, Fritos corn chips and Santitas tortilla chips. FLNA's branded products are sold to independent distributors and retailers. In addition, FLNA's joint venture with Strauss Group makes, markets, distributes and sells Sabra refrigerated dips and spreads. FLNA's net revenue was $14.5 billion, $14.1 billion and $13.6 billion in 2014, 2013 and 2012, respectively, and approximated 22% of our total net revenue in 2014 and 21% of our total net revenue in both 2013 and 2012.

Quaker Foods North America

Either independently or in conjunction with third parties, QFNA makes, markets, distributes and sells cereals, rice, pasta, dairy and other branded products. QFNA's products include Quaker oatmeal, Aunt Jemima mixes and syrups, Quaker Chewy granola bars, Quaker grits, Cap'n Crunch cereal, Life cereal, Rice-A-Roni side dishes, Quaker rice cakes, Quaker oat squares and Quaker natural granola. These branded products are sold to independent distributors and retailers. QFNA's net revenue was $2.6 billion in each of 2014, 2013 and 2012, and approximated 4% of our total net revenue in each of 2014, 2013 and 2012.

Latin America Foods

Either independently or in conjunction with third parties, LAF makes, markets, distributes and sells a number of snack food brands including Doritos, Cheetos, Marias Gamesa, Ruffles, Emperador, Saladitas, Lay's, Rosquinhas Mabel, Elma Chips and Sabritas, as well as many Quaker-branded cereals and snacks. These branded products are sold to independent distributors and retailers. LAF's net revenue was $8.4 billion, $8.3 billion and $7.8 billion in 2014, 2013 and 2012, respectively, and approximated 12% of our total net revenue in each of 2014, 2013 and 2012.

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PepsiCo Americas Beverages

Either independently or in conjunction with third parties, PAB makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Gatorade, Mountain Dew, Diet Pepsi, Aquafina, 7UP (outside the United States), Diet Mountain Dew, Tropicana Pure Premium, Sierra Mist and Diet 7UP (outside the United States). PAB also, either independently or in conjunction with third parties, makes, markets and sells ready-to-drink tea and coffee products through joint ventures with Unilever (under the Lipton brand name) and Starbucks, respectively. Further, PAB manufactures and distributes certain brands licensed from Dr Pepper Snapple Group, Inc. (DPSG), including Dr Pepper, Crush and Schweppes, and certain juice brands licensed from Dole Food Company, Inc. (Dole) and Ocean Spray Cranberries, Inc. (Ocean Spray). PAB operates its own bottling plants and distribution facilities and sells branded finished goods directly to independent distributors and retailers. PAB also sells concentrate and finished goods for our brands to authorized and independent bottlers, who in turn sell our branded finished goods to independent distributors and retailers in certain markets. PAB’s net revenue was $21.2 billion, $21.1 billion and $21.4 billion in 2014, 2013 and 2012, respectively, and approximated 32% of our total net revenue in both 2014 and 2013, and 33% in 2012.

PepsiCo Europe

Either independently or in conjunction with third parties, Europe makes, markets, distributes and sells a number of leading snack food brands including Lay’s, Walkers, Doritos, Cheetos and Ruffles, as well as many Quaker-branded cereals and snacks, through consolidated businesses as well as through noncontrolled affiliates. Europe also, either independently or in conjunction with third parties, makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Pepsi Max, 7UP, Diet Pepsi and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. In certain markets, however, Europe operates its own bottling plants and distribution facilities. Europe also, either independently or in conjunction with third parties, makes, markets and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). In addition, Europe makes, markets, sells and distributes a number of leading dairy products including Domik v Derevne, Chudo and Agusha. Europe’s net revenue was $13.3 billion, $13.8 billion and $13.4 billion in 2014, 2013 and 2012, respectively, and approximated 20%, 21% and 20% of our total net revenue in 2014, 2013 and 2012, respectively.

PepsiCo Asia, Middle East and Africa

Either independently or in conjunction with third parties, AMEA makes, markets, distributes and sells a number of leading snack food brands including Lay’s, Kurkure, Chipsy, Doritos, Cheetos and Crunchy through consolidated businesses as well as through noncontrolled affiliates. Further, either independently or in conjunction with third parties, AMEA makes, markets, distributes and sells many Quaker-branded cereals and snacks. AMEA also makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Mirinda, 7UP, Mountain Dew, Aquafina and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. However, in certain markets, AMEA operates its own bottling plants and distribution facilities. AMEA also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). Further, we license the Tropicana brand for use in China on co-branded juice products in connection with a strategic alliance with Tingyi (Cayman Islands) Holding Corp. (Tingyi). AMEA’s net revenue was $6.7 billion, $6.5 billion and $6.7 billion in 2014, 2013 and 2012, respectively, and approximated 10% of our total net revenue in each of 2014, 2013 and 2012.

See Note 15 to our consolidated financial statements for additional information about our transaction with Tingyi in 2012.

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Our Distribution Network

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

Direct-Store-Delivery

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

Customer Warehouse

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

Distributor Networks

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

Ingredients and Other Supplies

The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit and other fruits, oats, oranges, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including polyethylene terephthalate (PET) and polypropylene resins used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel and natural gas are also important commodities for us due to their use in our facilities and in the trucks delivering our products. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages. Many of these ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. When prices increase, we may or may not pass on such increases to our customers. See Note 10 to our consolidated financial statements for additional information on how we manage our exposure to commodity costs. See also “Item 1A. Risk Factors – Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials or other supplies.”

Our Brands and Intellectual Property Rights

We own numerous valuable trademarks which are essential to our worldwide businesses, including Agusha, Amp Energy, Aquafina, Aquafina Flavorsplash, Aunt Jemima, Cap’n Crunch, Cheetos, Chester’s, Chipsy, Chudo, Cracker Jack, Crunchy, Diet Mountain Dew, Diet Mug, Diet Pepsi, Diet 7UP, Diet Sierra Mist, Domik v Derevne, Doritos, Duyvis, Elma Chips, Emperador, Frito-Lay, Fritos, Fruktovy Sad, Frustyle, G Series, G2, Gatorade, Grandma’s, Imunele, Izze, Kurkure, Lay’s, Life, Lubimy, Manzanita Sol, Marias Gamesa, Matutano, Mirinda, Miss Vickie’s, Mother’s, Mountain Dew, Mountain Dew Code Red, Mountain Dew

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Kickstart, Mug, Munchies, Naked, Near East, O.N.E., Paso de los Toros, Pasta Roni, Pepsi, Pepsi Max, Pepsi Next, Propel, Quaker, Quaker Chewy, Rice-A-Roni, Rold Gold, Rosquinhas Mabel, Ruffles, Sabritas, Sakata, Saladitas, Sandora, Santitas, 7UP (outside the United States) and 7UP Free (outside the United States), Sierra Mist, Simba, Smartfood, Smith's, Snack a Jacks, SoBe, SoBe Lifewater, SoBe V Water, Sonric's, Stacy's, Sting, SunChips, Tonus, Tostitos, Trop 50, Tropicana, Tropicana Farmstand, Tropicana Pure Premium, Tropicana Twister, Vesely Molochnik, Walkers and Ya. We also hold long-term licenses to use valuable trademarks in connection with our products in certain markets, including Dole and Ocean Spray. We also distribute Rockstar Energy drinks, Muscle Milk protein shakes and certain DPSG brands, including Dr Pepper, Crush and Schweppes, in certain markets. Joint ventures in which we have an ownership interest either own or have the right to use certain trademarks, such as Lipton, Müller, Sabra and Starbucks. Trademarks remain valid so long as they are used properly for identification purposes, and we emphasize correct use of our trademarks. We have authorized, through licensing arrangements, the use of many of our trademarks in such contexts as snack food joint ventures and beverage bottling appointments. In addition, we license the use of our trademarks on merchandise that is sold at retail, which enhances brand awareness.

We either own or have licenses to use a number of patents which relate to certain of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. Some of these patents are licensed to others. See also "Item 1A. Risk Factors – Our intellectual property rights could be infringed or challenged and reduce the value of our products and brands and have an adverse impact on our business, financial condition or results of operations."

Seasonality

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

Our Customers

Our primary customers include wholesale and other distributors, foodservice customers, grocery stores, drug stores, convenience stores, discount/dollar stores, mass merchandisers, membership stores and authorized independent bottlers. We normally grant our independent bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements provide us with the right to charge our independent bottlers for concentrate, finished goods and Aquafina royalties and specify the manufacturing process required for product quality. We also grant distribution rights to our independent bottlers for certain beverage products bearing our trademarks for specified geographic areas.

Since we do not sell directly to the consumer, we rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include volume-based rebates, product placement fees, promotions and displays. For our independent bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, and other promotional offers. Advertising support is directed at advertising programs and supporting independent bottler media. New product support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually.

Changes to the retail landscape, including increased consolidation of retail ownership, and the current economic environment continue to increase the importance of major customers. See “Item 1A. Risk Factors – The loss of any key customer or changes to the retail landscape could adversely affect our business, financial condition or results of operations.” In 2014, sales to Wal-Mart Stores, Inc. (Wal-Mart), including Sam’s Club (Sam’s), represented approximately 12% of our total net revenue. Our top five retail customers represented approximately 31% of our 2014 North American (United States and Canada) net revenue, with Wal-Mart (including Sam’s) representing approximately 18%. These percentages include concentrate sales to our independent bottlers, which were used in finished goods sold by them to these retailers.

See Note 8 to our consolidated financial statements for more information on our customers, including our independent bottlers.

Our Competition

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

Many of our food and snack products hold significant leadership positions in the food and snack industry worldwide. However, The Coca-Cola Company has significant carbonated soft drink (CSD) share advantage in many markets outside the United States.

Our beverage, food and snack products compete primarily on the basis of brand recognition, taste, price, quality, product variety, distribution, advertising, marketing and promotional activity, packaging, convenience, service and the ability to anticipate and respond to consumer trends. Success in this competitive environment is dependent on effective promotion of existing products, introduction of new products and the effectiveness of our advertising campaigns, marketing programs, product packaging, pricing, increased efficiency in production techniques, new vending and dispensing equipment and brand and trademark development and protection. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allows us to compete effectively. See also “Item 1A. Risk Factors – Our business, financial condition or results of operations could suffer if we are unable to compete effectively.”

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U.S. Savory Snacks
% Retail Sales in Measured Channels [1]
Includes salty snacks (including potato, tortilla, corn, pita, bagel and veggie chips, pretzels, fruit crisps and cheese puffs), snack nuts, seeds, corn nuts, meat snacks, crackers (excluding graham), popcorn, dips, trail mixes, rice cakes and soy chips.

U.S. Liquid Refreshment Beverage Category Share
% Retail Sales in Measured Channels [1][2]

(1) The categories and category share information in the charts above are through December 2014 based on data provided and verified by Information Resources, Inc. (IRI). The above charts include data from most major retail chains (including Wal-Mart) but exclude data from certain retailers that do not report to this service.
(2) Does not sum due to rounding.

