PEPSICO INC
Form 10-K
February 15, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2018
Commission file number 1-1183
PepsiCo, Inc.
(Exact Name of Registrant as Specified in Its Charter)

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

Registrant’s telephone number, including area code: 914-253-2000
Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

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

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x
Accelerated filer ¨
Non-accelerated filer ¨
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

The aggregate market value of PepsiCo, Inc. Common Stock held by nonaffiliates of PepsiCo, Inc. (assuming for these purposes, but without conceding, that all executive officers and directors of PepsiCo, Inc. are affiliates of PepsiCo, Inc.) as of June 15, 2018, the last day of business of our most recently completed second fiscal quarter, was $152.0 billion (based on the closing sale price of PepsiCo, Inc.'s Common Stock on that date as reported on the Nasdaq Global Select Market).

The number of shares of PepsiCo, Inc. Common Stock outstanding as of February 8, 2019 was 1,404,686,108.

Documents Incorporated by Reference

Portions of the Proxy Statement relating to PepsiCo, Inc.'s 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Form 10-K Annual Report
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## Forward-Looking Statements

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

# PART I

## Item 1. Business.

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

### Company Overview

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

### Our Operations

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

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

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businesses in Asia, Middle East and North Africa.

Frito-Lay North America

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

Quaker Foods North America

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

North America Beverages

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

Latin America

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

Europe Sub-Saharan Africa

Either independently or in conjunction with third parties, ESSA makes, markets, distributes and sells a number of leading snack food brands including Cheetos, Chipita, Doritos, Lay's, Ruffles and Walkers, as well as many Quaker-branded cereals and snacks, through consolidated businesses, as well as through noncontrolled affiliates. ESSA also, either independently or in conjunction with third parties, makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including 7UP, Diet Pepsi, Mirinda, Pepsi, Pepsi Max and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. In certain markets, however, ESSA operates its own bottling plants and distribution facilities. ESSA also, either independently or in conjunction with third parties, makes,

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markets, distributes and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). In addition, ESSA makes, markets, distributes and sells a number of leading dairy products including Agusha, Chudo and Domik v Derevne. In December 2018, we acquired SodaStream International Ltd. (SodaStream), a manufacturer and distributor of sparkling water makers. SodaStream products are included within ESSA's beverage business. See Note 14 to our consolidated financial statements for additional information about our acquisition of SodaStream.

### Asia, Middle East and North Africa

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

## Our Distribution Network

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

### Direct-Store-Delivery

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

### Customer Warehouse

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

### Distributor Networks

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

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

## Ingredients and Other Supplies

The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit, oranges and other fruits, oats, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and

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wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including polyethylene terephthalate (PET) and polypropylene resins used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel, electricity and natural gas are also important commodities for our businesses due to their use in our and our business partners' facilities and the vehicles delivering our products. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages that would prevent us from meeting our requirements. Many of these ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. When prices increase, we may or may not pass on such increases to our customers. In addition, we continue to make investments to improve the sustainability and resources of our agricultural supply chain, including the development of our initiative to advance sustainable farming practices by our suppliers and expanding it globally. See Note 9 to our consolidated financial statements for additional information on how we manage our exposure to commodity costs.

Our Brands and Intellectual Property Rights

We own numerous valuable trademarks which are essential to our worldwide businesses, including 1893, Agusha, Amp Energy, Aquafina, Aquafina Flavorsplash, Arto Lifewater, Aunt Jemima, Bare, bubly, Cap'n Crunch, Cheetos, Chester's, Chipsy, Chokis, Chudo, Cracker Jack, Crunchy, Diet Mountain Dew, Diet Mug, Diet Pepsi, Diet Sierra Mist, Diet 7UP (outside the United States), Domik v Derevne, Doritos, Duyvis, Elma Chips, Emperador, Frito-Lay, Fritos, Fruktovy Sad, G2, Gamesa, Gatorade, Grandma's, H2oh!, Health Warrior, Imunele, Izze, J-7 Tonus, Kas, KeVita, Kurkure, Lay's, Life, Lifewtr, Lubimy, Manzanita Sol, Marias Gamesa, Matutano, Mirinda, Miss Vickie's, Mother's, Mountain Dew, Mountain Dew Code Red, Mountain Dew Ice, Mountain Dew Kickstart, Mug, Munchies, Naked, Near East, O.N.E., Paso de los Toros, Pasta Roni, Pepsi, Pepsi Black, Pepsi Max, Pepsi Next, Pepsi Zero Sugar, Propel, Quaker, Quaker Chewy, Rice-A-Roni, Rold Gold, Rosquinhas Mabel, Ruffles, Sabritas, Sakata, Saladitas, Sandora, Santitas, 7UP (outside the United States), 7UP Free (outside the United States), Sierra Mist, Simba, Smartfood, Smith's, Snack a Jacks, SoBe, SodaStream, Sonric's, Stacy's, Sting, Stubborn Soda, SunChips, Toddy, Toddynho, Tostitos, Trop 50, Tropicana, Tropicana Farmstand, Tropicana Pure Premium, Tropicana Twister, V Water, Vesely Molochnik, Walkers and Ya. We also hold long-term licenses to use valuable trademarks in connection with our products in certain markets, including Dole and Ocean Spray. We also distribute Rockstar Energy drinks, Muscle Milk protein shakes and various Keurig Dr Pepper Inc. brands, including Dr Pepper in certain markets, Crush and Schweppes. Joint ventures in which we have an ownership interest either own or have the right to use certain trademarks, such as Lipton, Sabra and Starbucks. Trademarks remain valid so long as they are used properly for identification purposes, and we emphasize correct use of our trademarks. We have authorized, through licensing arrangements, the use of many of our trademarks in such contexts as snack food joint ventures and beverage bottling appointments. In addition, we license the use of our trademarks on merchandise that is sold at retail, which enhances brand awareness.

We either own or have licenses to use a number of patents which relate to certain of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. Some of these patents are licensed to others.

Seasonality

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

consolidated financial results.

Our Customers

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

We rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products to the consumer. For our independent distributors and retailers, these incentives include volume-based rebates, product placement fees, promotions and displays. For our independent bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, and other promotional offers. Advertising support is directed at advertising programs and supporting independent bottler media. New product support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually.

Changes to the retail landscape, including increased consolidation of retail ownership, the rapid growth of sales through e-commerce websites and mobile commerce applications, including through subscription services, the integration of physical and digital operations among retailers, as well as the growth in hard discounters, and the current economic environment continue to increase the importance of major customers. In 2018, sales to Walmart Inc. (Walmart), including Sam's Club (Sam's), represented approximately 13% of our consolidated net revenue. Our top five retail customers represented approximately 33% of our 2018 net revenue in North America, with Walmart (including Sam's) representing approximately 19%. These percentages include concentrate sales to our independent bottlers, which were used in finished goods sold by them to these retailers.

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

Our Competition

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

Many of our food and snack products hold significant leadership positions in the food and snack industry in the United States and worldwide. In 2018, we and The Coca-Cola Company represented approximately 22% and 20%, respectively, of the U.S. liquid refreshment beverage category by estimated retail sales in measured

channels, according to Information Resources, Inc. However, The Coca-Cola Company has significant carbonated soft drink (CSD) share advantage in many markets outside the United States.

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

Research and Development

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

In 2018, we continued to refine our beverage, food and snack portfolio to meet changing consumer demands by reducing added sugars in many of our beverages and sodium and saturated fat in many of our foods and snacks, and by developing a broader portfolio of product choices, including: continuing to expand our beverage options that contain no high-fructose corn syrup and that are made with natural flavors; expanding our state-of-the-art food and beverage healthy vending initiative to increase the availability of convenient and affordable nutrition; further expanding our portfolio of nutritious products by building on our important nutrition platforms and brands — Quaker (grains), Tropicana (juices, lemonades, fruit and vegetable drinks), Gatorade (sports nutrition for athletes), Naked Juice (cold-pressed juices and smoothies), KeVita (probiotics, tonics and fermented teas), Bare (baked apple chips and other baked produce) and Health Warrior (nutrition bars); further expanding our whole grain products globally; and further expanding our portfolio of nutritious products in growing categories, such as dairy, hummus and other refrigerated dips, and baked grain snacks. In addition, we continued to make investments to reduce our impact on the environment, including: efforts to conserve raw materials and energy, such as by working to achieve reductions in greenhouse gas emissions across our global businesses, by helping to protect and conserve global water supply especially in high-water-risk locations (including replenishing watersheds that source our operations in high-water-risk locations and

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promoting the efficient use of water in our agricultural supply chain), and by incorporating improvements in the sustainability and resources of our agricultural supply chain into our operations; efforts to reduce waste generated by our operations and disposed of in landfills; efforts to support increased packaging recovery, recycling rates and the amount of recycled content in our packaging; efforts to increase energy efficiency, including the increased use of renewable energy and resources; efforts to support sustainable agriculture by expanding best practices with our growers and suppliers; and efforts to optimize packaging technology and design to minimize the amount of plastic in our packaging, and make our packaging increasingly recoverable or recyclable with lower environmental impact, including continuing to invest in developing compostable and biodegradable packaging.

Regulatory Matters

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

The U.S. laws and regulations that we are subject to include: the Federal Food, Drug and Cosmetic Act and various state laws governing food safety; the Food Safety Modernization Act; the Occupational Safety and Health Act; various federal, state and local environmental protection laws, as discussed below; the Federal Motor Carrier Safety Act; the Federal Trade Commission Act; the Lanham Act; various federal and state laws and regulations governing competition and trade practices; various federal and state laws and regulations governing our employment practices, including those related to equal employment opportunity, such as the Equal Employment Opportunity Act and the National Labor Relations Act and those related to overtime compensation, such as the Fair Labor Standards Act; customs and foreign trade laws and regulations, including laws regarding the import or export of our products or ingredients used in our products and tariffs; laws regulating the sale of certain of our products in schools; and laws relating to the payment of taxes. We are also required to comply with the Foreign Corrupt Practices Act and the Trade Sanctions Reform and Export Enhancement Act. We are also subject to various state and local statutes and regulations, including state consumer protection laws such as Proposition 65 in California, which requires that a specific warning appear on any product that contains a substance listed by the State of California as having been found to cause cancer or birth defects, unless the amount of such substance in the product is below a safe harbor level.

We are also subject to numerous similar and other laws and regulations outside the United States, including but not limited to laws and regulations governing food safety, international trade and tariffs, occupational health and safety, competition, anti-corruption and data privacy, including the European Union General Data Protection Regulation. In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws, including the U.K. Bribery Act. We rely on legal and operational compliance programs, as well as in-house and outside counsel and other experts, to guide our businesses in complying with the laws and regulations around the world that apply to our businesses.

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

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apply a graduated tax rate depending upon the amount of added sugar in the beverage and some apply a flat tax rate on beverages containing a particular substance or ingredient.

In addition, certain jurisdictions have either imposed, or are considering imposing, product labeling or warning requirements or other limitations on the marketing or sale of certain of our products as a result of ingredients or substances contained in such products or the audience to whom products are marketed. These types of provisions have required that we provide a label that highlights perceived concerns about a product or warns consumers to avoid consumption of certain ingredients or substances present in our products. It is possible that similar or more restrictive requirements may be proposed or enacted in the future.

In addition, certain jurisdictions have either imposed or are considering imposing regulations designed to increase recycling rates or encourage waste reduction. These regulations vary in scope and form from deposit return systems designed to incentivize the return of beverage containers, to extended producer responsibility policies and even bans on the use of some plastic beverage bottles and other single-use plastics. It is possible that similar or more restrictive requirements may be proposed or enacted in the future.

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

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

Employees

As of December 29, 2018, we and our consolidated subsidiaries employed approximately 267,000 people worldwide, including approximately 114,000 people within the United States. In certain countries, our employment levels are subject to seasonal variations. We or our subsidiaries are party to numerous collective bargaining agreements. We expect that we will be able to renegotiate these collective bargaining agreements on satisfactory terms when they expire. We believe that relations with our employees are generally good.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

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

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

## Item 1A. Risk Factors.

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

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

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

Consumer preferences have been evolving, and are expected to continue to evolve, due to a variety of factors, including: changes in consumer demographics, including the aging of the general population and the emergence of the millennial and younger generations who have differing spending, consumption and purchasing habits; consumer concerns or perceptions regarding the nutrition profile of products, including the presence of added sugar, sodium and saturated fat in certain of our products; growing demand for organic or locally sourced ingredients, or consumer concerns or perceptions (whether or not valid) regarding the

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health effects of ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, artificial flavors and colors, artificial sweeteners, aspartame, caffeine, furfuryl alcohol, high-fructose corn syrup, partially hydrolyzed oils, saturated fat, sodium, sugar, trans fats or other product ingredients, substances or attributes, including genetically engineered ingredients; taxes or other restrictions, including labeling requirements, imposed on our products; consumer concerns or perceptions regarding packaging materials, including single-use and other plastic packaging, and their environmental impact; changes in package or portion size; changes in social trends that impact travel, vacation or leisure activity patterns; changes in weather patterns or seasonal consumption cycles; the continued acceleration of e-commerce and other methods of purchasing products; negative publicity (whether or not valid) resulting from regulatory actions, litigation against us or other companies in our industry or negative or inaccurate posts or comments in the media, including social media, about us, our employees, our products or advertising campaigns and marketing programs; perception of our employees, agents, customers, suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties or our respective social media posts, business practices or other information disseminated by or regarding them or us; product boycotts; or a downturn in economic conditions. Any of these factors may reduce consumers' willingness to purchase our products and any inability on our part to anticipate or react to such changes could result in reduced demand for our products or erode our competitive and financial position and could adversely affect our business, reputation, financial condition or results of operations.
Demand for our products is also dependent in part on product quality, product and marketing innovation and production and distribution, including our ability to: maintain a robust pipeline of new products; improve the quality of existing products; extend our portfolio of products in growing markets and categories (through acquisitions, such as SodaStream, and innovation, such as increasing non-carbonated beverage offerings and other alternatives to, or reformulations of, carbonated beverage offerings); respond to cultural differences and regional consumer preferences (whether through developing or acquiring new products that are responsive to such preferences); monitor and adjust our use of ingredients and packaging materials (including to respond to applicable regulations); develop sweetener alternatives and innovation; increase the recyclability or recoverability of our packaging; improve the production and distribution of our products; respond to competitive product and pricing pressures and changes in distribution channels, including in the e-commerce channel; and implement effective advertising campaigns and marketing programs, including successfully adapting to a rapidly changing media environment through the use of social media and online advertising campaigns and marketing programs.
Although we devote significant resources to the items mentioned above, there can be no assurance as to our continued ability to develop, launch, maintain or distribute successful new products or variants of existing products in a timely manner (including correctly anticipating or effectively reacting to changes in consumer preferences) or to develop and effectively execute advertising and marketing campaigns that appeal to customers and consumers. Our failure to make the right strategic investments to drive innovation or successfully launch new products or variants of existing products or effectively market or distribute our products could reduce demand for our products, result in inventory write-offs and erode our competitive and financial position and could adversely affect our business, financial condition or results of operations.
Changes in laws and regulations relating to the use or disposal of plastics or other packaging of our products could continue to increase our costs, reduce demand for our products or otherwise have an adverse impact on our business, reputation, financial condition or results of operations.
Certain of our food and beverage products are sold in plastic or other packaging designed to be recoverable for recycling but not all packaging is recovered, whether due to low value, lack of infrastructure or otherwise. In addition, certain of our packaging may currently not be recyclable, compostable or biodegradable. There is a growing concern with the accumulation of plastic and other packaging waste in the environment,

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particularly in the world's oceans and waterways. As a result, our branded packaging waste could result in negative publicity (whether or not valid) or reduce consumer demand and overall consumption of our products, which could adversely affect our business, financial condition or results of operations.

In response to these concerns, the United States and many other jurisdictions have imposed or are considering imposing regulations or policies designed to increase the sustainability of packaging, encourage waste reduction and increase recycling rates or facilitate the waste management process or restricting the sale of products in certain packaging. These regulations vary in scope and form from taxes or fees designed to incentivize behavior to restrictions or bans on certain products and materials. For example, the state of California is one of 10 states in the United States that have a bottle deposit return system in effect, which requires a deposit charged to consumers to incentivize the return of the beverage container. In addition, 26 markets in the European Union have established extended producer responsibility policies, which make manufacturers such as us responsible for the costs of recycling products after consumers have used them. Further, certain jurisdictions are considering imposing other types of regulations or policies, including packaging taxes, requirements for bottle caps to be tethered to the plastic bottle, minimum recycled content mandates, which would require packaging to include a certain percentage of post-consumer recycled material in a new package, and even bans on the use of some plastic beverage bottles and other single-use plastics. These laws and regulations, whatever their scope or form, could increase the cost of our products, reduce consumer demand and overall consumption of our products or result in negative publicity (whether or not valid), which could adversely affect our business, financial condition or results of operations.

While we continue to devote significant resources to increase the recyclability and sustainability of our packaging, the increased focus on reducing plastic waste may require us to increase capital expenditures, including requiring additional investments to minimize the amount of plastic across our packaging; increase the amount of recycled content in our packaging; and develop sustainable, bio-based packaging as a replacement for fossil fuel-based plastic packaging, including flexible film alternatives for our snacks packaging. Our failure to minimize our plastics use, increase the amount of recycled content in our packaging or develop sustainable packaging or consumers' failure to accept such sustainable packaging could reduce consumer demand and overall consumption of our products and erode our competitive and financial position. Further, our reputation could be damaged for failure to achieve our sustainability goals with respect to our plastics use, including our goal to use 25% recycled content in our plastic packaging by 2025, or if we or others in our industry do not act, or are perceived not to act, responsibly with respect to packaging or disposal of our products.

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

The conduct of our business is subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as government entities and agencies outside the United States, including laws and regulations relating to the production, storage, distribution, sale, display, advertising, marketing, labeling, content, quality, safety, transportation, packaging, disposal, recycling and use of our products, as well as our employment and occupational health and safety practices and protection of personal information. In addition, in many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws. Many of these laws and regulations have differing or conflicting legal standards across the various markets where our products are made, manufactured, distributed or sold and, in certain markets, such as developing and emerging markets, may be less developed or certain. For example, products containing genetically engineered ingredients are subject to differing regulations and restrictions in the jurisdictions in which our products are made, manufactured, distributed or sold, as is the packaging, disposal and recyclability of our products. For example, five provinces in Canada, covering most of the Canadian market, have

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established extended producer responsibility policies, which make manufacturers such as us responsible for the costs of recycling products after consumers have used them. In addition, these laws and regulations and related interpretations may change, sometimes dramatically and unexpectedly, as a result of a variety of factors, including political, economic or social events. Such changes may include changes in: food and drug laws; laws related to product labeling, advertising and marketing practices, including restrictions on the audience to whom products are marketed; laws and treaties related to international trade, including laws regarding the import or export of our products or ingredients used in our products and tariffs; laws and programs aimed at reducing, restricting or eliminating ingredients or substances in, or attributes of, certain of our products; laws and programs aimed at discouraging the consumption or altering the package or portion size of certain of our products, including laws imposing restrictions on the use of government funds or programs to purchase certain of our products; increased regulatory scrutiny of, and increased litigation involving product claims and concerns (whether or not valid) regarding the effects on health of ingredients or substances in, or attributes of, certain of our products, including without limitation those found in energy drinks; state consumer protection laws; laws regulating the protection of personal information; cyber-security regulations; regulatory initiatives, including the imposition or proposed imposition of new or increased taxes or other measures impacting the manufacture, distribution or sale of our products; accounting rules and interpretations; employment laws; privacy laws; laws regulating the price we may charge for our products; laws regulating water rights and access to and use of water or utilities; environmental laws, including laws relating to the regulation of water treatment and discharge of wastewater and air emissions and laws relating to the disposal, recovery or recycling of our products and their packaging. Changes in regulatory requirements or changing interpretations thereof, and differing or competing regulations and standards across the markets where our products are made, manufactured, distributed or sold, may result in higher compliance costs, capital expenditures and higher production costs, which could adversely affect our business, reputation, financial condition or results of operations.

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

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

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

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

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

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

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased taxes on the manufacture, distribution or sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products. These taxes vary in scope and form: some apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Similarly, some measures apply a single tax rate per liquid ounce while others apply a graduated tax rate depending upon the amount of added sugar in the beverage and some apply a flat tax rate on beverages containing a particular substance or ingredient. For example, effective January 2018, the City of Seattle, Washington in the United States enacted a per-ounce surcharge on all sugar-sweetened beverages. By contrast, France revised an existing flat tax to become a graduated tax, effective July 2018, in which the per-ounce tax rate is tied to the amount of added sugar present in the beverage: the higher the amount of added sugar, the higher the per-ounce tax rate, while Saudi Arabia enacted, effective June 2017, a flat tax rate of 50%, and Jordan increased, effective January 2018, its flat tax from 10% to 20%, on the retail price of carbonated soft drinks. These tax measures, whatever their scope or form, could increase the cost of our products, reduce consumer demand and overall consumption of our products, lead to negative publicity (whether based on scientific fact or not) or leave consumers with the perception (whether or not valid) that our products do not meet their health and wellness needs. Such factors could adversely affect our business, financial condition or results of operations.

