PEPSICO INC
Form 10-Q
July 10, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 16, 2018 (24 weeks)
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-1183

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Accelerated filer ¨

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Smaller reporting company | ¨ |
| Non-accelerated filer | ¨ | | |
| (Do not check if a smaller reporting company) | | Emerging growth company | ¨ |

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

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

Number of shares of Common Stock outstanding as of July 3, 2018 was 1,414,321,635.

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PepsiCo, Inc. and Subsidiaries

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

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| Net Revenue | $16,090 | $15,710 | $28,652 | $27,759 |
| Cost of sales | 7,263 | 7,059 | 12,918 | 12,349 |
| Gross profit | 8,827 | 8,651 | 15,734 | 15,410 |
| Selling, general and administrative expenses | 5,799 | 5,732 | 10,899 | 10,628 |
| Operating Profit | 3,028 | 2,919 | 4,835 | 4,782 |
| Other pension and retiree medical benefits income | 82 | 71 | 157 | 141 |
| Interest expense | (308) | (265) | (602) | (517) |
| Interest income and other | 98 | 49 | 167 | 89 |
| Income before income taxes | 2,900 | 2,774 | 4,557 | 4,495 |
| Provision for income taxes (See Note 5) | 1,070 | 656 | 1,374 | 1,048 |
| Net income | 1,830 | 2,118 | 3,183 | 3,447 |
| Less: Net income attributable to noncontrolling interests | 10 | 13 | 20 | 24 |
| Net Income Attributable to PepsiCo | $1,820 | $2,105 | $3,163 | $3,423 |
| Net Income Attributable to PepsiCo per Common Share | | | | |
| Basic | $1.28 | $1.47 | $2.23 | $2.40 |
| Diluted | $1.28 | $1.46 | $2.21 | $2.38 |
| Weighted-average common shares outstanding | | | | |
| Basic | 1,417 | 1,428 | 1,418 | 1,428 |
| Diluted | 1,426 | 1,441 | 1,428 | 1,441 |
| Cash dividends declared per common share | $0.9275 | $0.805 | $1.7325 | $1.5575 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| Net income | $1,830 | $ 2,118 | $3,183 | $ 3,447 |
| Other comprehensive (loss)/income, net of taxes: | | | | |
| Net currency translation adjustment | (971) | 320 | (681) | 836 |
| Net change on cash flow hedges | 48 | (24) | 76 | (51) |
| Net pension and retiree medical adjustments | 56 | 2 | 80 | 11 |
| Net change on available-for-sale securities | 4 | (70) | 2 | (66) |
| Other | — | 16 | — | 16 |
| | (863) | 244 | (523) | 746 |
| Comprehensive income | 967 | 2,362 | 2,660 | 4,193 |
| Comprehensive income attributable to noncontrolling interests | (10) | (15) | (20) | (25) |
| Comprehensive Income Attributable to PepsiCo | $957 | $ 2,347 | $2,640 | $ 4,168 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 24 Weeks Ended | |
|---|---|---|
| | 6/16/2018 | 6/17/2017 |
| Operating Activities | | |
| Net income | $3,183 | $3,447 |
| Depreciation and amortization | 1,070 | 1,031 |
| Share-based compensation expense | 146 | 143 |
| Restructuring and impairment charges | 44 | 61 |
| Cash payments for restructuring charges | (126) | (25) |
| Pension and retiree medical plan expenses | 93 | 92 |
| Pension and retiree medical plan contributions | (1,573) | (131) |
| Deferred income taxes and other tax charges and credits | (167) | 130 |
| Provisional net tax expense related to the Tax Cuts and Jobs Act (TCJ Act) | 778 | — |
| Change in assets and liabilities: | | |
| Accounts and notes receivable | (1,019) | (733) |
| Inventories | (637) | (826) |
| Prepaid expenses and other current assets | (224) | (250) |
| Accounts payable and other current liabilities | (560) | (838) |
| Income taxes payable | 372 | 310 |
| Other, net | (293) | (160) |
| Net Cash Provided by Operating Activities | 1,087 | 2,251 |
| | | |
| Investing Activities | | |
| Capital spending | (945) | (878) |
| Sales of property, plant and equipment | 43 | 30 |
| Acquisitions and investments in noncontrolled affiliates | (188) | (40) |
| Divestitures | 280 | 143 |
| Short-term investments, by original maturity: | | |
| More than three months - purchases | (5,544) | (6,785) |
| More than three months - maturities | 9,416 | 6,709 |
| More than three months - sales | 760 | 242 |
| Three months or less, net | 5 | — |
| Other investing, net | — | 8 |
| Net Cash Provided by/(Used for) Investing Activities | 3,827 | (571) |
| | | |
| Financing Activities | | |
| Proceeds from issuances of long-term debt | — | 3,525 |
| Payments of long-term debt | (2,502) | (1,003) |
| Short-term borrowings, by original maturity: | | |
| More than three months - proceeds | — | 51 |
| More than three months - payments | (17) | (57) |
| Three months or less, net | 4,091 | (172) |
| Cash dividends paid | (2,305) | (2,175) |
| Share repurchases - common | (984) | (942) |
| Share repurchases - preferred | (2) | (2) |
| Proceeds from exercises of stock options | 145 | 316 |

| | | |
|---|---|---|
| Withholding tax payments on restricted stock units (RSUs), performance stock units (PSUs) and PepsiCo equity performance units (PEPunits) converted | (82) | (122) |
| Other financing | (2) | (1) |
| Net Cash Used for Financing Activities | (1,658) | (582) |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | (19) | 36 |
| Net Increase in Cash and Cash Equivalents and Restricted Cash | 3,237 | 1,134 |
| Cash and Cash Equivalents and Restricted Cash, Beginning of Year | 10,657 | 9,169 |
| Cash and Cash Equivalents and Restricted Cash, End of Period | $13,894 | $10,303 |

See accompanying notes to the condensed consolidated financial statements.

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

| | (Unaudited) 6/16/2018 | 12/30/2017 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 13,858 | $ 10,610 |
| Short-term investments | 4,271 | 8,900 |
| Accounts and notes receivable, less allowance: 6/18 - $124 and 12/17 - $129 | 7,841 | 7,024 |
| Inventories: | | |
| Raw materials and packaging | 1,520 | 1,344 |
| Work-in-process | 231 | 167 |
| Finished goods | 1,740 | 1,436 |
| | 3,491 | 2,947 |
| Prepaid expenses and other current assets | 909 | 1,546 |
| Total Current Assets | 30,370 | 31,027 |
| Property, plant and equipment | 38,974 | 39,106 |
| Accumulated depreciation | (22,212) | (21,866) |
| | 16,762 | 17,240 |
| Amortizable Intangible Assets, net | 1,222 | 1,268 |
| Goodwill | 14,540 | 14,744 |
| Other nonamortizable intangible assets | 12,459 | 12,570 |
| Nonamortizable Intangible Assets | 26,999 | 27,314 |
| Investments in Noncontrolled Affiliates | 2,401 | 2,042 |
| Other Assets | 977 | 913 |
| Total Assets | $ 78,731 | $ 79,804 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Short-term debt obligations | $ 9,955 | $ 5,485 |
| Accounts payable and other current liabilities | 14,603 | 15,017 |
| Total Current Liabilities | 24,558 | 20,502 |
| Long-Term Debt Obligations | 30,638 | 33,796 |
| Other Liabilities | 9,968 | 11,283 |
| Deferred Income Taxes | 3,346 | 3,242 |
| Total Liabilities | 68,510 | 68,823 |
| | | |
| Commitments and contingencies | | |
| | | |
| Preferred Stock, no par value | — | 41 |
| Repurchased Preferred Stock | — | (197) |
| PepsiCo Common Shareholders' Equity | | |
| Common stock, par value $1^2/_3¢$ per share (authorized 3,600 shares; issued, net of repurchased common stock at par value: 1,415 and 1,420 shares, respectively) | 24 | 24 |
| Capital in excess of par value | 3,915 | 3,996 |
| Retained earnings | 53,223 | 52,839 |
| Accumulated other comprehensive loss | (13,580) | (13,057) |

| | | |
|---|---|---|
| Repurchased common stock, in excess of par value (452 and 446 shares, respectively) | (33,471) | (32,757) |
| Total PepsiCo Common Shareholders' Equity | 10,111 | 11,045 |
| Noncontrolling interests | 110 | 92 |
| Total Equity | 10,221 | 10,981 |
| Total Liabilities and Equity | $ 78,731 | $ 79,804 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 24 Weeks Ended | | | |
|---|---|---|---|---|
| | 6/16/2018 | | 6/17/2017 | |
| | Shares | Amount | Shares | Amount |
| Preferred Stock | | | | |
| Balance, beginning of year | 0.8 | $41 | 0.8 | $41 |
| Conversion to common stock | (0.1) | (6) | — | — |
| Retirement of preferred stock | (0.7) | (35) | — | — |
| Balance, end of period | — | — | 0.8 | 41 |
| Repurchased Preferred Stock | | | | |
| Balance, beginning of year | (0.7) | (197) | (0.7) | (192) |
| Redemptions | — | (2) | — | (2) |
| Retirement of preferred stock | 0.7 | 199 | — | — |
| Balance, end of period | — | — | (0.7) | (194) |
| Common Stock | | | | |
| Balance, beginning of year | 1,420 | 24 | 1,428 | 24 |
| Shares issued in connection with preferred stock conversion to common stock | 1 | — | — | — |
| Change in repurchased common stock | (6) | — | (2) | — |
| Balance, end of period | 1,415 | 24 | 1,426 | 24 |
| Capital in Excess of Par Value | | | | |
| Balance, beginning of year | | 3,996 | | 4,091 |
| Share-based compensation expense | | 148 | | 145 |
| Equity issued in connection with preferred stock conversion to common stock | | 6 | | — |
| Stock option exercises, RSUs, PSUs and PEPunits converted | | (150) | | (201) |
| Withholding tax on RSUs, PSUs and PEPunits converted | | (82) | | (122) |
| Other | | (3) | | — |
| Balance, end of period | | 3,915 | | 3,913 |
| Retained Earnings | | | | |
| Balance, beginning of year | | 52,839 | | 52,518 |
| Cumulative effect of accounting change | | (145) | | — |
| Net income attributable to PepsiCo | | 3,163 | | 3,423 |
| Cash dividends declared – common | | (2,470) | | (2,235) |
| Retirement of preferred stock | | (164) | | — |
| Balance, end of period | | 53,223 | | 53,706 |
| Accumulated Other Comprehensive Loss | | | | |
| Balance, beginning of year | | (13,057) | | (13,919) |
| Other comprehensive (loss)/income attributable to PepsiCo | | (523) | | 745 |
| Balance, end of period | | (13,580) | | (13,174) |
| Repurchased Common Stock | | | | |
| Balance, beginning of year | (446) | (32,757) | (438) | (31,468) |
| Share repurchases | (10) | (1,004) | (8) | (967) |
| Stock option exercises, RSUs, PSUs and PEPunits converted | 4 | 289 | 6 | 523 |
| Other | — | 1 | — | — |
| Balance, end of period | (452) | (33,471) | (440) | (31,912) |
| Total PepsiCo Common Shareholders' Equity | | 10,111 | | 12,557 |

| | | |
|---|---|---|
| Noncontrolling Interests | | |
| Balance, beginning of year | 92 | 104 |
| Net income attributable to noncontrolling interests | 20 | 24 |
| Currency translation adjustment | — | 1 |
| Other, net | (2) | (3) |
| Balance, end of period | 110 | 126 |
| Total Equity | $10,221 | $12,530 |

See accompanying notes to the condensed consolidated financial statements.

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Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

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

Our Condensed Consolidated Balance Sheet as of June 16, 2018, Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 24 weeks ended June 16, 2018 and June 17, 2017, and the Condensed Consolidated Statements of Cash Flows and Equity for the 24 weeks ended June 16, 2018 and June 17, 2017 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (2017 Form 10-K), as modified to reflect the adoption of those recently issued accounting pronouncements disclosed in Note 2 in this Form 10-Q. This report should be read in conjunction with our 2017 Form 10-K. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 24 weeks ended June 16, 2018 are not necessarily indicative of the results expected for any future period or the full year.

While our financial results in the United States and Canada (North America) are reported on a 12-week basis, most of our international operations report on a monthly calendar basis. In the 12 weeks ended June 16, 2018, our operations outside of North America reflect the months of March, April and May. In the 24 weeks ended June 16, 2018, our operations outside of North America reflect the months of January through May.

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

The following information is unaudited. Unless otherwise noted, tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year’s financial statements to conform to the current year presentation, including the adoption during the first quarter of 2018 of those recently issued accounting pronouncements disclosed in Note 2.