Research and Development

We engage in a variety of research and development activities and continue to invest to accelerate growth to drive innovation globally. These activities principally involve production, processing and packaging and include: development of new ingredients and products; reformulation and improvement in the quality of existing products; improvement and modernization of manufacturing processes; improvements in product quality, safety and integrity; development of, and improvements in, packaging technology and dispensing equipment; and efforts focused on identifying opportunities to transform, grow and broaden our product portfolio, including the development of sweetener alternatives and flavor modifiers to reduce added sugar, and recipes that allow us to reduce sodium levels in certain of our products. Our research centers are located around the world, including in Brazil, China, Germany, India, Mexico, Russia, the United Arab Emirates, the United Kingdom and the United States, and leverage nutrition science, food science, engineering and consumer insights to meet our strategy to develop nutritious, convenient beverages, foods and snacks. In 2014, we continued to refine our beverage, food and snack portfolio to meet changing consumer needs by developing a broader portfolio of product choices, including building on our important nutrition platforms and brands – Quaker (grains), Tropicana (fruits and vegetables), Gatorade (sports nutrition for athletes) and Naked Juice (super-premium juice and protein smoothies) – and expanding our portfolio of nutritious products in growing categories, such as dairy, hummus and other fresh dips, and baked grain snacks. We also made investments to minimize our impact on the environment, including innovation in our packaging to make it increasingly sustainable, and developed and implemented new technologies to enhance the quality and value of our current and future products, as well as made investments to incorporate into our operations best practices and technology to support sustainable agriculture and to minimize our impact on the environment. We continue to make investments to conserve energy and raw materials, reduce waste in our facilities, recycle containers, use renewable resources and optimize package design to use fewer materials. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were $718 million, $665 million and $552 million in 2014, 2013 and 2012, respectively, and are reported within selling, general and administrative expenses. See also “Item 1A. Risk Factors – Demand for our products may be adversely affected by changes in consumer preferences or any inability on

our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations."

Regulatory Environment and Environmental Compliance

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

We are required to comply with a variety of U.S. laws and regulations, including but not limited to: the Federal Food, Drug and Cosmetic Act and various state laws governing food safety; the Food Safety Modernization Act; the Occupational Safety and Health Act; the Clean Air Act; the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Federal Motor Carrier Safety Act; the Lanham Act; various federal and state laws and regulations governing competition and trade practices; various federal and state laws and regulations governing our employment practices, including those related to equal employment opportunity, such as the Equal Employment Opportunity Act and the National Labor Relations Act; customs and foreign trade laws and regulations; and laws regulating the sale of certain of our products in schools. In our business dealings, we are also required to comply with the Foreign Corrupt Practices Act, the U.K. Bribery Act and the Trade Sanctions Reform and Export Enhancement Act. We are also subject to various state and local statutes and regulations, including state consumer protection laws such as Proposition 65 in California which requires that, unless a safe harbor level exists and has been met, a specific warning appear on any product that contains a substance listed by the State of California as having been found to cause cancer or birth defects. See also "Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation."

We are also subject to numerous similar and other laws and regulations outside the United States, including but not limited to laws and regulations governing food safety, health and safety, anti-corruption and data privacy. In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws. We rely on legal and operational compliance programs, as well as in-house and outside counsel, to guide our businesses in complying with applicable laws and regulations of the countries in which we do business. See also "Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation." and "Item 1A. Risk Factors – Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are made, manufactured, distributed or sold."

Certain jurisdictions in which our products are sold have either imposed, or are considering imposing, taxes or other limitations on, or regulations pertaining to, the sale of certain of our products, ingredients or substances contained in our products or commodities used in the production of our products, including certain of our products that contain added sugar, exceed specified caloric content or include specified ingredients such as caffeine; this includes regulations imposing additional labeling requirements. For example, in 2014, Mexico imposed a tax on sugar-sweetened beverages and certain packaged foods. In addition, certain jurisdictions require or are considering proposals to require labeling of foods that are, or contain ingredients that are, genetically modified and to restrict the use of benefit programs, such as the Supplemental Nutrition Assistance

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Program, to purchase certain beverages and foods. In addition, legislation has been enacted in certain U.S. states and in certain other countries in which our products are sold that requires collection and recycling of containers or that prohibits the sale of our beverages in certain non-refillable containers, unless a deposit or other fee is charged. It is possible that similar or more restrictive legal requirements may be proposed or enacted in the future. In addition, we are subject to taxes in the United States and numerous foreign jurisdictions. Economic and political conditions may result in changes in tax rates which could affect our financial performance. See also "Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation." and "Item 1A. Risk Factors – Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations."

The cost of compliance with U.S. and foreign laws does not have a material financial impact on our consolidated results of operations.

We are also subject to national and local environmental laws in the United States and in foreign countries in which we do business, including laws related to water consumption and treatment, wastewater discharge and air emissions. In the United States, our facilities must comply with the Clean Air Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and other federal and state laws regarding handling, storage, release and disposal of wastes generated on-site and sent to third-party owned and operated off-site licensed facilities and our facilities outside the United States must comply with similar laws and regulations. Our policy is to meet all applicable environmental compliance requirements, and we have internal programs in place to enhance our global environmental compliance. We have made, and plan to continue making, necessary expenditures for compliance with applicable laws. While these expenditures have not had a material impact on our business, financial condition or results of operations, changes in environmental compliance requirements, and any expenditures necessary to comply with such requirements, could affect our financial performance. In addition, we and our subsidiaries are subject to environmental remediation obligations in the normal course of business, as well as remediation and related indemnification obligations in connection with certain historical activities and contractual obligations, including those of businesses acquired by our subsidiaries. While these environmental and indemnification obligations cannot be predicted with certainty, environmental compliance costs have not had, and are not expected to have, a material impact on our capital expenditures, earnings or competitive position. See also "Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation."

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

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Employees

As of December 27, 2014, we employed approximately 271,000 people worldwide, including approximately 107,000 people within the United States. Our employment levels are subject to seasonal variations. We or our subsidiaries are a party to numerous collective bargaining agreements. We expect that we will be able to renegotiate these collective bargaining agreements on satisfactory terms when they expire. We believe that relations with our employees are generally good.

Available Information

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

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are also available free of charge on our Internet site at http://www.pepsico.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

Item 1A. Risk Factors.

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the following factors that could have a material adverse effect on our business, financial condition, results of operations or the price of our common stock. The following information should be read together and in conjunction with "Forward-Looking Statements," "Item 1. Business," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the accompanying notes thereto. The risks below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, results of operations or the price of our common stock.

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

We are a global food and beverage company operating in highly competitive categories and we rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Any significant changes in consumer preferences or any inability on our part to anticipate or react to such changes could result in reduced demand for our products and erosion of our competitive and financial position and could adversely affect our business, financial condition or results of operations. Our success depends on: our ability to anticipate and effectively respond to shifts in consumer trends, including increased demand for products that meet the needs of consumers who are concerned with health and wellness, convenience and location of origin or source of the products they consume; our product quality; our ability to extend our portfolio of convenient beverages, foods and snacks in growing markets; our ability to develop or acquire new products that are responsive to certain consumer preferences, including reducing sodium, added sugars and saturated fat; our ability to develop a broader portfolio of product choices and increase non-carbonated beverage offerings and alternatives to traditional carbonated beverage offerings;

our ability to develop sweetener innovation; our ability to improve the production and packaging of our products; and our ability to respond to competitive product and pricing pressures. For example, our growth rate may be adversely affected if we are unable to maintain or grow our current share of the liquid refreshment beverage market in North America, or our current share of the snacks market globally, or if demand for our products does not grow in developing and emerging markets.

In general, changes in product category consumption or consumer demographics could result in reduced demand for our products. Consumer preferences may evolve due to a variety of factors, including: the aging of the general population; consumer concerns or perceptions regarding the nutrition profile of certain of our products, including their caloric content, or perceptions (whether or not valid) regarding the health effects of ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, artificial sweeteners, caffeine, high-fructose corn syrup, saturated fat, sodium, sugar, trans fats or other product ingredients, substances or attributes, including genetically modified ingredients; packaging materials; changes in package or portion size; changes in in-home consumption patterns; changes in social trends that impact travel, vacation or leisure activity patterns; changes in weather patterns or seasonal consumption cycles; negative publicity (whether or not valid) resulting from regulatory action, litigation against us or other companies in our industry or negative or inaccurate posts or comments in the media, including social media, about us, our products or advertising campaigns and marketing programs; consumer perception of social media posts or other information disseminated by us or our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties; consumer perception of our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties or the business practices of such parties; a downturn in economic conditions; or taxes or other restrictions imposed on our products.

Any of these changes may reduce consumers' willingness to purchase our products. See also "Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.", "Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.", "Our business, financial condition or results of operations could suffer if we are unable to compete effectively.", "Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations." and "Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations."

Our continued success is also dependent on our product and marketing innovation, including: maintaining a robust pipeline of new products; improving the quality of existing products; and the effectiveness of our product packaging, advertising campaigns and marketing programs, including our ability to successfully adapt to a rapidly changing media environment, including through use of social media and online advertising campaigns and marketing programs. Although we devote significant resources to the actions mentioned above, there can be no assurance as to our continued ability to develop, launch and maintain successful new products or variants of existing products, our ability to introduce new products or variants of existing products in a timely manner or our ability to correctly anticipate or effectively react to changes in consumer preference or develop and effectively execute advertising and marketing campaigns that appeal to consumers. Our failure to make the right strategic investments to drive innovation or successfully launch new products or variants of existing products could decrease demand for our existing products by negatively affecting consumer perception of existing brands and may result in inventory write-offs and other costs that could adversely affect our business, financial condition or results of operations. See also "Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations."

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Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.

The conduct of our businesses, including the production, storage, distribution, sale, display, advertising, marketing, labeling, transportation and use of many of our products, as well as our health and safety practices, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to laws and regulations administered by government entities and agencies outside the United States in markets in which our products are made, manufactured, distributed or sold. Many of these laws and regulations may have differing or conflicting legal standards across the various markets where our products are made, manufactured, distributed or sold and, in certain markets, such as developing and emerging markets, may be less developed or certain. In addition, these laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of a variety of factors, including political, economic or social events. Such changes may include changes in: food and drug laws; laws related to product labeling, advertising and marketing practices; laws regarding the import or export of our products or ingredients used in our products; laws and programs restricting the sale and advertising of certain of our products; laws and programs aimed at reducing, restricting or eliminating ingredients or substances in, or attributes of, certain of our products; laws and programs aimed at discouraging the consumption or altering the package or portion size of certain of our products, including laws imposing restrictions on the use of government programs, such as the Supplemental Nutrition Assistance Program, to purchase certain of our products; increased regulatory scrutiny of, and increased litigation involving product claims and concerns regarding the effects on health of ingredients or substances in, or attributes of, certain of our products, including without limitation those found in energy drinks; state consumer protection laws; taxation requirements, including the imposition or proposed imposition of new or increased taxes or other limitations on the sale of our products; competition laws; anti-corruption laws; employment laws; privacy laws; laws regulating the price we may charge for our products; laws regulating access to and use of water or utilities; and environmental laws, including laws relating to the regulation of water rights, treatment and discharge of wastewater and air emissions.

New laws, regulations or governmental policy and their related interpretations, or changes in any of the foregoing, including taxes or other limitations on the sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products, may alter the environment in which we do business and, therefore, may increase our costs or liabilities or reduce demand for our products, which could adversely affect our business, financial condition or results of operations.