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

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, product labeling or warning requirements or limitations on the marketing or

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

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

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

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

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

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

Our future success and earnings growth depend, in part, on our ability to continue to reduce costs and improve efficiencies, including implementing shared business service organizational models. Our productivity initiatives help support our growth initiatives and contribute to our results of operations. We continue to implement productivity initiatives that we believe will position our business for long-term sustainable growth by allowing us to achieve a lower cost structure and operate more efficiently in the highly competitive beverage, food and snack categories and markets. We are also continuing to implement our initiatives to

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improve efficiency, decision making, innovation and brand management across our global organization to enable us to compete more effectively. Further, in order to continue to capitalize on our cost reduction efforts and operating model, it will be necessary to make certain investments in our business, which may be limited due to capital constraints. Some of these measures could yield unintended consequences, such as business disruptions, distraction of management and employees, reduced employee morale and productivity, and unexpected additional employee attrition, including the inability to attract or retain key personnel. It is critical that we have the appropriate personnel in place to continue to lead and execute our plans, including to effectively manage personnel adjustments and transitions resulting from these initiatives and increased competition for employees with the skills necessary to implement our plans. If we are unable to successfully implement our productivity initiatives as planned, fail to implement these initiatives as timely as we anticipate, do not achieve expected savings as a result of these initiatives or incur higher than expected or unanticipated costs in implementing these initiatives, fail to identify and implement additional productivity opportunities in the future, or fail to successfully manage business disruptions or unexpected employee consequences on our workforce, morale or productivity, we may not realize all or any of the anticipated benefits, which could adversely affect our business, financial condition or results of operations.

Our business, financial condition or results of operations could be adversely affected as a result of political conditions in the markets in which our products are made, manufactured, distributed or sold.

Political conditions in the markets in which our products are made, manufactured, distributed or sold may be difficult to predict and may adversely affect our business, financial condition and results of operations. The results of elections, referendums or other political conditions (including government shutdowns) in these markets could impact how existing laws, regulations and government programs or policies are implemented or create uncertainty as to how such laws, regulations and government programs or policies may change, including with respect to tariffs, sanctions, climate change regulation, taxes, benefit programs, the movement of goods, services and people between countries and other matters, and could result in exchange rate fluctuation, volatility in global stock markets and global economic uncertainty or adversely affect demand for our products. For example, the United Kingdom’s pending withdrawal from the European Union (commonly referred to as Brexit) could lead to differing laws and regulations in the United Kingdom and European Union. Any changes in, or the imposition of new laws, regulations or governmental policy and their related interpretations due to elections, referendums or other political conditions could have an adverse impact on our business, financial conditions and results of operations.

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

Our success depends in part on our ability to grow our business in developing and emerging markets, including Mexico, Russia, the Middle East, Brazil, China and India. However, there can be no assurance that our existing products, variants of our existing products or new products that we make, manufacture, distribute or sell will be accepted or be successful in any particular developing or emerging market, due to local or global competition, product price, cultural differences, consumer preferences or otherwise. The following factors could reduce demand for our products or otherwise impede the growth of our business in developing and emerging markets: unstable economic, political or social conditions; acts of war, terrorist acts, and civil unrest; increased competition; volatility in the economic growth of certain of these markets and the related impact on developed countries who export to these markets; volatile oil prices and the impact on the local economy in certain of these markets; our inability to acquire businesses, form strategic business alliances or to make necessary infrastructure investments; our inability to complete divestitures or refranchisings; imposition of new or increased labeling, product or production requirements, or other restrictions; our inability to hire or retain a highly skilled workforce; imposition of new or increased tariffs and other impositions on imported goods or sanctions against, or other regulations restricting contact with, certain countries in these

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markets, or imposition of new or increased sanctions against U.S. multinational corporations or tariffs on the products of such corporations operating in these markets; actions, such as removing our products from shelves, taken by retailers in response to U.S. trade sanctions, tariffs or other governmental action or policy; foreign ownership restrictions; nationalization of our assets or the assets of our suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties; imposition of taxes on our products or the ingredients or substances used in our products; government-mandated closure, or threatened closure, of our operations or the operations of our suppliers, bottlers, contract manufacturers, distributors, joint venture partners, customers or other third parties; restrictions on the import or export of our products or ingredients or substances used in our products; regulations relating to the repatriation of funds currently held in foreign jurisdictions to the United States; highly inflationary economies, devaluation or fluctuation, such as the devaluation of the Russian ruble, Turkish lira, Brazilian real, Argentine peso and the Mexican peso, or demonetization of currency; regulations on the transfer of funds to and from foreign countries, currency controls or other currency exchange restrictions, which result in significant cash balances in foreign countries, from time to time, or could significantly affect our ability to effectively manage our operations in certain of these markets and could result in the deconsolidation of such businesses, such as occurred with respect to our Venezuelan businesses which were deconsolidated at the end of the third quarter of 2015; the lack of well-established or reliable legal systems; increased costs of doing business due to compliance with complex foreign and U.S. laws and regulations that apply to our international operations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and the Trade Sanctions Reform and Export Enhancement Act; and adverse consequences, such as the assessment of fines or penalties, for any failure to comply with these laws and regulations. If we are unable to expand our businesses in developing and emerging markets, effectively operate, or manage the risks associated with operating, in these markets, or achieve the return on capital we expect from our investments in these markets, our business, reputation, financial condition or results of operations could be adversely affected.

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

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

In addition, some of the major financial institutions with which we execute transactions, including U.S. and non-U.S. commercial banks, insurance companies, investment banks and other financial institutions may be

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

Our business and reputation could suffer if we are unable to protect our information systems against, or effectively respond to, cyberattacks or other cyber incidents or if our information systems, or those of our customers, suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties, are otherwise disrupted.

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

Cyberattacks and other cyber incidents are occurring more frequently, are constantly evolving in nature, are becoming more sophisticated and are being carried out by groups and individuals (including criminal hackers, hacktivists, state-sponsored actors, criminal and terrorist organizations, individuals or groups participating in organized crime and insiders) with a wide range of expertise and motives (including monetization of corporate, payment or other internal or personal data, theft of computing resources, financial fraud, operational disruption, theft of trade secrets and intellectual property for competitive advantage and leverage for political, social, economic and environmental reasons). Such cyberattacks and cyber incidents can take many forms including cyber extortion, denial of service, social engineering, such as impersonation attempts to fraudulently induce employees or others to disclose information or unwittingly provide access to systems or data, introduction of viruses or malware, such as ransomware through phishing emails, website defacement or theft of passwords and other credentials, unauthorized use of computing resources for digital currency mining and business email compromises. As with other global companies, we are regularly subject to cyberattacks, including many of the types of attacks described above. Although we may incur significant costs in protecting against or remediating cyberattacks or other cyber incidents, no cyberattack or other cyber incident has, to our knowledge, had a material adverse effect on our business, financial condition or results of operations to date.

If we do not allocate and effectively manage the resources necessary to build and maintain our information technology infrastructure, including monitoring networks and systems, upgrading our security policies and

the skills and training of our employees, and requiring our third-party service providers, customers, suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties to do the same, if we or they fail to timely identify or appropriately respond to cyberattacks or other cyber incidents, or if our or their information systems are damaged, compromised, destroyed or shut down (whether as a result of natural disasters, fires, power outages, acts of terrorism or other catastrophic events, network outages, software, equipment or telecommunications failures, technology development defects, user errors, lapses in our controls or the intentional or negligent actions of employees, or from deliberate cyberattacks such as malicious or disruptive software, denial of service attacks, malicious social engineering, hackers or otherwise), our business could be disrupted and we could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of, or failure to attract, new customers and consumers; lost revenues resulting from the disruption or shutdown of computer systems or other information technology systems at our offices, plants, warehouses, distribution centers or other facilities, or the loss of a competitive advantage due to the unauthorized use, acquisition or disclosure of, or access to, confidential information; the incurrence of costs to restore data and to safeguard against future extortion attempts; the loss of, or damage to, intellectual property or trade secrets, including the loss or unauthorized disclosure of sensitive data or other assets; alteration, corruption or loss of accounting, financial or other data on which we rely for financial reporting and other purposes, which could cause errors or delays in our financial reporting; damage to our reputation or brands; damage to employee, customer and consumer relations; litigation; regulatory enforcement actions or fines; unauthorized disclosure of confidential personal information of our employees, customers or consumers; the loss of information and/or supply chain disruption resulting from the failure of security patches to be developed and installed on a timely basis; violation of data privacy, security or other laws and regulations; and remediation costs.

Further, our information systems and those of our third-party providers, and the information stored therein could be compromised, including through cyberattacks or other external or internal methods, resulting in unauthorized parties accessing or extracting sensitive data or confidential information. Failure to comply with data privacy laws could result in litigation, claims, legal or regulatory proceedings, inquiries or investigations.

We continue to devote significant resources to network security, backup and disaster recovery, enhancing our internal controls, and other security measures, including training, to protect our systems and data, but these security measures cannot provide absolute security or guarantee that we will be successful in preventing or responding to every such breach or disruption. In addition, due to the constantly evolving nature of these security threats, the form and impact of any future incident cannot be predicted.

Similar risks exist with respect to the cloud-based service providers and other third-party vendors that we rely upon for aspects of our information technology support services and administrative functions, including payroll processing, health and benefit plan administration and certain finance and accounting functions, and systems managed, hosted, provided and/or used by third parties and their vendors. The need to coordinate with various third-party vendors may complicate our efforts to resolve any issues that may arise. As a result, we are subject to the risk that the activities associated with our third-party vendors may adversely affect our business even if the attack or breach does not directly impact our systems or information. Moreover, our increased use of mobile and cloud technologies could heighten these and other operational risks, as certain aspects of the security of such technologies may be complex, unpredictable or beyond our control.

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

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Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials, energy, water and other supplies.
We and our business partners use various raw materials, energy, water and other supplies in our business. The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit, oats, oranges and other fruits, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including PET and polypropylene resins used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel, electricity and natural gas are also important commodities for our businesses due to their use in our and our business partners' facilities and the vehicles delivering our products. Some of these raw materials and supplies are sourced from countries experiencing civil unrest, political instability or unfavorable economic conditions, and some are available from a limited number of suppliers or a sole supplier or are in short supply when seasonal demand is at its peak. We cannot assure that we will be able to maintain favorable arrangements and relationships with these suppliers or that our contingency plans, including development of ingredients, materials or supplies to replace ingredients, materials or supplies sourced from such suppliers, will be effective in preventing disruptions that may arise from shortages or discontinuation of any ingredient that is sourced from such suppliers. In addition, increasing focus on climate change, deforestation, water, animal welfare and human rights concerns and other risks associated with the global food system may lead to increased activism focusing on consumer goods companies, governmental intervention and consumer response, and could adversely affect our or our suppliers' reputation and business and our ability to procure the materials we need to operate our business. The raw materials and energy, including fuel, that we use for the manufacturing, production and distribution of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by many factors, including changes in global supply and demand, weather conditions (including any potential effects of climate change), fire, natural disasters (such as a hurricane, tornado, earthquake or flooding), disease or pests (including the impact of greening disease on the citrus industry), agricultural uncertainty, health epidemics or pandemics, governmental incentives and controls (including import/export restrictions, such as new or increased tariffs, sanctions, quotas or trade barriers), limited or sole sources of supply, political uncertainties, acts of terrorism, governmental instability or currency exchange rates. For example, in 2018, the United States imposed tariffs on steel and aluminum as well as on goods imported from China and certain other countries, which has resulted in retaliatory tariffs by China and other countries. Additional tariffs imposed by the United States on a broader range of imports, or further retaliatory trade measures taken by China or other countries in response, could result in an increase in supply chain costs that we may not be able to offset or otherwise adversely impact our results of operations. Shortage of some of these raw materials and other supplies, sustained interruption in their supply or an increase in their costs could adversely affect our business, financial condition or results of operations. Many of our ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures. If commodity price changes result in unexpected or significant increases in raw materials and energy costs, we may be unwilling or unable to increase our product prices or unable to effectively hedge against commodity price increases to offset these increased costs without suffering reduced volume, revenue, margins and operating results. In addition, certain of the derivatives used to hedge price risk do not qualify for hedge accounting treatment and, therefore, can result in increased volatility in our net earnings in any given period due to changes in the spot prices of the underlying commodities.

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

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

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

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

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

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also be adversely affected if consumers lose confidence in product quality, safety and integrity generally, even if such loss of confidence is unrelated to products in our portfolio. Any of the foregoing could adversely affect our business, reputation, financial condition or results of operations. In addition, if we do not have adequate insurance, if we do not have enforceable indemnification from suppliers, bottlers, contract manufacturers, distributors, joint venture partners or other third parties or if indemnification is not available, the liability relating to such product claims or disruption as a result of recall efforts could materially adversely affect our business, financial condition or results of operations.

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

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

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

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

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

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

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

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

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

In addition, acquisitions and joint ventures outside of the United States increase our exposure to risks associated with operations outside of the United States, including fluctuations in exchange rates and compliance with the Foreign Corrupt Practices Act and other anti-corruption and anti-bribery laws and laws and regulations outside the United States.

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

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

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

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

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

We are subject to income taxes in the United States and in certain foreign jurisdictions in which we operate. Increases in income tax rates or other changes in income tax laws in any particular jurisdiction could reduce our after-tax income from such jurisdiction and could adversely affect our business, financial condition or results of operations.

Our operations outside the United States generate a significant portion of our income. In addition, the United States and many of the other countries in which our products are made, manufactured, distributed or sold, including countries in which we have significant operations, have recently made or are actively considering changes to existing tax laws. For example, in December 2017, the Tax Cuts and Jobs Act (TCJ Act) was signed into law in the United States. While our accounting for the recorded impact of the TCJ Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the Internal Revenue Service (IRS) could impact our recorded amounts in future periods. For further information regarding the impact and potential impact of the TCJ Act, see "Our Liquidity and Capital Resources" and "Our Critical Accounting Policies" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 5 to our consolidated financial statements.

Additional changes in the U.S. tax regime or in how U.S. multinational corporations are taxed on foreign earnings, including changes in how existing tax laws are interpreted or enforced, could adversely affect our business, financial condition or results of operations. For example, the Organization for Economic Cooperation and Development (OECD) has recommended changes to numerous long-standing international tax principles through its base erosion and profit shifting (BEPS) project. These changes, to the extent adopted,

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may increase tax uncertainty, result in higher compliance costs and adversely affect our provision for income taxes, results of operations and/or cash flow.

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

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

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

The loss of, or a significant reduction in sales to, any key customer could adversely affect our business, financial condition or results of operations.

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

Disruption in the retail landscape, including rapid growth in hard discounters and the e-commerce channel, could adversely affect our business, financial condition or results of operations.

Our industry has been affected by changes to the retail landscape, including the rapid growth in sales through e-commerce websites, mobile commerce applications and subscription services as well as the integration of physical and digital operations among retailers. We continue to make significant investments in attracting talent to and building our global e-commerce capabilities. Although we are engaged in e-commerce with respect to many of our products, if we are unable to maintain and develop successful relationships with existing and new e-commerce retailers or otherwise adapt to the growing e-commerce landscape, while simultaneously maintaining relationships with our key customers operating in traditional retail channels, we may be disadvantaged in certain channels and with certain customers and consumers, which could adversely affect our business, financial condition or results of operations. In addition, the growth in e-commerce and hard discounters may result in consumer price deflation, which may affect our relationships with key retail

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customers. Further, the ability of consumers to compare prices on a real-time basis using digital technology puts additional pressure on us to maintain competitive prices. If these e-commerce and hard discounter retailers were to take significant market share away from traditional retailers and/or we fail to adapt to the rapidly changing retail and e-commerce landscapes, our ability to maintain and grow our profitability, share of sales or volume and our business, financial condition or results of operations could be adversely affected.

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

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

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

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

We have entered into agreements with third-party service providers to utilize information technology support services and administrative functions in certain areas of our business, including payroll processing, health and benefit plan administration and certain finance and accounting functions. We may enter into new or additional agreements for shared services in other functions in the future to achieve cost savings and efficiencies as we continue to migrate to shared business service organizational models across our business operations. In addition, we utilize cloud-based services and systems and networks managed by third-party vendors to process, transmit and store information and to conduct certain of our business activities and transactions with employees, customers, consumers and other third parties. If any of these third-party service

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providers or vendors do not perform effectively, or if we fail to adequately monitor their performance (including compliance with service level agreements or regulatory or legal requirements), we may not be able to achieve the expected cost savings, we may have to incur additional costs to correct errors made by such service providers, our reputation could be harmed or we could be subject to litigation, claims, legal or regulatory proceedings, inquiries or investigations. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property or sensitive data through security breaches or otherwise, incorrect or adverse effects on financial reporting, litigation or remediation costs, or damage to our reputation, which could have a negative impact on employee morale. In addition, the management of multiple third-party service providers increases operational complexity and decreases our control.

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

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

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

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

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

around the world, we may be subject to decreased availability of water, deteriorated quality of water or less favorable pricing for water, which could adversely impact our manufacturing and distribution operations.

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

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

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

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

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

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

We possess intellectual property rights that are important to our business. These intellectual property rights include ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets that are important to our business and relate to a variety of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. We protect our intellectual property rights globally through a combination of trademark, copyright, patent and trade secret laws, third-party assignment and nondisclosure agreements and monitoring of third-party misuses of our

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intellectual property. If we fail to obtain or adequately protect our trademarks, copyrights, patents, business processes and trade secrets, including our ingredient formulas, or if there is a change in law that limits or removes the current legal protections of our intellectual property, the value of our products and brands, or our competitive position, could be reduced and there could be an adverse impact on our business, financial condition or results of operations. In addition, if, in the course of developing new products or improving the quality of existing products, we are found to have infringed the intellectual property rights of others, directly or indirectly, such finding could have an adverse impact on our business, reputation, financial condition or results of operations and may limit our ability to introduce new products or improve the quality of existing products.

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

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

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

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

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## Item 1B. Unresolved Staff Comments.

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2018 fiscal year and that remain unresolved.

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Item 2. Properties.

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

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

| | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Shared[(a)] |
|---|---|---|---|---|---|---|---|
| Plants [(b)] | 35 | 5 | 65 | 45 | 85 | 45 | 5 |
| Other Facilities [(c)] | 1,660 | 4 | 440 | 575 | 350 | 335 | 45 |

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

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

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

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

- FLNA's research and development facility in Plano, Texas, which is owned.
- QFNA's food plant in Cedar Rapids, Iowa, which is owned.
- NAB's research and development facility in Valhalla, New York, and a Tropicana plant in Bradenton, Florida, both of which are owned.
- Latin America's three snack plants in Mexico (one in Vallejo, one in Celaya and one in Obregón) and one in Brazil (Sorocaba), all of which are owned.
- ESSA's snack plant in Leicester, United Kingdom, which is leased; its snack plant in Kashira, Russia, its fruit juice plant in Zeebrugge, Belgium, its beverage plant in Lebedyan, Russia and its dairy plant in Moscow, Russia, all of which are owned.
- AMENA's two beverage plants in Egypt (one in Tanta City and one in Sixth of October City) and its snack plant in Wuhan, China, all of which are owned; and its snack plant in Riyadh, Saudi Arabia, which is leased.
- Two concentrate plants in Cork, Ireland, which are shared by our NAB, ESSA and AMENA segments, both of which are owned; and one in Singapore, which is shared by our NAB and AMENA segments, which is leased.
- Shared service centers in Winston-Salem, North Carolina, and Plano, Texas, which are primarily shared by our FLNA, QFNA and NAB segments, both of which are leased.

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

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Item 3. Legal Proceedings.

As previously disclosed, in April 2017, Corporación Autónoma Regional de Cundinamarca, a Colombian environmental authority (the environmental authority), initiated an administrative proceeding regarding our subsidiary, PepsiCo Alimentos Z.F., Ltda. (PAZ), for allegedly delivering wastewater to a third party without first verifying that the third party had appropriate permits with respect to the discharge of such wastewater. In July 2018, the environmental authority initiated an administrative proceeding to impose a monetary sanction against PAZ with respect to the alleged permitting violation by the third party, and on August 13, 2018, PAZ submitted evidence of its defense to these allegations. If the environmental authority determines PAZ is responsible for the alleged permitting violations by the third party, the environmental authority may seek to impose monetary sanctions of up to $1.3 million, which PAZ would be entitled to appeal.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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Executive Officers of the Registrant

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

| Name | Age | Title |
|---|---|---|
| Marie T. Gallagher | 59 | Senior Vice President and Controller, PepsiCo |
| Hugh F. Johnston | 57 | Vice Chairman, PepsiCo; Executive Vice President and Chief Financial Officer, PepsiCo |
| Dr. Mehmood Khan | 60 | Vice Chairman, PepsiCo; Executive Vice President, PepsiCo Chief Scientific Officer, Global Research and Development |
| Ramon Laguarta | 55 | Chairman of the Board of Directors and Chief Executive Officer, PepsiCo |
| Laxman Narasimhan | 51 | Chief Executive Officer, Latin America, Europe and Sub-Saharan Africa |
| Silviu Popovici | 51 | President, Europe Sub-Saharan Africa |
| Vivek Sankaran | 56 | Chief Executive Officer, Frito-Lay North America |
| Ronald Schellekens | 54 | Executive Vice President and Chief Human Resources Officer, PepsiCo |
| Mike Spanos | 54 | Chief Executive Officer, Asia, Middle East and North Africa |
| Kirk Tanner | 50 | Chief Executive Officer, North America Beverages |
| David Yawman | 50 | Executive Vice President, Government Affairs, General Counsel and Corporate Secretary, PepsiCo |

Marie T. Gallagher, 59, was appointed PepsiCo’s Senior Vice President and Controller in May 2011. Ms. Gallagher joined PepsiCo in 2005 as Vice President and Assistant Controller. Prior to joining PepsiCo, Ms. Gallagher was Assistant Controller at Altria Corporate Services from 1992 to 2005 and, prior to that, a senior manager at Coopers & Lybrand.