Our Divisions

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

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

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

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| Net Revenue | 6/16/2018 | 6/17/2017[a] | 6/16/2018 | 6/17/2017[a] |
| FLNA | $3,837 | $ 3,678 | $7,454 | $ 7,177 |
| QFNA | 527 | 553 | 1,128 | 1,151 |
| NAB | 5,193 | 5,242 | 9,608 | 9,702 |
| Latin America | 1,843 | 1,823 | 3,067 | 2,900 |
| ESSA | 3,116 | 2,812 | 4,784 | 4,257 |
| AMENA | 1,574 | 1,602 | 2,611 | 2,572 |
| Total division | $16,090 | $ 15,710 | $28,652 | $ 27,759 |

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| Operating Profit | 6/16/2018 | 6/17/2017[b] | 6/16/2018 | 6/17/2017[b] |
| FLNA | $1,200 | $ 1,143 | $2,250 | $ 2,193 |
| QFNA | 145 | 145 | 300 | 308 |
| NAB | 747 | 890 | 1,135 | 1,391 |
| Latin America | 269 | 228 | 458 | 361 |
| ESSA [c] | 438 | 492 | 556 | 588 |
| AMENA [d] | 496 | 307 | 683 | 478 |
| Total division | $3,295 | $ 3,205 | $5,382 | $ 5,319 |
| Corporate unallocated | (267) | (286) | (547) | (537) |
| | $3,028 | $ 2,919 | $4,835 | $ 4,782 |

(a) Our primary performance obligation is the distribution and sales of beverage products and food and snack products to our customers, each comprising approximately 50% of our consolidated net revenue. Internationally, our Latin America segment is predominantly a food and snack business, ESSA's beverage business and food and snack business are each approximately 50% of the segment's net revenue and AMENA's beverage business and food and snack business are approximately 35% and 65%, respectively, of the segment's net revenue. Beverage revenue from company-owned bottlers, which primarily includes our consolidated bottling operations in our NAB and ESSA segments, is approximately 40% of our consolidated net revenue. Generally, our finished goods beverage operations produce higher net revenue, but lower operating margins as compared to concentrate sold to authorized bottling partners for the manufacture of finished goods beverages.

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 for additional information.

(c) Operating profit for ESSA for the 12 and 24 weeks ended June 17, 2017 includes a gain of $95 million associated with the sale of our minority stake in Britvic plc (Britvic).

(d) Operating profit for AMENA for the 12 and 24 weeks ended June 16, 2018 includes a gain of $144 million associated with refranchising a portion of our beverage business in Thailand.

Note 2 - Recently Issued Accounting Pronouncements

Adopted

In 2017, the Financial Accounting Standards Board (FASB) issued guidance to retrospectively present the service cost component of net periodic benefit cost for pension and retiree medical plans along with other compensation costs in operating profit and present the other components of net periodic benefit cost separately below operating profit in the income statement. The guidance also allows only the service cost component of net periodic benefit cost to be eligible for capitalization within inventory or fixed assets on a prospective

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basis. We adopted the provisions of this guidance retrospectively in the first quarter of 2018, using historical information previously disclosed in our pension and retiree medical benefits footnote as the estimation basis. We also updated our allocation of service costs to our divisions to better approximate actual service cost. The impact from retrospective adoption of this guidance resulted in an increase to cost of sales and selling, general and administrative expenses of $3 million and $68 million, respectively, for the 12 weeks ended June 17, 2017 and $7 million and $134 million, respectively, for the 24 weeks ended June 17, 2017. We recorded a corresponding increase to other pension and retiree medical benefits income below operating profit of $71 million and $141 million for the 12 and 24 weeks ended June 17, 2017, respectively.

The following table shows the (decreases)/increases to operating profit for each division and to corporate unallocated for the respective periods presented below:

| | 6/17/2017 | |
|---|---|---|
| | 12 Weeks Ended | 24 Weeks Ended |
| FLNA | $(10) | $(20) |
| QFNA | (1) | (2) |
| NAB [a] | (4) | (8) |
| Latin America | — | 1 |
| ESSA | (9) | (15) |
| AMENA | — | — |
| Corporate unallocated [b] | (47) | (97) |
| Total | $(71) | $(141) |

(a) Includes restructuring charges of $1 million for the 12 and 24 weeks ended June 17, 2017.

(b) Includes restructuring charges of $1 million for the 24 weeks ended June 17, 2017.

For the years ended December 30, 2017 and December 31, 2016, implementation of this guidance resulted in a decrease in operating profit of $233 million and an increase in operating profit of $19 million, respectively, primarily impacting selling, general and administrative expenses. The changes described above had no impact on our consolidated net revenue, net income or earnings per share. See Note 7 to our consolidated financial statements in our 2017 Form 10-K and Note 7 in this Form 10-Q for further information on our service cost and other components of net periodic benefit cost for pension and retiree medical plans.

In 2016, the FASB issued guidance to clarify how restricted cash should be presented in the cash flow statement. We adopted the provisions of this guidance retrospectively during the first quarter of 2018; the adoption did not have a material impact on our financial statements and primarily relates to collateral posted against our derivative asset or liability positions. See Note 9 and Note 13 for further information.

In 2016, the FASB issued guidance that requires companies to account for the income tax effects of intercompany transfers of assets, other than inventory, when the transfer occurs versus deferring income tax effects until the transferred asset is sold to an outside party or otherwise recognized. We adopted the provisions of this guidance during the first quarter of 2018; the adoption did not have a material impact on our financial statements and we recorded an adjustment of $8 million to beginning retained earnings.

In 2016, the FASB issued guidance that requires companies to measure investments in certain equity securities at fair value and recognize any changes in fair value in net income. We adopted the provisions of this guidance during the first quarter of 2018; the adoption did not have an impact on our financial statements. See Note 9 to our consolidated financial statements in our 2017 Form 10-K for further information on our investments in equity securities.

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In 2014, the FASB issued guidance on revenue recognition, with final amendments issued in 2016. The guidance provides for a five-step model to determine the revenue recognized for the transfer of goods or services to customers that reflects the expected entitled consideration in exchange for those goods or services. It also provides clarification for principal versus agent considerations and identifying performance obligations. In addition, the FASB introduced practical expedients related to disclosures of remaining performance obligations, as well as other amendments related to guidance on collectibility, non-cash consideration and the presentation of sales and other similar taxes. Financial statement disclosures required under the guidance will enable users to understand the nature, amount, timing, judgments and uncertainty of revenue and cash flows relating to customer contracts. The two permitted transition methods under the guidance are the full retrospective approach or a cumulative effect adjustment to the opening retained earnings in the year of adoption (cumulative effect approach). We adopted the guidance applied to all contracts using the cumulative effect approach during the first quarter of 2018; the adoption did not have a material impact on our financial statements.

We utilized a comprehensive approach to assess the impact of the guidance on our contract portfolio by reviewing our current accounting policies and practices to identify potential differences that would result from applying the new requirements to our revenue contracts, including evaluation of our performance obligations, principal versus agent considerations and variable consideration. We completed our contract and business process reviews and implemented changes to our controls to support recognition and disclosures under the new guidance. We recognize revenue when our performance obligation is satisfied. Our primary performance obligation (the distribution and sales of beverage products and food and snack products) is satisfied upon shipment or delivery to our customers based on written sales terms, which is also when control is transferred.

As a result of implementing certain changes, which did not have a material impact on our accounting policies upon adoption, in the first quarter of 2018, we recorded an adjustment of $137 million to beginning retained earnings to reflect marketplace spending that our customers and independent bottlers expect to be entitled to in line with revenue recognition. In addition, we excluded from net revenue and cost of sales all sales, use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions that were not already excluded. The impact of these taxes previously recognized in net revenue and cost of sales was $16 million and $39 million for the 12 and 24 weeks ended June 17, 2017, respectively, and approximately $75 million for the fiscal year ended December 30, 2017, with no impact on operating profit. Shipping and handling activities, including certain merchandising activities, that are performed after a customer obtains control of the product are recorded as fulfillment costs in selling, general and administrative expenses. See Note 2 to our consolidated financial statements in our 2017 Form 10-K for further information on our significant accounting policies related to revenue recognition and total marketplace spending.

Not Yet Adopted

In 2018, the FASB issued guidance related to the TCJ Act for the optional reclassification of the residual tax effects, arising from the change in corporate tax rate, in accumulated other comprehensive loss to retained earnings. The reclassification is the difference between the amount previously recorded in other comprehensive income at the historical U.S. federal tax rate that remains in accumulated other comprehensive loss at the time the TCJ Act was effective and the amount that would have been recorded using the newly enacted rate. If elected, the guidance can be applied retrospectively to each period during which the impact of the TCJ Act is recognized or in the period of adoption. The guidance is effective in 2019 with early adoption permitted. We are currently evaluating the impact and adoption of this guidance.

In 2017, the FASB issued guidance to amend and simplify the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value

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hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, as well as eases certain hedge effectiveness assessment requirements. The guidance is effective beginning in 2019 with early adoption permitted. We are currently evaluating the impact of this guidance, including transition elections and required disclosures, on our financial statements and the timing of adoption.

In 2016, the FASB issued guidance on leases that requires lessees to recognize most leases on the balance sheet but record expenses on the income statement in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective beginning in 2019 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet and the impact on our current lease portfolio from both a lessor and lessee perspective. To facilitate this, we are utilizing a comprehensive approach to review our lease portfolio, as well as assessing system requirements and control implications. We identified our significant leases by geography and by asset type that will be impacted by the new guidance, and we are in the process of implementing a new software platform for administering our leases and facilitating compliance with the new guidance. In addition, we are currently evaluating the timing of adoption of this guidance. See Note 13 to our consolidated financial statements in our 2017 Form 10-K for our minimum lease payments under non-cancelable operating leases.

Note 3 - Restructuring and Impairment Charges

We publicly announced a multi-year productivity plan on February 13, 2014 (2014 Productivity Plan) that includes the next generation of productivity initiatives that we believe will strengthen our beverage, food and snack businesses by: accelerating our investment in manufacturing automation; further optimizing our global manufacturing footprint, including closing certain manufacturing facilities; re-engineering our go-to-market systems in developed markets; expanding shared services; and implementing simplified organization structures to drive efficiency. To build on the 2014 Productivity Plan, in the fourth quarter of 2017, we expanded and extended the program through the end of 2019 to take advantage of additional opportunities within the initiatives described above to further strengthen our beverage, food and snack businesses.

In the 12 weeks ended June 16, 2018 and June 17, 2017, we incurred restructuring charges of $32 million ($24 million after-tax or $0.02 per share) and $34 million ($31 million after-tax or $0.02 per share), respectively, in conjunction with our 2014 Productivity Plan. In the 24 weeks ended June 16, 2018 and June 17, 2017, we incurred restructuring charges of $44 million ($35 million after-tax or $0.02 per share) and $61 million ($58 million after-tax or $0.04 per share), respectively. These net charges were recorded in selling, general and administrative expenses and other pension and retiree medical benefits income and primarily relate to severance and other employee-related costs, asset impairments (all non-cash) and other costs associated with the implementation of our initiatives, including contract termination costs. Substantially all of the restructuring accrual at June 16, 2018 is expected to be paid by the end of 2018.

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

| | 12 Weeks Ended 6/16/2018 | | | | 6/17/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Severance and Other Employee Costs[a] | Asset Impairments | Other Costs | Total | Severance and Other Employee Costs[a] | Asset Impairments | Other Costs | Total |
| FLNA | $4 | $ — | $ — | $ 4 | $ 3 | $ — | $ — | $ 3 |
| QFNA | — | — | — | — | — | — | — | — |
| NAB | 3 | 3 | 3 | 9 | — | — | — | — |
| Latin America | 1 | — | 2 | 3 | 21 | 2 | 2 | 25 |
| ESSA [b] | 3 | 1 | — | 4 | 6 | — | (3) | 3 |
| AMENA | 2 | — | — | 2 | — | — | 2 | 2 |
| Corporate | 8 | — | 2 | 10 | 1 | — | — | 1 |
| | $21 | $ 4 | $ 7 | $ 32 | $ 31 | $ 2 | $ 1 | $ 34 |

(a) There were no charges related to other pension and retiree medical benefits for the 12 weeks ended June 16, 2018. The 12 weeks ended June 17, 2017 includes charges related to other pension and retiree medical benefits of $1 million.

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

| | 24 Weeks Ended 6/16/2018 | | | | 6/17/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Severance and Other Employee Costs[a] | Asset Impairments | Other Costs | Total | Severance and Other Employee Costs[a] | Asset Impairments | Other Costs | Total |
| FLNA | $5 | $ 3 | $ 1 | $9 | $4 | $ — | $ — | $4 |
| QFNA | 1 | — | — | 1 | — | — | — | — |
| NAB | 4 | 4 | 4 | 12 | — | — | 2 | 2 |
| Latin America | 8 | — | 4 | 12 | 33 | 13 | 3 | 49 |
| ESSA [b] | 7 | 1 | — | 8 | 10 | — | (3) | 7 |
| AMENA [b] | 4 | — | — | 4 | — | — | (4) | (4) |
| Corporate [c] | (5) | — | 3 | (2) | 2 | — | 1 | 3 |
| | $24 | $ 8 | $ 12 | $44 | $49 | $ 13 | $ (1) | $61 |

(a) Includes charges related to other pension and retiree medical benefits of $4 million and $2 million for the 24 weeks ended June 16, 2018 and June 17, 2017, respectively.