Governmental entities or agencies in jurisdictions where our products are made, manufactured, distributed or sold may also impose new labeling, product or production requirements, or other restrictions. If one jurisdiction imposes or proposes to impose new requirements or restrictions, other jurisdictions may follow and the requirements or restrictions, or proposed requirements or restrictions, may result in adverse publicity (whether or not valid). For example, if one jurisdiction imposes a specific labeling requirement or requires a specific warning on any product that contains certain ingredients or substances, other jurisdictions may react and impose restrictions on products containing the same ingredients or substances, which may result in adverse publicity or increased concerns about the health implications of consumption of such ingredients or substances in our products (whether or not valid). In addition, studies are underway by third parties to assess the health implications of consumption of certain ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, caffeine and sugar. If consumer concerns, whether or not valid, about the health implications of consumption of ingredients or substances present in certain of our products increase as a result of these studies, new scientific evidence, new labeling, product or production requirements or other restrictions, or for any other reason, including adverse publicity as a result of any of the foregoing, or if we are required to add warning labels to any of our products or place warnings in locations where our products are sold, demand for our products could decline, or we could be subject to lawsuits or new regulations

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that could affect sales of our products, any of which could adversely affect our business, financial condition or results of operations.

In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws. In addition, regulatory authorities under whose laws we operate may have enforcement powers that can subject us to actions such as product recall, seizure of products or other sanctions, which could have an adverse effect on our sales or damage our reputation. Although we have policies and procedures in place that are designed to promote legal and regulatory compliance, our employees, suppliers, or other third parties with whom we do business could take actions, intentional or not, that violate these policies and procedures or applicable laws or regulations. Violations of these laws or regulations could subject us to criminal or civil enforcement actions, including fines, penalties, disgorgement of profits or activity restrictions, any of which could adversely affect our business, financial condition or results of operations.

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

See also “Item 1. Business – Regulatory Environment and Environmental Compliance.”, “Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.”, “Our business, financial condition or results of operations could suffer if we are unable to compete effectively.”, “Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are made, manufactured, distributed or sold.”, “Product contamination or tampering or issues or concerns with respect to product quality, safety and integrity could adversely affect our business, financial condition or results of operations.” and “Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations.”

Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.

Our products are made, manufactured, distributed or sold in more than 200 countries and territories. As such, we are subject to tax laws and regulations of various federal, state and local governments in the United States, as well as to tax laws and regulations outside the United States. The imposition or proposed imposition of new or increased taxes or other limitations on the sale of our products, ingredients or substances contained in our products or commodities used in the production of our products, could increase the cost of our products, reduce overall consumption of our products, lead to negative publicity (whether or not valid) or leave consumers with the perception that our products do not meet their health and wellness needs, which could adversely affect our business, financial condition or results of operations. If one jurisdiction imposes new or increased taxes or limitations, other jurisdictions may follow, which may result in adverse publicity or increased concerns about the health implications of consumption of our products (whether or not valid).

In addition, we are subject to regular reviews, examinations and audits by the Internal Revenue Service (IRS) and other taxing authorities with respect to income and non-income based taxes both within and outside the

United States. Economic and political pressures to increase tax revenues in jurisdictions in which we operate, or the adoption of new or reformed tax legislation or regulation, may make resolving tax disputes more difficult and the final resolution of tax audits and any related litigation could differ from our historical provisions and accruals resulting in an adverse impact on our business, financial condition or results of operations.

Our operations outside the United States generate a significant portion of our net revenue and repatriation of foreign earnings to the United States could adversely affect our business, financial condition or results of operations. In addition, key representatives of the U.S. government have made public statements that tax reform is a priority and many countries outside the United States, including countries in which we have significant operations, are actively considering changes to existing tax laws. Changes in how U.S. multinational corporations are taxed on foreign earnings could adversely affect our business, financial condition or results of operations. See also "Item 1. Business – Regulatory Environment and Environmental Compliance." and "Demand for our products may be adversely affected by changes in consumer preferences or any inability on our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations.", "Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.", "Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are made, manufactured, distributed or sold." and "Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations."

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

Our beverage, food and snack products are in highly competitive industries and markets and compete against products of international beverage, food and snack companies that, like us, operate in multiple geographic areas, as well as regional, local and private label manufacturers and other competitors. We compete with other large companies in each of the beverage, food and snack categories, including The Coca-Cola Company, DPSG, Kellogg Company, Kraft Foods Group, Inc., Mondelēz International, Inc., Monster Beverage Corporation, Nestlé S.A., Red Bull GmbH and Snyder's-Lance, Inc. In many countries in which our products are sold, including the United States, our primary beverage competitor is The Coca-Cola Company.

Our beverage, food and snack products compete primarily on the basis of brand recognition, taste, price, quality, product variety, distribution, advertising, marketing and promotional activity, packaging, convenience, service and the ability to anticipate and effectively respond to consumer trends. If we are unable to effectively promote our existing products or introduce new products, if our advertising or marketing campaigns are not effective or if we are otherwise unable to compete effectively, we may be unable to grow or maintain sales or gross margins in the global market or in various local markets, which may adversely affect our business, financial condition or results of operations. See also "Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations." and "Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies."

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Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are made, manufactured, distributed or sold.

Our operations outside of the United States, particularly in Russia, Mexico, Canada, the United Kingdom and Brazil, contribute significantly to our revenue and profitability, and we believe that these countries and developing and emerging markets, particularly China, India and the Latin America, Africa and Middle East regions, present important future growth opportunities for us. However, there can be no assurance that our existing products, variants of our existing products or new products that we make, manufacture, distribute or sell will be accepted or be successful in any particular developing or emerging market, due to local or global competition, product price, cultural differences, consumer preferences or otherwise. The following factors could reduce demand for our products, or otherwise adversely affect our business, financial condition or results of operations: unstable economic, political or social conditions, acts of war, terrorist acts, and civil unrest in areas where our products are sold, including Russia, Ukraine, Venezuela and the Middle East; increased competition; a slowdown in growth and the related impact on other countries who export to these markets; our inability to acquire businesses, form strategic business alliances or to make necessary infrastructure investments; our inability to complete divestitures or refranchisings; imposition of new or increased sanctions against, or other regulations restricting contact with, countries in markets in which our products are made, manufactured, distributed or sold, such as Russia, or imposition of new or increased sanctions against U.S. multinational corporations operating in these markets; foreign ownership restrictions; nationalization of our assets; restrictions on the import or export of our products or ingredients or substances used in our products; regulations on the transfer of funds to and from foreign countries, which, from time to time, result in significant cash balances in foreign countries, such as Venezuela; regulations on the repatriation of funds currently held in foreign jurisdictions to the United States; highly inflationary currency, devaluation or fluctuation, such as the devaluation of the Russian ruble, Venezuelan bolivar, Argentine peso, Ukrainian hryvnia and Turkish lira; the lack of well-established or reliable legal systems; imposition of new or increased labeling, product or production requirements, or other restrictions; and increased costs of doing business due to compliance with complex foreign and United States laws and regulations that apply to our international operations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and the Trade Sanctions Reform and Export Enhancement Act, and adverse consequences, such as the assessment of fines or penalties, for any failure to comply with these laws and regulations. If we are unable to expand our businesses in developing and emerging markets, or achieve the return on capital we expect from our investments, our business, financial condition or results of operations could be adversely affected. See also “Item 1. Business – Regulatory Environment and Environmental Compliance.”, “Demand for our products may be adversely affected by changes in consumer preferences or any inability on our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations.”, “Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”, “Our business, financial condition or results of operations could suffer if we are unable to compete effectively.”, “Business disruptions could have an adverse impact on our business, financial condition or results of operations.” and “Failure to successfully complete or integrate acquisitions and joint ventures into our existing operations, or to complete or manage divestitures or refranchisings, could adversely affect our business, financial condition or results of operations.”

Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations.

Many of the countries in which we operate, including the United States and certain countries in Europe and Latin America, have experienced and continue to experience unfavorable economic conditions. Our business

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or financial results may be adversely impacted by these unfavorable economic conditions, including: adverse changes in interest rates, tax laws or tax rates; volatile commodity markets; highly inflationary currency, devaluation or fluctuation; contraction in the availability of credit in the marketplace due to legislation or other economic conditions; the effects of government initiatives to manage economic conditions, including changes to or cessation of any such initiatives; reduced demand for our products resulting from a slow-down in the general global economy or a shift in consumer preferences for economic reasons or otherwise to regional, local or private label products or other economy products, or to less profitable channels; or a decrease in the fair value of pension or post-retirement assets that could increase future employee benefit costs and/or funding requirements of our pension or post-retirement plans. An adverse change in any of the above factors could have a negative impact on the fair value of our intangible assets, which could require us to record a non-cash impairment charge. In addition, we cannot predict how current or worsening economic conditions will affect our customers, consumers, suppliers, bottlers, distributors, joint venture partners or other third parties and any negative impact on any of the foregoing may also have an adverse impact on our business, financial condition or results of operations.

In addition, some of the major financial institutions with which we execute transactions, including U.S. and non-U.S. commercial banks, insurance companies, investment banks and other financial institutions, may be exposed to a ratings downgrade, bankruptcy, liquidity, default or similar risks as a result of unfavorable economic conditions or other factors beyond our control. A ratings downgrade, bankruptcy, receivership, default or similar event involving a major financial institution may limit the availability of credit or willingness of financial institutions to extend credit on terms commercially acceptable to us or at all or, with respect to financial institutions that are parties to our financing arrangements, leave us with reduced borrowing capacity or exposed to certain currencies or price risk associated with forecasted purchases of raw materials, or result in a decline in the market value of our investments in debt securities, which could have an adverse impact on our business, financial condition or results of operations.

See also “Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.”, “Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.” and “Our borrowing costs and access to capital and credit markets may be adversely affected by a downgrade or potential downgrade of our credit ratings.”

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

We and our business partners use various raw materials and other supplies in our business. The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit and other fruits, oats, oranges, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including PET and polypropylene resin used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel and natural gas are also important commodities for us due to their use in our facilities and in the trucks delivering our products.

Some of these raw materials and supplies are sourced from countries experiencing civil unrest, political instability or other unfavorable economic conditions, and some are available from a limited number of suppliers or are in short supply when seasonal demand is at its peak. The raw materials and energy, including fuel, that we use for the manufacturing, production and distribution of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by many factors, including changes

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in global supply and demand, weather conditions, disease, agricultural uncertainty, governmental incentives and controls, political uncertainties or governmental instability. Shortage of some of these raw materials and other supplies, sustained interruption in their supply or an increase in their costs could adversely affect our business, financial condition or results of operations. Many of our ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivatives. If commodity price changes result in unexpected or significant increases in raw materials and energy costs, we may not be able to increase our product prices or effectively hedge against commodity price increases to offset these increased costs without suffering reduced volume, revenue, margins and operating results. In addition, certain of the derivatives used to hedge price risk do not qualify for hedge accounting treatment and therefore can result in increased volatility in our net earnings in any given period due to changes in the spot prices of the underlying commodities.

Water is also a limited resource in many parts of the world. The lack of available water of acceptable quality and increasing pressure to conserve water in areas of scarcity and stress may lead to supply chain disruption, adverse effects on our operations or higher production costs that could adversely affect our business, financial condition or results of operations.