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Hugh F. Johnston, 57, was appointed Vice Chairman, PepsiCo in July 2015 and Executive Vice President and Chief Financial Officer, PepsiCo in March 2010. Mr. Johnston assumed responsibility for the Company's global e-commerce business and the Company's global business and information solutions function in July 2015. He previously held responsibility for the Quaker Foods North America division from 2014 to 2016, the position of Executive Vice President, Global Operations from 2009 to 2010 and the position of President of Pepsi-Cola North America from 2007 to 2009. He was formerly PepsiCo's Executive Vice President, Operations, a position he held from 2006 until 2007. From 2005 until 2006, Mr. Johnston was PepsiCo's Senior Vice President, Transformation. Prior to that, he served as Senior Vice President and Chief Financial Officer of PepsiCo Beverages and Foods from 2002 through 2005, and as PepsiCo's Senior Vice President of Mergers and Acquisitions in 2002. Mr. Johnston joined PepsiCo in 1987 as a Business Planner and held various finance positions until 1999 when he left to join Merck & Co., Inc. as Vice President, Retail, a position which he held until he rejoined PepsiCo in 2002. Prior to joining PepsiCo in 1987, Mr. Johnston was with General Electric Company in a variety of finance positions.

Dr. Mehmood Khan, 60, was appointed Vice Chairman, PepsiCo in February 2015 and Executive Vice President, PepsiCo Chief Scientific Officer, Global Research and Development in May 2012. He previously held the position of Chief Executive Officer of PepsiCo's Global Nutrition Group from 2010 to May 2012 and the position of PepsiCo's Chief Scientific Officer from 2008 to May 2012. Prior to joining PepsiCo, Dr. Khan served for five years at Takeda Pharmaceuticals in various leadership roles including President of Research and Development and Chief Medical Officer. Dr. Khan also served at the Mayo Clinic from 2001 until 2003 as the director of the Diabetes, Endocrinology and Nutrition Clinical Unit and as Consultant Physician in Endocrinology.

Ramon Laguarta, 55, has served as Chief Executive Officer of PepsiCo and as a director of the Board since October 2018, and assumed the role of Chairman of the Board in February 2019. Mr. Laguarta previously served as President from 2017 to 2018. Prior to serving as PepsiCo's President, Mr. Laguarta also held a variety of positions of increasing responsibility in Europe, including as Commercial Vice President of PepsiCo Europe from 2006 to 2008, PepsiCo Eastern Europe Region from 2008 to 2012, President, Developing & Emerging Markets, PepsiCo Europe from 2012 to 2015, Chief Executive Officer, PepsiCo Europe in 2015, and Chief Executive Officer, Europe Sub-Saharan Africa from 2015 to 2017. From 2002 to 2006, he was General Manager for Iberia Snacks and Juices, and from 1999 to 2001 a General Manager for Greece Snacks. Prior to joining PepsiCo in 1996 as a marketing vice president for Spain Snacks, Mr. Laguarta worked for Chupa Chups, S.A., where he worked in several international assignments in Europe and the United States.

Laxman Narasimhan, 51, was appointed Chief Executive Officer, Latin America, Europe and Sub-Saharan Africa in September 2017. He previously held the positions of Chief Executive Officer, Latin America from 2015 to September 2017, Chief Executive Officer, PepsiCo Latin America Foods from 2014 to July 2015 and Senior Vice President and Chief Financial Officer of PepsiCo Americas Foods, a business unit that had previously included the Company's Frito-Lay North America, Quaker Foods North America and Latin America Foods divisions, from 2012 to 2014. Prior to joining PepsiCo in 2012, Mr. Narasimhan spent 19 years at McKinsey & Company, where he served in various positions, including as a director and location manager of the New Delhi office and co-leader of the global consumer and shopper insights practice.

Silviu Popovici, 51, was appointed President, Europe Sub-Saharan Africa, effective September 2017. Mr. Popovici previously served as President, Russia, Ukraine and CIS (The Commonwealth of Independent States) from August 2015 to September 2017, and as President, PepsiCo Russia from January 2013 to July 2015. Mr. Popovici joined PepsiCo in 2011 following PepsiCo's acquisition of Wimm-Bill-Dann Foods OJSC (WBD) and served as General Manager, WBD Foods Division from February 2011 until December 2012. Prior to the acquisition, Mr. Popovici held senior leadership roles at WBD, running its dairy business from 2008 to 2011 and its beverages business from 2006 to 2008.

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Vivek Sankaran, 56, was appointed Chief Executive Officer, Frito-Lay North America, effective January 2019. Prior to that, Mr. Sankaran served as President and Chief Operating Officer, Frito-Lay North America from April 2016 to December 2018; Chief Operating Officer, Frito-Lay North America from February 2016 to April 2016; Chief Commercial Officer, North America from 2014 to February 2016; Chief Customer Officer for Frito-Lay North America from 2012 to 2014; Senior Vice President and General Manager, Frito-Lay North America's South business unit from 2011 to 2012; and Senior Vice President, Corporate Strategy and Development from 2009 to 2010. Prior to joining PepsiCo in 2009, Mr. Sankaran was a partner at McKinsey & Company, where he advised Fortune 100 companies with a focus on retail and high tech and co-led the North America purchasing and supply management practice.

Ronald Schellekens, 54, was appointed Executive Vice President and Chief Human Resources Officer, PepsiCo, effective December 2018. Prior to that, Mr. Schellekens served as Group HR Director of Vodafone Group Services Limited from 2009 to December 2018, where he was responsible for the Vodafone Human Resource Management function, as well as health and safety, and property and real estate functions. Prior to joining Vodafone, Mr. Schellekens was executive vice president, human resources for the global downstream division of Royal Dutch Shell Plc. Prior to that, he worked for PepsiCo for nine years from 1994 to 2003 in various international, senior human resources roles, including assignments in Switzerland, Spain, South Africa, the United Kingdom and Poland, where he was most recently responsible for the Europe, Middle East & Africa region for PepsiCo Foods International. Prior to that, he served for nine years at AT&T Inc. in Human Resources.

Mike Spanos, 54, was appointed Chief Executive Officer, Asia, Middle East and North Africa, effective January 2018. Mr. Spanos previously served as interim head of PepsiCo's Asia, Middle East and North Africa division from October 2017 to January 2018 and as President and Chief Executive Officer, PepsiCo Greater China Region, from September 2014 to January 2018. Prior to that, Mr. Spanos served as Senior Vice President and Chief Customer Officer, PepsiCo North America Beverages from October 2011 to September 2014, as Senior Vice President and General Manager, PepsiCo Beverages Company's West business unit from March 2011 to October 2011 and as Senior Vice President, Retail Sales and Execution, PepsiCo Beverages Company from March 2010 to March 2011. Mr. Spanos joined PepsiCo in 1993 as a territory sales manager and unit manager in the Philadelphia market unit and served in various other leadership roles through March 2010. Prior to joining PepsiCo, Mr. Spanos served in the United States Marines Corps from 1987 to 1993, and with Tallahassee Medical Company as a sales representative in 1993.

Kirk Tanner, 50, was appointed Chief Executive Officer, North America Beverages, effective January 2019. Prior to that, Mr. Tanner served as President and Chief Operating Officer, North America Beverages from April 2016 to December 2018; Chief Operating Officer, North America Beverages and President, Global Foodservice from December 2015 to April 2016 and President, Global Foodservice from 2014 to December 2015. Mr. Tanner joined PepsiCo in 1992, where he has worked in numerous domestic and international locations and in a variety of roles, including senior vice president of Frito-Lay North America's West region from 2009 to 2013; vice president, sales of PepsiCo UK and Ireland from 2008 to 2009; region vice president, Frito-Lay North America's Mountain region from 2005 to 2008; region vice president, Frito-Lay North America's Mid-America region from 2002 to 2005; and region vice president, Frito-Lay North America's California region from 2000 to 2002.

David Yawman, 50, was appointed Executive Vice President, Government Affairs, General Counsel and Corporate Secretary, PepsiCo effective October 2017. Prior to that, Mr. Yawman served as Senior Vice President and Deputy General Counsel for PepsiCo and General Counsel for North America and Corporate from July 2017 to October 2017. He previously served as Senior Vice President, PepsiCo Deputy General Counsel, General Counsel, North America Beverages and Quaker Foods North America from July 2015 to July 2017, as Senior Vice President, PepsiCo Deputy General Counsel, General Counsel, PepsiCo America

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Beverages from April 2014 to July 2015, as Senior Vice President, PepsiCo Chief Compliance and Ethics Officer from March 2012 to April 2014 and as Senior Vice President, General Counsel, Pepsi Beverages Company from February 2010 to March 2012. Prior to that, he served five years in the law department of The Pepsi Bottling Group, Inc. (PBG) and, prior to that, was a member of PepsiCo's corporate law department from the time he joined PepsiCo in 1998 until 2003.

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

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PART II

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

Stock Trading Symbol – PEP

Stock Exchange Listings – The Nasdaq Global Select Market is the principal market for our common stock, which is also listed on the SIX Swiss Exchange.

Shareholders – As of February 8, 2019, there were approximately 114,513 shareholders of record of our common stock.

Dividends – We have paid consecutive quarterly cash dividends since 1965. The declaration and payment of future dividends are at the discretion of the Board of Directors. Dividends are usually declared in February, May, July and November and paid at the end of March, June and September and the beginning of January. On February 13, 2019, the Board of Directors declared a quarterly dividend of $0.9275 payable March 29, 2019, to shareholders of record on March 1, 2019. For the remainder of 2019, the dividend record dates for these payments are expected to be June 7, September 6 and December 6, 2019, subject to approval of the Board of Directors.

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

A summary of our common stock repurchases (in millions, except average price per share) during the fourth 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)] |
|---|---|---|---|---|
| 9/8/2018 | | | | $ 14,631 |
| 9/9/2018 - 10/6/2018 | 1.3 | $ 112.64 | 1.3 | (147 ) 14,484 |
| 10/7/2018 - 11/3/2018 | 1.3 | $ 110.39 | 1.3 | (145 ) 14,339 |
| 11/4/2018 - 12/1/2018 | 1.4 | $ 116.68 | 1.4 | (163 ) 14,176 |
| 12/2/2018 - 12/29/2018 | 0.8 | $ 116.99 | 0.8 | (92 ) |
| Total | 4.8 | $ 113.91 | 4.8 | $ 14,084 |

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

(b) Represents shares authorized for repurchase under the $15 billion repurchase program authorized by our Board of Directors and publicly announced on February 13, 2018, 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. Selected Financial Data.

Five-Year Summary

(unaudited, in millions except per share amounts)

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

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net revenue [(a)] | $64,661 | $63,525 | $62,799 | $63,056 | $66,683 |
| Operating profit [(b)] | $10,110 | $10,276 | $9,804 | $8,274 | $9,755 |
| (Benefit from)/provision for income taxes [(c)] | $(3,370 ) | $4,694 | $2,174 | $1,941 | $2,199 |
| Net income attributable to PepsiCo [(c)] | $12,515 | $4,857 | $6,329 | $5,452 | $6,513 |
| Net income attributable to PepsiCo per common share – basic [(c)] | $8.84 | $3.40 | $4.39 | $3.71 | $4.31 |
| Net income attributable to PepsiCo per common share – diluted [(c)] | $8.78 | $3.38 | $4.36 | $3.67 | $4.27 |
| Cash dividends declared per common share | $3.5875 | $3.1675 | $2.96 | $2.7625 | $2.5325 |
| Total assets | $77,648 | $79,804 | $73,490 | $68,976 | $69,634 |
| Long-term debt | $28,295 | $33,796 | $30,053 | $29,213 | $23,821 |

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

(b) Our fiscal results prior to 2018 reflect 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 consolidated financial statements.

(c) Our fiscal 2018 results include other net tax benefits related to the reorganization of our international operations. Our fiscal 2018 and 2017 results include the impact of the TCJ Act. See Note 5 to our consolidated financial statements.

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

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Operating profit | Other pension and retiree medical benefits income | Interest expense | Benefit from income taxes[d] | Net income attributable to noncontrolling interests | Net income attributable to PepsiCo | Net income attributable to PepsiCo per common share – diluted |
| Mark-to-market net impact [e] | $(163) | $ — | $ — | $38 | $ — | $ (125) | $ (0.09) |
| Restructuring and impairment charges [f] | $(272) | $ (36) | $ — | $56 | $ 1 | $ (251) | $ (0.18) |
| Merger and integration charges [g] | $(75) | $ — | $ — | $— | $ — | $ (75) | $ (0.05) |
| Net tax benefit related to the TCJ Act [h] | $— | $ — | $ — | $28 | $ — | $ 28 | $ 0.02 |
| Other net tax benefits [i] | $— | $ — | $ — | $5,064 | $ — | $ 5,064 | $ 3.55 |
| Charges related to cash tender and exchange offers [j] | $— | $ — | $ (253) | $62 | $ — | $ (191) | $ (0.13) |
| Tax reform bonus [k] | $(87) | $ — | $ — | $21 | $ — | $ (66) | $ (0.05) |
| Gains on beverage refranchising [l] | $202 | $ — | $ — | $(30) | $ — | $ 172 | $ 0.12 |
| Gains on sale of assets [m] | $76 | $ — | $ — | $(19) | $ — | $ 57 | $ 0.04 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Operating profit[b] | Other pension and retiree medical benefits income[b] | Provision for income taxes[d] | Net income attributable to PepsiCo | Net income attributable to PepsiCo per common share – diluted |
| Mark-to-market net impact [e] | $15 | $ — | $(7) | $ 8 | $ 0.01 |
| Restructuring and impairment charges [f] | $(229) | $ (66) | $71 | $ (224) | $ (0.16) |
| Provisional net tax expense related to the TCJ Act [h] | $— | $ — | $(2,451) | $ (2,451) | $ (1.70) |
| Gain on sale of Britvic plc (Britvic) securities [n] | $95 | $ — | $(10) | $ 85 | $ 0.06 |
| Gain on beverage refranchising [l] | $140 | $ — | $(33) | $ 107 | $ 0.07 |
| Gain on sale of assets [m] | $87 | $ — | $(25) | $ 62 | $ 0.04 |

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| 2016 | Operating profit[b] | Other pension and retiree medical benefits expense[b] | Interest expense | Provision for income taxes[d] | Net income attributable to noncontrolling interests | Net income attributable to PepsiCo | Net income attributable to PepsiCo per common share – diluted |
|---|---|---|---|---|---|---|---|
| Mark-to-market net impact [e] | $167 | $ — | $— | $ (56 ) | $ — | $ 111 | $ 0.08 |
| Restructuring and impairment charges [f] | $(155) | $ (5 ) | $— | $ 26 | $ 3 | $ (131 ) | $ (0.09 ) |
| Charge related to the transaction with Tingyi [o] | $(373) | $ — | $— | $ — | $ — | $ (373 ) | $ (0.26 ) |
| Charge related to debt redemption [j] | $— | $ — | $(233 ) | $ 77 | $ — | $ (156 ) | $ (0.11 ) |
| Pension-related settlement charge [p] | $— | $ (242 ) | $— | $ 80 | $ — | $ (162 ) | $ (0.11 ) |
| 53rd reporting week [q] | $126 | $ — | $(19 ) | $ (44 ) | $ (1 ) | $ 62 | $ 0.04 |

| 2015 | Operating profit[b] | Other pension and retiree medical benefits income[b] | Provision for income taxes[d] | Net income attributable to PepsiCo | Net income attributable to PepsiCo per common share – diluted |
|---|---|---|---|---|---|
| Mark-to-market net impact [e] | $11 | $ — | $ (3 ) | $ 8 | $ — |
| Restructuring and impairment charges [f] | $(207 ) | $ (23 ) | $ 46 | $ (184 ) | $ (0.12 ) |
| Charge related to the transaction with Tingyi [o] | $(73 ) | $ — | $ — | $ (73 ) | $ (0.05 ) |
| Pension-related settlement benefits [p] | $67 | $ — | $ (25 ) | $ 42 | $ 0.03 |
| Venezuela impairment charges [r] | $(1,359) | $ — | $ — | $ (1,359 ) | $ (0.91 ) |
| Tax benefit [i] | $— | $ — | $ 230 | $ 230 | $ 0.15 |
| Müller Quaker Dairy (MQD) impairment [s] | $(76 ) | $ — | $ 28 | $ (48 ) | $ (0.03 ) |
| Gain on beverage refranchising [l] | $39 | $ — | $ (11 ) | $ 28 | $ 0.02 |
| Other productivity initiatives [t] | $(90 ) | $ — | $ 24 | $ (66 ) | $ (0.04 ) |
| Joint venture impairment charge [u] | $(29 ) | $ — | $ — | $ (29 ) | $ (0.02 ) |

| 2014 | Operating profit[b] | Other pension and retiree medical benefits expense[b] | Provision for income taxes[d] | Net income attributable to noncontrolling interests | Net income attributable to PepsiCo | Net income attributable to PepsiCo per common share – diluted |
|---|---|---|---|---|---|---|
| Mark-to-market net impact [e] | $(68 ) | $ — | $ 24 | $ — | $ (44 ) | $ (0.03 ) |
| Restructuring and impairment charges [f] | $(384) | $ (34 ) | $ 99 | $ 3 | $ (316 ) | $ (0.21 ) |
| Pension-related settlement charge [p] | $— | $ (141 ) | $ 53 | $ — | $ (88 ) | $ (0.06 ) |
| Venezuela remeasurement charge [v] | $(105) | $ — | $ — | $ — | $ (105 ) | $ (0.07 ) |
| Gain on sale of assets [m] | $31 | $ — | $ 3 | $ — | $ 34 | $ 0.02 |
| Other productivity initiatives [t] | $(67 ) | $ — | $ 13 | $ — | $ (54 ) | $ (0.04 ) |

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(d) Benefit from/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 and tax year.

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

(f) Expenses related to the 2019 Multi-Year Productivity Plan (2019 Productivity Plan), 2014 Multi-Year Productivity Plan (2014 Productivity Plan) and 2012 Multi-Year Productivity Plan (2012 Productivity Plan). See Note 3 to our consolidated financial statements for further discussion of our 2019 and 2014 Productivity Plans.

(g) In 2018, merger and integration charges related to our acquisition of SodaStream. $57 million of this charge was recorded in the ESSA segment, with the balance recorded in corporate unallocated expenses. See Note 14 to our consolidated financial statements.

(h) In 2018, a net tax benefit and, in 2017, a provisional net tax expense, each associated with the enactment of the TCJ Act. See Note 5 to our consolidated financial statements.

(i) In 2018, other net tax benefits of $4.3 billion resulting from the reorganization of our international operations, including the intercompany transfer of certain intangible assets. Also in 2018, non-cash tax benefits of $717 million associated with both the conclusion of certain international tax audits and our agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013. See Note 5 to our consolidated financial statements. In 2015, non-cash tax benefit associated with our agreement with the IRS resolving substantially all open matters related to the audits for taxable years 2010 through 2011, which reduced our reserve for uncertain tax positions for the tax years 2010 through 2011.

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

(k) In 2018, bonus extended to certain U.S. employees in connection with the TCJ Act in the following segments: $44 million in FLNA, $2 million in QFNA and $41 million in NAB.

(l) In 2018, gains of $58 million and $144 million associated with refranchising our entire beverage bottling operations and snack distribution operations in Czech Republic, Hungary and Slovakia (CHS) in the ESSA segment and refranchising a portion of our beverage business in Thailand in the AMENA segment, respectively. In 2017, gain in the AMENA segment associated with refranchising a portion of our beverage business in Jordan. See Note 14 to our consolidated financial statements. In 2015, gain in the AMENA segment associated with refranchising a portion of our beverage businesses in India.

(m) In 2018, gains associated with the sale of assets in the following segments: $64 million in NAB and $12 million in AMENA. In 2017, gains associated with the sale of assets in the following segments: $17 million in FLNA, $21 million in NAB, $21 million in AMENA and $28 million in corporate unallocated expenses. In 2014, gain in the ESSA segment associated with the sale of agricultural assets in Russia.