(b) Income amounts primarily reflect gains on the sales of property, plant and equipment.

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

Since the inception of the 2014 Productivity Plan, we incurred restructuring charges of $1,078 million:

| | 2014 Productivity Plan Costs to Date | | | |
|---|---|---|---|---|
| | Severance and Other Employee Costs | Asset Impairments | Other Costs | Total |
| FLNA | $136 | $ 12 | $ 24 | $172 |
| QFNA | 27 | — | 6 | 33 |
| NAB | 153 | 73 | 87 | 313 |
| Latin America | 117 | 29 | 18 | 164 |
| ESSA | 134 | 42 | 59 | 235 |
| AMENA | 27 | 6 | 15 | 48 |

| | | | | |
|---|---|---|---|---|
| Corporate | 57 | — | 56 | 113 |
| | $651 | $ 162 | $ 265 | $1,078 |

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A summary of our 2014 Productivity Plan activity for the 24 weeks ended June 16, 2018 is as follows:

| | Severance and Other Employee Costs | Asset Impairments | Other Costs | Total |
|---|---|---|---|---|
| Liability as of December 30, 2017 | $ 212 | $ — | $ 14 | $226 |
| 2018 restructuring charges | 24 | 8 | 12 | 44 |
| Cash payments | (106) | — | (20) | (126) |
| Non-cash charges and translation | (12) | (8) | 1 | (19) |
| Liability as of June 16, 2018 | $ 118 | $ — | $ 7 | $125 |

There were no material charges related to other productivity and efficiency initiatives outside the scope of the 2014 Productivity Plan.

We regularly evaluate different productivity initiatives beyond the 2014 Productivity Plan discussed above.

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

Note 4 - Intangible Assets

A summary of our amortizable intangible assets is as follows:

| | 6/16/2018 | | | 12/30/2017 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Acquired franchise rights | $847 | $ (133) | $714 | $858 | $ (128) | $730 |
| Reacquired franchise rights | 106 | (104) | 2 | 106 | (104) | 2 |
| Brands | 1,311 | (1,031) | 280 | 1,322 | (1,026) | 296 |
| Other identifiable intangibles | 509 | (283) | 226 | 521 | (281) | 240 |
| | $2,773 | $ (1,551) | $1,222 | $2,807 | $ (1,539) | $1,268 |

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

| | Balance 12/30/2017 | Translation and Other | Balance 6/16/2018 |
|---|---|---|---|
| FLNA [(a)] | | | |
| Goodwill | $ 280 | $ 23 | $ 303 |
| Brands | 25 | 140 | 165 |
| | 305 | 163 | 468 |
| QFNA | | | |
| Goodwill | 175 | — | 175 |
| | | | |
| NAB | | | |
| Goodwill | 9,854 | (24) | 9,830 |
| Reacquired franchise rights | 7,126 | (39) | 7,087 |
| Acquired franchise rights | 1,525 | (9) | 1,516 |
| Brands | 353 | — | 353 |
| | 18,858 | (72) | 18,786 |
| Latin America | | | |
| Goodwill | 555 | (26) | 529 |
| Brands | 141 | (9) | 132 |
| | 696 | (35) | 661 |
| ESSA | | | |
| Goodwill | 3,452 | (167) | 3,285 |
| Reacquired franchise rights | 549 | (27) | 522 |
| Acquired franchise rights | 195 | (30) | 165 |
| Brands | 2,545 | (134) | 2,411 |
| | 6,741 | (358) | 6,383 |
| AMENA | | | |
| Goodwill | 428 | (10) | 418 |
| Brands | 111 | (3) | 108 |
| | 539 | (13) | 526 |
| | | | |
| Total goodwill | 14,744 | (204) | 14,540 |
| Total reacquired franchise rights | 7,675 | (66) | 7,609 |
| Total acquired franchise rights | 1,720 | (39) | 1,681 |
| Total brands | 3,175 | (6) | 3,169 |
| | $ 27,314 | $ (315) | $ 26,999 |

(a) The change in 2018 is primarily related to our acquisition of Bare Foods Co.

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Note 5 - Income Taxes

A reconciliation of unrecognized tax benefits is as follows:

| | 6/16/2018 | 12/30/2017 |
|---|---|---|
| Balance, beginning of year | $ 2,212 | $ 1,885 |
| Additions for tax positions related to the current year | 134 | 309 |
| Additions for tax positions from prior years | 120 | 86 |
| Reductions for tax positions from prior years | (399) | (51) |
| Settlement payments | (173) | (4) |
| Statutes of limitations expiration | (19) | (33) |
| Translation and other | (10) | 20 |
| Balance, end of period | $ 1,865 | $ 2,212 |

In the second quarter of 2018, we reached an agreement with the Internal Revenue Service (IRS) resolving all open matters related to the audits of taxable years 2012 and 2013. The agreement resulted in a non-cash tax benefit totaling $314 million ($0.22 per share) in the second quarter of 2018. Additional tax audits resolved subsequent to the second quarter of 2018 are expected to result in the recognition of net non-cash tax benefits.

Tax Cuts and Jobs Act

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional net tax expense of $2.5 billion in the fourth quarter of 2017. See Note 5 to our consolidated financial statements in our 2017 Form 10-K for further information on this provisional net tax expense.

In the second quarter of 2018, we recognized additional provisional transition tax expense of $777 million ($0.54 per share) reflecting the impact of additional transition tax guidance issued by the IRS during the second quarter of 2018 and the TCJ Act impact on the resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013, as discussed above. In the first quarter of 2018, we recognized additional provisional transition tax expense of $1 million (nominal amount per share), reflecting the impact of actions taken by states within the United States that adopted the TCJ Act. These amounts were in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017.

The TCJ Act also created a new requirement that certain income earned by foreign subsidiaries, known as global intangible low-tax income (GILTI), must be included in the gross income of their U.S. shareholder. The FASB allows an accounting policy election of either recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years or recognizing such taxes as a current-period expense when incurred. During the first quarter of 2018, we elected to treat the tax effect of GILTI as a current-period expense when incurred.

The components of the provisional net tax expense recorded in 2017 and in the first and second quarters of 2018 were based on currently available information and additional information needs to be prepared, obtained and/or analyzed to determine the final amounts. The provisional tax expense for the mandatory repatriation of undistributed international earnings will require further analysis of certain foreign exchange gains or losses, substantiation of foreign tax credits, as well as estimated cash and cash equivalents as of November 30, 2018, the tax year-end of our foreign subsidiaries. The provisional tax benefit for the remeasurement of deferred taxes will require additional information necessary for the preparation of our U.S. federal tax return,

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and further analysis and interpretation of certain provisions of the TCJ Act impacting deferred taxes, for example 100% expensing of qualified assets, could impact our deferred tax balance as of December 30, 2017.

Tax effects for these items will be recorded in subsequent quarters, as discrete adjustments to our income tax provision, once complete. We elected to adopt the guidance issued by the Securities and Exchange Commission that allows for a measurement period, not to exceed one year after the enactment date of the TCJ Act, to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of 2018.

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

For further unaudited information and discussion of the potential impact of the TCJ Act, refer to “Item 1A. Risk Factors” and Note 5 to our consolidated financial statements in our 2017 Form 10-K and “Our Critical Accounting Policies,” “Our Business Risks” and “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q.

Note 6 - Share-Based Compensation

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| Share-based compensation expense - equity awards | $66 | $ 71 | $146 | $ 143 |
| Share-based compensation expense - liability awards | (4) | 3 | 2 | 7 |
| Restructuring and impairment charges | (1) | 1 | 2 | 2 |
| Total | $61 | $ 75 | $150 | $ 152 |

For the 12 weeks ended June 16, 2018 and June 17, 2017, our grants of stock options, RSUs, PSUs and long-term cash awards were nominal.

The following table summarizes share-based awards granted under the terms of the PepsiCo, Inc. Long-Term Incentive Plan:

| | 24 Weeks Ended | | | |
|---|---|---|---|---|
| | 6/16/2018 | | 6/17/2017 | |
| | Granted[a] | Weighted-Average Grant Price | Granted[a] | Weighted-Average Grant Price |
| Stock options | 1.2 | $ 108.75 | 1.3 | $ 109.75 |
| RSUs and PSUs | 2.6 | $ 108.70 | 2.8 | $ 109.76 |

(a) In millions. All grant activity is disclosed at target.

We granted long-term cash awards to certain executive officers and other senior executives with an aggregate target value of $21 million and $19 million during the 24 weeks ended June 16, 2018 and June 17, 2017, respectively.

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

| | 24 Weeks Ended | |
|---|---|---|
| | 6/16/2018 | 6/17/2017 |
| Expected life | 5 years | 5 years |
| Risk-free interest rate | 2.6% | 2.0% |
| Expected volatility | 12% | 11% |
| Expected dividend yield | 2.7% | 2.7% |

Note 7 - Pension and Retiree Medical Benefits

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

| | 12 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Pension | | | | Retiree Medical | |
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| | U.S. | | International | | | |
| Service cost | $99 | $ 92 | $22 | $ 21 | $8 | $ 7 |
| Interest cost | 111 | 108 | 23 | 21 | 8 | 8 |
| Expected return on plan assets | (217) | (196) | (48) | (40) | (5) | (5) |
| Amortization of prior service cost/(credits) | — | 1 | — | — | (4) | (6) |
| Amortization of net losses/(gains) | 42 | 28 | 11 | 12 | (3) | (3) |
| | 35 | 33 | 8 | 14 | 4 | 1 |
| Special termination benefits | — | 1 | — | — | — | — |
| Total | $35 | $ 34 | $8 | $ 14 | $4 | $ 1 |

| | 24 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Pension | | | | Retiree Medical | |
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| | U.S. | | International | | | |
| Service cost | $199 | $ 185 | $40 | $ 37 | $15 | $ 13 |
| Interest cost | 222 | 216 | 40 | 36 | 16 | 17 |
| Expected return on plan assets | (435) | (392) | (84) | (70) | (9) | (10) |
| Amortization of prior service cost/(credits) | 1 | 1 | — | — | (9) | (12) |
| Amortization of net losses/(gains) | 83 | 56 | 19 | 21 | (5) | (6) |
| | 70 | 66 | 15 | 24 | 8 | 2 |
| Special termination benefits | 3 | 2 | 1 | — | — | — |
| Total | $73 | $ 68 | $16 | $ 24 | $8 | $ 2 |

We regularly evaluate opportunities to reduce risk and volatility associated with our pension and retiree medical plans. During the first quarter of 2018, we made discretionary contributions of $1.4 billion to the PepsiCo Employees Retirement Plan A (Plan A) in the United States. We made discretionary contributions to our international pension plans of $17 million in the first quarter of 2018 and $6 million in the second quarter of 2017. There were no discretionary contributions made in the second quarter of 2018 or the first quarter of 2017.

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Note 8 - Debt Obligations

In the 24 weeks ended June 16, 2018, $2.5 billion of senior notes matured and were paid.

As of June 16, 2018, we had $5.4 billion of commercial paper outstanding.

In the second quarter of 2018, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement) which expires on June 4, 2023. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to $3.75 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.5 billion. Additionally, we may, once a year, request renewal of the agreement for an additional one-year period.

Also in the second quarter of 2018, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 3, 2019. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to $3.75 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.5 billion. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than the anniversary of the then effective termination date. The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our $3.75 billion five-year credit agreement and our $3.75 billion 364-day credit agreement, both dated as of June 5, 2017. Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes. Subject to certain conditions, we may borrow, prepay and reborrow amounts under these agreements. As of June 16, 2018, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

Note 9 - Financial Instruments

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

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

There have been no material changes during the 24 weeks ended June 16, 2018 with respect to our risk management policies or strategies and valuation techniques used in measuring the fair value of the financial assets or liabilities disclosed in Note 9 to our consolidated financial statements in our 2017 Form 10-K.

The notional amounts of our financial instruments used to hedge the above risks as of June 16, 2018 and December 30, 2017 are as follows:

| | Notional Amounts[(a)] | |
|---|---|---|
| | 6/16/2018 | 12/30/2017 |
| Commodity | $0.9 | $ 0.9 |
| Foreign exchange | $1.8 | $ 1.6 |
| Interest rate | $11.9 | $ 14.2 |
| Net investment | $1.4 | $ 1.5 |

(a) In billions.

Ineffectiveness for all derivatives and non-derivatives that qualify for hedge accounting treatment was not material for all periods presented.

As of June 16, 2018, approximately 45% of total debt, after the impact of the related interest rate derivative instruments, was subject to variable rates, compared to approximately 43% as of December 30, 2017.