See also “Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”, “Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations.”, “Climate change, or legal, regulatory or market measures to address climate change, may negatively affect our business and operations.” and “Market Risks” contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 10 to our consolidated financial statements.

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

Our future success and earnings growth depend in part on our ability to reduce costs and improve efficiencies. Our productivity initiatives help fund our growth initiatives and contribute to our results of operations. We are implementing strategic plans that we believe will position our business for future success and long-term sustainable growth by allowing us to achieve a lower cost structure and operate more efficiently in the highly competitive beverage, food and snack industries. We are also continuing to implement our global operating model to improve efficiency, decision making, innovation and brand management across the global PepsiCo organization to enable us to compete effectively. In order to capitalize on our cost reduction efforts and our global operating model, it will be necessary to make certain investments in our business, which may be limited due to capital constraints. In addition, it is critical that we have the appropriate personnel in place to continue to lead and execute our plans. If we are unable to successfully implement our productivity initiatives, fail to implement these initiatives as timely as we anticipate, do not achieve expected savings as a result of these initiatives or incur higher than expected or unanticipated costs in implementing these initiatives, or fail to identify and implement additional productivity opportunities in the future, our business, financial condition or results of operations could be adversely impacted.

Business disruptions could have an adverse impact on our business, financial condition or results of operations.

Our ability, and that of our suppliers and other third parties, including our independent bottlers, contract manufacturers, joint venture partners, independent distributors and retailers, to make, manufacture, transport, distribute and sell products is critical to our success. Damage or disruption to our or their operations due to any of the following could impair the ability to make, manufacture, transport, distribute or sell our products: adverse weather conditions or natural disaster, such as a hurricane, earthquake or flooding; government

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action; economic or political uncertainties or instability in countries in which our products are made, manufactured, distributed or sold; fire; terrorism; outbreak or escalation of armed hostilities; health epidemics or pandemics; cybersecurity incidents; industrial accidents or other occupational health and safety issues; telecommunications failures; power or water shortages; strikes and other labor disputes; or other reasons beyond our control or the control of our suppliers and other third parties. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition or results of operations, as well as require additional resources to restore our operations.

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

Product contamination or tampering, the failure to maintain high standards for product quality, safety and integrity, including with respect to raw materials and ingredients obtained from suppliers, or allegations of product quality issues, mislabeling, misbranding, spoilage, allergens or contamination, even if untrue, may reduce demand for our products or cause production and delivery disruptions, which could adversely affect our business, financial condition or results of operations. If any of our products are mislabeled or become unfit for consumption or cause injury, illness or death, or if appropriate resources are not devoted to product quality and safety (particularly as we expand our portfolio into new categories) or to comply with changing food safety requirements, our products may be subject to a product recall and/or be subject to liability or government action, which could result in payment of damages or fines, cause certain of our products to be unavailable for a period of time or result in adverse publicity, which could reduce consumer demand and brand equity. We could also be adversely affected if consumers lose confidence in product quality, safety and integrity generally. Any of the foregoing could adversely affect our business, financial condition or results of operations. See also “Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations.”

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

We are a leading global beverage, food and snack company with brands that are respected household names throughout the world. Maintaining a good reputation globally is critical to selling our branded products. Our reputation or brand image could be adversely impacted by any of the following, or by adverse publicity (whether or not valid) relating thereto: the failure to maintain high ethical, social and environmental practices for all of our operations and activities or failure to require our suppliers or other third parties to do so; the failure to achieve our goal of continuing to refine our beverage, food and snack choices to meet changing consumer demands by reducing sodium, added sugars and saturated fat and developing a broader portfolio of product choices; health concerns (whether or not valid) about our products or particular ingredients or substances in, or attributes of, our products, including whether certain of our products contribute to obesity; the imposition or proposed imposition of new or increased taxes or other limitations on the sale or advertising of our products; any failure to comply, or perception of a failure to comply, with our policies and goals, including those regarding advertising to children and reducing calorie consumption from sugary drinks; our research and development efforts; our environmental impact, including use of agricultural materials, packaging, water, energy use and waste management or any failure to achieve our goals with respect to minimizing our impact on the environment; the practices of our employees, agents, customers, distributors, suppliers, bottlers, joint venture partners or other third parties with respect to any of the foregoing; consumer perception of our advertising campaigns or marketing programs; consumer perception of our use of social media; or our responses to any of the foregoing or negative publicity as a result of any of the foregoing.

In addition, we operate globally, which requires us to comply with numerous local regulations, including, without limitation, anti-corruption laws, competition laws and tax laws and regulations of the jurisdictions in which our products are made, manufactured, distributed or sold. In the event that our employees engage in improper activities, we may be subject to enforcement actions, litigation, loss of sales or other consequences, which may cause us to suffer damage to our reputation in the United States or abroad. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial information could also hurt our reputation. In addition, water is a limited resource in many parts of the world and demand for water continues to rise. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to water use.

Further, the rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. As a result, negative or inaccurate posts or comments about us, our products, policies, practices or advertising campaigns and marketing programs, our use of social media or of posts or other information disseminated by us or our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties, or consumer perception of any of the foregoing, may also generate adverse publicity that could damage our reputation.

Damage to our reputation or brand image or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could adversely affect our business, financial condition or results of operations, as well as require additional resources to rebuild our reputation. See also “Demand for our products may be adversely affected by changes in consumer preferences or any inability on our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations.”, “Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”, “Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.” and “Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.

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

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

With respect to acquisitions, the following also pose potential risks: our ability to successfully combine our businesses with the business of the acquired company, including integrating the manufacturing, distribution, sales and administrative support activities and information technology systems between us and the acquired company and our ability to successfully operate in new categories or territories; motivating, recruiting and retaining executives and key employees; conforming standards, controls (including internal control over financial reporting, environmental compliance and health and safety compliance), procedures and policies, business cultures and compensation structures between us and the acquired company; consolidating and streamlining corporate and administrative infrastructures; consolidating sales and marketing operations; retaining existing customers and attracting new customers; identifying and eliminating redundant and

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underperforming operations and assets; coordinating geographically dispersed organizations; managing tax costs or inefficiencies associated with integrating our operations following completion of the acquisitions; and other unanticipated problems and liabilities.

With respect to joint ventures, we share ownership and management responsibility with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do and joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. In addition, acquisitions and joint ventures outside of the United States increase our exposure to risks associated with operations outside of the United States, including fluctuations in exchange rates and compliance with the Foreign Corrupt Practices Act and other anti-corruption and anti-bribery laws, and laws and regulations outside the United States.

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

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

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

Our continued growth requires us to hire, retain and develop our leadership bench and a highly skilled and diverse workforce. We compete to hire new employees and then must train them and develop their skills and competencies. Any unplanned turnover or our failure to develop an adequate succession plan to backfill current leadership positions, including the Chief Executive Officer, or to hire and retain a diverse workforce could deplete our institutional knowledge base and erode our competitive advantage or result in increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any of the foregoing could have a negative impact on our business, financial condition or results of operations.

The loss of any key customer or changes to the retail landscape could adversely affect our business, financial condition or results of operations.

We must maintain mutually beneficial relationships with our key customers, including Wal-Mart, as well as other retailers, to effectively compete. The loss of any of our key customers could adversely affect our business, financial condition or results of operations. In addition, our industry has been affected by changes to the retail landscape, including increased consolidation of retail ownership, particularly in North America and Europe, resulting in large retailers with increased purchasing power, which may impact our ability to compete in these areas. Such retailers may demand lower pricing and increased promotional programs. Further, should larger retailers increase utilization of their own distribution networks, other distribution channels such as e-commerce, or private label brands, the competitive advantages we derive from our go-to market systems and brand equity may be eroded. Failure to appropriately respond to any such actions or to offer effective sales incentives and marketing programs to our customers could reduce our ability to secure adequate shelf space at our retailers and adversely affect our business, financial condition or results of operations. In addition, if we are unable to resolve a dispute with any of our key customers, or if there is a change in the business condition (financial or otherwise) of any of our key customers, even if unrelated to us, our business, financial condition or results of operations may be adversely affected. See also “Our Customers,” contained in “Item 1. Business.”

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

We expect to maintain Tier 1 commercial paper access which we believe will ensure appropriate financial flexibility and ready access to global credit markets at favorable interest rates. Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether as a result of our actions or factors which are beyond our control, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. Further, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. Our borrowing costs and access to the commercial paper market could also be adversely affected if a credit rating agency announces that our ratings are under review for a potential downgrade. See also “Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations.” and “Our Liquidity and Capital Resources” contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our business and reputation could suffer if we are unable to protect our information systems against, or effectively respond to, cybersecurity incidents or if our information systems are otherwise disrupted.

We depend on information technology, including public websites and cloud-based services, for many activities important to our business, including to interface with our customers and consumers, to engage in digital marketing activities, to enable and improve the effectiveness of our operations, to order and manage materials from suppliers, to maintain financial accuracy and efficiency, to comply with regulatory, financial reporting, legal and tax requirements, to collect and store sensitive data and confidential information, and to communicate electronically among our global operations and with our employees and the employees of our independent bottlers, contract manufacturers, joint ventures, suppliers and other third parties. As with other large and prominent companies, we are regularly subject to cyberattacks and such attempts are occurring more frequently, are constantly evolving in nature and are becoming more sophisticated. If we do not allocate and effectively manage the resources necessary to build and sustain our information technology infrastructure, if we fail to timely identify or appropriately respond to cybersecurity incidents, or if our information systems are damaged, destroyed or shut down (whether as a result of natural disasters, fires, power outages, acts of terrorism or other catastrophic events, network outages, software, equipment or telecommunications failures, user errors, or from deliberate cyberattacks such as malicious or disruptive software, denial of service attacks, malicious social engineering, hackers or otherwise), our business could be disrupted and we could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of, or failure to attract new, customers and consumers; the loss of revenues from unauthorized use, acquisition or disclosure of or access to confidential information; the loss of or damage to intellectual property or trade secrets, including the loss or unauthorized disclosure of sensitive data, confidential information or other assets; damage to our reputation; litigation; regulatory enforcement actions; violation of data privacy, security or other laws and regulations; and remediation costs. Further, our information systems and the information stored therein, could be compromised by, and we could experience similar adverse consequences due to, unauthorized outside parties intent on accessing or extracting sensitive data or confidential information, corrupting information or disrupting business processes or by inadvertent or intentional actions by our employees or agents. Similar risks exist with respect to the third-party vendors we rely upon for aspects of our information technology support services and administrative functions, including payroll processing, health and benefit plan administration and certain finance and accounting functions. See also “Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations.” and “If we are not able to successfully implement shared services or utilize information technology systems and networks effectively, our ability to conduct our business might be negatively impacted.”

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

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

We have also embarked on a multi-year business transformation initiative to migrate certain of our systems, including our financial processing systems, to enterprise-wide systems solutions. If we do not allocate and effectively manage the resources necessary to build and sustain the proper information technology infrastructure, or if we fail to achieve the expected benefits from this initiative, it may impact our ability to process transactions accurately and efficiently and remain in step with the changing needs of the trade, which could result in the loss of customers or consumers. In addition, the failure to either deliver the applications on time, or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers or consumers and revenue.