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

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

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

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

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

(s) In 2015, impairment charges in the QFNA segment associated with our MQD joint venture investment, including a charge related to ceasing its operations.

(t) In 2015 and 2014, expenses related to other productivity initiatives outside the scope of the 2014 and 2012 Productivity Plans.

(u) In 2015, impairment charge in the AMENA segment associated with a joint venture in the Middle East.

(v) In 2014, net charge related to our remeasurement of the bolivar for certain net monetary assets of our Venezuelan businesses. $126 million of this charge was in corporate unallocated expenses, with the balance (equity income of $21 million) in our Latin America segment.

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Selected Quarterly Financial Data

Selected financial data for 2018 and 2017 is summarized as follows and highlights certain items that impacted our quarterly results (in millions except per share amounts, unaudited):

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net revenue | $12,562 | $16,090 | $16,485 | $19,524 | $12,049 | $15,710 | $16,240 | $19,526 |
| Gross profit [a] | $6,907 | $8,827 | $8,958 | $10,588 | $6,759 | $8,651 | $8,872 | $10,447 |
| Operating profit [a] | $1,807 | $3,028 | $2,844 | $2,431 | $1,863 | $2,919 | $2,924 | $2,570 |
| Mark-to-market net impact [b] | $(31 ) | $3 | $(29 ) | $(106 ) | $(14 ) | $(26 ) | $27 | $28 |
| Restructuring and impairment charges [c] | $(12 ) | $(32 ) | $(35 ) | $(229 ) | $(27 ) | $(34 ) | $(8 ) | $(226 ) |
| Merger and integration charges [d] | — | — | — | $(75 ) | — | — | — | — |
| Net tax (expense)/benefit related to the TCJ Act [e] | $(1 ) | $(777 ) | $(76 ) | $882 | — | — | — | $(2,451 ) |
| Other net tax benefits [f] | — | $314 | $364 | $4,386 | — | — | — | — |
| Charges related to cash tender and exchange offers [g] | — | — | — | $(253 ) | — | — | — | — |
| Tax reform bonus [h] | $(87 ) | — | — | — | — | — | — | — |
| Gains on beverage refranchising [i] | — | $144 | — | $58 | — | — | — | $140 |
| Gains on sale of assets [j] | $18 | $9 | $37 | $12 | — | — | $21 | $66 |
| Gain on sale of Britvic securities [k] | — | — | — | — | — | $95 | — | — |
| Provision for/(benefit from) income taxes [l] | $304 | $1,070 | $188 | $(4,932 ) | $392 | $656 | $620 | $3,026 |
| Net income/(loss) attributable to PepsiCo [l] | $1,343 | $1,820 | $2,498 | $6,854 | $1,318 | $2,105 | $2,144 | $(710 ) |
| Net income/(loss) attributable to PepsiCo per common share [l] | | | | | | | | |
| Basic | $0.94 | $1.28 | $1.77 | $4.86 | $0.92 | $1.47 | $1.50 | $(0.50 ) |
| Diluted | $0.94 | $1.28 | $1.75 | $4.83 | $0.91 | $1.46 | $1.49 | $(0.50 ) |
| Cash dividends declared per common share | $0.805 | $0.9275 | $0.9275 | $0.9275 | $0.7525 | $0.805 | $0.805 | $0.805 |

(a) In 2017, reflect 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 consolidated financial statements.

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

(c) Expenses related to the 2019 and 2014 Productivity Plans. See Note 3 to our consolidated financial statements.

(d) In 2018, merger and integration charges related to our acquisition of SodaStream. $57 million of this charge was recorded in the ESSA segment, with the balance recorded in corporate unallocated expenses. See Note 14 to our consolidated financial statements.

(e) In 2018, a net tax benefit and, in 2017, a provisional net tax expense, each associated with the enactment of the TCJ Act. See Note 5 to our consolidated financial statements.

(f) In 2018, other net tax benefits of $4.3 billion resulting from the reorganization of our international operations. Also in 2018, non-cash tax benefits of $717 million associated with both the conclusion of certain international tax audits and our agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013. See Note 5 to our consolidated financial statements.

(g) In 2018, interest expense in connection with our cash tender and exchange offers. See Note 8 to our consolidated financial statements.

(h) In 2018, bonus extended to certain U.S. employees in connection with the TCJ Act in the following segments: $44 million in FLNA, $2 million in QFNA and $41 million in NAB.

(i) In 2018, gains of $58 million and $144 million associated with refranchising our entire beverage bottling operations and snack distribution operations in CHS in the ESSA segment and refranchising a portion of our beverage business in Thailand in the AMENA segment, respectively. In 2017, gain in the AMENA segment associated with refranchising a portion of our beverage business in Jordan. See Note 14 to our consolidated financial statements.

(j) In 2018, gains associated with the sale of assets in the following segments: $64 million in NAB and $12 million in AMENA. In 2017, gains associated with the sale of assets in the following segments: $17 million in FLNA, $21 million in NAB, $21 million in AMENA and $28 million in corporate unallocated expenses.

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

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Our fiscal 2018 results include other net tax benefits related to the reorganization of our international operations.

(l) Our fiscal 2018 and 2017 results include the impact of the TCJ Act. See Note 5 to our consolidated financial statements.

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


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

## OUR BUSINESS

### Executive Overview

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

At PepsiCo, we are focused on an approach called Winning with Purpose that will help make our company faster, stronger and better at meeting the needs of our customers, consumers, partners and communities, while caring for our planet and inspiring our associates.

Our strategies are designed to address key challenges facing our Company, including: shifting consumer preferences and behaviors; a highly competitive operating environment; a rapidly changing retail landscape, including the growth in e-commerce; continued macroeconomic and political volatility; and an evolving regulatory landscape.

We intend to focus on the following areas to address and adapt to these challenges:

- Winning in the marketplace and accelerating growth by strengthening and broadening our portfolio, while focusing on locally meeting the needs of our consumers and customers;
- Continuing to implement our productivity initiatives to improve our operational efficiency and enhance our competitive advantage while continuing to transform our core capabilities with technology and building and retaining a talented workforce to drive cost savings; and
- Continuing to lead with purpose by focusing on our impact on the planet and our people, assisting in establishing a more sustainable food system, minimizing our impact on the environment, protecting human rights and securing supply while positioning our Company for sustainable growth.

We believe these priorities will position our Company for long-term sustainable growth.

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

### Our Operations

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

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Other Relationships

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

Our Business Risks

We are subject to risks in the normal course of business. During 2018 and 2017, certain jurisdictions in which our products are made, manufactured, distributed or sold operated in a challenging environment, experiencing unstable economic, political and social conditions, civil unrest, natural disasters, debt and credit issues, and currency fluctuations. We continue to monitor the economic, operating and political environment in these markets closely and to identify actions to potentially mitigate any unfavorable impacts on our future results.

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 or regulations on the manufacture, distribution or sale of our products or their packaging, ingredients or substances contained in, or attributes of, our products or their packaging, commodities used in the production of our products or their packaging or the recyclability or recoverability of our packaging. These taxes and regulations vary in scope and form. For example, some taxes apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). In addition, some regulations apply to all products using certain types of packaging (e.g., plastic), while others are designed to increase the sustainability of packaging and encourage waste reduction and increased recycling rates.

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, the amount of revenue attributable to such products and the type of packaging used varies by jurisdiction. Because of this, we cannot predict the scope or form potential taxes, regulations or other limitations on our products or their packaging may take, and therefore cannot predict the impact of such taxes, regulations or limitations on our financial results. In addition, taxes, regulations and limitations may impact us and our competitors differently. We continue to monitor existing and proposed taxes and regulations in the jurisdictions in which our products are made, manufactured, distributed and sold and to consider actions we may take to potentially mitigate the unfavorable impact, if any, of such taxes, regulations or limitations, including advocating alternative measures with respect to the imposition, form and scope of any such taxes, regulations or limitations.

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

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. 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. In 2018, we recognized a net tax benefit of $28 million in connection with the TCJ Act. See further information in “Items Affecting Comparability.” While our accounting for the recorded impact of the TCJ Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the IRS could impact the aforementioned amounts in future periods. For

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additional information, see "Our Liquidity and Capital Resources," "Our Critical Accounting Policies" and Note 5 to our consolidated financial statements.

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

Risk Management Framework

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

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

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## Market Risks

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

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

In the normal course of business, we manage commodity price, foreign exchange and interest rate risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. Our global purchasing programs include fixed-price contracts and purchase orders and pricing agreements. See "Item 1A. Risk Factors" for further discussion of our market risks, and see "Our Liquidity and Capital Resources" for further information on our non-cancelable purchasing commitments.

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

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

### Commodity Prices

Our commodity derivatives had a total notional value of $1.1 billion as of December 29, 2018 and $0.9 billion as of December 30, 2017. At the end of 2018, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses in 2018 by $100 million.

### Foreign Exchange

Our operations outside of the United States generated 43% of our consolidated net revenue in 2018, with Mexico, Russia, Canada, the United Kingdom and Brazil comprising approximately 20% of our consolidated net revenue in 2018. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. During 2018, unfavorable foreign exchange reduced net revenue growth by one percentage point due to declines in the Russian ruble, Turkish lira and Brazilian real. 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.

Our foreign currency derivatives had a total notional value of $2.0 billion as of December 29, 2018 and $1.6 billion as of December 30, 2017. The total notional amount of our debt instruments designated as net

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investment hedges was $0.9 billion as of December 29, 2018 and $1.5 billion as of December 30, 2017. At the end of 2018, we estimate that an unfavorable 10% change in the underlying exchange rates would have decreased our net unrealized gains in 2018 by $149 million.

Interest Rates

Our interest rate derivatives had a total notional value of $10.5 billion as of December 29, 2018 and $14.2 billion as of December 30, 2017. Assuming year-end 2018 investment levels and variable rate debt, a 1-percentage-point increase in interest rates would have increased our net interest expense in 2018 by $7 million due to lower cash and cash equivalents and short-term investments levels as compared with our variable rate debt.

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## OUR FINANCIAL RESULTS

### Results of Operations — Consolidated Review

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

### Volume

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

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

### Servings

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

In 2018, total servings increased 1% compared to 2017. In 2017, total servings decreased 1% compared to 2016. Excluding the impact of the 53rd reporting week in 2016, total servings in 2017 was even with the prior year. Servings growth reflects adjustments to the prior year results for divestitures and other structural changes.

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Consolidated Net Revenue and Operating Profit

| | 2018 | 2017 | 2016 | Change 2018 | Change 2017 |
|---|---|---|---|---|---|
| Net revenue | $64,661 | $63,525 | $62,799 | 2 % | 1 % |
| Operating profit [(a)] | $10,110 | $10,276 | $9,804 | (2 )% | 5 % |
| Operating profit margin [(a)] | 15.6 % | 16.2 % | 15.6 % | (0.5) | 0.6 |

(a) In 2017 and 2016, operating profit and operating profit margin reflect 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 consolidated financial statements.

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

2018

Operating profit decreased 2% and operating profit margin declined 0.5 percentage points. The operating profit performance was driven by certain operating cost increases and a 6-percentage-point impact of higher commodity costs, partially offset by productivity savings of more than $1 billion and net revenue growth.

The impact of refranchising a portion of our beverage business in Jordan in 2017 and a prior-year gain associated with the sale of our minority stake in Britvic negatively impacted operating profit performance by 2.5 percentage points. These impacts were offset by a 2-percentage-point positive impact of refranchising a portion of our beverage business in Thailand and our entire beverage bottling operations and snack distribution operations in CHS in 2018. Items affecting comparability (see "Items Affecting Comparability") negatively impacted operating profit performance by 3 percentage points and decreased operating profit margin by 0.5 percentage points, primarily due to higher mark-to-market net impact on commodity derivatives included in corporate unallocated expenses.

2017

Operating profit increased 5% and operating profit margin improved 0.6 percentage points. Operating profit growth was driven by productivity savings of more than $1 billion and effective net pricing, partially offset by certain operating cost increases, a 7-percentage-point impact of higher commodity costs and unfavorable foreign exchange.

The impact of refranchising a portion of our beverage business in Jordan and a gain associated with the sale of our minority stake in Britvic each contributed 1 percentage point to operating profit growth. Items affecting comparability (see "Items Affecting Comparability") also contributed 2 percentage points to operating profit growth and increased operating profit margin by 0.2 percentage points, primarily reflecting a prior-year impairment charge to reduce the value of our 5% indirect equity interest in KSFB to its estimated fair value.

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Other Consolidated Results

| | 2018 | 2017 | 2016 | Change 2018 | Change 2017 |
|---|---|---|---|---|---|
| Other pension and retiree medical benefits income/(expense) [(a)] | $298 | $233 | $(19) | $65 | $252 |
| Net interest expense | $(1,219) | $(907) | $(1,232) | $(312) | $325 |
| Annual tax rate [(b)] | (36.7)% | 48.9 % | 25.4 % | | |
| Net income attributable to PepsiCo | $12,515 | $4,857 | $6,329 | 158 % | (23)% |
| Net income attributable to PepsiCo per common share – diluted | $8.78 | $3.38 | $4.36 | 160 % | (23)% |
| Mark-to-market net impact | 0.09 | (0.01) | (0.08) | | |
| Restructuring and impairment charges | 0.18 | 0.16 | 0.09 | | |
| Merger and integration charges | 0.05 | — | — | | |
| Net tax (benefit)/expense related to the TCJ Act [(b)] | (0.02) | 1.70 | — | | |
| Other net tax benefits [(b)] | (3.55) | — | — | | |
| Charges related to cash tender and exchange offers | 0.13 | — | — | | |
| Charge related to the transaction with Tingyi | — | — | 0.26 | | |
| Charge related to debt redemption | — | — | 0.11 | | |
| Pension-related settlement charge | — | — | 0.11 | | |
| Net income attributable to PepsiCo per common share – diluted, excluding above items [(c)] | $5.66 | $5.23 | $4.85 | 8 % | 8 % |
| Impact of foreign exchange translation | | | | 1 | 1 |
| Growth in net income attributable to PepsiCo per common share – diluted, excluding above items, on a constant currency basis [(c)] | | | | 9 % | 9 % |

(a) In 2017 and 2016, reflect 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 consolidated financial statements.
(b) See Note 5 to our consolidated financial statements.
(c) See "Non-GAAP Measures."

2018

Other pension and retiree medical benefits income increased $65 million, reflecting the impact of the $1.4 billion discretionary pension contribution to the PepsiCo Employees Retirement Plan A (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 $312 million reflecting a charge of $253 million in connection with our cash tender and exchange offers, primarily representing the tender price paid over the carrying value of the tendered notes. This increase also reflects higher interest rates on debt balances, as well as losses 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 on cash balances.

The reported tax rate decreased 85.6 percentage points, reflecting both other net tax benefits related to the reorganization of our international operations, which reduced the reported tax rate by 45 percentage points, and the prior year provisional net tax expense related to the TCJ Act, which reduced the current year reported tax rate by 25 percentage points. Additionally, the favorable conclusion of certain international tax audits and the favorable resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013, collectively, reduced the reported tax rate by 7 percentage points. See Note 5 to our consolidated financial statements for further information.

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Net income attributable to PepsiCo increased 158% and net income attributable to PepsiCo per common share increased 160%. Items affecting comparability (see “Items Affecting Comparability”) positively contributed 150 percentage points to net income attributable to PepsiCo growth and 152 percentage points to net income attributable to PepsiCo per common share growth.

2017

Other pension and retiree medical benefits income increased $252 million, primarily reflecting a settlement charge of $242 million related to the purchase of a group annuity contract in 2016.

Net interest expense decreased $325 million reflecting a charge of $233 million in 2016 representing the premium paid in accordance with the “make-whole” redemption provisions to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of $1.5 billion and $750 million, respectively. This decrease also reflects higher interest income due to higher interest rates and average cash balances, as well as gains on the market value of investments used to economically hedge a portion of our deferred compensation liability. These impacts were partially offset by higher interest expense due to higher average debt balances.

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

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

Non-GAAP Measures

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

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include: amounts related to mark-to-market gains or losses (non-cash); charges related to restructuring programs; charges or adjustments related to the enactment of new laws, rules or regulations, such as significant tax law changes; amounts related to the resolution of tax positions; tax benefits related to reorganizations of our operations; gains or losses associated with mergers, acquisitions, divestitures and other structural changes; debt redemptions, cash tender or exchange offers; 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-K.

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

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

- cost of sales, gross profit, selling, general and administrative expenses, other pension and retiree medical benefits income/expense, interest expense, benefit from/provision for income taxes and noncontrolling interests, each 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;
- organic revenue growth;
- free cash flow; and
- return on invested capital (ROIC) and net ROIC, excluding items affecting comparability.

Cost of Sales, Gross Profit, Selling, General and Administrative Expenses, Other Pension and Retiree Medical Benefits Income/Expense, Interest Expense, Benefit from/Provision for Income Taxes, Annual Tax Rate and Noncontrolling Interests, 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 2019 and 2014 Productivity Plans, merger and integration charges associated with our acquisition of SodaStream, net tax benefit/expense associated with the enactment of the TCJ Act, other net tax benefits, charges related to cash tender and exchange offers, a charge related to the transaction with Tingyi, a charge related to debt redemption, and a pension-related settlement charge (see "Items Affecting Comparability" for a detailed description of each of these items). 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. We are not able to reconcile our full year projected 2019 annual tax rate, excluding items affecting comparability, to our full year projected 2019 reported annual tax rate because we are unable to predict the 2019 impact of foreign exchange or the mark-to-market net impact on commodity derivatives due to the unpredictability of future changes in foreign exchange rates and commodity prices. Therefore, we are unable to provide a reconciliation of this measure.

Organic Revenue Growth

We define organic revenue growth as net revenue growth adjusted for the impact of foreign exchange translation, as well as the impact from acquisitions, divestitures and other structural changes. Our 2018 reported results reflect the accounting policy election taken in conjunction with the adoption of the revenue

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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 organic revenue growth excludes the impact of approximately $75 million of these taxes previously recognized in net revenue. In addition, our fiscal 2016 reported results included an extra week of results. Our 2017 organic revenue growth excludes the impact of the 53rd reporting week from our 2016 results.

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 "Net Revenue and 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.

See "Free Cash Flow" in "Our Liquidity and Capital Resources."

ROIC and Net ROIC, Excluding Items Affecting Comparability

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

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

See "Return on Invested Capital" in "Our Liquidity and Capital Resources."

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Items Affecting Comparability

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

2018

| | Cost of sales | Gross profit | Selling, general and administrative expenses | Operating profit | Other pension and retiree medical benefits income | Interest expense | (Benefit from)/provision for income taxes[(a)] | Net income attributable to noncontrolling interests | Net income attributable to PepsiCo |
|---|---|---|---|---|---|---|---|---|---|
| Reported, GAAP Measure | $29,381 | $35,280 | $ 25,170 | $10,110 | $ 298 | $1,525 | $ (3,370 ) | $ 44 | $12,515 |
| Items Affecting Comparability | | | | | | | | | |
| Mark-to-market net impact | (83 ) | 83 | (80 ) | 163 | — | — | 38 | — | 125 |
| Restructuring and impairment charges | (3 ) | 3 | (269 ) | 272 | 36 | — | 56 | 1 | 251 |
| Merger and integration charges | — | — | (75 ) | 75 | — | — | — | — | 75 |
| Net tax benefit related to the TCJ Act | — | — | — | — | — | — | 28 | — | (28 ) |
| Other net tax benefits | — | — | — | — | — | — | 5,064 | — | (5,064 ) |
| Charges related to cash tender and exchange offers | — | — | — | — | — | (253 ) | 62 | — | 191 |
| Core, Non-GAAP Measure | $29,295 | $35,366 | $ 24,746 | $10,620 | $ 334 | $1,272 | $ 1,878 | $ 45 | $8,065 |

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 | $28,796 | $34,729 | $ 24,453 | $10,276 | $ 233 | $4,694 | $ 4,857 |
| Items Affecting Comparability | | | | | | | |
| Mark-to-market net impact | 8 | (8 ) | 7 | (15 ) | — | (7 ) | (8 ) |
| Restructuring and impairment charges | — | — | (229 ) | 229 | 66 | 71 | 224 |
| Provisional net tax expense related to the TCJ Act | — | — | — | — | — | (2,451 ) | 2,451 |
| Core, Non-GAAP Measure | $28,804 | $34,721 | $ 24,231 | $10,490 | $ 299 | $2,307 | $ 7,524 |

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| 2016[b] | Cost of sales | Gross profit | Selling, general and administrative expenses | Operating profit | Other pension and retiree medical benefits (expense)/income | Interest expense | Provision for income taxes[a] | Net income attributable to noncontrolling interests | Net income attributable to PepsiCo |
|---|---|---|---|---|---|---|---|---|---|
| Reported, GAAP Measure | $28,222 | $34,577 | $ 24,773 | $9,804 | $ (19 ) | $1,342 | $2,174 | $ 50 | $ 6,329 |
| Items Affecting Comparability | | | | | | | | | |
| Mark-to-market net impact | 78 | (78 ) | 89 | (167 ) | — | — | (56 ) | — | (111 ) |
| Restructuring and impairment charges | — | — | (155 ) | 155 | 5 | — | 26 | 3 | 131 |
| Charge related to the transaction with Tingyi | — | — | (373 ) | 373 | — | — | — | — | 373 |
| Charge related to debt redemption | — | — | — | — | — | (233 ) | 77 | — | 156 |
| Pension-related settlement charge | — | — | — | — | 242 | — | 80 | — | 162 |
| Core, Non-GAAP Measure | $28,300 | $34,499 | $ 24,334 | $10,165 | $ 228 | $1,109 | $2,301 | $ 53 | $ 7,040 |

(a) Benefit from/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 and tax year.