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Fair Value Measurements

The fair values of our financial assets and liabilities as of June 16, 2018 and December 30, 2017 are categorized as follows:

| | | 6/16/2018 | | 12/30/2017 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy Levels | Assets[a] | Liabilities[a] | Assets[a] | Liabilities[a] |
| Available-for-sale debt securities [b] | 2 | $13,043 | $ — | $14,510 | $ — |
| Short-term investments [c] | 1 | $233 | $ — | $228 | $ — |
| Prepaid forward contracts [d] | 2 | $21 | $ — | $27 | $ — |
| Deferred compensation [e] | 2 | $— | $ 490 | $— | $ 503 |
| Derivatives designated as fair value hedging instruments: | | | | | |
| Interest rate [f] | 2 | $— | $ 244 | $24 | $ 130 |
| Derivatives designated as cash flow hedging instruments: | | | | | |
| Foreign exchange [g] | 2 | $41 | $ 7 | $15 | $ 31 |
| Interest rate [g] | 2 | — | 222 | — | 213 |
| Commodity [h] | 1 | — | 1 | — | 2 |
| Commodity [i] | 2 | 2 | — | 2 | — |
| | | $43 | $ 230 | $17 | $ 246 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange [g] | 2 | $1 | $ 12 | $10 | $ 3 |
| Commodity [h] | 1 | 1 | 15 | — | 19 |
| Commodity [i] | 2 | 58 | 21 | 85 | 12 |
| | | $60 | $ 48 | $95 | $ 34 |
| Total derivatives at fair value [j] | | $103 | $ 522 | $136 | $ 410 |
| Total | | $13,400 | $ 1,012 | $14,901 | $ 913 |

(a) Unless otherwise noted, financial assets are classified on our balance sheet within prepaid expenses and other current assets and other assets. Financial liabilities are classified on our balance sheet within accounts payable and other current liabilities and other liabilities.

(b) Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data. As of June 16, 2018, $8.9 billion and $4.1 billion of debt securities were classified as cash equivalents and short-term investments, respectively. As of December 30, 2017, $5.8 billion and $8.7 billion of debt securities were classified as cash equivalents and short-term investments, respectively. Unrealized gains and losses on our investments in debt securities as of June 16, 2018 and December 30, 2017 were not material. All of our available-for-sale debt securities have maturities of one year or less.

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

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

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

(f) Based on LIBOR forward rates.

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

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

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

(j) Derivative assets and liabilities are presented on a gross basis on our balance sheet. Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on the balance sheet as of June 16, 2018 and December 30, 2017 were not material. Collateral received or posted against our asset or liability positions was not

material. Collateral posted is classified as restricted cash. See Note 13 for further information.

The carrying amounts of our cash and cash equivalents and short-term investments approximate fair value due to their short-term maturity. The fair value of our debt obligations was $41 billion as of June 16, 2018 and December 30, 2017, based upon prices of similar instruments in the marketplace, which are considered Level 2 inputs.

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

| | 12 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value/Non-designated Hedges | | Cash Flow and Net Investment Hedges | | | |
| | Losses/(Gains) Recognized in Income Statement[a] | | Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss | | Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement[b] | |
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| Foreign exchange | $9 | $ (7) | $(35) | $ 16 | $ 10 | $ (6) |
| Interest rate | 27 | (41) | 105 | (35) | 117 | (48) |
| Commodity | (22) | 17 | — | (1) | 1 | 1 |
| Net investment | — | — | (64) | 48 | — | — |
| Total | $14 | $ (31) | $6 | $ 28 | $ 128 | $ (53) |

| | 24 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value/Non-designated Hedges | | Cash Flow and Net Investment Hedges | | | |
| | Losses/(Gains) Recognized in Income Statement[a] | | Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss | | Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement[b] | |
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| Foreign exchange | $(3) | $ (12) | $(30) | $ 36 | $ 16 | $ (11) |
| Interest rate | 138 | (19) | 9 | (54) | 55 | (78) |
| Commodity | (3) | 20 | (2) | 1 | 2 | 3 |
| Net investment | — | — | (55) | 66 | — | — |
| Total | $132 | $ (11) | $(78) | $ 49 | $ 73 | $ (86) |

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

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

Based on current market conditions, we expect to reclassify net gains of $15 million related to our cash flow hedges from accumulated other comprehensive loss into net income during the next 12 months.

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

Available-for-Sale Equity Securities

In the second quarter of 2017, we recognized a pre-tax gain of $95 million ($85 million after-tax or $0.06 per share), net of discount and fees, associated with the sale of our minority stake in Britvic. This gain was recorded in our ESSA

segment in selling, general and administrative expenses.

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Note 10 - Net Income Attributable to PepsiCo per Common Share

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

| | 12 Weeks Ended | | | |
|---|---|---|---|---|
| | 6/16/2018 | | 6/17/2017 | |
| | Income | Shares[a] | Income | Shares[a] |
| Net income attributable to PepsiCo | $1,820 | | $2,105 | |
| Preferred shares: | | | | |
| Redemption premium | — | | — | |
| Net income available for PepsiCo common shareholders | $1,820 | 1,417 | $2,105 | 1,428 |
| Basic net income attributable to PepsiCo per common share | $1.28 | | $1.47 | |
| Net income available for PepsiCo common shareholders | $1,820 | 1,417 | $2,105 | 1,428 |
| Dilutive securities: | | | | |
| Stock options, RSUs, PSUs, PEPunits and Other | — | 9 | — | 12 |
| Employee stock ownership plan (ESOP) convertible preferred stock | — | — | — | 1 |
| Diluted | $1,820 | 1,426 | $2,105 | 1,441 |
| Diluted net income attributable to PepsiCo per common share | $1.28 | | $1.46 | |

| | 24 Weeks Ended | | | |
|---|---|---|---|---|
| | 6/16/2018 | | 6/17/2017 | |
| | Income | Shares[a] | Income | Shares[a] |
| Net income attributable to PepsiCo | $3,163 | | $3,423 | |
| Preferred shares: | | | | |
| Redemption premium | (2) | | (2) | |
| Net income available for PepsiCo common shareholders | $3,161 | 1,418 | $3,421 | 1,428 |
| Basic net income attributable to PepsiCo per common share | $2.23 | | $2.40 | |
| Net income available for PepsiCo common shareholders | $3,161 | 1,418 | $3,421 | 1,428 |
| Dilutive securities: | | | | |
| Stock options, RSUs, PSUs, PEPunits and Other | — | 10 | — | 12 |
| ESOP convertible preferred stock | 2 | — | 2 | 1 |
| Diluted | $3,163 | 1,428 | $3,423 | 1,441 |
| Diluted net income attributable to PepsiCo per common share | $2.21 | | $2.38 | |

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

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 |
| Out-of-the-money options [a] | 2.8 | — | 1.4 | 0.7 |
| Average exercise price per option | $109.28 | $ — | $112.52 | $ 109.69 |

(a) In millions.

Note 11 - Preferred Stock

On January 26, 2018, all of the outstanding shares of our convertible preferred stock were converted into an aggregate of 550,102 shares of our common stock at the conversion ratio set forth in Exhibit A to our amended and restated articles of incorporation. As a result, there were no shares of our convertible preferred stock outstanding as of January 26, 2018, and our convertible preferred stock is retired for accounting purposes.

Activities associated with our preferred stock are included in the equity statement.

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Note 12 - Accumulated Other Comprehensive Loss Attributable to PepsiCo

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

| | Currency Translation Adjustment | Cash Flow Hedges | Pension and Retiree Medical | Available-For-Sale Securities | Other | Accumulated Other Comprehensive Loss Attributable to PepsiCo |
|---|---|---|---|---|---|---|
| Balance as of December 30, 2017 [a] | $ (10,277) | $ 47 | $ (2,804) | $ (4) | $ (19) | $ (13,057) |
| Other comprehensive (loss)/income before reclassifications [b] | 288 | 93 | (13) | (2) | — | 366 |
| Amounts reclassified from accumulated other comprehensive loss | — | (55) | 43 | — | — | (12) |
| Net other comprehensive (loss)/income | 288 | 38 | 30 | (2) | — | 354 |
| Tax amounts | 2 | (10) | (6) | — | — | (14) |
| Balance as of March 24, 2018 [a] | $ (9,987) | $ 75 | $ (2,780) | $ (6) | $ (19) | $ (12,717) |
| Other comprehensive (loss)/income before reclassifications [c] | (953) | (70) | 28 | 4 | — | (991) |
| Amounts reclassified from accumulated other comprehensive loss | — | 128 | 46 | — | — | 174 |
| Net other comprehensive (loss)/income | (953) | 58 | 74 | 4 | — | (817) |
| Tax amounts | (18) | (10) | (18) | — | — | (46) |
| Balance as of June 16, 2018 [a] | $ (10,958) | $ 123 | $ (2,724) | $ (2) | $ (19) | $ (13,580) |

(a) Pension and retiree medical amounts are net of taxes of $1,338 million as of December 30, 2017, $1,332 million as of March 24, 2018 and $1,314 million as of June 16, 2018.

(b) Currency translation adjustment primarily reflects the appreciation in the Russian ruble and Mexican peso.

(c) Currency translation adjustment primarily reflects the depreciation in the Russian ruble, Brazilian real and Mexican peso.

| | Currency Translation Adjustment | Cash Flow Hedges | Pension and Retiree Medical | Available-For-Sale Securities | Other | Accumulated Other Comprehensive Loss Attributable to PepsiCo |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2016 [a] | $ (11,386) | $ 83 | $ (2,645) | $ 64 | $ (35) | $ (13,919) |
| Other comprehensive (loss)/income before reclassifications [b] | 513 | (3) | (14) | 9 | — | 505 |
| Amounts reclassified from accumulated other comprehensive loss | — | (33) | 28 | — | — | (5) |
| Net other comprehensive (loss)/income | 513 | (36) | 14 | 9 | — | 500 |
| Tax amounts | 4 | 9 | (5) | (5) | — | 3 |
| Balance as of March 25, 2017 [a] | $ (10,869) | $ 56 | $ (2,636) | $ 68 | $ (35) | $ (13,416) |
| Other comprehensive (loss)/income before reclassifications [c] | 297 | 20 | (27) | 18 | — | 308 |
| Amounts reclassified from accumulated other comprehensive loss [d] | — | (53) | 32 | (99) | — | (120) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net other comprehensive (loss)/income | 297 | (33) | 5 | (81) | — | 188 |
| Tax amounts | 21 | 9 | (3) | 11 | 16 | 54 |
| Balance as of June 17, 2017 [(a)] | $(10,551) | $ 32 | $(2,634) | $ (2) | $(19) | $ (13,174) |

(a) Pension and retiree medical amounts are net of taxes of $1,280 million as of December 31, 2016, $1,275 million as of March 25, 2017 and $1,272 million as of June 17, 2017.

(b) Currency translation adjustment primarily reflects the appreciation in the Russian ruble, Egyptian pound and Australian dollar.

(c) Currency translation adjustment primarily reflects the appreciation in the euro and Russian ruble.

(d) Available-for-sale securities reflect a reclassification associated with the sale of our minority stake in Britvic.

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The reclassifications from accumulated other comprehensive loss to the income statement are summarized as follows:

| | 12 Weeks Ended | | 24 Weeks Ended | | |
|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | 6/16/2018 | 6/17/2017 | Affected Line Item in the Income Statement |
| Cash flow hedges: | | | | | |
| Foreign exchange contracts | $10 | $ (6) | $16 | $ (11) | Cost of sales |
| Interest rate derivatives | 117 | (48) | 55 | (78) | Interest expense |
| Commodity contracts | 1 | 2 | 3 | 4 | Cost of sales |
| Commodity contracts | — | (1) | (1) | (1) | Selling, general and administrative expenses |
| Net losses/(gains) before tax | 128 | (53) | 73 | (86) | |
| Tax amounts | (31) | 19 | (17) | 30 | |
| Net losses/(gains) after tax | $97 | $ (34) | $56 | $ (56) | |
| Pension and retiree medical items: | | | | | |
| Amortization of prior service credits | $(4) | $ (5) | $(8) | $ (11) | Other pension and retiree medical benefits income |
| Amortization of net losses | 50 | 37 | 97 | 71 | Other pension and retiree medical benefits income |
| Net losses before tax | 46 | 32 | 89 | 60 | |
| Tax amounts | (10) | (9) | (20) | (18) | |
| Net losses after tax | $36 | $ 23 | $69 | $ 42 | |
| Available-for-sale securities: | | | | | |
| Sale of Britvic securities | $— | $ (99) | $— | $ (99) | Selling, general and administrative expenses |
| Tax amount | — | 10 | — | 10 | |
| Net gain after tax | $— | $ (89) | $— | $ (89) | |
| Total net losses/(gains) reclassified, net of tax | $133 | $ (100) | $125 | $ (103) | |

Note 13 - Restricted Cash

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within our Condensed Consolidated Balance Sheet to the same items as reported in our Condensed Consolidated Statement of Cash Flows:

| | 6/16/2018 | 12/30/2017 |
|---|---|---|
| Cash and cash equivalents | $ 13,858 | $ 10,610 |
| Restricted cash included in other assets | 36 | 47 |
| Total cash and cash equivalents and restricted cash | $ 13,894 | $ 10,657 |

Restricted cash included in other assets primarily relates to collateral posted against our derivative asset or liability positions.