Fluctuations in exchange rates may have an adverse impact on our business, financial condition or results of operations.

We hold assets and incur liabilities, earn revenues and pay expenses in a variety of currencies other than the U.S. dollar. Because our consolidated financial statements are presented in U.S. dollars, the financial statements of our subsidiaries outside the United States, where the functional currency is other than the U.S. dollar, are translated into U.S. dollars. Our operations outside of the United States, particularly in Russia, Mexico, Canada, the United Kingdom and Brazil, generate a significant portion of our net revenue. In addition, we purchase many of the ingredients, raw materials and commodities used in our business in numerous markets and in numerous currencies. Fluctuations in exchange rates may therefore adversely impact our business, financial condition or results of operations. See also "Market Risks" contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 1 and 10 to our consolidated financial statements.

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

There is concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products, such as sugar cane, corn, wheat, rice, oats, potatoes and various fruits. As a result of climate

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change, we may also be subjected to decreased availability of water, deteriorated quality of water or less favorable pricing for water, which could adversely impact our manufacturing and distribution operations. In addition, natural disasters and extreme weather conditions may disrupt the productivity of our facilities or the operation of our supply chain.

The increasing concern over climate change also may result in new or increased regional, federal and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is more aggressive than the measures that we are currently undertaking to monitor our emissions and improve our energy efficiency, we may experience significant increases in our costs of operation and delivery and we may be required to make additional investments in facilities and equipment. In particular, increasing regulation of fuel emissions could substantially increase the cost of energy, including fuel, required to operate our facilities or transport and distribute our products, thereby substantially increasing the distribution and supply chain costs associated with our products. As a result, the effects of climate change could negatively affect our business and operations. See also “Demand for our products may be adversely affected by changes in consumer preferences or any inability on our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations.”, “Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”, “Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.” and “Business disruptions could have an adverse impact on our business, financial condition or results of operations.”

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

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

Our intellectual property rights could be infringed or challenged and reduce the value of our products and brands and have an adverse impact on our business, financial condition or results of operations.

We possess intellectual property rights that are important to our business. These intellectual property rights include ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets that are important to our business and relate to a variety of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. We protect our intellectual property rights globally through a combination of trademark, copyright, patent and trade secret laws, third-party assignment and nondisclosure agreements and monitoring of third-party misuses of our intellectual property. If we fail to obtain or adequately protect our ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets, or if there is a change in law that limits or removes the current legal protections of our intellectual property, the value of our products and brands could be reduced and there could be an adverse impact on our business, financial condition or results of operations. See also “Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”

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Potential liabilities and costs from litigation or legal proceedings could have an adverse impact on our business, financial condition or results of operations.

We and our subsidiaries are party to a variety of legal claims and proceedings in the ordinary course of business, including but not limited to litigation related to our advertising, marketing or commercial practices, product labels, claims and ingredients, and environmental, employment and insurance matters. Since litigation is inherently uncertain, there is no guarantee that we will be successful in defending ourselves against such claims or proceedings, or that management's assessment of the materiality of these matters, including the reserves taken in connection therewith, will be consistent with the ultimate outcome of such claims or proceedings. In the event that management's assessment of materiality of current claims and proceedings proves inaccurate or litigation that is material arises in the future, there may be a material adverse effect on our business, financial condition or results of operations. See also "Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations."

Many factors may adversely affect the price of our common stock and our business, financial condition or results of operations.

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

Item 1B. Unresolved Staff Comments.

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2014 fiscal year and that remain unresolved.

Item 2. Properties.

Our principal executive offices, which we own, are located in Purchase, New York. These offices continue to undergo renovations to improve technology and energy efficiency, and to make necessary infrastructure repairs and improvements. We expect these renovations to be completed in 2015. Our executive offices and our data center in Plano, Texas, which we own, are our most significant corporate properties.

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

	FLNA [a]	QFNA	LAF	PAB	Europe	AMEA [b]	Shared [c]
Plants[d]	40	5	55	75	110	50	6
Other Facilities[e]	1,700	2	605	465	425	490	60

(a) Excludes three snack plants and one office that are utilized by FLNA's joint venture with Strauss Group, all of which are owned or leased by the joint venture.
(b) Excludes properties utilized in connection with AMEA's strategic alliance with Tingyi that are owned or leased by Tingyi.
(c) Shared properties are in addition to the other properties reported by our six divisions identified in this table. QFNA shares 12 warehouse and distribution centers with PAB and FLNA. QFNA also shares 15 warehouse and distribution centers and one plant with PAB, as well as one research and development laboratory. FLNA shares one plant with LAF. PAB, Europe and AMEA share two plants and a service center. Europe and AMEA share a research and development facility. PAB and AMEA share two concentrate plants. In addition, approximately 30 offices support shared functions.
(d) Includes manufacturing and processing plants as well as bottling and production plants.
(e) Includes warehouses, distribution centers, offices including division headquarters, research and development facilities and other facilities.

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

- FLNA's research facility in Plano, Texas, which is owned.
- QFNA's snack plant in Cedar Rapids, Iowa, which is owned.
- LAF's four snack plants in Brazil (Guarulhos) and the Mexican cities of Celaya, Monterrey and Mexico City (Vallejo), all of which are owned.
- PAB's concentrate plants in Cork, Ireland, its research and development facility in Valhalla, New York, and a Tropicana plant in Bradenton, Florida, all of which are owned.
- Europe's snack plant in Leicester, United Kingdom, which is leased, and its snack research and development facility in Leicester, United Kingdom, its beverage plant in Lebedyan, Russia and its dairy plant in Moscow, Russia, all of which are owned.
- AMEA's beverage plants in Sixth of October City, Egypt, Rayong, Thailand and Amman, Jordan, and its snack plants in Sixth of October City, Egypt, which are owned, and Riyadh, Saudi Arabia, which is leased.
- Shared service centers in Winston-Salem, North Carolina, and Plano, Texas, which are primarily shared by our FLNA, QFNA and PAB divisions, both of which are leased.

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

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Item 3. Legal Proceedings.

As previously disclosed, 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, Termeszetvedelmi 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, Termeszetvedelmi es Vizugyi Felugyeloseg (Budapest) increased the 2011 sanctions to $320,000 and the 2012 sanctions to $196,000, 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 also “Item 1. Business – Regulatory Environment and Environmental Compliance.” and “Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”, “Item 1A. Risk Factors – Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.”, “Item 1A. Risk Factors – Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are made, manufactured, distributed or sold.” and “Item 1A. Risk Factors – Potential liabilities and costs from litigation or legal proceedings could have an adverse impact on our business, financial condition or results of operations.”

Item 4. Mine Safety Disclosures.

Not applicable.

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Executive Officers of the Registrant

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

Name	Age	Title
Albert P. Carey	63	Chief Executive Officer, PepsiCo Americas Beverages
Sanjeev Chadha	55	Chief Executive Officer, PepsiCo Asia, Middle East and Africa
Marie T. Gallagher	55	Senior Vice President and Controller, PepsiCo
Thomas Greco	56	Chief Executive Officer, Frito-Lay North America
Enderson Guimaraes	55	Executive Vice President, Global Categories and Operations
Hugh F. Johnston	53	Executive Vice President and Chief Financial Officer, PepsiCo
Dr. Mehmood Khan	56	Vice Chairman, PepsiCo; Executive Vice President, PepsiCo Chief Scientific Officer, Global Research and Development
Ramon Laguarta	51	Chief Executive Officer, PepsiCo Europe
Laxman Narasimhan	47	Chief Executive Officer, PepsiCo Latin America Foods
Indra K. Nooyi	59	Chairman of the Board of Directors and Chief Executive Officer, PepsiCo
Cynthia M. Trudell	61	Executive Vice President, Human Resources and Chief Human Resources Officer, PepsiCo
Tony West	49	Executive Vice President, Government Affairs, General Counsel and Corporate Secretary, PepsiCo

Albert P. Carey, 63, was appointed Chief Executive Officer, PepsiCo Americas Beverages in September 2011. He served as President and Chief Executive Officer of Frito-Lay North America from June 2006 to September 2011. Mr. Carey began his career with Frito-Lay in 1981 where he spent 20 years in a variety of roles. He served as President, PepsiCo Sales from February 2003 until June 2006. Prior to that, he served as Chief Operating Officer, PepsiCo Beverages and Foods North America from June 2002 to February 2003 and as PepsiCo's Senior Vice President, Sales and Retailer Strategies from August 1998 to June 2002.

Sanjeev Chadha, 55, was appointed to the role of Chief Executive Officer, PepsiCo Asia, Middle East and Africa in September 2013. Mr. Chadha was President of PepsiCo's Middle East and Africa region from January 2011 to September 2013 and President of PepsiCo's India region from 2009 to December 2010. Mr. Chadha joined PepsiCo in 1989 and has held a variety of senior positions with the Company. He served as Senior Vice President – Commercial, Asia Pacific, including China and India, Senior General Manager, Vietnam and the Philippines, and held other leadership roles in sales, marketing, innovation and franchise.

Marie T. Gallagher, 55, was appointed PepsiCo's Senior Vice President and Controller in May 2011. Ms. Gallagher joined PepsiCo in 2005 as Vice President and Assistant Controller. Prior to joining PepsiCo, Ms. Gallagher was Assistant Controller at Altria Corporate Services from 1992 to 2005 and, prior to that, a senior manager at Coopers & Lybrand.

Thomas Greco, 56, was appointed Chief Executive Officer of Frito-Lay North America in September 2014. Mr. Greco served as Executive Vice President, PepsiCo and President, Frito-Lay North America from September 2011 to September 2014. Prior to that, Mr. Greco served as Executive Vice President and Chief Commercial Officer for Pepsi Beverages Company. Mr. Greco joined PepsiCo in Canada in 1986, and has served in a variety of positions, including Region Vice President, Midwest; President, Frito-Lay Canada; Senior Vice President, Sales, Frito-Lay North America; President, Global Sales, PepsiCo; and Executive Vice President, Sales, North America Beverages.

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Enderson Guimaraes, 55, was appointed Executive Vice President, Global Categories and Operations effective January 2015. Mr. Guimaraes served as Chief Executive Officer, PepsiCo Europe from September 2012 to January 2015 and as President of PepsiCo Global Operations from October 2011 to September 2012. Before PepsiCo, Mr. Guimaraes served as Executive Vice President of Electrolux and Chief Executive Officer of its major appliances business in Europe, Africa and the Middle East from 2008 to 2011. He also spent 10 years at Philips Electronics, from 1998 to 2007, first as a regional marketing executive in Brazil and ultimately as Senior Vice President, head of Global Marketing Management and general manager of the WidiWall LED display business. He also served as CEO of Philips' Lifestyle Incubator group, an innovation engine which created new businesses and developed them over several years. Earlier, Mr. Guimaraes worked in various marketing positions at Danone and Johnson & Johnson.