(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 consolidated financial statements.

Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, agricultural products 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

2019 Multi-Year Productivity Plan

Our 2019 Productivity Plan, publicly announced on February 15, 2019, will leverage new technology and business models to further simplify, harmonize and automate processes; re-engineer our go-to-market and information systems, including deploying the right automation for each market; simplify our organization and optimize our manufacturing and supply chain footprint. In connection with this program, we expect to incur pre-tax charges of approximately $2.5 billion, of which $138 million is included in our 2018 results, approximately $800 million is expected to be reflected in our 2019 results and the balance to be reflected in our 2020 through 2023 results. These pre-tax charges will consist of approximately 70% of severance and other employee-related costs, 15% for asset impairments (all non-cash) resulting from plant closures and related actions, and 15% for other costs associated with the implementation of our initiatives. We expect that these pre-tax charges will result in cash expenditures of approximately $1.6 billion, of which we expect approximately $450 million to be reflected in our 2019 cash flows and the balance to be reflected in our 2020 through 2023 cash flows. We expect to incur the majority of the pre-tax charges and cash expenditures in our 2019 and 2020 results.

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The total expected program pre-tax charges are expected to be incurred by division approximately as follows:

| | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Corporate |
|---|---|---|---|---|---|---|---|
| Expected pre-tax charges | 10 % | 3 % | 35 % | 12 % | 25 % | 13 % | 2 % |

2014 Multi-Year Productivity Plan

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 $960 million, respectively. This total pre-tax charge is expected to consist of approximately 55% of severance and other employee-related costs, 15% for asset impairments (all non-cash) resulting from plant closures and related actions, and 30% for other costs associated with the implementation of our initiatives. To date, we have incurred $1.2 billion of pre-tax charges and $814 million of cash expenditures. We expect to complete the program and incur the program's remaining pre-tax charges and cash expenditures before the end of 2019.

The total expected program pre-tax charges are expected to be incurred by division approximately as follows:

| | FLNA | QFNA | NAB | Latin America | ESSA | AMENA | Corporate |
|---|---|---|---|---|---|---|---|
| Expected pre-tax charges | 14 % | 3 % | 30 % | 15 % | 20 % | 6 % | 12 % |

See Note 3 to our consolidated financial statements for further information related to our 2019 and 2014 Productivity Plans.

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

Merger and Integration Charges

In 2018, we incurred merger and integration charges of $75 million ($0.05 per share) related to our acquisition of SodaStream, including $57 million recorded in the ESSA segment and $18 million recorded in corporate unallocated expenses. These charges include closing costs, advisory fees and employee-related costs.

See Note 14 to our consolidated financial statements.

Net Tax (Benefit)/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.

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

In 2018, we recorded a net tax benefit of $28 million ($0.02 per share) in connection with the TCJ Act.

See Note 5 to our consolidated financial statements.

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Other Net Tax Benefits

In 2018, we reorganized our international operations, including the intercompany transfer of certain intangible assets. As a result, we recognized other net tax benefits of $4.3 billion ($3.05 per share). Also in 2018, we recognized non-cash tax benefits associated with both the conclusion of certain international tax audits and our agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013. The conclusion of certain international tax audits and the resolution with the IRS resulted in non-cash tax benefits of $364 million ($0.26 per share) and $353 million ($0.24 per share), respectively.

See Note 5 to our consolidated financial statements.

Charges Related to Cash Tender and Exchange Offers

In 2018, we recorded a pre-tax charge of $253 million ($191 million after-tax or $0.13 per share) to interest expense in connection with our cash tender and exchange offers, primarily representing the tender price paid over the carrying value of the tendered notes.

See Note 8 to our consolidated financial statements.

Charge Related to the Transaction with Tingyi

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

See Note 9 to our consolidated financial statements.

Charge Related to Debt Redemption

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

See Note 8 to our consolidated financial statements.

Pension-Related Settlement Charge

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

See Note 7 to our consolidated financial statements.

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## Results of Operations — Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. 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.

### Net Revenue and Organic Revenue Growth

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

2018

| | | Impact of | | | | Impact of | |
|---|---|---|---|---|---|---|---|
| | Net revenue growth | Foreign exchange translation | Acquisitions and divestitures | Sales and certain other taxes | Organic revenue growth[(a)] | Volume[(b)] | Effective net pricing[(c)] |
| FLNA | 3.5 % | — | — | — | 3 % | 1 | 2 |
| QFNA | (1.5)% | — | — | — | (2 )% | (0.5 ) | (1 ) |
| NAB | 1 % | — | — | — | 0.5 % | (1 ) | 2 |
| Latin America | 2 % | 6 | — | — | 8 % | 1 | 7 |
| ESSA | 4 % | 2 | — | 0.5 | 7 % | 4 | 3 |
| AMENA | (2 )% | 1 | 8 | — | 7 % | 3 | 3 |
| Total | 2 % | 1 | 1 | — | 4 % | 1 | 3 |

2017

| | | Impact of | | | | Impact of | |
|---|---|---|---|---|---|---|---|
| | Net revenue growth | Foreign exchange translation | Acquisitions and divestitures | 53rd reporting week[(d)] | Organic revenue growth[(a)] | Volume[(b)] | Effective net pricing[(c)] |
| FLNA | 2 % | — | — | 2 | 3 % | 1 | 2.5 |
| QFNA | (2)% | — | — | 2 | (1 )% | — | (1 ) |
| NAB | (2)% | — | (1 ) | 1 | (2 )% | (2.5) | 1 |
| Latin America | 6 % | (1 ) | 0.5 | — | 5 % | (2 ) | 7 |
| ESSA | 8 % | (3 ) | — | — | 6 % | 3 | 2 |
| AMENA | (5)% | 10 | — | — | 5 % | — | 5 |
| Total | 1 % | — | — | 1 | 2 % | — | 3 |

(a) Amounts may not sum due to rounding.

(b) Excludes the impact of acquisitions and divestitures. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our 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 franchise-owned beverage businesses, is based on CSE.

(c) 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.

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

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Frito-Lay North America

| | 2018 | 2017[(a)] | 2016[(a)] | % Change 2018 | | % Change 2017 | |
|---|---|---|---|---|---|---|---|
| Net revenue | $16,346 | $15,798 | $15,549 | 3.5 | | 2 | |
| Impact of foreign exchange translation | | | | — | | — | |
| Impact of acquisitions and divestitures | | | | — | | — | |
| Impact of 53rd reporting week | | | | — | | 2 | |
| Organic revenue growth [(b)] | | | | 3 | (d) | 3 | (d) |
| | | | | | | | |
| Operating profit | $5,008 | $4,793 | $4,612 | 4.5 | | 4 | |
| Restructuring and impairment charges [(c)] | 36 | 54 | 12 | | | | |
| Operating profit excluding above item [(b)] | $5,044 | $4,847 | $4,624 | 4 | | 5 | |
| Impact of foreign exchange translation | | | | — | | — | |
| Operating profit growth excluding above item, on a constant currency basis [(b)] | | | | 4 | | 5 | |

(a) In 2017 and 2016, operating profit and restructuring and impairment charges reflect 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 consolidated financial statements.
(b) See “Non-GAAP Measures.”
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

2018

Net revenue grew 3.5%, primarily reflecting effective net pricing and volume growth. Volume grew 1%, reflecting mid-single-digit growth in variety packs and low-single-digit growth in trademark Doritos, partially offset by a double-digit decline in Santitas.

Operating profit grew 4.5%, primarily reflecting the net revenue growth and productivity savings, partially offset by certain operating cost increases and a 1-percentage-point impact of a bonus extended to certain U.S. employees in connection with the TCJ Act.

2017

Net revenue grew 2%, primarily reflecting effective net pricing, partially offset by the impact of the 53rd reporting week in 2016, which reduced net revenue growth by 2 percentage points. Volume declined 1%, reflecting mid-single-digit declines in trademark Lay’s and Fritos and a low-single-digit decline in trademark Doritos, partially offset by high-single-digit growth in variety packs. The 53rd reporting week in 2016 negatively impacted volume performance by 2 percentage points.

Operating profit grew 4%, primarily reflecting productivity savings, the effective net pricing and a 1-percentage-point impact of 2016 incremental investments into our business. These impacts were partially offset by certain operating cost increases, including strategic initiatives, and a 1-percentage-point impact of higher commodity costs, primarily cooking oil. The 53rd reporting week in 2016 reduced operating profit growth by 2 percentage points.

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Quaker Foods North America

| | 2018 | 2017[(a)] | 2016[(a)] | % Change 2018 | % Change 2017 |
|---|---|---|---|---|---|
| Net revenue | $2,465 | $2,503 | $2,564 | (1.5 ) | (2 ) |
| Impact of foreign exchange translation | | | | — | — |
| Impact of acquisitions and divestitures | | | | — | — |
| Impact of 53rd reporting week | | | | — | 2 |
| Organic revenue growth [(b)] | | | | (2 )[(d)] | (1 )[(d)] |
| | | | | | |
| Operating profit | $637 | $640 | $649 | — | (1 ) |
| Restructuring and impairment charges [(c)] | 7 | 9 | 1 | | |
| Operating profit excluding above item [(b)] | $644 | $649 | $650 | (1 ) | — |
| Impact of foreign exchange translation | | | | — | — |
| Operating profit growth excluding above item, on a constant currency basis [(b)] | | | | (1 ) | — |

(a) In 2017 and 2016, operating profit and restructuring and impairment charges reflect 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 consolidated financial statements.
(b) See "Non-GAAP Measures."
(c) See "Items Affecting Comparability."
(d) Does not sum due to rounding.

2018

Net revenue declined 1.5% and volume declined 0.5%. The net revenue performance reflects unfavorable net pricing and mix and the volume decline. 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 decreased slightly, reflecting certain operating cost increases, the net revenue performance and a 3-percentage-point impact of higher commodity costs. These impacts were partially offset by productivity savings, lower advertising and marketing expenses and a 1-percentage-point positive contribution from insurance settlement recoveries related to the 2017 earthquake in Mexico.

2017

Net revenue declined 2%, reflecting the impact of the 53rd reporting week in 2016, which negatively impacted net revenue performance by 2 percentage points, as well as unfavorable mix. Volume declined 2%, reflecting a low-single-digit decline in ready-to-eat cereals and high-single-digit declines in trademark Roni and Gamesa, in part reflecting the impact of the 53rd reporting week in 2016 which negatively impacted volume performance by 2 percentage points.

Operating profit decreased 1%, reflecting certain operating cost increases and the net revenue performance. The 53rd reporting week in 2016 negatively impacted operating profit performance by 2 percentage points. These impacts were partially offset by productivity savings, lower advertising and marketing expenses and a 1.5-percentage-point impact of 2016 incremental investments into our business. Higher restructuring and impairment charges negatively impacted operating profit performance by 1 percentage point.

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North America Beverages

| | 2018 | 2017(a) | 2016(a) | % Change 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Net revenue | $21,072 | $20,936 | $21,312 | 1 | | (2 ) |
| Impact of foreign exchange translation | | | | — | | — |
| Impact of acquisitions and divestitures | | | | — | | (1 ) |
| Impact of sales and certain other taxes (b) | | | | — | | — |
| Impact of 53rd reporting week | | | | — | | 1 |
| Organic revenue growth (b) | | | | 0.5 | (d) | (2 ) |
| | | | | | | |
| Operating profit | $2,276 | $2,700 | $2,947 | (16 ) | | (8 ) |
| Restructuring and impairment charges (c) | 88 | 43 | 33 | | | |
| Operating profit excluding above item (b) | $2,364 | $2,743 | $2,980 | (14 ) | | (8 ) |
| Impact of foreign exchange translation | | | | — | | — |
| Operating profit growth excluding above item, on a constant currency basis (b) | | | | (14 ) | | (8 ) |

(a) In 2017 and 2016, operating profit and restructuring and impairment charges reflect 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 consolidated financial statements.
(b) See “Non-GAAP Measures.”
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

2018

Net revenue grew 1%, driven by effective net pricing, partially offset by a decline in volume. Volume decreased 1%, driven by a 3% decline in CSD volume, partially offset by a 2% increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected a high-single-digit increase in our overall water portfolio. Additionally, a low-single-digit increase in Gatorade sports drinks was offset by a low-single-digit decline in our juice and juice drinks portfolio.

Operating profit decreased 16%, reflecting certain operating cost increases, including increased transportation costs, a 7-percentage-point impact of higher commodity costs and higher advertising and marketing expenses. These impacts were partially offset by productivity savings and the net revenue growth. Higher gains on asset sales positively contributed 1.5 percentage points to operating profit performance. A bonus extended to certain U.S. employees in connection with the TCJ Act negatively impacted operating profit performance by 1.5 percentage points and was partially offset by prior-year costs related to hurricanes which positively contributed 1 percentage point to operating profit performance.

2017

Net revenue decreased 2%, primarily reflecting a decline in volume, partially offset by effective net pricing, as well as acquisitions which positively contributed 1 percentage point to the net revenue performance. The 53rd reporting week in 2016 negatively impacted net revenue performance by 1 percentage point. Volume decreased 3.5%, driven by a 5% decline in CSD volume and a 1% decline in non-carbonated beverage volume. The non-carbonated beverage volume decrease primarily reflected mid-single-digit declines in Gatorade sports drinks and in our juice and juice drinks portfolio, partially offset by a mid-single-digit increase in our overall water portfolio and a low-single-digit increase in Lipton ready-to-drink teas. Acquisitions had a nominal positive contribution to the volume performance. The 53rd reporting week in 2016 negatively impacted volume performance by 1.5 percentage points.

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Operating profit decreased 8%, primarily reflecting certain operating cost increases, the net revenue performance and a 2-percentage-point impact of higher commodity costs. These impacts were partially offset by productivity savings and lower advertising and marketing expenses. Costs related to the hurricanes that occurred in 2017 negatively impacted operating profit performance by 1 percentage point and were offset by a gain associated with a sale of an asset. In addition, the 53rd reporting week in 2016 negatively impacted operating profit performance by 1 percentage point and was offset by incremental investments in our business in 2016.

Latin America

| | | | | % Change | |
|---|---|---|---|---|---|
| | 2018 | 2017[(a)] | 2016[(a)] | 2018 | 2017 |
| Net revenue | $7,354 | $7,208 | $6,820 | 2 | 6 |
| Impact of foreign exchange translation | | | | 6 | (1) |
| Impact of acquisitions and divestitures | | | | — | 0.5 |
| Organic revenue growth [(b)] | | | | 8 | 5 [(d)] |
| | | | | | |
| Operating profit | $1,049 | $924 | $904 | 13 | 2 |
| Restructuring and impairment charges [(c)] | 40 | 56 | 27 | | |
| Operating profit excluding above item [(b)] | $1,089 | $980 | $931 | 11 | 5 |
| Impact of foreign exchange translation | | | | 2 | 1 |
| Operating profit growth excluding above item, on a constant currency basis [(b)] | | | | 13 | 6 |

(a) In 2017 and 2016, operating profit and restructuring and impairment charges reflect 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 consolidated financial statements.
(b) See “Non-GAAP Measures.”
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

2018

Net revenue grew 2%, reflecting effective net pricing, partially offset by a 6-percentage-point impact of unfavorable foreign exchange.

Snacks volume grew 1%, reflecting low-single-digit growth in Mexico, partially offset by a mid-single-digit decline in Brazil.

Beverage volume declined 1%, reflecting a high-single-digit decline in Brazil, a low-single-digit decline in Mexico and a mid-single-digit decline in Argentina, partially offset by double-digit growth in Colombia, mid-single-digit growth in Guatemala and low-single-digit growth in Honduras.

Operating profit increased 13%, reflecting the net revenue growth, productivity savings and a 4-percentage-point impact of insurance settlement recoveries related to the 2017 earthquake in Mexico. These impacts were partially offset by certain operating cost increases, a 14-percentage-point impact of higher commodity costs and higher advertising and marketing expenses.

2017

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

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

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

Operating profit increased 2%, reflecting the effective net pricing and productivity savings. These impacts were partially offset by certain operating cost increases, the volume declines and a 16-percentage-point impact of higher commodity costs. Higher restructuring and impairment charges reduced operating profit growth by 3 percentage points.

Europe Sub-Saharan Africa

| | | | | % Change | |
|---|---|---|---|---|---|
| | 2018 | 2017[(a)] | 2016[(a)] | 2018 | 2017 |
| Net revenue | $11,523 | $11,050 | $10,216 | 4 | 8 |
| Impact of foreign exchange translation | | | | 2 | (3 ) |
| Impact of acquisitions and divestitures | | | | — | — |
| Impact of sales and certain other taxes [(b)] | | | | 0.5 | — |
| Impact of 53rd reporting week | | | | — | — |
| Organic revenue growth [(b)] | | | | 7 [(d)] | 6 [(d)] |
| | | | | | |
| Operating profit | $1,364 | $1,316 | $1,061 | 4 | 24 |
| Restructuring and impairment charges [(c)] | 63 | 53 | 60 | | |
| Merger and integration charges [(c)] | 57 | — | — | | |
| Operating profit excluding above items [(b)] | $1,484 | $1,369 | $1,121 | 8 | 22 |
| Impact of foreign exchange translation | | | | 3 | — |
| Operating profit growth excluding above items, on a constant currency basis [(b)] | | | | 11 | 22 |

(a) In 2017 and 2016, operating profit and restructuring and impairment charges reflect 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 consolidated financial statements.
(b) See “Non-GAAP Measures.”
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

2018

Net revenue increased 4%, reflecting volume growth and effective net pricing, partially offset by a 2-percentage-point impact of unfavorable foreign exchange.

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

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

Operating profit increased 4%, reflecting the net revenue growth, productivity savings and a 4-percentage-point net impact of refranchising our entire beverage bottling operations and snack distribution operations in CHS. These impacts were partially offset by certain operating cost increases and an 8-percentage-point impact of higher commodity costs. Additionally, a prior-year gain on the sale of our minority stake in Britvic

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and the merger and integration charges related to our acquisition of SodaStream reduced operating profit growth by 7 percentage points and 4 percentage points, respectively.

2017

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

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

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

Operating profit increased 24%, reflecting the net revenue growth and productivity savings. Additionally, a gain on the sale of our minority stake in Britvic in 2017 contributed 8 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases, higher advertising and marketing expenses and a 7-percentage-point impact of higher commodity costs.

Asia, Middle East and North Africa

| | | | | % Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| Net revenue | $5,901 | $6,030 | $6,338 | (2 ) | (5 ) |
| Impact of foreign exchange translation | | | | 1 | 10 |
| Impact of acquisitions and divestitures | | | | 8 | — |
| Impact of sales and certain other taxes [(a)] | | | | — | — |
| Organic revenue growth [(a)] | | | | 7 | 5 |
| | | | | | |
| Operating profit | $1,172 | $1,073 | $619 | 9 | 73 |
| Restructuring and impairment charges [(b)] | 28 | (3 ) | 14 | | |
| Charge related to the transaction with Tingyi [(b)] | — | — | 373 | | |
| Operating profit excluding above items [(a)] | $1,200 | $1,070 | $1,006 | 12 | 6 |
| Impact of foreign exchange translation | | | | (1 ) | 8 |
| Operating profit growth excluding above items, on a constant currency basis [(a)] | | | | 11 | 15 [(c)] |

(a) See "Non-GAAP Measures."
(b) See "Items Affecting Comparability."
(c) Does not sum due to rounding.

2018

Net revenue declined 2%, reflecting an 8-percentage-point impact of refranchising a portion of our beverage businesses in Thailand in 2018 and Jordan in 2017, partially offset by net volume growth and effective net pricing.

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

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Beverage volume declined slightly, reflecting a mid-single-digit decline in the Middle East and a double-digit decline in the Philippines, partially offset by double-digit growth in Vietnam, mid-single-digit growth in India and low-single-digit growth in Pakistan and China.

Operating profit grew 9%, primarily reflecting the effective net pricing, productivity savings and the net volume growth, partially offset by certain operating cost increases, higher advertising and marketing expenses and a 4-percentage-point impact of higher commodity costs. The net impact of refranchising a portion of our beverage business in Thailand in 2018 contributed 13 percentage points to operating profit growth and was offset by a 16-percentage-point negative impact of the prior year refranchising of a portion of our beverage business in Jordan.