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Note 14 - Divestitures

Refranchising in Thailand

During the second quarter of 2018, we refranchised our beverage business in Thailand by selling a controlling interest in our Thailand bottling operations to an alliance formed with Suntory Beverage & Food Asia Pte. Ltd. (Suntory). The alliance serves as the franchise bottler for both PepsiCo and Suntory. We recorded a pre-tax gain of $144 million ($126 million after-tax or $0.09 per share) in selling, general and administrative expenses in our AMENA segment as a result of this transaction.

Refranchising in Czech Republic, Hungary, and Slovakia (CHS)

During the first quarter of 2018, we entered into an agreement to refranchise our entire beverage bottling operations and snack distribution operations in CHS (included within our ESSA segment). The transaction is expected to be completed in 2018.

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

FINANCIAL REVIEW

Our discussion and analysis is intended to help the reader understand our results of operations and financial condition and is provided as an addition to, and should be read in connection with, our condensed consolidated financial statements and the accompanying notes. Also refer to Note 1 of our condensed consolidated financial statements. Unless otherwise noted, tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common stock per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Our Critical Accounting Policies

The critical accounting policies below should be read in conjunction with those outlined in our 2017 Form 10-K.

Revenue Recognition and Total Marketplace Spending

We recognize revenue when our performance obligation is satisfied. Our primary performance obligation (the distribution and sales of beverage products and food and snack products) is satisfied upon the shipment or delivery of products to our customers, which is also when control is transferred. The transfer of control of products to our customers is typically based on written sales terms that do not allow for a right of return.

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. 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's 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.

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 1 and Note 2 to our condensed consolidated financial statements for additional information on our revenue recognition and related policies.

Income Taxes

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

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During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional transition tax expense of $777 million in the second quarter of 2018 and $1 million in the first quarter of 2018. These amounts were in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017. See Note 5 to our condensed consolidated financial statements in this Form 10-Q and Note 5 to our consolidated financial statements in our 2017 Form 10-K for further information on our provisional net tax expense.

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

Our Business Risks

This Quarterly Report on Form 10-Q (Form 10-Q) contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “expressed confidence,” “forecast,” “future,” “goal,” “guidance,” “intend,” “may,” “objective,” “outlook,” “plan,” “position,” “project,” “seek,” “should,” “strategy,” “target,” “will” or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. Such risks and uncertainties include, but are not limited to: changes in demand for PepsiCo’s products, as a result of changes in consumer preferences or otherwise; changes in, or failure to comply with, applicable laws and regulations; imposition or proposed imposition of new or increased taxes aimed at PepsiCo’s products; imposition of labeling or warning requirements on PepsiCo’s products; changes in laws related to packaging and disposal of PepsiCo’s products; PepsiCo’s ability to compete effectively; political conditions, civil unrest or other developments and risks in the markets where PepsiCo’s products are made, manufactured, distributed or sold; PepsiCo’s ability to grow its business in developing and emerging markets; uncertain or unfavorable economic conditions in the countries in which PepsiCo operates; the ability to protect information systems against, or effectively respond to, a cybersecurity incident or other disruption; increased costs, disruption of supply or shortages of raw materials and other supplies; business disruptions; product contamination or tampering or issues or concerns with respect to product quality, safety and integrity; damage to PepsiCo’s reputation or brand image; failure to successfully complete or integrate acquisitions and joint ventures into PepsiCo’s existing operations or to complete or manage divestitures or refranchisings; changes in estimates and underlying assumptions regarding future performance that could result in an impairment charge; increase in income tax rates, changes in income tax laws or disagreements with tax authorities; failure to realize anticipated benefits from PepsiCo’s productivity initiatives or global operating model; PepsiCo’s ability to recruit, hire or retain key employees or a highly skilled and diverse workforce; loss of any key customer or disruption to the retail landscape, including rapid growth in hard discounters and the e-commerce channel; any downgrade or potential downgrade of PepsiCo’s credit ratings; PepsiCo’s ability to implement shared services or utilize information technology systems and networks effectively; fluctuations or other changes in exchange rates; climate change or water scarcity, or legal,

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regulatory or market measures to address climate change or water scarcity; failure to successfully negotiate collective bargaining agreements, or strikes or work stoppages; infringement of intellectual property rights; potential liabilities and costs from litigation, claims, legal or regulatory proceedings, inquiries or investigations; and other factors that may adversely affect the price of PepsiCo's publicly traded securities and financial performance including those described in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our 2017 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" of this Form 10-Q. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

In the 12 weeks ended June 16, 2018, our operations outside of North America reflect the months of March, April and May. In the 24 weeks ended June 16, 2018, our operations outside of North America reflect the months of January through May. In the 24 weeks ended June 16, 2018, our operations outside of the United States generated 41% of our consolidated net revenue, with Mexico, Russia, Canada, the United Kingdom and Brazil comprising approximately 19% of our consolidated net revenue. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. In the 12 weeks ended June 16, 2018, favorable foreign exchange contributed 1 percentage point to net revenue growth, primarily due to appreciation in the euro, Pound sterling and Canadian dollar, partially offset by a decline in the Russian ruble. In the 24 weeks ended June 16, 2018, favorable foreign exchange contributed 1 percentage point to net revenue growth, primarily due to appreciation in the euro, Mexican peso, Pound sterling and Canadian dollar. Currency declines against the U.S. dollar which are not offset could adversely impact our future financial results.

In addition, volatile economic, political and social conditions and civil unrest in certain markets in which our products are made, manufactured, distributed or sold, including in Argentina, Brazil, China, India, Mexico, the Middle East, Russia and Turkey, and currency fluctuations in certain of these international markets, continue to result in challenging operating environments. We also continue to monitor the economic and political developments related to the United Kingdom's pending withdrawal from the European Union, including how the United Kingdom will interact with other European Union countries following its departure, as well as the economic, operating and political environment in Russia and the potential impact for the ESSA segment and our other businesses.

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

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

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any, of such taxes or limitations, including advocating alternative measures with respect to the imposition, form and scope of any such taxes or limitations.

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

The changes arising from the TCJ Act, which was enacted in 2017, are broad and complex and we continue to examine the impact the TCJ Act may have on our business and financial results. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%. The recorded impact of the TCJ Act is provisional and the final amount may differ from the estimate, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act. For additional information on the impact of the TCJ Act, see Note 5 to our condensed consolidated financial statements, “Our Critical Accounting Policies” and “Our Liquidity and Capital Resources” in this Form 10-Q, as well as Note 5 to our consolidated financial statements in our 2017 Form 10-K.

See Note 9 to our condensed consolidated financial statements in this Form 10-Q for the fair values of our financial instruments as of June 16, 2018 and December 30, 2017 and Note 9 to our consolidated financial statements in our 2017 Form 10-K for a discussion of these items. Cautionary statements included above and in “Item 1A. Risk Factors” and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our 2017 Form 10-K, should be considered when evaluating our trends and future results.

Results of Operations – Consolidated Review

Consolidated Results

Volume

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions’ physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products. For each of the 12 and 24 weeks ended June 16, 2018, total servings increased 1%.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by our Company-owned and franchise-owned bottlers, and that portion is based on our bottlers’ sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report the majority of our international beverage volume on a monthly basis. The 12 weeks ended June 16, 2018 include beverage volume outside of North America for the months of March, April and May. The 24 weeks ended June 16, 2018 include beverage volume outside of North America for the months of January through May. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to independent bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

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Net Revenue and Operating Profit

| | 12 Weeks Ended | | | | 24 Weeks Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | | Change | 6/16/2018 | 6/17/2017 | | Change |
| Net revenue | $16,090 | $15,710 | | 2% | $28,652 | $27,759 | | 3% |
| Operating profit | $3,028 | $2,919 | [a] | 4% | $4,835 | $4,782 | [a] | 1% |
| Operating margin | 18.8% | 18.6% | [a] | 0.2 | 16.9% | 17.2% | [a] | (0.4) |

(a) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

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

12 Weeks

Operating profit increased 4% and operating margin increased 0.2 percentage points. Operating profit growth was driven by planned cost reductions across a number of expense categories, net revenue growth and favorable foreign exchange translation. Additionally, a gain on refranchising our beverage business in Thailand and items affecting comparability (see “Items Affecting Comparability”) contributed 5 percentage points and 1 percentage point, respectively, to operating profit growth. These impacts were partially offset by certain operating cost increases and higher commodity costs, as well as a prior-year gain associated with the sale of our minority stake in Britvic, which reduced operating profit growth by 3 percentage points. Higher commodity costs reduced operating profit growth by 3 percentage points, attributable to inflation in the NAB, Latin America, ESSA, AMENA and QFNA segments. Corporate unallocated expenses (see Note 1 to our condensed consolidated financial statements) decreased 7%, primarily due to the net impact of items affecting comparability (see “Items Affecting Comparability”).

24 Weeks

Operating profit increased 1% and operating margin decreased 0.4 percentage points. Operating profit growth was driven by planned cost reductions across a number of expense categories, net revenue growth and favorable foreign exchange translation. Additionally, the gain on refranchising our beverage business in Thailand and items affecting comparability (see “Items Affecting Comparability”) contributed 3 percentage points and 1 percentage point, respectively, to operating profit growth. These impacts were partially offset by certain operating cost increases, as well as higher commodity costs across all divisions which reduced operating profit growth by 4 percentage points. The prior-year gain associated with the sale of our minority stake in Britvic and a current-year bonus extended to certain U.S. employees in connection with the TCJ Act also reduced operating profit growth by 2 percentage points each. Corporate unallocated expenses (see Note 1 to our condensed consolidated financial statements) increased 2%, primarily due to higher foreign exchange transaction losses. The operating margin decrease primarily reflects certain operating cost increases.

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Other Consolidated Results

| | 12 Weeks Ended | | | 24 Weeks Ended | | |
|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | Change | 6/16/2018 | 6/17/2017 | Change |
| Other pension and retiree medical benefits income | $82 | $71 [a] | $11 | $157 | $141 [a] | $16 |
| Net interest expense | $(210) | $(216) | $6 | $(435) | $(428) | $(7) |
| Tax rate [b] | 36.9% | 23.7% | | 30.2% | 23.3% | |
| Net income attributable to PepsiCo | $1,820 | $2,105 | (14)% | $3,163 | $3,423 | (8)% |
| Net income attributable to PepsiCo per common share – diluted | $1.28 | $1.46 | (13)% | $2.21 | $2.38 | (7)% |
| Mark-to-market net impact | — | 0.01 | | 0.01 | 0.02 | |
| Restructuring and impairment charges | 0.02 | 0.02 | | 0.02 | 0.04 | |
| Provisional net tax expense related to the TCJ Act [b] | 0.54 | — | | 0.54 | — | |
| Tax benefit [b] | (0.22) | — | | (0.22) | — | |
| Net income attributable to PepsiCo per common share – diluted, excluding above items [c] | $1.61 [d] | $1.50 [d] | 8% | $2.58 [d] | $2.44 | 6% |
| Impact of foreign exchange translation | | | (1) | | | (2) |
| Growth in net income attributable to PepsiCo per common share – diluted, excluding above items, on a constant currency basis [c] | | | 7% | | | 4% |

(a) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

(b) See Note 5 to our condensed consolidated financial statements.

(c) See “Non-GAAP Measures.”

(d) Does not sum due to rounding.

12 Weeks

Other pension and retiree medical benefits income increased $11 million reflecting the impact of the $1.4 billion discretionary pension contributions to Plan A in the United States, as well as the recognition of net asset gains, partially offset by higher amortization of net losses.

Net interest expense decreased $6 million, reflecting higher interest income due to higher interest rates and average cash balances, as well as gains on the market value of investments used to economically hedge a portion of our deferred compensation liability. These impacts were partially offset by higher interest expense due to higher interest rates and average debt balances.

The reported tax rate increased 13.2 percentage points primarily as a result of the provisional net tax expense related to the TCJ Act, which contributed 28 percentage points to the increase. This impact was partially offset by the favorable resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013, which reduced the reported tax rate by 11 percentage points, as well as a lower U.S. corporate income tax rate related to the enactment of the TCJ Act. See Note 5 to our condensed consolidated financial statements for further information.

Net income attributable to PepsiCo decreased 14% and net income attributable to PepsiCo per common share decreased 13%. Items affecting comparability (see “Items Affecting Comparability”) negatively impacted net income attributable to PepsiCo performance by 20 percentage points and net income attributable to PepsiCo per common share performance by 21 percentage points.