Hugh F. Johnston, 53, was appointed Executive Vice President and Chief Financial Officer, PepsiCo in March 2010. In December 2014, Mr. Johnston also assumed responsibility for the Company's global e-commerce business and Quaker Foods North America division. He previously held the position of Executive Vice President, Global Operations since November 2009 and the position of President of Pepsi-Cola North America since November 2007. He was formerly PepsiCo's Executive Vice President, Operations, a position he held from October 2006 until November 2007. From April 2005 until October 2006, Mr. Johnston was PepsiCo's Senior Vice President, Transformation. Prior to that, he served as Senior Vice President and Chief Financial Officer of PepsiCo Beverages and Foods from November 2002 through March 2005, and as PepsiCo's Senior Vice President of Mergers and Acquisitions from March 2002 until November 2002. Mr. Johnston joined PepsiCo in 1987 as a Business Planner and held various finance positions until 1999 when he left to join Merck & Co., Inc. as Vice President, Retail, a position which he held until he rejoined PepsiCo in 2002. Prior to joining PepsiCo in 1987, Mr. Johnston was with General Electric Company in a variety of finance positions.

Dr. Mehmood Khan, 56, was appointed Executive Vice President, PepsiCo Chief Scientific Officer, Global Research and Development in May 2012 and Vice Chairman, PepsiCo in February 2015. He previously held the position of Chief Executive Officer of PepsiCo's Global Nutrition Group since November 2010 and the position of PepsiCo's Chief Scientific Officer since 2008. Prior to joining PepsiCo, Dr. Khan served for five years at Takeda Pharmaceuticals in various leadership roles including President of Research and Development and Chief Medical Officer. Dr. Khan also served at the Mayo Clinic until 2003 as the director of the Diabetes, Endocrinology and Nutrition Clinical Unit and as Consultant Physician in Endocrinology.

Ramon Laguarta, 51, was appointed Chief Executive Officer, PepsiCo Europe effective January 2015. Mr. Laguarta served as President, Developing & Emerging Markets, PepsiCo Europe from 2012 to January 2015 and as President, PepsiCo Eastern Europe Region from 2008 to 2012. Mr. Laguarta joined PepsiCo in 1996 as a marketing vice president for Spain Snacks and served in a variety of positions, including as Commercial Vice President of PepsiCo Europe from 2006 to 2008, General Manager for Iberia Snacks and Juices from 2002 to 2006 and General Manager for Greece Snacks from 1999 to 2001. Prior to joining PepsiCo in 1996, Mr. Laguarta worked for Chupa Chups, S.A., where he worked in several international assignments in Europe and the United States.

Laxman Narasimhan, 47, was appointed Chief Executive Officer, PepsiCo Latin America Foods in September 2014. From 2012 to September 2014, Mr. Narasimhan served as Senior Vice President and Chief Financial Officer of PepsiCo Americas Foods, a business unit that had previously included the Company's Frito-Lay North America, Quaker Foods North America and Latin America Foods divisions. Prior to joining PepsiCo in 2012, Mr. Narasimhan spent 19 years at McKinsey & Company, where he served in various positions, including as a director and location manager of the New Delhi office and co-leader of the global consumer and shopper insights practice.

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Indra K. Nooyi, 59, has been PepsiCo's Chief Executive Officer since 2006 and assumed the role of Chairman of PepsiCo's Board of Directors in 2007. She was elected to PepsiCo's Board of Directors and became President and Chief Financial Officer in 2001, after serving as Senior Vice President and Chief Financial Officer since 2000. Ms. Nooyi also served as PepsiCo's Senior Vice President, Corporate Strategy and Development from 1996 until 2000, and as PepsiCo's Senior Vice President, Strategic Planning from 1994 until 1996. Prior to joining PepsiCo, Ms. Nooyi spent four years as Senior Vice President of Strategy, Planning and Strategic Marketing for Asea Brown Boveri, Inc. She was also Vice President and Director of Corporate Strategy and Planning at Motorola, Inc.

Cynthia M. Trudell, 61, has been Executive Vice President, Human Resources and Chief Human Resources Officer, PepsiCo since April 2011 and was PepsiCo's Senior Vice President, Chief Personnel Officer from February 2007 until April 2011. Ms. Trudell served as a director of PepsiCo from January 2000 until February 2007. She was formerly Vice President of Brunswick Corporation and President of Sea Ray Group from 2001 until 2006. From 1999 until 2001, Ms. Trudell served as Vice President of General Motors (GM), and Chairman and President of Saturn Corporation, a wholly owned subsidiary of GM. Ms. Trudell began her career with the Ford Motor Co. as a chemical process engineer. In 1981, she joined GM and held various engineering and manufacturing supervisory positions. In 1995, she became plant manager at GM's Wilmington Assembly Center in Delaware. In 1996, she became President of IBC Vehicles in Luton, England, a joint venture between General Motors and Isuzu.

Tony West, 49, was appointed PepsiCo's Executive Vice President, Government Affairs, General Counsel and Corporate Secretary effective November 2014. Prior to joining PepsiCo, Mr. West served as Associate Attorney General of the United States from 2012 to 2014, after previously serving as the Assistant Attorney General for the Civil Division in the U.S. Department of Justice from 2009 to 2012. From 2001 to 2009, Mr. West was a partner at Morrison & Foerster LLP. He also served as Special Assistant Attorney General at the California Department of Justice from 1999 to 2001 and, prior to that, as an Assistant United States Attorney in the Northern District of California.

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

PART II

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

Stock Trading Symbol – PEP

Stock Exchange Listings – The New York Stock Exchange is the principal market for our Common Stock, which is also listed on the Chicago Stock Exchange and SIX Swiss Exchange.

Stock Prices – The composite quarterly high and low closing sales prices for PepsiCo Common Stock as reported on the New York Stock Exchange for each fiscal quarter of 2014 and 2013 are contained in our Selected Financial Data included on page 117.

Shareholders – As of February 5, 2015, there were approximately 137,971 shareholders of record of our Common Stock.

Dividends – We have paid consecutive quarterly cash dividends since 1965. The declaration and payment of future dividends are at the discretion of the Board of Directors. Dividends are usually declared in February, May, July and November and paid at the end of March, June and September and the beginning of January. On February 5, 2015, the Board of PepsiCo declared a quarterly dividend of $0.655 payable March 31, 2015, to shareholders of record on March 6, 2015. For the remainder of 2015, the dividend record dates for these payments are expected to be June 5, September 4 and December 4, 2015, subject to approval of the Board of Directors. Information with respect to the quarterly dividends declared in 2014 and 2013 is contained in our Selected Financial Data included on page 117.

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

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A summary of our common stock repurchases (in millions, except average price per share) during the fourth quarter of 2014 is set forth in the table below.

Issuer Purchases of Common Stock

Period	Total Number of Shares Repurchased [(1)]	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 [(2)]
9/6/14				$5,100
9/7/14 - 10/4/14	6.7	$92.54	6.7	(616)
				4,484
10/5/14 - 11/1/14	2.5	$93.99	2.5	(233)
				4,251
11/2/14 - 11/29/14	7.1	$97.74	7.1	(699)
				3,552
11/30/14 - 12/27/14	2.0	$98.79	2.0	(200)
Total	18.3	$95.46	18.3	$3,352

(1) All shares were repurchased in open market transactions pursuant to the $10 billion repurchase program authorized by our Board of Directors and publicly announced on February 14, 2013, which commenced on July 1, 2013 and expires on June 30, 2016.

(2) Does not include shares authorized for repurchase under a new program for repurchases of up to $12 billion of our common stock announced on February 11, 2015, which will commence on July 1, 2015 and expire on June 30, 2018. Such shares may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

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In connection with our merger with The Quaker Oats Company (Quaker) in 2001, shares of our convertible preferred stock were authorized and issued to an employee stock ownership plan (ESOP) fund established by Quaker. The preferences, limitations and relative rights of the shares of convertible preferred stock are set forth in Exhibit A to our amended and restated articles of incorporation. Quaker made the final award to the ESOP in June 2001. The Company does not have any authorized, but unissued, "blank check preferred stock." PepsiCo repurchases shares of its convertible preferred stock from the ESOP in connection with share redemptions by ESOP participants.
The following table summarizes our convertible preferred share repurchases during the fourth quarter of 2014.
Issuer Purchases of Convertible Preferred Stock

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
9/7/14 - 10/4/14	1,200	$459.87	N/A	N/A
10/5/14 - 11/1/14	1,000	$472.73	N/A	N/A
11/2/14 - 11/29/14	1,300	$490.94	N/A	N/A
11/30/14 - 12/27/14	2,800	$478.72	N/A	N/A
Total	6,300	$476.70	N/A	N/A

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Item 6. Selected Financial Data.
Selected Financial Data is included on page 117.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Our discussion and analysis is intended to help the reader understand our results of operations and financial condition and is provided as an addition to, and should be read in connection with, our consolidated financial statements and the accompanying notes. Definitions of key terms can be found in the glossary beginning on page 120. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common stock per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

OUR BUSINESS

Executive Overview

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

Our management monitors a variety of key indicators to evaluate our business results and financial condition. These indicators include growth in volume, revenue, organic revenue, operating profit, EPS (as reported and excluding certain items and the impact of foreign exchange translation), retail sales, market share, safety, innovation, product and service quality, organizational health, brand equity, media viewership and engagement, employee diversity, net commodity inflation, productivity savings, net capital spending, free cash flow and free cash flow excluding certain items, cash returned to shareholders in the forms of share repurchases and dividends, advertising and marketing expenses, return on invested capital (ROIC), and gross and operating margin change.

During 2014, we continued to take steps to position ourselves for sustainable value creation over the long-term and continued our progress against our key business priorities - brand building, innovation, productivity, execution and talent management. For example, in 2014 we:

- Drove growth for our retail customers. Among the largest 30 food and beverage manufacturers, PepsiCo was the largest contributor to U.S. retail sales in 2014.
- Continued to increase our investment in global research and development. Innovation in 2014 accounted for 9% of our net revenue in 2014, up from approximately 8% since 2012.
- Continued our multi-year productivity programs. In 2014, we delivered over $1 billion in productivity savings.
- Continued our efforts to harmonize our food and beverage businesses, enhancing the effectiveness of our execution and driving growth for PepsiCo and our customers. In 2014, we launched our largest-ever global campaign for Pepsi and Lay’s, cross-promoting these brands in 28 markets.
- Continued to expand our globally integrated talent management infrastructure that provides insight into our workforce planning at the global and local levels. In 2014, we continued to enhance PepsiCo University, which helps our associates develop the leadership and functional skills they, and PepsiCo, need to succeed and grow.

We successfully continued these initiatives during 2014 while returning $8.7 billion to shareholders through dividends and share repurchases.

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As we look to 2015 and beyond, we remain focused on positioning our Company for long-term sustainable growth while continuing to deliver strong financial results. Our business strategies are designed to address key challenges facing our Company, including: uncertain macroeconomic conditions, including geopolitical, economic and social instability; evolving consumer tastes and preferences, including continued consumer focus on nutritious products and changes in customer channels, including the growth of e-commerce; and resource scarcity. See also “Item 1A. Risk Factors” for additional information about risks and uncertainties that the Company faces. We believe that many of these challenges create new growth opportunities for our Company. For example, we believe that continued consumer focus on health and wellness and changes in consumer and distribution channels will provide us with new opportunities to expand our product offerings and interact with our customers and consumers. In order to address these challenges and capitalize on these opportunities, we intend to do the following:

Strengthen our presence around the world.