2017

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

Snacks volume grew 5%, driven by high-single-digit growth in China and India and double-digit growth in Pakistan. Additionally, the Middle East experienced low-single-digit growth and Australia experienced mid-single-digit growth.

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

Operating profit improvement primarily reflected a 2016 impairment charge to reduce the value of our 5% indirect equity interest in KSFB to its estimated fair value. The effective net pricing and productivity savings also increased operating profit growth. Additionally, the impact of refranchising a portion of our beverage business in Jordan contributed 14 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases and a 32-percentage-point impact of higher commodity costs, primarily due to transaction-related foreign exchange on raw material purchases driven by the weak Egyptian pound. Unfavorable foreign exchange translation reduced operating profit growth by 8 percentage points.

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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, debt repayments and transition tax liability under the TCJ Act, include cash from operations, proceeds obtained from issuances of commercial paper and long-term debt and cash, cash equivalents and short-term investments. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us, or at all. See Note 8 to our consolidated financial statements for a description of our credit facilities. See also “Item 1A. Risk Factors” and “Our Business Risks” for further discussion.

As of December 29, 2018, we had cash, cash equivalents, short-term investments and restricted cash in our consolidated subsidiaries of $5.7 billion outside the United States. The restricted cash of approximately $2.0 billion held outside the United States relates to our acquisition of SodaStream. Refer to Note 13 to our consolidated financial statements for further discussion of restricted cash. The TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings, including $18.9 billion held in our consolidated subsidiaries outside the United States as of December 30, 2017. As of December 29, 2018, our mandatory transition tax liability is $3.8 billion. 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 of this liability in 2019 and the remainder over the period 2020 to 2026. See “Credit Facilities and Long-Term Contractual Commitments.” While our accounting for the recorded impact of the TCJ Act is deemed to be complete, this amount is based on prevailing regulations and currently available information, and any additional guidance issued by the IRS could impact the aforementioned amount in future periods. The IRS issued additional guidance in the first quarter of 2019 and we are currently evaluating the impact of this guidance.

In connection with the TCJ Act, during 2018 we repatriated $20.4 billion of cash, cash equivalents and short-term investments held in our foreign subsidiaries without such funds being subject to further U.S. federal income tax liability. The repatriated cash was used primarily for repayment of commercial paper and to fund discretionary benefit plan contributions, debt repayments, dividend payments, share repurchases and our acquisition of SodaStream. See “Item 1A. Risk Factors,” “Our Business Risks,” “Items Affecting Comparability,” “Our Critical Accounting Policies,” as well as Note 5 to our consolidated financial statements.

As of December 29, 2018, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material.

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

The table below summarizes our cash activity:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net cash provided by operating activities | $9,415 | $10,030 | $10,663 |
| Net cash provided by/(used for) investing activities | $4,564 | $(4,403 ) | $(7,150 ) |
| Net cash used for financing activities | $(13,769) | $(4,186 ) | $(3,211 ) |

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Operating Activities

During 2018, net cash provided by operating activities was $9.4 billion, compared to $10.0 billion in the prior year. The operating cash flow performance primarily reflects the discretionary contributions of $1.5 billion to our pension and retiree medical plans in the current year, partially offset by lower net cash tax payments in the current year.

During 2017, net cash provided by operating activities was $10 billion, compared to $10.7 billion in 2016. The operating cash flow performance primarily reflects unfavorable working capital comparisons to 2016. This decrease is mainly due to higher current year payments to vendors and customers, coupled with higher net cash tax payments in 2017, partially offset by lower pension and retiree medical plan contributions in 2017.

See Note 7 to our consolidated financial statements for further discussion of pension contributions.

Investing Activities

During 2018, net cash provided by investing activities was $4.6 billion, primarily reflecting net maturities and sales of debt securities with maturities greater than three months of $8.7 billion, partially offset by net capital spending of $3.1 billion and $1.2 billion of cash paid, net of cash and cash equivalents acquired, in connection with our acquisition of SodaStream.

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

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

We expect 2019 net capital spending to be approximately $4.5 billion.

Financing Activities

During 2018, net cash used for financing activities was $13.8 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of $6.9 billion, payments of long-term debt borrowings of $4.0 billion, cash tender and exchange offers of $1.6 billion and net payments of short-term borrowings of $1.4 billion.

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

See Note 8 to our consolidated financial statements for further discussion of debt obligations.

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 (2015 share repurchase program). The 2015 share repurchase program had approximately $4.3 billion of authorized repurchase capacity unused at expiration. On February 13, 2018, we announced the 2018 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. On February 15, 2019, we announced a 3% increase in our annualized dividend to $3.82 per share from $3.71 per share, effective with the dividend expected to be paid in June 2019. We expect to return a total of approximately $8 billion to shareholders in 2019 through share repurchases of approximately $3 billion and dividends of approximately $5 billion.

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Free Cash Flow

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

| | 2018 | 2017 | 2016 | % Change 2018 | % Change 2017 |
|---|---|---|---|---|---|
| Net cash provided by operating activities | $9,415 | $10,030 | $10,663 | (6 ) | (6 ) |
| Capital spending | (3,282 ) | (2,969 ) | (3,040 ) | | |
| Sales of property, plant and equipment | 134 | 180 | 99 | | |
| Free cash flow [(a)] | $6,267 | $7,241 | $7,722 | (13 ) | (6 ) |

(a) See "Non-GAAP Measures." In addition, when evaluating free cash flow, we also consider the following items impacting comparability: $1.5 billion, $6 million and $459 million in discretionary pension and retiree medical contributions and associated net cash tax benefits of $473 million, $1 million and $151 million in 2018, 2017 and 2016, respectively; $266 million, $113 million and $125 million of payments related to restructuring charges and associated net cash tax benefits of $45 million, $30 million and $22 million in 2018, 2017 and 2016, respectively; tax payments related to the TCJ Act of $115 million in 2018; certain other items of $47 million in 2018; net cash tax benefit related to debt redemption charge of $83 million in 2016; and net cash received related to interest rate swaps of $5 million in 2016. We will also consider payments related to the transition tax liability of $3.8 billion as of December 29, 2018, which we currently expect to be paid over the period 2019 to 2026 under the provisions of the TCJ Act, as an item impacting comparability.

We use free cash flow primarily for financing activities, including debt repayments, dividends and share repurchases. We expect to continue to return free cash flow to our shareholders through dividends and share repurchases while maintaining Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. However, see "Item 1A. Risk Factors" and "Our Business Risks" for certain factors that may impact our credit ratings or our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether or not as a result of our actions or factors which are beyond our control, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See "Item 1A. Risk Factors," "Our Business Risks" and Note 8 to our consolidated financial statements for further discussion.

Credit Facilities and Long-Term Contractual Commitments

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

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

| | Payments Due by Period[a] | | | | |
|---|---|---|---|---|---|
| | Total | 2019 | 2020 – 2021 | 2022 – 2023 | 2024 and beyond |
| Long-term debt obligations [b] | $28,351 | $— | $7,166 | $5,093 | $16,092 |
| Interest on debt obligations [c] | 11,157 | 1,044 | 1,759 | 1,322 | 7,032 |
| Operating leases [d] | 1,840 | 459 | 700 | 371 | 310 |
| Purchasing commitments [e] | 2,602 | 982 | 1,221 | 252 | 147 |
| Marketing commitments [e] | 1,686 | 452 | 796 | 234 | 204 |
| | $45,636 | $2,937 | $11,642 | $7,272 | $23,785 |

(a) Based on year-end foreign exchange rates. Reserves for uncertain tax positions are excluded from the table above as we are unable to reasonably predict the ultimate amount or timing of any such settlements. However, under the provisions of the TCJ Act, our transition tax liability of $3.8 billion, of which $3.4 billion is recorded in other liabilities on our balance sheet, must be paid over eight years. We expect to pay approximately $0.4 billion in 2019, $0.3 billion per year in 2020-2023, $0.6 billion in 2024, $0.7 billion in 2025 and $0.9 billion in 2026 and these amounts are excluded from the table above.

(b) Excludes $3,953 million related to current maturities of debt, $56 million related to the fair value adjustments for debt acquired in acquisitions and interest rate swaps and payments of $119 million related to unamortized net discounts.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of December 29, 2018.

(d) See Note 15 to our consolidated financial statements for additional information on operating leases.

(e) Primarily reflects non-cancelable commitments as of December 29, 2018.

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

Off-Balance-Sheet Arrangements

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

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

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Return on Invested Capital

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net income attributable to PepsiCo | $12,515 (a) | $4,857 (a) | $6,329 |
| Interest expense | 1,525 | 1,151 | 1,342 |
| Tax on interest expense | (339) | (415) | (483) |
| | $13,701 | $5,593 | $7,188 |
| | | | |
| Average debt obligations (b) | $38,169 | $38,707 | $35,308 |
| Average common shareholders’ equity (c) | 11,368 | 12,004 | 11,943 |
| Average invested capital | $49,537 | $50,711 | $47,251 |
| | | | |
| Return on invested capital | 27.7 % (a) | 11.0 % (a) | 15.2 % |

(a) Our fiscal 2018 results include other net tax benefits related to the reorganization of our international operations. Our fiscal 2018 and 2017 results include the impact of the TCJ Act. See Note 5 to our consolidated financial statements.

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

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

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| ROIC | 27.7 % | 11.0 % | 15.2 % |
| Impact of: | | | |
| Average cash, cash equivalents and short-term investments | 7.8 | 7.6 | 6.0 |
| Interest income | (0.6) | (0.5) | (0.2) |
| Tax on interest income | 0.1 | 0.2 | 0.1 |
| Mark-to-market net impact | 0.2 | — | (0.2) |
| Restructuring and impairment charges | 0.4 | 0.3 | 0.1 |
| Merger and integration charges | 0.1 | — | — |
| Net tax (benefit)/expense related to the TCJ Act | (1.1) | 4.5 | — |
| Other net tax benefits | (9.7) | 0.1 | 0.1 |
| Charges related to cash tender and exchange offers | (0.1) | — | — |
| Charges related to the transaction with Tingyi | — | (0.1) | 0.6 |
| Pension-related settlement charge | — | — | 0.3 |
| Venezuela impairment charges | — | (0.2) | (0.5) |
| Net ROIC, excluding items affecting comparability | 24.8 % | 22.9 % | 21.5 % |

## OUR CRITICAL ACCOUNTING POLICIES

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

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Our critical accounting policies are:

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

Revenue Recognition

We recognize revenue 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. However, our policy for DSD and certain chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. As a result, we record reserves, based on estimates, for anticipated damaged and out-of-date products.

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the United States, and generally within 30 to 90 days internationally, and may allow discounts for early payment.

We estimate and reserve for our bad debt exposure based on our experience with past due accounts and collectibility, the aging of accounts receivable and our analysis of customer data.

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

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

See Note 2 to our consolidated financial statements for additional information on our revenue recognition and related policies, including total marketplace spending.

Goodwill and Other Intangible Assets

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

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expansion expectations, amount and timing of future cash flows and the discount rate applied to the cash flows.
We believe that a brand has an indefinite life if it has a history of strong revenue and cash flow performance and we have the intent and ability to support the brand with marketplace spending for the foreseeable future. If these indefinite-lived brand criteria are not met, brands are amortized over their expected useful lives, which generally range from 20 to 40 years. Determining the expected life of a brand requires management judgment and is based on an evaluation of a number of factors, including market share, consumer awareness, brand history, future expansion expectations and regulatory restrictions, as well as the macroeconomic environment of the countries in which the brand is sold.
In connection with previous acquisitions, we reacquired certain franchise rights which provided the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. In determining the useful life of these franchise rights, many factors were considered, including the pre-existing perpetual bottling arrangements, the indefinite period expected for these franchise rights to contribute to our future cash flows, as well as the lack of any factors that would limit the useful life of these franchise rights to us, including legal, regulatory, contractual, competitive, economic or other factors. Therefore, certain of these franchise rights are considered as indefinite-lived. Franchise rights that are not considered indefinite-lived are amortized over the remaining contractual period of the contract in which the right was granted.
Indefinite-lived intangible assets and goodwill are not amortized and, as a result, are assessed for impairment at least annually, using either a qualitative or quantitative approach. We perform this annual assessment during our third quarter. Where we use the qualitative assessment, first we determine if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include macroeconomic, industry and competitive conditions, legal and regulatory environment, historical financial performance and significant changes in the brand or reporting unit. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed.
In the quantitative assessment, estimated fair value is determined using discounted cash flows and requires an analysis of several estimates including future cash flows or income consistent with management's strategic business plans, annual sales growth rates, perpetuity growth assumptions and the selection of assumptions underlying a discount rate (weighted-average cost of capital) based on market data available at the time. Significant management judgment is necessary to estimate the impact of competitive operating, macroeconomic and other factors to estimate future levels of sales, operating profit or cash flows. All assumptions used in our impairment evaluations for indefinite-lived intangible assets, such as forecasted growth rates and weighted-average cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. These assumptions could be adversely impacted by certain of the risks described in "Item 1A. Risk Factors" and "Our Business Risks."
Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.
See Note 2 and Note 4 to our consolidated financial statements.
Income Tax Expense and Accruals
Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we likely

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will not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit. See "Item 1A. Risk Factors" for further discussion.

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

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

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional net tax expense of $2.5 billion ($1.70 per share) in the fourth quarter of 2017.

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

During 2018, we recognized a net tax benefit of $28 million ($0.02 per share) in connection with the TCJ Act. See further information in "Items Affecting Comparability."

While our accounting for the recorded impact of the TCJ Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the IRS could impact the aforementioned amounts in future periods. As a result of the TCJ Act, we currently expect our annual tax rate, excluding items affecting comparability, in percentage terms, to be in the low twenties in 2019. However, we continue to evaluate the impact of the TCJ Act on our annual tax rate due to certain provisions, such as the global intangible low-tax income (GILTI) provision, which may impact our tax rate in future years.

In 2018, our annual tax rate was (36.7)% compared to 48.9% in 2017, as discussed in "Other Consolidated Results." The tax rate decreased 85.6 percentage points compared to 2017, reflecting both other net tax benefits related to the reorganization of our international operations, which reduced the reported tax rate by 45 percentage points, and the prior year provisional net tax expense related to the TCJ Act, which reduced the current year reported tax rate by 25 percentage points. Additionally, the favorable conclusion of certain international tax audits and the favorable resolution with the IRS of all open matters related to the audits of

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taxable years 2012 and 2013, collectively, reduced the reported tax rate by 7 percentage points. See Note 5 to our consolidated financial statements.

Pension and Retiree Medical Plans

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

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

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

Our Assumptions

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

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

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

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Certain assumptions reflect our historical experience and management's best judgment regarding future expectations. All actuarial assumptions are reviewed annually, except in the case of an interim remeasurement due to a significant event such as a curtailment or settlement. Due to the significant management judgment involved, our assumptions could have a material impact on the measurement of our pension and retiree medical expenses and obligations.

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

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

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

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

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Pension | | | |
| Service cost discount rate | 4.4 % | 3.7 % | 4.3 % |
| Interest cost discount rate | 3.9 % | 3.2 % | 3.5 % |
| Expected rate of return on plan assets | 6.8 % | 6.9 % | 7.2 % |
| Expected rate of salary increases | 3.2 % | 3.2 % | 3.2 % |
| Retiree medical | | | |
| Service cost discount rate | 4.3 % | 3.6 % | 4.0 % |
| Interest cost discount rate | 3.8 % | 3.0 % | 3.2 % |
| Expected rate of return on plan assets | 6.6 % | 6.5 % | 7.5 % |
| Current health care cost trend rate | 5.7 % | 5.8 % | 5.9 % |

Based on our assumptions, we expect our total pension and retiree medical expense to increase in 2019 primarily driven by the recognition of prior experience losses on return on plan assets, partially offset by the impact of higher discount rates and discretionary plan contributions.

Sensitivity of Assumptions

A decrease in each of the collective discount rates or in the expected rate of return assumptions would increase expense for our benefit plans. A 25-basis-point decrease in each of the above discount rates and expected rate of return assumptions would individually increase 2019 pre-tax pension and retiree medical expense as follows:

| Assumption | Amount |
|---|---|
| Discount rates used in the calculation of expense | $42 |
| Expected rate of return | $40 |

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Funding

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

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

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Consolidated Statement of Income
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016
(in millions except per share amounts)

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net Revenue | $64,661 | $63,525 | $62,799 |
| Cost of sales | 29,381 | 28,796 | 28,222 |
| Gross profit | 35,280 | 34,729 | 34,577 |
| Selling, general and administrative expenses | 25,170 | 24,453 | 24,773 |
| Operating Profit | 10,110 | 10,276 | 9,804 |
| Other pension and retiree medical benefits income/(expense) | 298 | 233 | (19) |
| Interest expense | (1,525) | (1,151) | (1,342) |
| Interest income and other | 306 | 244 | 110 |
| Income before income taxes | 9,189 | 9,602 | 8,553 |
| (Benefit from)/provision for income taxes (See Note 5) | (3,370) | 4,694 | 2,174 |
| Net income | 12,559 | 4,908 | 6,379 |
| Less: Net income attributable to noncontrolling interests | 44 | 51 | 50 |
| Net Income Attributable to PepsiCo | $12,515 | $4,857 | $6,329 |
| Net Income Attributable to PepsiCo per Common Share | | | |
| Basic | $8.84 | $3.40 | $4.39 |
| Diluted | $8.78 | $3.38 | $4.36 |
| Weighted-average common shares outstanding | | | |
| Basic | 1,415 | 1,425 | 1,439 |
| Diluted | 1,425 | 1,438 | 1,452 |

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Comprehensive Income
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016
(in millions)

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net income | $12,559 | $4,908 | $6,379 |
| Other comprehensive income/(loss), net of taxes: | | | |
| Net currency translation adjustment | (1,641) | 1,109 | (302) |
| Net change on cash flow hedges | 40 | (36) | 46 |
| Net pension and retiree medical adjustments | (467) | (159) | (316) |
| Net change on available-for-sale securities | 6 | (68) | (24) |
| Other | — | 16 | — |
| | (2,062) | 862 | (596) |
| Comprehensive income | 10,497 | 5,770 | 5,783 |
| Comprehensive income attributable to noncontrolling interests | (44) | (51) | (54) |
| Comprehensive Income Attributable to PepsiCo | $10,453 | $5,719 | $5,729 |

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Cash Flows
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016
(in millions)

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Operating Activities | | | |
| Net income | $ 12,559 | $ 4,908 | $ 6,379 |
| Depreciation and amortization | 2,399 | 2,369 | 2,368 |
| Share-based compensation expense | 256 | 292 | 284 |
| Restructuring and impairment charges | 308 | 295 | 160 |
| Cash payments for restructuring charges | (255) | (113) | (125) |
| Charge related to the transaction with Tingyi | — | — | 373 |
| Pension and retiree medical plan expenses | 221 | 221 | 501 |
| Pension and retiree medical plan contributions | (1,708) | (220) | (695) |
| Deferred income taxes and other tax charges and credits | (531) | 619 | 452 |
| Other net tax benefits related to international reorganizations | (4,347) | — | — |
| Net tax (benefit)/expense related to the TCJ Act | (28) | 2,451 | — |
| Change in assets and liabilities: | | | |
| Accounts and notes receivable | (253) | (202) | (349) |
| Inventories | (174) | (168) | (75) |
| Prepaid expenses and other current assets | 9 | 20 | 10 |
| Accounts payable and other current liabilities | 882 | 201 | 981 |
| Income taxes payable | 333 | (338) | 329 |
| Other, net | (256) | (305) | 70 |
| Net Cash Provided by Operating Activities | 9,415 | 10,030 | 10,663 |
| | | | |
| Investing Activities | | | |
| Capital spending | (3,282) | (2,969) | (3,040) |
| Sales of property, plant and equipment | 134 | 180 | 99 |

| | | | |
|---|---|---|---|
| Acquisition of SodaStream, net of cash and cash equivalents acquired | (1,197) | — | — |
| Other acquisitions and investments in noncontrolled affiliates | (299) | (61) | (212) |
| Divestitures | 505 | 267 | 85 |
| Short-term investments, by original maturity: | | | |
| More than three months - purchases | (5,637) | (18,385) | (12,504) |
| More than three months - maturities | 12,824 | 15,744 | 8,399 |
| More than three months - sales | 1,498 | 790 | — |
| Three months or less, net | 16 | 2 | 16 |
| Other investing, net | 2 | 29 | 7 |
| Net Cash Provided by/(Used for) Investing Activities | 4,564 | (4,403) | (7,150) |
| | | | |
| Financing Activities | | | |
| Proceeds from issuances of long-term debt | — | 7,509 | 7,818 |
| Payments of long-term debt | (4,007) | (4,406) | (3,105) |
| Cash tender and exchange offers/debt redemptions | (1,589) | — | (2,504) |
| Short-term borrowings, by original maturity: | | | |
| More than three months - proceeds | 3 | 91 | 59 |
| More than three months - payments | (17) | (128) | (27) |
| Three months or less, net | (1,352) | (1,016) | 1,505 |
| Cash dividends paid | (4,930) | (4,472) | (4,227) |
| Share repurchases - common | (2,000) | (2,000) | (3,000) |
| Share repurchases - preferred | (2) | (5) | (7) |
| Proceeds from exercises of stock options | 281 | 462 | 465 |
| Withholding tax payments on RSUs, | (103) | (145) | (130) |

| | | | |
|---|---|---|---|
| PSUs and PEPunits converted | | | |
| Other financing | (53) | (76) | (58) |
| Net Cash Used for Financing Activities | (13,769) | (4,186) | (3,211) |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | (98) | 47 | (252) |
| Net Increase in Cash and Cash Equivalents and Restricted Cash | 112 | 1,488 | 50 |
| Cash and Cash Equivalents and Restricted Cash, Beginning of Year | 10,657 | 9,169 | 9,119 |
| Cash and Cash Equivalents and Restricted Cash, End of Year | $ 10,769 | $ 10,657 | $ 9,169 |

See accompanying notes to the consolidated financial statements.