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24 Weeks

Other pension and retiree medical benefits income increased $16 million reflecting the impact of the $1.4 billion discretionary pension contributions to Plan A in the United States, as well as the recognition of net asset gains, partially offset by higher amortization of net losses.

Net interest expense increased $7 million, reflecting higher interest expense due to higher interest rates and average debt balances, as well as lower gains on the market value of investments used to economically hedge a portion of our deferred compensation liability. These impacts were partially offset by higher interest income due to higher interest rates and average cash balances.

The reported tax rate increased 6.8 percentage points primarily as a result of the provisional net tax expense related to the TCJ Act, which contributed 17 percentage points to the increase. This impact was partially offset by the favorable resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013, which reduced the reported rate by 7 percentage points, as well as a lower U.S. corporate income tax rate related to the enactment of the TCJ Act. See Note 5 to our condensed consolidated financial statements for further information.

Net income attributable to PepsiCo decreased 8% and net income attributable to PepsiCo per common share decreased 7%. Items affecting comparability (see “Items Affecting Comparability”) negatively impacted both net income attributable to PepsiCo performance and net income attributable to PepsiCo per common share performance by 13 percentage points.

Non-GAAP Measures

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

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

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

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

- cost of sales, gross profit, selling, general and administrative expenses, other pension and retiree medical benefits income and provision for income taxes, each adjusted for items affecting

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

Cost of Sales, Gross Profit, Selling, General and Administrative Expenses, Other Pension and Retiree Medical Benefits Income and Provision for Income Taxes, Adjusted for Items Affecting Comparability; Operating Profit, Adjusted for Items Affecting Comparability, and Net Income Attributable to PepsiCo per Common Share – Diluted, Adjusted for Items Affecting Comparability, and the Corresponding Constant Currency Growth Rates

These measures exclude the net impact of mark-to-market gains and losses on centrally managed commodity derivatives that do not qualify for hedge accounting, restructuring and impairment charges related to our 2014 Productivity Plan, a provisional net tax expense associated with the enactment of the TCJ Act and a tax benefit. We also evaluate performance on operating profit, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, on a constant currency basis, which measure our financial results assuming constant foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior-year average foreign exchange rates. We believe these measures provide useful information in evaluating the results of our business because they exclude items that we believe are not indicative of our ongoing performance.

Organic Revenue

We define organic revenue as net revenue adjusted for the impact of foreign exchange translation, as well as the impact from acquisitions, divestitures and other structural changes. Additionally, our fiscal 2018 reported results reflect the accounting policy election taken in conjunction with the adoption of the revenue recognition guidance to exclude from net revenue and cost of sales all sales, use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions not already excluded. Our 2018 fiscal year organic revenue growth will exclude the impact of approximately $75 million of these taxes previously recognized in net revenue. See Note 2 to our condensed consolidated financial statements for additional information.

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

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

Free Cash Flow

We define free cash flow as net cash provided by operating activities less capital spending, plus sales of property, plant and equipment. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Free cash flow is used by us primarily for financing activities, including debt repayments, dividends and share repurchases. Free cash flow is not a measure of cash available for discretionary expenditures since we have certain non-discretionary obligations such as debt service that are not deducted from the measure.

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

Items Affecting Comparability

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

| | 12 Weeks Ended 6/16/2018 | | | | | |
|---|---|---|---|---|---|---|
| | Cost of sales | Gross profit | Selling, general and administrative expenses | Operating profit | Provision for income taxes[a] | Net income attributable to PepsiCo |
| Reported, GAAP Measure | $7,263 | $8,827 | $ 5,799 | $ 3,028 | $ 1,070 | $ 1,820 |
| Items Affecting Comparability | | | | | | |
| Mark-to-market net impact | 7 | (7) | (4) | (3) | 1 | (4) |
| Restructuring and impairment charges | — | — | (32) | 32 | 8 | 24 |
| Provisional net tax expense related to the TCJ Act | — | — | — | — | (777) | 777 |
| Tax benefit | — | — | — | — | 314 | (314) |
| Core, Non-GAAP Measure | $7,270 | $8,820 | $ 5,763 | $ 3,057 | $ 616 | $ 2,303 |

| | 12 Weeks Ended 6/17/2017[b] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost of sales | Gross profit | Selling, general and administrative expenses | Operating profit | Other pension and retiree medical benefits income | Provision for income taxes[a] | Net income attributable to PepsiCo |
| Reported, GAAP Measure | $7,059 | $8,651 | $ 5,732 | $ 2,919 | $ 71 | $ 656 | $ 2,105 |
| Items Affecting Comparability | | | | | | | |
| Mark-to-market net impact | (13) | 13 | (13) | 26 | — | 7 | 19 |
| Restructuring and impairment charges | — | — | (33) | 33 | 1 | 3 | 31 |
| Core, Non-GAAP Measure | $7,046 | $8,664 | $ 5,686 | $ 2,978 | $ 72 | $ 666 | $ 2,155 |

| | 24 Weeks Ended 6/16/2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost of sales | Gross profit | Selling, general and administrative expenses | Operating profit | Other pension and retiree medical benefits income | Provision for income taxes[a] | Net income attributable to PepsiCo |
| Reported, GAAP Measure | $12,918 | $15,734 | $ 10,899 | $ 4,835 | $ 157 | $ 1,374 | $ 3,163 |
| Items Affecting Comparability | | | | | | | |
| Mark-to-market net impact | (20) | 20 | (8) | 28 | — | 8 | 20 |
| Restructuring and impairment charges | — | — | (40) | 40 | 4 | 9 | 35 |
| Provisional net tax expense related to the TCJ Act | — | — | — | — | — | (778) | 778 |
| Tax benefit | — | — | — | — | — | 314 | (314) |
| Core, Non-GAAP Measure | $12,898 | $15,754 | $ 10,851 | $ 4,903 | $ 161 | $ 927 | $ 3,682 |

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| | 24 Weeks Ended 6/17/2017[b] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cost of sales | Gross profit | Selling, general and administrative expenses | Operating profit | Other pension and retiree medical benefits income | Provision for income taxes[a] | Net income attributable to PepsiCo |
| Reported, GAAP Measure | $12,349 | $15,410 | $ 10,628 | $ 4,782 | $ 141 | $ 1,048 | $ 3,423 |
| Items Affecting Comparability | | | | | | | |
| Mark-to-market net impact | 6 | (6) | (46) | 40 | — | 12 | 28 |
| Restructuring and impairment charges | — | — | (59) | 59 | 2 | 3 | 58 |
| Core, Non-GAAP Measure | $12,355 | $15,404 | $ 10,523 | $ 4,881 | $ 143 | $ 1,063 | $ 3,509 |

(a) Provision for income taxes is the expected tax benefit/charge on the underlying item based on the tax laws and income tax rates applicable to the underlying item in its corresponding tax jurisdiction.

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. The changes described above had no impact on the provision for income taxes or net income attributable to PepsiCo. See Note 2 to our condensed consolidated financial statements for additional information.

Mark-to-Market Net Impact

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

Restructuring and Impairment Charges

To build on the successful implementation of the 2014 Productivity Plan, we expanded and extended the program through the end of 2019 to take advantage of additional opportunities within the initiatives of the 2014 Productivity Plan to further strengthen our beverage, food and snack businesses. In connection with this program, we expect to incur pre-tax charges and cash expenditures of approximately $1.3 billion and $985 million, respectively.

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

| | Charges | Cash Expenditures | |
|---|---|---|---|
| 2013 | $ 53 | $ — | |
| 2014 | 357 | 175 | [b] |
| 2015 | 169 | 165 | [b] |
| 2016 | 160 | 95 | |
| 2017 | 295 | 113 | |
| First quarter 2018 | 12 | 45 | [b] |
| Second quarter 2018 | 32 | 88 | [b] |
| | 1,078 | 681 | |
| Remainder of 2018 (expected) | 205 | 258 | |
| 2019 (expected) | 22 | 46 | |
| | $ 1,305 | [a] $ 985 | |

(a) This total pre-tax charge is expected to consist of approximately $775 million of severance and other employee-related costs, approximately$195 million for asset impairments (all non-cash) resulting from plant

closures and related actions, and approximately $335 million for other costs associated with the implementation of our initiatives, including contract termination costs. This charge is expected to impact reportable segments and Corporate approximately as follows: FLNA 14%, QFNA 3%, NAB 30%, Latin America 15%, ESSA 25%, AMENA

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4% and Corporate 9%.

(b) In the 12 weeks ended March 24, 2018 and June 16, 2018, cash expenditures included $6 million and $1 million, respectively, reported on our Condensed Consolidated Statement of Cash Flows in pension and retiree medical plan contributions. In 2015 and 2014, cash expenditures included $2 million and $10 million, respectively, reported on our Consolidated Statement of Cash Flows in pension and retiree medical plan contributions.

See Note 3 to our condensed consolidated financial statements for further information related to our 2014 Productivity Plan.

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

Provisional Net Tax Expense Related to the TCJ Act

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional transition tax expense of $777 million ($0.54 per share) in the second quarter of 2018 and $1 million (nominal amount per share) in the first quarter of 2018. These amounts were in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017.

See Note 5 to our condensed consolidated financial statements.

Tax Benefit

During the second quarter of 2018, we recognized a non-cash tax benefit of $314 million ($0.22 per share) associated with our agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013.

See Note 5 to our condensed consolidated financial statements.

Results of Operations – Division Review

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

In the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries, and “net pricing” reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. “Acquisitions and divestitures,” except as otherwise noted, reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees. Additionally, “sales and certain other taxes” refers to the exclusion from net revenue of prior year sales, use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions as a result of the accounting policy election taken in conjunction with the adoption of revenue recognition guidance as described in Note 2 to our condensed consolidated financial statements.

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Net Revenue

| 12 Weeks Ended | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Total |
|---|---|---|---|---|---|---|---|
| 6/16/2018 | $3,837 | $527 | $5,193 | $1,843 | $3,116 | $1,574 | $16,090 |
| 6/17/2017 | $3,678 | $553 | $5,242 | $1,823 | $2,812 | $1,602 | $15,710 |
| % Impact of: | | | | | | | |
| Volume [a] | 2 % | (3)% | (2)% | (3)% | 6 % | 4 % | 1 % |
| Effective net pricing [b] | 2 | (2) | 1 | 7 | 1 | 2 | 2 |
| Foreign exchange translation | — | 0.5 | — | (2) | 4 | 2 | 1 |
| Acquisitions and divestitures | — | — | — | — | — | (9) | (1) |
| Sales and certain other taxes | — | — | — | — | (0.5) | — | — |
| Reported Growth [c] | 4 % | (5)% | (1)% | 1 % | 11 % | (2)% | 2 % |

| 24 Weeks Ended | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Total |
|---|---|---|---|---|---|---|---|
| 6/16/2018 | $7,454 | $1,128 | $9,608 | $3,067 | $4,784 | $2,611 | $28,652 |
| 6/17/2017 | $7,177 | $1,151 | $9,702 | $2,900 | $4,257 | $2,572 | $27,759 |
| % Impact of: | | | | | | | |
| Volume [a] | 2 % | (1)% | (2)% | (1)% | 6 % | 3.5 % | 1 % |
| Effective net pricing [b] | 2 | (1) | 1 | 7 | 1 | 2 | 2 |
| Foreign exchange translation | — | 0.5 | — | — | 6 | 3 | 1 |
| Acquisitions and divestitures | — | — | — | — | — | (6) | (0.5) |
| Sales and certain other taxes | — | — | — | — | (0.5) | (1) | — |
| Reported Growth [c] | 4 % | (2)% | (1)% | 6 % | 12 % | 1.5 % | 3 % |

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

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

(c) Amounts may not sum due to rounding.

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Organic Revenue Growth

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

| 12 Weeks Ended 6/16/2018 | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Total |
|---|---|---|---|---|---|---|---|
| Reported Growth | 4 % | (5 )% | (1)% | 1 % | 11 % | (2 )% | 2 % |
| % Impact of: | | | | | | | |
| Foreign exchange translation | — | (0.5) | — | 2 | (4 ) | (2 ) | (1) |
| Acquisitions and divestitures | — | — | — | — | — | 9 | 1 |
| Sales and certain other taxes | — | — | — | — | 0.5 | — | — |
| Organic Growth [(a)] | 4 % | (5 )% | (1)% | 3.5 % | 7 % | 6 % | 3 % |

| 24 Weeks Ended 6/16/2018 | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Total |
|---|---|---|---|---|---|---|---|
| Reported Growth | 4 % | (2 )% | (1 )% | 6 % | 12 % | 1.5 % | 3 % |
| % Impact of: | | | | | | | |
| Foreign exchange translation | — | (0.5) | — | — | (6 ) | (3 ) | (1 ) |
| Acquisitions and divestitures | — | — | — | — | — | 6 | 0.5 |
| Sales and certain other taxes | — | — | — | — | 0.5 | 1 | — |
| Organic Growth [(a)] | 3.5 % | (2.5)% | (1.5)% | 6 % | 7 % | 6 % | 2.5 % |

(a) Amounts may not sum due to rounding.