Continued global expansion will be critical to our continued growth. The global middle class is growing rapidly. With three billion people projected to join the middle class in growth markets in the next 20 years, we believe we have the opportunity to continue to expand our business around the world. Although this presents growth opportunities in the long-term, the global economic landscape remains volatile, with many of the markets in which our products are sold continuing to experience unstable economic, political and social conditions. To address these challenges, we plan to continue building a portfolio that is balanced across geographies and categories to help navigate short-term volatility and uncertainty in these markets.

Continue to broaden the range of our product portfolio, including expanding our offerings of more nutritious products.

We anticipate that the consumer demand for convenient, functional nutrition, fruits, vegetables, protein and value-added dairy, local and natural ingredients, and better-for-you snacking and beverage options will continue to grow as consumer tastes and preferences continue to evolve. To meet this growing demand, we plan to continue to grow our portfolio of more nutritious products as well as to reduce added sugar, sodium and saturated fat in certain key brands, while continuing to focus on the great taste consumers expect from our beverages, foods and snacks. At the end of 2014, approximately 20% of our net revenue came from our nutrition businesses. We expect that our increased investments in global research and development will enable us to continue to meet the growing demand for convenient, nutritious products and a broad variety of snack and beverage options.

Continue to adapt to changing customer channels.

Digital technology continues to change the retail landscape and the way in which we interact with retailers, shoppers and consumers. As part of this shift, e-commerce is emerging as a significant factor. To help retailers navigate this changing landscape, and to build relationships with consumers through emerging channels, we plan on increasing our e-commerce presence, developing tailored customer strategies and utilizing the size and scale of our distribution system.

Continue to focus on productivity.

We also intend to focus on productivity and lowering the cost base of the Company over the long term and, by utilizing our global scale, eliminating duplication, deploying new technologies and capitalizing on everyday opportunities to lower our cost base. We achieved our targeted productivity savings of $1 billion for 2014 and have successfully completed the three-year, $3 billion productivity program we launched in 2012. We are focused on our five-year, $5 billion productivity program, which we expect will extend annual savings of $1 billion from 2015 through 2019. This next generation of productivity initiatives will focus on the following areas: increasing automation in our operations to reduce costs and increase capacity; expanding shared services, restructuring our manufacturing operations to optimize our assets and capabilities globally;

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restructuring our go-to-market systems to optimize our distribution network; and increasing organizational effectiveness and efficiencies through the ongoing evolution of our operating model.

Continue to embrace sustainable business practices across our supply chain.

We expect the demand for finite natural resources will continue to rise as the global population continues to grow. To address this concern, we plan to continue developing and deploying innovative ways to conserve and replenish water, reduce energy consumption and greenhouse gas emissions, promote sustainable agriculture and decrease waste sent to landfills.

Build and retain top talent.

We expect that the global competition for talent will continue to accelerate. Global companies like PepsiCo need strong general managers in local markets, leaders who can collaborate effectively on multi-disciplinary teams and employees who can solve complex, multi-faceted challenges. To meet the future needs of our business, we remain focused on systematically developing the functional, technical and leadership skills we need for sustainable long-term performance.

Deliver on the promise of Performance with Purpose.

Performance with Purpose is our goal to deliver top-tier financial performance while creating sustainable growth and shareholder value. In practice, Performance with Purpose means providing a wide range of beverages, foods and snacks, from treats to healthy eats; finding innovative ways to minimize our impact on the environment and reduce our operating costs; providing a safe and inclusive workplace for our employees globally; and respecting, supporting and investing in the local communities in which we operate. PepsiCo was again recognized for its leadership in this area in 2014 by earning a place on the prestigious Dow Jones Sustainability World Index for the eighth consecutive year and on the North America Index for the ninth consecutive year.

Our Operations

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

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

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

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Our Business Risks

We are subject to risks in the normal course of business. During 2014 and 2013, certain countries in which our products are sold operated in a challenging environment, experiencing unstable economic and political conditions, civil unrest, debt and credit issues, and currency fluctuations. We continue to monitor the economic, operating and political environment in these markets closely and have identified actions to potentially mitigate the unfavorable impact, if any, on our future results. See also "Risk Factors" in Item 1A., "Executive Overview" above and "Market Risks" below for more information about these risks and the actions we have taken to address key challenges.

Risk Management Framework

The achievement of our strategic and operating objectives involves taking risks. To identify, assess, prioritize, address, manage, monitor and communicate these risks across the Company's operations, we leverage an integrated risk management framework. This framework includes the following:

- PepsiCo's Board of Directors has oversight responsibility for PepsiCo's integrated risk management framework. One of the Board's primary responsibilities is overseeing and interacting with senior management with respect to key aspects of the Company's business, including risk assessment and risk mitigation of the Company's top risks. The Board receives updates on key risks throughout the year. In addition, the Board has tasked designated Committees of the Board with certain categories of risk management, and the Committees report to the Board regularly on these matters.
The Audit Committee of the Board reviews and assesses the guidelines and policies governing PepsiCo's risk management and oversight processes, and assists the Board's oversight of financial, compliance and employee safety risks facing PepsiCo; and
The Compensation Committee of the Board periodically reviews PepsiCo's employee compensation policies and practices to assess whether such policies and practices could lead to unnecessary risk-taking behavior.
- The PepsiCo Risk Committee (PRC), which is comprised of a cross-functional, geographically diverse, senior management group, meets regularly to identify, assess, prioritize and address our top strategic, financial, operating, business, compliance, safety, reputational and other risks. The PRC is also responsible for reporting progress on our risk mitigation efforts to the Board;
- Division Risk Committees (DRC), comprised of cross-functional senior management teams, meet regularly to identify, assess, prioritize and address division-specific business risks;
- PepsiCo's Risk Management Office, which manages the overall risk management process, provides ongoing guidance, tools and analytical support to the PRC and the DRCs, identifies and assesses potential risks and facilitates ongoing communication between the parties, as well as with PepsiCo's Board of Directors and the Audit Committee of the Board;
- PepsiCo's Corporate Audit Department evaluates the ongoing effectiveness of our key internal controls through periodic audit and review procedures; and
- PepsiCo's Compliance & Ethics Department leads and coordinates our compliance policies and practices.

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Market Risks

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

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

In the normal course of business, we manage commodity price, foreign exchange and interest rate risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. Our global purchasing programs include fixed-price purchase orders and pricing agreements. See “Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations.” and “Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials or other supplies.” in “Risk Factors” in Item 1A. See Note 9 to our consolidated financial statements for further information on our non-cancelable purchasing commitments.

The fair value of our derivatives fluctuates based on market rates and prices. The sensitivity of our derivatives to these market fluctuations is discussed below. See Note 10 to our consolidated financial statements for further discussion of these derivatives and our hedging policies. See “Our Critical Accounting Policies” for a discussion of the exposure of our pension and retiree medical plan assets and liabilities to risks related to market fluctuations.

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

Commodity Prices

Our open commodity derivative contracts had a notional value of $1.2 billion as of December 27, 2014 and $1.4 billion as of December 28, 2013. At the end of 2014, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses in 2014 by $103 million.

Foreign Exchange

Our operations outside of the U.S. generate 49% of our net revenue, with Russia, Mexico, Canada, the United Kingdom and Brazil comprising approximately 23% of our net revenue in 2014. As a result, we are exposed to foreign exchange risks in certain of the international markets in which we operate. In addition, unstable economic, political and social conditions and civil unrest in certain markets in which our products are sold, including in Russia, Ukraine and the Middle East, and currency fluctuations in certain of these international markets, as well as Venezuela (discussed below), Argentina and Turkey continue to result in challenging operating environments. During 2014, unfavorable foreign exchange reduced net revenue growth by 3 percentage points, primarily due to depreciation of the Russian ruble, Canadian dollar, Venezuelan bolivar, Argentine peso and Mexican peso. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

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

In February 2013, the Venezuelan government devalued the bolivar by resetting the exchange rate of government-operated National Center of Foreign Commerce (CENCOEX) (“fixed exchange rate”), formerly

the Foreign Exchange Administration Board (CADIVI), from 4.3 bolivars per U.S. dollar to 6.3 bolivars per U.S. dollar, resulting in an after-tax net charge of $111 million in the first quarter of 2013 (see "Items Affecting Comparability"). In January 2014, the Venezuelan government announced the expansion of its auction-based foreign exchange system (SICAD 1) to include additional items, including foreign investments. In March 2014, the Venezuelan government introduced an additional auction-based foreign exchange system (SICAD 2) which permitted all companies incorporated or domiciled in Venezuela to bid for U.S. dollars for any purpose. As a result, as of December 27, 2014, there was a three-tiered exchange rate mechanism in Venezuela, and the SICAD 1 rate was 12 bolivars per U.S. dollar and the SICAD 2 rate was 50 bolivars per U.S. dollar. On February 11, 2015, the Venezuelan government announced that the transactions for the sale or purchase of foreign currency under the SICAD 2 exchange system would no longer be available and created a new open market foreign exchange system (SIMADI).

At December 27, 2014, we had pending requests with an agency of the Venezuelan government for remittance of dividends of approximately $310 million at the fixed exchange rate. These requests pertain to the years from 2006 to 2012. We are unable to predict the likelihood of Venezuelan government approvals of these requests or any requests that we may file in the future or, if any such requests are approved, the estimated time for remittance.

At the end of each period, we remeasure the net monetary assets of our Venezuela entities at the rate at which we expect them to be settled, including the payment of dividends. During the fourth quarter of 2014, certain of our pending dividend requests at the fixed exchange rate were denied by CENCOEX. We analyzed the exchange rates available to our Venezuela entities, including for payment of future dividend requests. As a result of this analysis, we believe that, except as noted below, the SICAD 1 exchange rate is the most appropriate rate to remeasure our net monetary assets. Therefore, during the fourth quarter of 2014, we incurred an after-tax net charge of $105 million to remeasure certain of the net monetary assets of our Venezuela entities at the SICAD 1 rate (see "Items Affecting Comparability"). We remeasure certain other net monetary assets at the fixed exchange rate, since we believe that dividends submitted to CENCOEX in prior years at the fixed exchange rate and payables for imports of essential goods approved by CENCOEX continue to qualify for settlement at the fixed exchange rate.

In 2014, our results of operations in Venezuela generated 2% of our net revenue and 4% of our operating profit. As of December 27, 2014, our operations in Venezuela comprised 9% of our cash and cash equivalents balance. Our bolivar-denominated net monetary assets in Venezuela, which primarily include cash and cash equivalents, approximated $480 million at December 27, 2014. Our non-monetary assets in Venezuela, which primarily include equity investments, intangible assets, property, plant and equipment and inventory, approximated $650 million at December 27, 2014. We continue to evaluate available options to obtain U.S. dollars to meet our operational needs in Venezuela.