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Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
December 29, 2018 and December 30, 2017
(in millions except per share amounts)

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | $ | 8,721 | $ | 10,610 | |
| Short-term investments | 272 | | 8,900 | | |
| Restricted cash | 1,997 | | — | | |
| Accounts and notes receivable, net | 7,142 | | 7,024 | | |
| Inventories | 3,128 | | 2,947 | | |
| Prepaid expenses and other current assets | 633 | | 1,546 | | |
| Total Current Assets | 21,893 | | 31,027 | | |
| Property, Plant and Equipment, net | 17,589 | | 17,240 | | |
| Amortizable Intangible Assets, net | 1,644 | | 1,268 | | |
| Goodwill | 14,808 | | 14,744 | | |
| Other indefinite-lived intangible assets | 14,181 | | 12,570 | | |
| Indefinite-Lived Intangible Assets | 28,989 | | 27,314 | | |
| Investments in Noncontrolled Affiliates | 2,409 | | 2,042 | | |
| Deferred Income Taxes | 4,364 | | — | | |
| Other Assets | 760 | | 913 | | |
| Total Assets | $ | 77,648 | $ | 79,804 | |
| | | | | | |
| LIABILITIES AND EQUITY | | | | | |
| Current Liabilities | | | | | |
| Short-term debt obligations | $ | 4,026 | $ | 5,485 | |
| Accounts payable and other current liabilities | 18,112 | | 15,017 | | |
| Total Current Liabilities | 22,138 | | 20,502 | | |
| Long-Term Debt Obligations | 28,295 | | 33,796 | | |
| Deferred Income Taxes | 3,499 | | 3,242 | | |
| Other Liabilities | 9,114 | | 11,283 | | |
| Total Liabilities | 63,046 | | 68,823 | | |
| Commitments and contingencies | | | | | |
| Preferred Stock, no par value | — | | 41 | | |
| | — | | (197 | | ) |

| | | |
|---|---|---|
| Repurchased Preferred Stock | | |
| 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: 1,409 and 1,420 shares, respectively) | 23 | 24 |
| Capital in excess of par value | 3,953 | 3,996 |
| Retained earnings | 59,947 | 52,839 |
| Accumulated other comprehensive loss | (15,119) | (13,057) |
| Repurchased common stock, in excess of par value (458 and 446 shares, respectively) | (34,286) | (32,757) |
| Total PepsiCo Common Shareholders' Equity | 14,518 | 11,045 |
| Noncontrolling interests | 84 | 92 |
| Total Equity | 14,602 | 10,981 |
| Total Liabilities and Equity | $ 77,648 | $ 79,804 |

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Equity
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016
(in millions)

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Preferred Stock | | | | | | |
| Balance, beginning of year | 0.8 | $41 | 0.8 | $41 | 0.8 | $41 |
| Conversion to common stock | (0.1) | (6) | — | — | — | — |
| Retirement of preferred stock | (0.7) | (35) | — | — | — | — |
| Balance, end of year | — | — | 0.8 | 41 | 0.8 | 41 |
| Repurchased Preferred Stock | | | | | | |
| Balance, beginning of year | (0.7) | (197) | (0.7) | (192) | (0.7) | (186) |
| Redemptions | — | (2) | — | (5) | — | (6) |
| Retirement of preferred stock | 0.7 | 199 | — | — | — | — |
| Balance, end of year | — | — | (0.7) | (197) | (0.7) | (192) |
| Common Stock | | | | | | |
| Balance, beginning of year | 1,420 | 24 | 1,428 | 24 | 1,448 | 24 |
| Share issued in connection with preferred stock conversion to common stock | 1 | — | — | — | — | — |
| Change in repurchased common stock | (12) | (1) | (8) | — | (20) | — |
| Balance, end of year | 1,409 | 23 | 1,420 | 24 | 1,428 | 24 |
| Capital in Excess of Par Value | | | | | | |
| Balance, beginning of year | | 3,996 | | 4,091 | | 4,076 |
| Share-based compensation expense | | 250 | | 290 | | 289 |
| Equity issued in connection with preferred stock conversion to common stock | | 6 | | — | | — |
| Stock option exercises, RSUs, PSUs and PEPunits converted (a) | | (193) | | (236) | | (138) |
| Withholding tax on RSUs, PSUs and PEPunits converted | | (103) | | (145) | | (130) |
| Other | | (3) | | (4) | | (6) |
| Balance, end of year | | 3,953 | | 3,996 | | 4,091 |
| Retained Earnings | | | | | | |
| Balance, beginning of year | | 52,839 | | 52,518 | | 50,472 |
| Cumulative effect of accounting changes | | (145) | | — | | — |
| Net income attributable to PepsiCo | | 12,515 | | 4,857 | | 6,329 |
| Cash dividends declared - common (b) | | (5,098) | | (4,536) | | (4,282) |
| Cash dividends declared - preferred | | — | | — | | (1) |
| Retirement of preferred stock | | (164) | | — | | — |
| Balance, end of year | | 59,947 | | 52,839 | | 52,518 |
| Accumulated Other Comprehensive Loss | | | | | | |
| Balance, beginning of year | | (13,057) | | (13,919) | | (13,319) |
| Other comprehensive (loss)/income attributable to PepsiCo | | (2,062) | | 862 | | (600) |
| Balance, end of year | | (15,119) | | (13,057) | | (13,919) |
| Repurchased Common Stock | | | | | | |
| Balance, beginning of year | (446) | (32,757) | (438) | (31,468) | (418) | (29,185) |
| Share repurchases | (18) | (2,000) | (18) | (2,000) | (29) | (3,000) |
| Stock option exercises, RSUs, PSUs and PEPunits converted | 6 | 469 | 10 | 708 | 9 | 712 |
| Other | — | 2 | — | 3 | — | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance, end of year | (458) | (34,286) | (446) | (32,757) | (438) | (31,468) |
| Total PepsiCo Common Shareholders' Equity | | 14,518 | | 11,045 | | 11,246 |
| Noncontrolling Interests | | | | | | |
| Balance, beginning of year | | 92 | | 104 | | 107 |
| Net income attributable to noncontrolling interests | | 44 | | 51 | | 50 |
| Distributions to noncontrolling interests | | (49) | | (62) | | (55) |
| Currency translation adjustment | | — | | — | | 4 |
| Other, net | | (3) | | (1) | | (2) |
| Balance, end of year | | 84 | | 92 | | 104 |
| Total Equity | | $14,602 | | $10,981 | | $11,199 |

(a) Includes total tax benefits of $110 million in 2016.
(b) Cash dividends declared per common share were $3.5875, $3.1675 and $2.96 for 2018, 2017 and 2016, respectively.
See accompanying notes to the consolidated financial statements.

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Notes to Consolidated Financial Statements

## Note 1 — Basis of Presentation and Our Divisions

### Basis of Presentation

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

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

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

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

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

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

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## Our Divisions

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

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

### Share-Based Compensation Expense

Our divisions are held accountable for share-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost.

The allocation of share-based compensation expense of each division is as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| FLNA | 13 % | 13 % | 14 % |
| QFNA | 1 % | 1 % | 2 % |
| NAB | 18 % | 18 % | 22 % |
| Latin America | 8 % | 7 % | 7 % |
| ESSA | 9 % | 9 % | 11 % |
| AMENA | 8 % | 9 % | 10 % |
| Corporate unallocated expenses | 43 % | 43 % | 34 % |

The expense allocated to our divisions excludes any impact of changes in our assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

### Pension and Retiree Medical Expense

Pension and retiree medical service costs measured at fixed discount rates are reflected in division results. The variance between the fixed discount rate used to determine the service cost reflected in division results and the discount rate as disclosed in Note 7 is reflected in corporate unallocated expenses.

### Derivatives

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

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

| | Net Revenue | | | Operating Profit[b] | | |
|---|---|---|---|---|---|---|
| | 2018[a] | 2017 | 2016 | 2018 | 2017[c] | 2016[c] |
| FLNA | $16,346 | $15,798 | $15,549 | $5,008 | $4,793 | $4,612 |
| QFNA | 2,465 | 2,503 | 2,564 | 637 | 640 | 649 |
| NAB | 21,072 | 20,936 | 21,312 | 2,276 | 2,700 | 2,947 |
| Latin America | 7,354 | 7,208 | 6,820 | 1,049 | 924 | 904 |
| ESSA | 11,523 | 11,050 | 10,216 | 1,364 | 1,316 | 1,061 |
| AMENA | 5,901 | 6,030 | 6,338 | 1,172 | 1,073 | 619 |
| Total division | 64,661 | 63,525 | 62,799 | 11,506 | 11,446 | 10,792 |
| Corporate unallocated expenses | — | — | — | (1,396) | (1,170) | (988) |
| | $64,661 | $63,525 | $62,799 | $10,110 | $10,276 | $9,804 |

(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. See Note 2 for additional information.

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

(c) 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.

Corporate Unallocated Expenses

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

Other Division Information

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

| | Total Assets | | Capital Spending | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2016 |
| FLNA | $6,577 | $5,979 | $840 | $665 | $801 |
| QFNA | 870 | 804 | 53 | 44 | 41 |
| NAB | 29,878 | 28,592 | 945 | 904 | 769 |
| Latin America | 6,458 | 4,976 | 492 | 481 | 507 |
| ESSA [a] | 17,410 | 13,556 | 479 | 481 | 439 |
| AMENA | 6,433 | 5,668 | 323 | 308 | 381 |
| Total division | 67,626 | 59,575 | 3,132 | 2,883 | 2,938 |
| Corporate [b] | 10,022 | 20,229 | 150 | 86 | 102 |
| | $77,648 | $79,804 | $3,282 | $2,969 | $3,040 |

(a) In 2018, the change in assets was primarily related to our acquisition of SodaStream.

(b) Corporate assets consist principally of certain cash and cash equivalents, restricted cash, short-term investments, derivative instruments, property, plant and equipment and tax assets. In 2018, the change in assets was primarily due to a decrease in short-term investments and cash and cash equivalents. Refer to the cash flow statement for additional information.

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

| | Amortization of Intangible Assets | | | Depreciation and Other Amortization | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| FLNA | $ 7 | $ 7 | $ 7 | $457 | $449 | $435 |
| QFNA | — | — | — | 45 | 47 | 50 |
| NAB | 31 | 31 | 37 | 821 | 780 | 809 |
| Latin America | 5 | 5 | 5 | 253 | 245 | 211 |
| ESSA | 23 | 22 | 18 | 331 | 329 | 321 |
| AMENA | 3 | 3 | 3 | 237 | 257 | 294 |
| Total division | 69 | 68 | 70 | 2,144 | 2,107 | 2,120 |
| Corporate | — | — | — | 186 | 194 | 178 |
| | $ 69 | $ 68 | $ 70 | $2,330 | $2,301 | $2,298 |

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

| | Net Revenue | | | Long-Lived Assets[(a)] | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| United States | $37,148 | $36,546 | $36,732 | $29,169 | $28,418 |
| Mexico | 3,878 | 3,650 | 3,431 | 1,404 | 1,205 |
| Russia [(b)] | 3,191 | 3,232 | 2,648 | 3,926 | 4,708 |
| Canada | 2,736 | 2,691 | 2,692 | 2,565 | 2,739 |
| United Kingdom | 1,743 | 1,650 | 1,737 | 759 | 817 |
| Brazil | 1,335 | 1,427 | 1,305 | 639 | 777 |
| All other countries [(c)] | 14,630 | 14,329 | 14,254 | 12,169 | 9,200 |
| | $64,661 | $63,525 | $62,799 | $50,631 | $47,864 |

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

(b) Change in net revenue in 2017 primarily reflects appreciation of the Russian ruble. Change in long-lived assets in 2018 primarily reflects depreciation of the Russian ruble.

(c) Change in long-lived assets in 2018 primarily related to our acquisition of SodaStream.

## Note 2 — Our Significant Accounting Policies

### Revenue Recognition

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. Merchandising activities are performed after a customer obtains control of the product, are accounted for as fulfillment of our performance obligation to ship or deliver product to our customers and are recorded in selling, general and administrative expenses. Merchandising activities are immaterial in the context of our contracts.

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. However, our policy for DSD and certain chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. As a result, we record reserves, based on estimates, for anticipated damaged and out-of-date products.

In addition, upon adoption of the revenue recognition guidance (see subsequent discussion of "Recently Issued Accounting Pronouncements - Adopted"), we exclude from net revenue and cost of sales, all sales,

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use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions. Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the United States, and generally within 30 to 90 days internationally, and may allow discounts for early payment.

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

We are exposed to concentration of credit risk from our major customers, including Walmart. In 2018, sales to Walmart (including Sam's) represented approximately 13% of our consolidated net revenue, including concentrate sales to our independent bottlers, which were used in finished goods sold by them to Walmart. We have not experienced credit issues with these customers.

Total Marketplace Spending

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

A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year as incurred.

The terms of most of our incentive arrangements do not exceed a year, and, therefore, do not require highly uncertain long-term estimates. Certain arrangements, such as fountain pouring rights, may extend beyond one year. Upfront payments to customers under these arrangements are recognized over the shorter of the economic or contractual life, primarily as a reduction of revenue, and the remaining balances of $218 million as of December 29, 2018 and $262 million as of December 30, 2017 are included in prepaid expenses and other current assets and other assets on our balance sheet. For additional unaudited information on our sales incentives, see "Our Customers" in "Item 1. Business."

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

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Advertising and other marketing activities, reported as selling, general and administrative expenses, totaled $4.2 billion in 2018, $4.1 billion in 2017 and $4.2 billion in 2016, including advertising expenses of $2.6 billion in 2018, $2.4 billion in 2017 and $2.5 billion in 2016. Deferred advertising costs are not expensed until the year first used and consist of:

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

Deferred advertising costs of $47 million and $46 million as of December 29, 2018 and December 30, 2017, respectively, are classified as prepaid expenses and other current assets on our balance sheet.

Distribution Costs

Distribution costs, including the costs of shipping and handling activities, which include certain merchandising activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were $10.5 billion in 2018, $9.9 billion in 2017 and $9.7 billion in 2016.

Cash Equivalents

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

Software Costs

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs include (i) external direct costs of materials and services utilized in developing or obtaining computer software, (ii) compensation and related benefits for employees who are directly associated with the software projects and (iii) interest costs incurred while developing internal-use computer software. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line basis when placed into service over the estimated useful lives of the software, which approximate five to 10 years. Software amortization totaled $204 million in 2018, $224 million in 2017 and $214 million in 2016. Net capitalized software and development costs were $577 million and $686 million as of December 29, 2018 and December 30, 2017, respectively.

Commitments and Contingencies

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

Research and Development

We engage in a variety of research and development activities and continue to invest to accelerate growth and to drive innovation globally. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were $680 million, $737 million and $760 million in 2018, 2017 and 2016, respectively, and are reported within selling, general and administrative expenses.

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

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Goodwill and Other Intangible Assets

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

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

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

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

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- Basis of Presentation – Note 1 includes a description of our policies regarding use of estimates, basis of presentation and consolidation.
- Property, Plant and Equipment – Note 4.
- Income Taxes – Note 5, and for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Share-Based Compensation – Note 6.
- Pension, Retiree Medical and Savings Plans – Note 7, and for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Financial Instruments – Note 9, and for additional unaudited information, see "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Inventories – Note 15. Inventories are valued at the lower of cost or net realizable value. Cost is determined using the average; first-in, first-out (FIFO) or, in limited instances, last-in, first-out (LIFO) methods.
- Translation of Financial Statements of Foreign Subsidiaries – Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities

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and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within common shareholders' equity as currency translation adjustment.

Recently Issued Accounting Pronouncements - Adopted

In 2017, the 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 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 $11 million and $222 million, respectively, for the year ended December 30, 2017 and an increase of $13 million and a decrease of $32 million, respectively, for the year ended December 31, 2016. We recorded a corresponding increase of $233 million and decrease of $19 million for the years ended December 30, 2017 and December 31, 2016, respectively, to other pension and retiree medical benefits income/(expense) below operating profit.

The (decreases)/increases to operating profit for each division and to corporate unallocated expenses are as follows:

| | 2017[a] | 2016[b] |
|---|---|---|
| FLNA | $ (30 ) | $ (47 ) |
| QFNA | (2 ) | (4 ) |
| NAB | (7 ) | (12 ) |
| Latin America | 16 | 17 |
| ESSA | (38 ) | (47 ) |
| AMENA | — | — |
| Corporate unallocated expenses | (172 ) | 112 [c] |
| Total | $ (233 ) | $ 19 |

(a) Includes restructuring charges of $66 million, including $13 million in our FLNA segment, $2 million in our QFNA segment, $11 million in our NAB segment, $7 million in our Latin America segment and $33 million in corporate unallocated expenses. See "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(b) Includes restructuring charges of $5 million, including $1 million in our FLNA segment, $2 million in our NAB segment and $2 million in corporate unallocated expenses. See "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(c) Reflects a settlement charge of $242 million related to a group annuity contract purchase. See "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The changes described above had no impact on our consolidated net revenue, net income or earnings per share. See Note 7 for further information on our service cost and other components of net periodic benefit cost for pension and retiree medical plans.

In 2016, the FASB issued guidance to clarify how restricted cash should be presented in the cash flow statement. We 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 related to collateral posted against our derivative asset or liability positions. See Note 9 and Note 13 for further information.

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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 for further information on our investments in equity securities.

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

As a result of the implementation of the guidance, 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 approximately $75 million for the fiscal year ended December 30, 2017, with no impact on operating profit.

Recently Issued Accounting Pronouncements - 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. We will adopt the guidance when it becomes effective in the first quarter of 2019, but we are not planning to make the optional reclassification.

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In 2017, the FASB issued guidance to amend and simplify the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, as well as eases certain hedge effectiveness assessment requirements. Under this guidance, certain of our derivatives used to hedge commodity price risk that did not previously qualify for hedge accounting treatment will qualify prospectively. We will adopt the guidance when it becomes effective in the first quarter of 2019. The guidance is not expected to have a material impact on our financial statements or disclosures. See Note 9 for further information.

In 2016, the FASB issued guidance on leases, with amendments issued in 2018. The guidance requires lessees to recognize most leases on the balance sheet but record expenses in 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 two permitted transition methods under the guidance are the modified retrospective transition approach, which requires application of the guidance for all comparative periods presented, and the cumulative effect adjustment approach, which requires prospective application at the adoption date.

We continue to utilize a comprehensive approach to assess 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. We are substantially complete with our comprehensive review of our lease portfolio including significant leases by geography and by asset type that will be impacted by the new guidance, and enhancing our controls. In addition, we are progressing on the implementation of a new software platform, and corresponding controls, for administering our leases and facilitating compliance with the new guidance.

As part of our adoption, we will not reassess historical lease classification, will not recognize short-term leases on our balance sheet, will utilize the portfolio approach to group leases with similar characteristics and will not separate lease and non-lease components for our real estate leases. We will adopt the guidance prospectively when it becomes effective in the first quarter of 2019. The guidance is not expected to have a material impact on our financial statements, with an expected increase of approximately 2% to each of our total assets and total liabilities on our balance sheet, subject to completion of our assessment. See Note 15 for our minimum lease payments under non-cancelable operating leases.

Note 3 — Restructuring and Impairment Charges

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

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| 2019 Productivity Plan | $ | 138 | $ | — | $ | — |
| 2014 Productivity Plan | 170 | | 295 | | 160 | |
| Total restructuring and impairment charges | 308 | | 295 | | 160 | |
| Other productivity initiatives | 8 | | 16 | | 12 | |
| Total restructuring and impairment charges and other productivity initiatives | $ | 316 | $ | 311 | $ | 172 |

2019 Multi-Year Productivity Plan

The 2019 Productivity Plan, publicly announced on February 15, 2019, will leverage new technology and business models to further simplify, harmonize and automate processes; re-engineer our go-to-market and information systems, including deploying the right automation for each market; simplify our organization and optimize our manufacturing

and supply chain footprint.