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Frito-Lay North America

| | 12 Weeks Ended | | | 24 Weeks Ended | | | |
|---|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | % Change | 6/16/2018 | 6/17/2017 | % Change | |
| Net revenue | $3,837 | $ 3,678 | 4 | $7,454 | $ 7,177 | 4 | |
| Impact of foreign exchange translation | | | — | | | — | |
| Organic revenue growth [a] | | | 4 | | | 3.5 | [d] |
| Operating profit | $1,200 | $ 1,143 | 5 | $2,250 | $ 2,193 | 3 | [b] |
| Restructuring and impairment charges [c] | 4 | 3 | | 4 | 4 | | |
| Operating profit excluding above item [a] | $1,204 | $ 1,146 | 5 | $2,254 | $ 2,197 | 3 | |
| Impact of foreign exchange translation | | | — | | | — | |
| Operating profit growth excluding above item, on a constant currency basis [a] | | | 5 | | | 2 | [d] |

(a) See “Non-GAAP Measures.”

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

(c) See “Items Affecting Comparability.”

(d) Does not sum due to rounding.

12 Weeks

Net revenue grew 4% and volume grew 2%. The net revenue growth was driven by volume growth and effective net pricing. The volume growth reflects mid-single-digit growth in trademark Doritos and high-single-digit growth in variety packs and trademark Ruffles, partially offset by a low-single-digit decline in trademark Lay’s.

Operating profit grew 5%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases.

24 Weeks

Net revenue grew 4% and volume grew 2%. The net revenue growth was driven by volume growth and effective net pricing. The volume growth reflects mid-single-digit growth in trademark Doritos, high-single-digit growth in variety packs and trademark Ruffles, and double-digit growth in our Sabra joint venture products, partially offset by a low-single digit decline in trademark Lay’s.

Operating profit grew 3%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases, as well as a bonus extended to certain U.S. employees in connection with the TCJ Act, which reduced operating profit growth by 2 percentage points. Additionally, higher commodity costs, primarily potatoes and motor fuel, reduced operating profit growth by 2 percentage points.

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Quaker Foods North America

| | 12 Weeks Ended | | | 24 Weeks Ended | | |
|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | % Change | 6/16/2018 | 6/17/2017 | % Change |
| Net revenue | $527 | $ 553 | (5) | $1,128 | $ 1,151 | (2) |
| Impact of foreign exchange translation | | | (0.5) | | | (0.5) |
| Organic revenue growth [a] | | | (5) [d] | | | (2.5) |
| Operating profit | $145 | $ 145 [b] | — | $300 | $ 308 [b] | (3) |
| Restructuring and impairment charges [c] | — | — | | — | — | |
| Operating profit excluding above item [a] | $145 | $ 145 | — | $300 | $ 308 | (3) |
| Impact of foreign exchange translation | | | — | | | — |
| Operating profit growth excluding above item, on a constant currency basis [a] | | | — | | | (3) |

(a) See "Non-GAAP Measures."

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

(c) See "Items Affecting Comparability."

(d) Does not sum due to rounding.

12 Weeks

Net revenue declined 5% and volume declined 3%. The net revenue performance reflects the volume decline, unfavorable net pricing and mix. The volume decline was driven by double-digit declines in ready-to-eat cereals and trademark Gamesa and a high-single-digit decline in bars, partially offset by mid-single-digit growth in oatmeal.

Operating profit was flat, reflecting the net revenue performance, as well as less favorable settlements of promotional spending accruals compared to the prior year, which negatively impacted operating profit performance by 4 percentage points. In addition, higher commodity costs negatively impacted operating profit performance by 3 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories and lower advertising and marketing expenses. Additionally, insurance settlement recoveries related to the 2017 earthquake in Mexico and other insurance adjustments positively contributed 2 percentage points and 2.5 percentage points, respectively, to operating profit performance.

24 Weeks

Net revenue declined 2% and volume declined 1%. The net revenue performance primarily reflects the volume decline and unfavorable net pricing. The volume decline was driven by a double-digit decline in trademark Gamesa and a mid-single-digit decline in ready-to-eat cereals, partially offset by mid-single-digit growth in oatmeal.

Operating profit declined 3%, reflecting the net revenue performance and certain operating cost increases, as well as higher commodity costs, which negatively impacted operating profit performance by 3 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories and lower advertising and marketing expenses.

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North America Beverages

| | 12 Weeks Ended | | | 24 Weeks Ended | | |
|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | % Change | 6/16/2018 | 6/17/2017 | % Change |
| Net revenue | $5,193 | $ 5,242 | (1) | $9,608 | $ 9,702 | (1) |
| Impact of foreign exchange translation | | | — | | | — |
| Impact of acquisitions and divestitures | | | — | | | — |
| Impact of sales and certain other taxes [a] | | | — | | | — |
| Organic revenue growth [a] | | | (1) | | | (1.5) [d] |
| Operating profit | $747 | $ 890 [b] | (16) | $1,135 | $ 1,391 [b] | (18) |
| Restructuring and impairment charges [c] | 9 | (1) | | 11 | 1 | |
| Operating profit excluding above item [a] | $756 | $ 889 | (15) | $1,146 | $ 1,392 | (18) |
| Impact of foreign exchange translation | | | — | | | — |
| Operating profit growth excluding above item, on a constant currency basis [a] | | | (15) | | | (18) |

(a) See “Non-GAAP Measures.”

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

(c) See “Items Affecting Comparability.”

(d) Does not sum due to rounding.

12 Weeks

Net revenue decreased 1%, primarily reflecting a decline in volume, partially offset by effective net pricing.

Volume decreased 2%, driven by a 4.5% decline in carbonated soft drink (CSD) volume, partially offset by a 1% increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected a mid-single-digit increase in our overall water portfolio, partially offset by a low-single-digit decline in Gatorade sports drinks.

Operating profit decreased 16%, reflecting certain operating cost increases, including increased transportation costs, and the net revenue performance, as well as higher commodity costs, which negatively impacted operating profit performance by 5 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories, as well as certain insurance adjustments which positively contributed 2 percentage points to operating profit performance. Less favorable settlements of promotional spending accruals compared to the prior year and a favorable legal settlement in the prior year negatively impacted operating profit performance by 2 percentage points and 1 percentage point, respectively.

24 Weeks

Net revenue decreased 1%, primarily reflecting a decline in volume, partially offset by effective net pricing.

Volume decreased 2%, driven by a 4% decline in CSD volume, partially offset by a slight increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected a mid-single-digit increase in our overall water portfolio, partially offset by a low-single-digit decline in Gatorade sports drinks.

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Operating profit decreased 18%, reflecting certain operating cost increases, including increased transportation costs, and the net revenue performance, as well as higher commodity costs, which negatively impacted operating profit performance by 6 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories, as well as certain insurance adjustments and a gain associated with a sale of an asset, each of which positively contributed 1 percentage point to operating profit performance. A bonus extended to certain U.S. employees in connection with the TCJ Act negatively impacted operating profit performance by 3 percentage points.

Latin America

| | 12 Weeks Ended | | | 24 Weeks Ended | | |
|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | % Change | 6/16/2018 | 6/17/2017 | % Change |
| Net revenue | $1,843 | $ 1,823 | 1 | $3,067 | $ 2,900 | 6 |
| Impact of foreign exchange translation | | | 2 | | | — |
| Organic revenue growth [a] | | | 3.5 [d] | | | 6 |
| Operating profit | $269 | $ 228 [b] | 18 | $458 | $ 361 [b] | 27 |
| Restructuring and impairment charges [c] | 3 | 25 | | 12 | 49 | |
| Operating profit excluding above item [a] | $272 | $ 253 | 7 | $470 | $ 410 | 14 |
| Impact of foreign exchange translation | | | — | | | (4) |
| Operating profit growth excluding above item, on a constant currency basis [a] | | | 7 | | | 10 |

(a) See “Non-GAAP Measures.”

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

(c) See “Items Affecting Comparability.”

(d) Does not sum due to rounding.

12 Weeks

Net revenue increased 1%, reflecting effective net pricing, partially offset by volume declines. Unfavorable foreign exchange reduced net revenue growth by 2 percentage points.

Snacks volume declined 3%, reflecting a double-digit decline in Brazil partially offset by low-single-digit growth in Mexico.

Beverage volume declined 3%, reflecting a double-digit decline in Brazil and low-single-digit declines in Argentina and Mexico, partially offset by mid-single-digit growth in Guatemala and low-single-digit growth in Honduras.

Operating profit increased 18%, reflecting planned cost reductions across a number of expense categories and effective net pricing. Additionally, insurance settlement recoveries related to the 2017 earthquake in Mexico and the impact of a promotional spending accrual adjustment contributed 5 percentage points and 4 percentage points, respectively, to operating profit growth. These impacts were partially offset by certain operating cost increases and the volume declines, as well as higher commodity costs, which reduced operating profit growth by 8 percentage points. Lower restructuring and impairment charges contributed 11 percentage points to operating profit growth.

24 Weeks

Net revenue increased 6%, reflecting effective net pricing, partially offset by volume declines.

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Snacks volume declined 0.5%, reflecting a high-single-digit decline in Brazil partially offset by low-single-digit growth in Mexico.

Beverage volume declined 3.5%, reflecting a double-digit decline in Brazil and a mid-single-digit decline in Mexico, partially offset by mid-single-digit growth in Guatemala. Additionally, Argentina experienced a low-single-digit decline.

Operating profit increased 27%, reflecting planned cost reductions across a number of expense categories and effective net pricing, as well as insurance settlement recoveries related to the 2017 earthquake in Mexico, which contributed 5 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases and the volume declines, as well as higher commodity costs, which reduced operating profit growth by 9 percentage points. Lower restructuring and impairment charges and favorable foreign exchange contributed 12 percentage points and 4 percentage points, respectively, to operating profit growth.

Europe Sub-Saharan Africa

| | 12 Weeks Ended | | | 24 Weeks Ended | | |
|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | % Change | 6/16/2018 | 6/17/2017 | % Change |
| Net revenue | $3,116 | $ 2,812 | 11 | $4,784 | $ 4,257 | 12 |
| Impact of foreign exchange translation | | | (4) | | | (6) |
| Impact of sales and certain other taxes [a] | | | 0.5 | | | 0.5 |
| Organic revenue growth [a] | | | 7 [d] | | | 7 [d] |
| | | | | | | |
| Operating profit | $438 | $ 492 [b] | (11) | $556 | $ 588 [b] | (5.5) |
| Restructuring and impairment charges [c] | 4 | 3 | | 8 | 7 | |
| Operating profit excluding above item [a] | $442 | $ 495 | (11) | $564 | $ 595 | (5) |
| Impact of foreign exchange translation | | | (4) | | | (5) |
| Operating profit growth excluding above item, on a constant currency basis [a] | | | (14) [d] | | | (11) [d] |

(a) See “Non-GAAP Measures.”

(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.

(c) See “Items Affecting Comparability.”

(d) Does not sum due to rounding.

12 Weeks

Net revenue increased 11%, reflecting volume growth, as well as favorable foreign exchange, which contributed 4 percentage points to net revenue growth.

Snacks volume grew 3.5%, reflecting mid-single-digit growth in France and Turkey, partially offset by a slight decline in South Africa. Additionally, the United Kingdom, Russia and the Netherlands experienced low-single-digit growth.

Beverage volume grew 8%, reflecting double-digit growth in Russia and France. Additionally, Nigeria experienced low-single-digit growth and the United Kingdom, Turkey, Germany and Poland experienced mid-single-digit growth.

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Operating profit decreased 11%, reflecting a prior-year gain associated with the sale of our minority stake in Britvic, which negatively impacted operating profit performance by 19 percentage points, certain operating cost increases and higher advertising and marketing expenses. Additionally, higher commodity costs negatively impacted operating profit performance by 3 percentage points. These impacts were partially offset by the net revenue growth and planned cost reductions across a number of expense categories. Favorable foreign exchange positively contributed 4 percentage points to operating profit performance.

24 Weeks

Net revenue increased 12%, reflecting favorable foreign exchange, which contributed 6 percentage points to net revenue growth, as well as volume growth.

Snacks volume grew 4.5%, reflecting double-digit growth in France and mid-single-digit growth in Russia and Turkey, partially offset by a slight decline in the United Kingdom and a low-single-digit decline in South Africa. Additionally, the Netherlands experienced low-single-digit growth.

Beverage volume grew 7%, reflecting high-single-digit growth in Russia and France and double-digit growth in Poland. Additionally, Nigeria experienced low-single-digit growth and the United Kingdom, Turkey and Germany experienced mid-single-digit growth.