We believe that significant uncertainty exists regarding the exchange mechanisms in Venezuela, including the nature of transactions that are eligible to flow through CENCOEX, SICAD 1 or SIMADI, or any other new exchange mechanism that may emerge (whether as a result of the Venezuelan government's announcement on February 11, 2015 or otherwise), as well as how any such mechanisms will operate in the future and the availability of U.S. dollars under each mechanism. We continue to monitor developments closely and may determine in the future that rates other than the SICAD 1 rate or the fixed exchange rate, as applicable, are appropriate for remeasurement of the net monetary assets of our Venezuelan entities. If, at December 27, 2014, we had used the SICAD 1 rate to remeasure the net monetary assets that remain at the fixed exchange rate, we would have incurred an additional net charge of approximately $160 million. If, at December 27, 2014, we had remeasured all net monetary assets of our Venezuela businesses at 50 bolivars per U.S. dollar (which was the SICAD 2 rate at December 27, 2014), we would have incurred an additional net charge of approximately $400 million. Any such remeasurement charge, if recognized, would be reflected

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in “Items Affecting Comparability.” Any further devaluation of the bolivar, change in the currency exchange mechanisms or fluctuation of the SICAD 1 auction-based rate, which may vary throughout the year, could adversely affect our financial position, including a potential impairment of non-monetary assets, and results of operations, both for any period in which we determine to remeasure using another rate and on a going forward basis following any such remeasurement.

In 2014, the Venezuelan government also issued a new Law on Fair Pricing, establishing a maximum profit margin of 30%. The new law did not and is not expected to have a material impact on our consolidated results or financial position.

During 2014, Russia announced economic sanctions against the United States and other nations that include a ban on imports of certain ingredients and finished goods from specific countries. We do not anticipate the current sanctions to have a material impact on the results of our operations in Russia or our consolidated results or financial position, and we will continue to monitor the economic, operating and political environment in Russia closely. For both years ending December 27, 2014 and December 28, 2013, 7% of our total net revenue was generated by our operations in Russia. As of December 27, 2014, our long-lived assets in Russia were $4.5 billion. Our operations in Ukraine are not significant in relation to our consolidated results or financial position.

Our foreign currency derivatives had a total notional value of $2.7 billion as of December 27, 2014 and $2.5 billion as of December 28, 2013. At the end of 2014, we estimate that an unfavorable 10% change in the underlying exchange rates would have decreased our net unrealized gains by $141 million.

Interest Rates

The notional values of the interest rate derivative instruments outstanding as of December 27, 2014 and December 28, 2013 were $9.3 billion and $7.9 billion, respectively. Assuming year-end 2014 investment levels and variable rate debt, a 1-percentage-point increase in interest rates would have decreased net interest expense by $17 million in 2014 due to higher cash and cash equivalents and short-term investments levels as compared with our variable rate debt.

OUR CRITICAL ACCOUNTING POLICIES

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. Other than our accounting for pension and retiree medical plans, our critical accounting policies do not involve a choice between alternative methods of accounting. We applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented, and have discussed these policies with our Audit Committee.

Our critical accounting policies are:

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

Revenue Recognition

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

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

As discussed in “Our Customers” in “Item 1. Business.”, we offer sales incentives and discounts through various programs to customers and consumers. Total marketplace spending includes sales incentives, discounts, advertising and other marketing activities. Sales incentives and discounts are primarily accounted for as a reduction of revenue and totaled $35.8 billion in 2014 and $34.7 billion in both 2013 and 2012. Sales incentives and discounts include payments to customers for performing merchandising activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. Sales incentives and discounts also include support provided to our independent bottlers through funding of advertising and other marketing activities. A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year as incurred. The terms of most of our incentive arrangements do not exceed a year, and therefore do not require highly uncertain long-term estimates. Certain arrangements, such as fountain pouring rights, may extend beyond one year. Payments made to obtain these rights are recognized over the shorter of the economic or contractual life, primarily as a reduction of revenue, and the remaining balances of $355 million as of December 27, 2014 and $410 million as of December 28, 2013 are included in prepaid expenses and other current assets and other assets on our balance sheet.

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period’s actual gross revenue or volume, as applicable, to our forecasted annual gross revenue or volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized beginning in the interim period that they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for certain advertising and other marketing activities. See Note 2 to our consolidated financial statements for additional information on our total marketplace spending. Our annual financial statements are not impacted by this interim allocation methodology.

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

Goodwill and Other Intangible Assets

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

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

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

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

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

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See Note 2 to our consolidated financial statements for additional information on performing the quantitative assessment.
Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows or another income-based approach.
We did not recognize any impairment charges for goodwill in each of the fiscal years ended December 27, 2014, December 28, 2013 and December 29, 2012. In 2014, we performed the impairment analysis for goodwill for all our reporting units using the qualitative approach and concluded that it was more likely than not that the estimated fair values of our reporting units were greater than their carrying amounts. After reaching this conclusion, no further testing was performed.
In 2014 and 2012, we recognized pre-tax impairment charges in Europe for nonamortizable intangible assets of $23 million in each year. We recognized no impairment charges for nonamortizable intangible assets in 2013. As of December 27, 2014, the estimated fair values of our indefinite-lived reacquired and acquired franchise rights recorded at PAB exceeded their carrying values. However, there could be an impairment of the carrying value of PAB's reacquired and acquired franchise rights if future revenues and their contribution to the operating results of PAB's CSD business do not achieve our expected estimated future cash flows or if macroeconomic conditions result in a future increase in the weighted-average cost of capital used to estimate fair value. We have also analyzed the impact of the recent economic and political developments in Russia on the estimated fair value of our indefinite-lived intangible assets in Russia and have concluded that there is no impairment as of December 27, 2014. However, a further deterioration in these conditions in Russia could potentially require us to record an impairment charge for these assets in the future.
Income Tax Expense and Accruals
Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we likely will not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit. See "Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations." in "Risk Factors" in Item 1A.
An estimated annual effective tax rate is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item. We consider the tax adjustments from the resolution of prior year tax matters to be among such items.
Tax law requires items to be included in our tax returns at different times than the items are reflected in our financial statements. As a result, our annual tax rate reflected in our financial statements is different than that reported in our tax returns (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities generally represent tax expense recognized in our

financial statements for which payment has been deferred, or expense for which we have already taken a deduction in our tax return but have not yet recognized as expense in our financial statements.

In 2014, our annual tax rate was 25.1% compared to 23.7% in 2013, as discussed in “Other Consolidated Results.” The tax rate increased 1.4 percentage points compared to the prior year, primarily due to lapping the prior year impact of the favorable resolution with the IRS of audits for taxable years 2003 through 2009 partially offset by the favorable resolution of certain tax matters in the current year.

Pension and Retiree Medical Plans

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

In the fourth quarters of 2014 and 2012, the Company offered certain former employees who had vested benefits in our U.S. defined benefit pension plans the option of receiving a one-time lump sum payment equal to the present value of the participant’s pension benefit (payable in cash or rolled over into a qualified retirement plan or Individual Retirement Account (IRA)). In 2014, we recorded a pension lump sum settlement charge in corporate unallocated expenses of $141 million ($88 million after-tax or $0.06 per share). In 2012, we recorded a pension lump sum settlement charge in corporate unallocated expenses of $195 million ($131 million after-tax or $0.08 per share). See “Items Affecting Comparability” and Note 7 to our consolidated financial statements.

Our Assumptions

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

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

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

Our assumptions reflect our historical experience and management’s best judgment regarding future expectations. Due to the significant management judgment involved, our assumptions could have a material impact on the measurement of our pension and retiree medical benefit expenses and obligations.

At each measurement date, the discount rates are based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to those of our liabilities. Our 2012 U.S. pension and retiree medical expense was based on the discount rate determined using the Mercer Pension Discount Yield Curve (Mercer Curve). The Mercer Curve used a portfolio of high-quality bonds rated Aa or higher by Moody’s.

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In 2012, due to the downgrade of several global financial institutions by Moody’s, Mercer developed a new curve, the Above Mean Curve, which we used to determine the discount rate for our U.S. pension and retiree medical plans as of year-end 2012 and going forward. These curves include bonds that closely match the timing and amount of our expected benefit payments and reflect the portfolio of investments we would consider to settle our liabilities.

We review our employee demographic assumptions annually and update the assumptions as necessary. During 2014, we revised our mortality assumptions to incorporate the new set of mortality tables issued by the Society of Actuaries, adjusted to reflect our experience and future expectations. This resulted in an increase in the projected benefit obligation of our U.S. pension and retiree medical programs. We also reviewed and revised other demographic assumptions to reflect recent experience. The net effect of these changes and certain plan design changes resulted in an increase of approximately $150 million in the projected benefit obligation at December 27, 2014.

See Note 7 to our consolidated financial statements for information about the expected return on plan assets and our plan investment strategy.

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

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

	2015	2014	2013
Pension			
Expense discount rate	4.1 %	5.0 %	4.2 %
Expected rate of return on plan assets	7.3 %	7.3 %	7.5 %
Expected rate of salary increases	3.5 %	3.7 %	3.7 %
Retiree medical			
Expense discount rate	3.8 %	4.3 %	3.7 %
Expected rate of return on plan assets	7.5 %	7.5 %	7.8 %
Current health care cost trend rate	6.2 %	6.4 %	6.6 %

Based on our assumptions, we expect our pension and retiree medical expenses to decrease in 2015 primarily driven by favorable experience, updates to demographic assumptions and plan changes, offset by lower discount rates and updates to our mortality assumptions.

Sensitivity of Assumptions

A decrease in the discount rate or in the expected rate of return assumptions would increase pension expense. A 25-basis-point decrease in the discount rate and expected rate of return assumptions would increase the 2015 pension expense as follows:

Assumption	Amount
Discount rate	$58 million
Expected rate of return	$35 million

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

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Funding

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

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

OUR FINANCIAL RESULTS

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items:

	2014	2013	2012
Operating profit			
Mark-to-market net (losses)/gains	$(68)	$(72)	$65
Merger and integration charges	$—	$(10)	$(11)
Restructuring and impairment charges	$(418)	$(163)	$(279)
Pension lump sum settlement charges	$(141)	$—	$(195)
Venezuela remeasurement charges	$(105)	$(111)	$—
Restructuring and other charges related to the transaction with Tingyi	$—	$—	$(150)
Interest expense			
Merger and integration charges	$—	$—	$(5)
Net income attributable to PepsiCo			
Mark-to-market net (losses)/gains	$(44)	$(44)	$41
Merger and integration charges	$—	$(8)	$(12)
Restructuring and impairment charges	$(316)	$(129)	$(215)
Pension lump sum settlement charges	$(88)	$—	$(131)
Venezuela remeasurement charges	$(105)	$(111)	$—
Tax benefits	$—	$209	$217
Restructuring and other charges related to the transaction with Tingyi	$—	$—	$(176)
Net income attributable to PepsiCo per common share – diluted			
Mark-to-market net (losses)/gains	$(0.03)	$(0.03)	$0.03
Merger and integration charges	$—	$(0.01)	$(0.01)
Restructuring and impairment charges	$(0.21)	$(0.08)	$(0.14)
Pension lump sum settlement charges	$(0.06)	$—	$(0.08)
Venezuela remeasurement charges	$(0.07)	$(0.07)	$—
Tax benefits	$—	$0.13	$0.14
Restructuring and other charges related to the transaction with Tingyi	$—	$—	$(0.11)

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Mark-to-Market Net Impact

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

In 2014, we recognized $68 million ($44 million after-tax or $0.03 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses, with a $33 million net gain recognized in cost of sales and a $101 million net loss recognized in selling, general and administrative expenses.

In 2013, we recognized $72 million ($44 million after-tax or $0.03 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses, with a $82 million net loss recognized in cost of sales and a $10 million net gain recognized in selling, general and administrative expense