Operating profit decreased 5.5%, reflecting a prior-year gain associated with the sale of our minority stake in Britvic, which negatively impacted operating profit performance by 16 percentage points, certain operating cost increases and higher advertising and marketing expenses. Additionally, higher commodity costs negatively impacted operating profit performance by 3.5 percentage points. These impacts were partially offset by the net revenue growth and planned cost reductions across a number of expense categories. Favorable foreign exchange positively contributed 5 percentage points to operating profit performance.

Asia, Middle East and North Africa

| | 12 Weeks Ended | | | 24 Weeks Ended | | |
|---|---|---|---|---|---|---|
| | 6/16/2018 | 6/17/2017 | % Change | 6/16/2018 | 6/17/2017 | % Change |
| Net revenue | $1,574 | $ 1,602 | (2) | $2,611 | $ 2,572 | 1.5 |
| Impact of foreign exchange translation | | | (2) | | | (3) |
| Impact of acquisitions and divestitures | | | 9 | | | 6 |
| Impact of sales and certain other taxes [a] | | | — | | | 1 |
| Organic revenue growth [a] | | | 6 [c] | | | 6 [c] |
| | | | | | | |
| Operating profit | $496 | $ 307 | 61 | $683 | $ 478 | 43 |
| Restructuring and impairment charges [b] | 2 | 2 | | 4 | (4) | |
| Operating profit excluding above item [a] | $498 | $ 309 | 61 | $687 | $ 474 | 45 |
| Impact of foreign exchange translation | | | (1.5) | | | (2.5) |
| Operating profit growth excluding above item, on a constant currency basis [a] | | | 60 [c] | | | 43 [c] |

(a) See “Non-GAAP Measures.”

(b) See “Items Affecting Comparability.”

(c) Does not sum due to rounding.

12 Weeks

Net revenue decreased 2%, reflecting the impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017, which negatively impacted net revenue performance by 9 percentage points, partially

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offset by volume growth and effective net pricing. Favorable foreign exchange positively contributed 2 percentage points to net revenue performance.

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

Beverage volume grew 0.5%, reflecting mid-single-digit growth in China and high-single-digit growth in Pakistan, partially offset by a mid-single-digit decline in the Middle East, a high-single-digit decline in the Philippines and a low-single-digit decline in India.

Operating profit increased 61%, primarily reflecting the net impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017, which increased operating profit growth by 42 percentage points. Additionally, the effective net pricing, planned cost reductions across a number of expense categories and the volume growth contributed to operating profit growth. These impacts were partially offset by certain operating cost increases, as well as higher commodity costs, which reduced operating profit growth by 3 percentage points.

24 Weeks

Net revenue increased 1.5%, reflecting volume growth and effective net pricing. The impacts of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017, and sales and certain other taxes reduced net revenue growth by 6 percentage points and 1 percentage point, respectively. Favorable foreign exchange contributed 3 percentage points to net revenue growth.

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

Beverage volume grew slightly, reflecting mid-single-digit growth in China and high-single-digit growth in Pakistan, mostly offset by a mid-single-digit decline in the Middle East and a double-digit decline in the Philippines. Additionally, India volume was even with the prior year.

Operating profit increased 43%, primarily reflecting the net impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017, which increased operating profit growth by 26 percentage points. Additionally, the net revenue growth and planned cost reductions across a number of expense categories contributed to operating profit growth. These impacts were partially offset by certain operating cost increases, as well as higher commodity costs, which reduced operating profit growth by 3 percentage points.

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Our Liquidity and Capital Resources

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing, such as commercial paper borrowings and long-term debt financing, will be adequate to meet our operating, investing and financing needs. Our primary sources of cash available to fund cash outflows, such as our anticipated share repurchases, dividend payments and scheduled debt maturities, include cash from operations, proceeds obtained from issuances of commercial paper and long-term debt and cash repatriated from our foreign subsidiaries. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us, or at all. See "Our Business Risks" included in this Form 10-Q and "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" included in our 2017 Form 10-K.

As of December 30, 2017, we had cash, cash equivalents and short-term investments in our consolidated subsidiaries of $18.9 billion outside the United States. The TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings, including the $18.9 billion held in our consolidated subsidiaries outside the United States as of December 30, 2017, as a result of which we recognized a provisional mandatory transition tax liability of $778 million in the 24 weeks ended June 16, 2018, in addition to approximately $4 billion that we recognized as part of the $2.5 billion provisional net tax expense in the fourth quarter of 2017. Under the provisions of the TCJ Act, this transition tax liability must be paid over eight years. We currently expect to pay approximately $0.4 billion per year in 2019 to 2023, $0.7 billion in 2024, $0.9 billion in 2025 and $1.2 billion in 2026. The recorded impact of the TCJ Act is provisional and the final amount may differ from the above estimate, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act.

As of June 16, 2018, we had cash, cash equivalents and short-term investments in our consolidated subsidiaries of $17.3 billion outside the United States. In connection with the enactment of the TCJ Act, during the second quarter of 2018 we repatriated $3.3 billion of cash, cash equivalents and short-term investments held in our foreign subsidiaries without such funds being subject to further U.S. income tax liability. We are currently evaluating when to repatriate any additional funds currently held by our foreign subsidiaries and how to utilize such funds, including whether to utilize such funds or other available methods of debt financing, such as commercial paper borrowings, for our anticipated share repurchases, dividend payments, scheduled debt maturities, discretionary benefit plan contributions, capital expenditures, certain investments into our business or other uses. See "Item 1A. Risk Factors" in our 2017 Form 10-K and "Our Critical Accounting Policies," "Our Business Risks" and "Items Affecting Comparability" and Note 5 to our condensed consolidated financial statements in this Form 10-Q.

As of June 16, 2018, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material.

Operating Activities

During the 24 weeks ended June 16, 2018, net cash provided by operating activities was $1.1 billion, compared to $2.3 billion in the prior-year period. The operating cash flow performance primarily reflects the discretionary contributions of $1.4 billion and $17 million that were made to our Plan A pension plan in the United States and to our international pension plans, respectively. See also Note 7 to our condensed consolidated financial statements.

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Investing Activities

During the 24 weeks ended June 16, 2018, net cash provided by investing activities was $3.8 billion, primarily reflecting net maturities and sales of debt securities with maturities greater than three months of $4.6 billion, partially offset by net capital spending of $0.9 billion.

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

Financing Activities

During the 24 weeks ended June 16, 2018, net cash used for financing activities was $1.7 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of $3.3 billion and payments of long-term debt borrowings of $2.5 billion, partially offset by net proceeds from short-term borrowings of $4.1 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. On February 11, 2015, we announced a share repurchase program providing for the repurchase of up to $12.0 billion of PepsiCo common stock which commenced on July 1, 2015 and expired on June 30, 2018. On February 13, 2018, we announced a new share repurchase program providing for the repurchase of up to $15.0 billion of PepsiCo common stock which commenced on July 1, 2018 and will expire on June 30, 2021. In addition, on February 13, 2018, we announced a 15.2% increase in our annualized dividend to $3.71 per share from $3.22 per share, effective with the dividend paid in June 2018. We expect to return a total of approximately $7 billion to shareholders in 2018 through share repurchases of approximately $2 billion and dividends of approximately $5 billion. See Part II, “Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” for a description of our share repurchase program.

Free Cash Flow

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

| | 24 Weeks Ended | |
|---|---|---|
| | 6/16/2018 | 6/17/2017 |
| Net cash provided by operating activities | $1,087 | $ 2,251 |
| Capital spending | (945) | (878) |
| Sales of property, plant and equipment | 43 | 30 |
| Free cash flow [a] | $185 | $ 1,403 |

(a) See “Non-GAAP Measures.” In addition, when evaluating free cash flow, we also consider the following items impacting comparability: $1.4 billion and $6 million in discretionary pension contributions in the 24 weeks ended June 16, 2018 and June 17, 2017, respectively; net cash tax benefit related to discretionary pension contributions of $302 million in the 24 weeks ended June 16, 2018; $133 million and $25 million of payments related to restructuring charges in the 24 weeks ended June 16, 2018 and June 17, 2017, respectively; net cash tax benefits related to restructuring charges of $8 million and $5 million in the 24 weeks ended June 16, 2018 and June 17, 2017, respectively; and tax payments related to the TCJ Act of $38 million in the 24 weeks ended June 16, 2018.

We use free cash flow primarily for financing activities, including debt repayments, dividends and share repurchases. We expect to continue to return free cash flow to our shareholders through dividends and share repurchases while maintaining Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. See “Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included

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in our 2017 Form 10-K, for certain factors that may impact our credit ratings or our operating cash flows.
Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether or not as a result of our actions or factors which are beyond our control, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See Note 8 to our condensed consolidated financial statements and "Our Business Risks" included in this Form 10-Q, as well as "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" included in our 2017 Form 10-K.

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Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors
PepsiCo, Inc.:
Results of Review of Interim Financial Information
We have reviewed the Condensed Consolidated Balance Sheet of PepsiCo, Inc. and subsidiaries (the Company) as of June 16, 2018, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and twenty-four weeks ended June 16, 2018 and June 17, 2017, and the related Condensed Consolidated Statements of Cash Flows and Equity for the twenty-four weeks ended June 16, 2018 and June 17, 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.
We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Balance Sheet of the Company as of December 30, 2017, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the year then ended (not presented herein); and in our report dated February 13, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 30, 2017, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.
Basis for Review Results
This consolidated interim financial information is the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP

New York, New York
July 10, 2018

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks.” In addition, see “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” and Note 9 to our consolidated financial statements in our 2017 Form 10-K.

ITEM 4. Controls and Procedures.

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

There were no changes in our internal control over financial reporting during our second fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During our second fiscal quarter of 2018, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting. This transition has not materially affected, and we do not expect it to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

The following information should be read in conjunction with the discussion set forth under Part I, “Item 3. Legal Proceedings” in our 2017 Form 10-K and Part II, “Item 1. Legal Proceedings” in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 24, 2018.

We and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations. While the results of such litigation, claims, legal or regulatory proceedings, inquiries and investigations cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our financial condition, results of operations or cash flows. See also “Item 1. Business – Regulatory Matters” and “Item 1A. Risk Factors” in our 2017 Form 10-K.

ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our 2017 Form 10-K.

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

A summary of our common stock repurchases (in millions, except average price per share) during the second quarter of 2018 is set forth in the table below.

Issuer Purchases of Common Stock

| Period | Total Number of Shares Repurchased[(a)] | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs[(b)] |
|---|---|---|---|---|
| 3/24/2018 | | | | $ 19,832 |
| 3/25/2018 - 4/21/2018 | 1.8 | $ 108.06 | 1.8 | (195) 19,637 |
| 4/22/2018 - 5/19/2018 | 1.0 | $ 98.22 | 1.0 | (100) 19,537 |
| 5/20/2018 - 6/16/2018 | 1.9 | $ 101.53 | 1.9 | (188) |
| Total | 4.7 | $ 103.32 | 4.7 | $ 19,349 |

(a) All shares were repurchased in open market transactions pursuant to the $12 billion repurchase program authorized by our Board of Directors and publicly announced on February 11, 2015, which commenced on July 1, 2015 and expired on June 30, 2018 (the 2015 share repurchase program). As of the end of the second quarter of 2018, $4.3 billion remained available for repurchase under the 2015 share repurchase program.

(b) Includes shares authorized for repurchase under the 2015 share repurchase program and under a new repurchase program authorized by our Board of Directors and publicly announced on February 13, 2018 for the repurchase of up to $15 billion of our common stock, which commenced on July 1, 2018 and will expire on June 30, 2021. Such shares may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

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ITEM 6. Exhibits.
See “Index to Exhibits” on page 53.

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INDEX TO EXHIBITS

ITEM 6

EXHIBIT

| | |
|---|---|
| Exhibit 3.1 | Articles of Incorporation of PepsiCo, Inc., as amended and restated, effective as of May 9, 2011, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2011. |
| Exhibit 3.2 | By-Laws of PepsiCo, Inc., as amended and restated, effective as of January 11, 2016, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2016. |
| Exhibit 12 | Computation of Ratio of Earnings to Fixed Charges. |
| Exhibit 15 | Letter re: Unaudited Interim Financial Information. |
| Exhibit 31 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 101 | The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 16, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) the Condensed Consolidated Balance Sheet, (v) the Condensed Consolidated Statement of Equity, and (vi) Notes to the Condensed Consolidated Financial Statements. |

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SIGNATURES

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

PepsiCo, Inc.
(Registrant)

Date: July 10, 2018 /s/ Marie T. Gallagher
Marie T. Gallagher
Senior Vice President and Controller
(Principal Accounting Officer)

Date: July 10, 2018 /s/ David Yawman
David Yawman
Executive Vice President, Government Affairs, General Counsel and Corporate Secretary
(Duly Authorized Officer)