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A summary of our 2019 Productivity Plan charges is as follows:

| | 2018 |
|---|---|
| Costs of sales | $3 |
| Selling, general and administrative expenses | 100 |
| Other pension and retiree medical benefits expense | 35 |
| Total restructuring and impairment charges | $138 |
| After-tax amount | $109 |
| Net income attributable to PepsiCo per common share | $0.08 |

| | 2018 |
|---|---|
| FLNA | $31 |
| QFNA | 5 |
| NAB | 40 |
| Latin America | 9 |
| ESSA | 8 |
| AMENA | 3 |
| Corporate | 7 |
| | 103 |
| Other pension and retiree medical benefits expense | 35 |
| | $138 |

A summary of our 2019 Productivity Plan activity is as follows:

| | Severance and Other Employee Costs | Asset Impairments | Other Costs[(a)] | Total |
|---|---|---|---|---|
| 2018 restructuring charges | $ 137 | $ — | $ 1 | $138 |
| Non-cash charges and translation | (32 ) | — | — | (32 ) |
| Liability as of December 29, 2018 | $ 105 | $ — | $ 1 | $106 |

(a) Includes other costs associated with the implementation of our initiatives, including consulting and other professional fees.

Substantially all of the restructuring accrual at December 29, 2018 is expected to be paid by the end of 2019.

2014 Multi-Year Productivity Plan

The 2014 Productivity Plan, publicly announced on February 13, 2014, includes the next generation of productivity initiatives that we believe will strengthen our 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.

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Selling, general and administrative expenses | $169 | $229 | $155 |
| Other pension and retiree medical benefits expense | 1 | 66 | 5 |
| Total restructuring and impairment charges | $170 | $295 | $160 |
| After-tax amount | $143 | $224 | $134 |
| Net income attributable to PepsiCo per common share | $0.10 | $0.16 | $0.09 |

| | 2018 | 2017 | 2016 | Plan to Date |
|---|---|---|---|---|
| FLNA | $8 | $67 | $13 | $171 |
| QFNA | 2 | 11 | 1 | 34 |
| NAB | 51 | 54 | 35 | 352 |
| Latin America | 30 | 63 | 27 | 182 |
| ESSA | 55 | 53 | 60 | 282 |
| AMENA [(a)] | 25 | (3) | 14 | 69 |
| Corporate [(b)] | (1) | 50 | 10 | 114 |
| | $170 | $295 | $160 | $1,204 |

(a) In 2017, income amount primarily reflects a gain on the sale of property, plant and equipment.
(b) In 2018, income amount primarily relates to other pension and retiree medical benefits.

| | Severance and Other Employee Costs | Asset Impairments | Other Costs[(a)] | Total |
|---|---|---|---|---|
| Plan to Date | $ 713 | $ 182 | $ 309 | $1,204 |

(a) Includes other costs associated with the implementation of our initiatives, including certain consulting and contract termination costs.

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

| | Severance and Other Employee Costs | Asset Impairments | Other Costs | Total |
|---|---|---|---|---|
| Liability as of December 26, 2015 | $ 61 | $ — | $ 20 | $81 |
| 2016 restructuring charges | 88 | 36 | 36 | 160 |
| Cash payments | (46) | — | (49) | (95) |
| Non-cash charges and translation | (15) | (36) | 1 | (50) |
| Liability as of December 31, 2016 | 88 | — | 8 | 96 |
| 2017 restructuring charges | 280 | 21 | (6) [(a)] | 295 |
| Cash payments | (91) | — | (22) | (113) |
| Non-cash charges and translation | (65) | (21) | 34 | (52) |
| Liability as of December 30, 2017 | 212 | — | 14 | 226 |
| 2018 restructuring charges | 86 | 28 | 56 | 170 |
| Cash payments [(b)] | (203) | — | (52) | (255) |
| Non-cash charges and translation | (4) | (28) | 5 | (27) |
| Liability as of December 29, 2018 | $ 91 | $ — | $ 23 | $114 |

(a) Income amount represents adjustments for changes in estimates and a gain on the sale of property, plant, and equipment.
(b) Excludes cash expenditures of $11 million reported in the cash flow statement in pension and retiree medical plan contributions.

Substantially all of the restructuring accrual at December 29, 2018 is expected to be paid by the end of 2019.

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Other Productivity Initiatives

There were no material charges related to other productivity and efficiency initiatives outside the scope of the 2019 and 2014 Productivity Plans.

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

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

Note 4 — Property, Plant and Equipment and Intangible Assets

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

| | Average Useful Life (Years) | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Property, plant and equipment, net | | | | |
| Land | | $1,078 | $1,148 | |
| Buildings and improvements | 15 - 44 | 8,941 | 8,796 | |
| Machinery and equipment, including fleet and software | 5 - 15 | 27,715 | 27,018 | |
| Construction in progress | | 2,430 | 2,144 | |
| | | 40,164 | 39,106 | |
| Accumulated depreciation | | (22,575 ) | (21,866 ) | |
| | | $17,589 | $17,240 | |
| Depreciation expense | | $2,241 | $2,227 | $2,217 |

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

A summary of our amortizable intangible assets is as follows:

| | | 2018 | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|---|---|
| Amortizable intangible assets, net | Average Useful Life (Years) | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net | |
| Acquired franchise rights | 56 – 60 | $838 | $ (140 ) | $698 | $858 | $ (128 ) | $730 | |
| Reacquired franchise rights | 5 – 14 | 106 | (105 ) | 1 | 106 | (104 ) | 2 | |
| Brands | 20 – 40 | 1,306 | (1,032 ) | 274 | 1,322 | (1,026 ) | 296 | |
| Other identifiable intangibles [(a)] | 10 – 24 | 959 | (288 ) | 671 | 521 | (281 ) | 240 | |
| | | $3,209 | $ (1,565 ) | $1,644 | $2,807 | $ (1,539 ) | $1,268 | |
| Amortization expense | | | | $69 | | | $68 | $ 70 |

(a) The change in 2018 is primarily related to our acquisition of SodaStream.

Amortization of intangible assets for each of the next five years, based on existing intangible assets as of December 29, 2018 and using average 2018 foreign exchange rates, is expected to be as follows:

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Five-year projected amortization | $ 89 | $ 89 | $ 87 | $ 85 | $ 83 |

Depreciable and amortizable assets are evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future

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cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need for revision. For additional unaudited information on our policies for amortizable brands, see "Our Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Indefinite-Lived Intangible Assets

We did not recognize any impairment charges for goodwill in each of the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016. We recognized no material impairment charges for indefinite-lived intangible assets in each of the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016. As of December 29, 2018, the estimated fair values of our indefinite-lived reacquired and acquired franchise rights recorded at NAB exceeded their carrying values. However, there could be an impairment of the carrying value of NAB's reacquired and acquired franchise rights if future revenues and their contribution to the operating results of NAB's CSD business do not achieve our expected future cash flows or if macroeconomic conditions result in a future increase in the weighted-average cost of capital used to estimate fair value. We have also analyzed the impact of the macroeconomic conditions in Russia and Brazil on the estimated fair value of our indefinite-lived intangible assets in these countries and have concluded that there were no material impairments for the year ended December 29, 2018. However, there could be an impairment of the carrying value of certain brands in these countries if there is a deterioration in these conditions, if future revenues and their contributions to the operating results do not achieve our expected future cash flows, if there are significant changes in the decisions regarding assets that do not perform consistent with our expectations, or if macroeconomic conditions result in a future increase in the weighted-average cost of capital used to estimate fair value. For additional information on our policies for indefinite-lived intangible assets, see Note 2.

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The change in the book value of indefinite-lived intangible assets is as follows:

| | Balance, Beginning 2017 | Translation and Other | Balance, End of 2017 | Acquisitions/ (Divestitures) | Translation and Other | Balance, End of 2018 |
|---|---|---|---|---|---|---|
| FLNA | | | | | | |
| Goodwill | $ 270 | $ 10 | $ 280 | $ 28 | $ (11 ) | $ 297 |
| Brands | 23 | 2 | 25 | 138 | (2 ) | 161 |
| | 293 | 12 | 305 | 166 | (13 ) | 458 |
| QFNA | | | | | | |
| Goodwill | 175 | — | 175 | 9 | — | 184 |
| Brands | — | — | — | 25 | — | 25 |
| | 175 | — | 175 | 34 | — | 209 |
| NAB [a] | | | | | | |
| Goodwill | 9,843 | 11 | 9,854 | — | (41 ) | 9,813 |
| Reacquired franchise rights | 7,064 | 62 | 7,126 | — | (68 ) | 7,058 |
| Acquired franchise rights | 1,512 | 13 | 1,525 | — | (15 ) | 1,510 |
| Brands | 314 | 39 | 353 | — | — | 353 |
| | 18,733 | 125 | 18,858 | — | (124 ) | 18,734 |
| Latin America | | | | | | |
| Goodwill | 553 | 2 | 555 | — | (46 ) | 509 |
| Brands | 150 | (9 ) | 141 | — | (14 ) | 127 |
| | 703 | (7 ) | 696 | — | (60 ) | 636 |
| ESSA [b] | | | | | | |
| Goodwill | 3,177 | 275 | 3,452 | 526 | (367 ) | 3,611 |
| Reacquired franchise rights | 488 | 61 | 549 | (1 ) | (51 ) | 497 |
| Acquired franchise rights | 184 | 11 | 195 | (25 ) | (9 ) | 161 |
| Brands | 2,358 | 187 | 2,545 | 1,993 | (350 ) | 4,188 |
| | 6,207 | 534 | 6,741 | 2,493 | (777 ) | 8,457 |
| AMENA | | | | | | |
| Goodwill | 412 | 16 | 428 | — | (34 ) | 394 |
| Brands | 103 | 8 | 111 | — | (10 ) | 101 |
| | 515 | 24 | 539 | — | (44 ) | 495 |
| | | | | | | |
| Total goodwill | 14,430 | 314 | 14,744 | 563 | (499 ) | 14,808 |
| Total reacquired franchise rights | 7,552 | 123 | 7,675 | (1 ) | (119 ) | 7,555 |
| Total acquired franchise rights | 1,696 | 24 | 1,720 | (25 ) | (24 ) | 1,671 |
| Total brands | 2,948 | 227 | 3,175 | 2,156 | (376 ) | 4,955 |
| | $ 26,626 | $ 688 | $ 27,314 | $ 2,693 | $ (1,018 ) | $ 28,989 |

(a) The change in translation and other in 2018 primarily reflects the depreciation of the Canadian dollar.

(b) The change in acquisitions/(divestitures) in 2018 is primarily related to the preliminary allocation of the purchase price for our acquisition of SodaStream. See Note 14 for further information. The change in translation and other in 2018 primarily reflects the depreciation of the Russian ruble, euro and Pound sterling. The change in translation and other in 2017 primarily reflects the appreciation of the Russian ruble and euro.

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Note 5 — Income Taxes

The components of income before income taxes are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| United States | $3,864 | $3,452 | $2,630 |
| Foreign | 5,325 | 6,150 | 5,923 |
| | $9,189 | $9,602 | $8,553 |

The (benefit from)/provision for income taxes consisted of the following:

| | | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Current: | U.S. Federal | $437 | $4,925 | $1,219 |
| | Foreign | 378 | 724 | 824 |
| | State | 63 | 136 | 77 |
| | | 878 | 5,785 | 2,120 |
| Deferred: | U.S. Federal | 140 | (1,159 ) | 109 |
| | Foreign | (4,379 ) | (9 ) | (33 ) |
| | State | (9 ) | 77 | (22 ) |
| | | (4,248 ) | (1,091 ) | 54 |
| | | $(3,370) | $4,694 | $2,174 |

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| U.S. Federal statutory tax rate | 21.0 % | 35.0 % | 35.0 % |
| State income tax, net of U.S. Federal tax benefit | 0.5 | 0.9 | 0.4 |
| Lower taxes on foreign results | (2.2 ) | (9.4 ) | (8.0 ) |
| One-time mandatory transition tax - TCJ Act | 0.1 | 41.4 | — |
| Remeasurement of | (0.4 ) | (15.9 ) | — |

| | | | |
|---|---|---|---|
| deferred taxes - TCJ Act | | | |
| International reorganizations | (47.3 ) | — | — |
| Tax settlements | (7.8 ) | — | — |
| Other, net | (0.6 ) | (3.1 ) | (2.0 ) |
| Annual tax rate | (36.7 )% | 48.9 % | 25.4 % |

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 ($1.70 per share) in the fourth quarter of 2017. See further unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

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During 2018, we recognized a net tax benefit of $28 million ($0.02 per share) primarily reflecting the impact of the final analysis of certain foreign exchange gains or losses, substantiation of foreign tax credits, as well as cash and cash equivalents as of November 30, 2018, the tax year-end of our foreign subsidiaries, partially offset by additional transition tax guidance issued by the United States Department of Treasury, as well as the TCJ Act impact of both the conclusion of certain international tax audits and the resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013, each discussed below.

As of December 29, 2018, our mandatory transition tax liability is $3.8 billion. 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 of this liability in 2019 and the remainder over the period 2020 to 2026.

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

In 2017, the SEC issued guidance related to the TCJ Act which allowed recording of provisional tax expense using a measurement period, not to exceed one year, when information necessary to complete the accounting for the effects of the TCJ Act is not available. We elected to apply the measurement period provisions of this guidance to certain income tax effects of the TCJ Act when it became effective in the fourth quarter of 2017. The provisional measurement period ended in the fourth quarter of 2018. While our accounting for the recorded impact of the TCJ Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the IRS could impact the aforementioned amounts in future periods.

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

International Reorganizations

During the fourth quarter of 2018, we reorganized certain of our international operations, including the intercompany transfer of certain intangible assets. As a result, we recognized other net tax benefits of $4.3 billion ($3.05 per share). The related deferred tax asset of $4.4 billion is expected to be amortized over a period of 15 years beginning in 2019. Additionally, the reorganization generated significant net operating loss carryforwards and related deferred tax assets that are not expected to be realized, resulting in the recording of a full valuation allowance.

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Deferred tax liabilities and assets are comprised of the following:

Deferred Tax Liabilities

| | 2018 | 2017 |
|---|---|---|
| Debt guarantee of wholly-owned subsidiary | $578 | $578 |
| Property, plant and equipment | 1,303 | 1,397 |
| Intangible assets other than nondeductible goodwill | — | 3,169 |
| Recapture of net operating losses | 414 | — |
| Other | 71 | 50 |
| Gross deferred tax liabilities | 2,366 | 5,194 |
| Deferred tax assets | | |
| Net carryforwards | 4,353 | 1,400 |
| Intangible assets other than nondeductible goodwill | 985 | — |
| Share-based compensation | 106 | 107 |
| Retiree medical benefits | 167 | 198 |
| Other employee-related benefits | 303 | 338 |
| Pension benefits | 221 | 22 |
| Deductible state tax and interest benefits | 110 | 157 |
| Other | 739 | 893 |
| Gross deferred tax assets | 6,984 | 3,115 |
| Valuation allowances | (3,753) | (1,163 ) |
| Deferred tax assets, net | 3,231 | 1,952 |
| Net deferred tax (assets)/liabilities | $(865) | $3,242 |

A summary of our valuation allowance activity is as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Balance, beginning of year | $1,163 | $1,110 | $1,136 |
| Provision | 2,639 | 33 | 13 |
| Other (deductions)/additions | (49 ) | 20 | (39 ) |
| Balance, end of year | $3,753 | $1,163 | $1,110 |

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

Reserves

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

| Jurisdiction | Years Open to Audit | Years Currently Under Audit |
|---|---|---|
| United States | 2014-2017 | 2014-2016 |
| Mexico | 2017 | None |
| United Kingdom | 2016-2017 | None |
| Canada (Domestic) | 2014-2017 | 2014-2015 |
| Canada (International) | 2010-2017 | 2010-2015 |
| Russia | 2014-2017 | 2014-2017 |

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During 2018, we recognized a non-cash tax benefit of $364 million ($0.26 per share) resulting from the conclusion of certain international tax audits. Additionally, during 2018, we recognized non-cash tax benefits of $353 million ($0.24 per share) as a result of our agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013, including the associated state impact.

While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution. For further unaudited information on the impact of the resolution of open tax issues, see “Other Consolidated Results” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

As of December 29, 2018, the total gross amount of reserves for income taxes, reported in other liabilities, was $1.4 billion. We accrue interest related to reserves for income taxes in our provision for income taxes and any associated penalties are recorded in selling, general and administrative expenses. The gross amount of interest accrued, reported in other liabilities, was $179 million as of December 29, 2018, which reflects a reduction of the prior year liability of $64 million of tax benefit that was recognized in 2018. The gross amount of interest accrued, reported in other liabilities, was $283 million as of December 30, 2017, of which $89 million of expense was recognized in 2017.

A reconciliation of unrecognized tax benefits is as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance, beginning of year | $2,212 | $1,885 |
| Additions for tax positions related to the current year | 142 | 309 |
| Additions for tax positions from prior years | 197 | 86 |
| Reductions for tax positions from prior years | (822) | (51) |
| Settlement payments | (233) | (4) |
| Statutes of limitations expiration | (42) | (33) |
| Translation and other | (14) | 20 |
| Balance, end of year | $1,440 | $2,212 |

Carryforwards and Allowances

Operating loss carryforwards totaling $24.9 billion at year-end 2018 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: $0.2 billion in 2019, $20.5 billion between 2020 and 2038 and $4.2 billion may be carried forward indefinitely. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Undistributed International Earnings

In connection with the enactment of the TCJ Act, during 2018, we repatriated $20.4 billion of cash, cash equivalents and short-term investments held in our foreign subsidiaries without such funds being subject to further U.S. federal income tax liability. As of December 29, 2018, we had approximately $24 billion of undistributed international earnings. We intend to continue to reinvest $24 billion of earnings outside the United States for the foreseeable future and while U.S. federal tax expense has been recognized as a result of the TCJ Act, no deferred tax liabilities with respect to items such as certain foreign exchange gains or

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losses, foreign withholding taxes or state taxes have been recognized. It is not practicable for us to determine the amount of unrecognized tax expense on these reinvested international earnings.

Note 6 — Share-Based Compensation

Our share-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. PepsiCo has granted stock options, restricted stock units (RSUs), performance stock units (PSUs), PepsiCo equity performance units (PEPunits) and long-term cash awards to employees under the shareholder-approved PepsiCo, Inc. Long-Term Incentive Plan (LTIP). Executives who are awarded long-term incentives based on their performance may generally elect to receive their grant in the form of stock options or RSUs, or a combination thereof. Executives who elect stock options receive four stock options for every one RSU that would have otherwise been granted. Certain executive officers and other senior executives do not have a choice and were granted 66% PSUs and 34% long-term cash, each of which are subject to pre-established performance targets.

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

As of December 29, 2018, 66 million shares were available for future share-based compensation grants under the LTIP.

The following table summarizes our total share-based compensation expense and excess tax benefits recognized:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Share-based compensation expense - equity awards | $256 | $292 | $284 |
| Share-based compensation expense - liability awards | 20 | 13 | 5 |
| Restructuring and impairment charges | (6) | (2) | 5 |
| Total | $270 | $303 | $294 |
| Income tax benefits recognized in earnings related to share-based compensation | $45 | $89 [a] | $91 |
| Excess tax benefits related to share-based compensation [b] | $48 | $115 | $110 |

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

(b) Included in provision for income taxes in the income statement in 2018 and 2017; included in capital in excess of par value in the equity statement in 2016.

As of December 29, 2018, there was $282 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation cost is expected to be recognized over a weighted-average period of two years.

Method of Accounting and Our Assumptions

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

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

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Stock Options

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

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Expected life | 5 years | 5 years | 6 years |
| Risk-free interest rate | 2.6 % | 2.0 % | 1.4 % |
| Expected volatility | 12 % | 11 % | 12 % |
| Expected dividend yield | 2.7 % | 2.7 % | 2.7 % |

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

A summary of our stock option activity for the year ended December 29, 2018 is as follows:

| | Options[a] | Weighted-Average Exercise Price | Weighted-Average Contractual Life Remaining (years) | Aggregate Intrinsic Value[b] |
|---|---|---|---|---|
| Outstanding at December 30, 2017 | 19,013 | $ 74.23 | | |
| Granted | 1,429 | $ 108.88 | | |
| Exercised | (4,377 ) | $ 62.95 | | |
| Forfeited/expired | (476 ) | $ 94.85 | | |
| Outstanding at December 29, 2018 | 15,589 | $ 79.94 | 4.29 | $ 474,746 |
| Exercisable at December 29, 2018 | 11,547 | $ 70.74 | 2.92 | $ 457,529 |
| Expected to vest as of December 29, 2018 | 3,713 | $ 106.02 | 8.17 | $ 16,606 |

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

(b) In thousands.

Restricted Stock Units and Performance Stock Units

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

The fair value of RSUs is measured at the market price of the Company's stock on the date of grant. The fair

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value of PSUs is measured at the market price of the Company's stock on the date of grant with the exception of awards with market conditions, for which we use the Monte-Carlo simulation model to determine the fair value. The Monte-Carlo simulation model uses the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair-value determination the possibility that the market condition may not be satisfied. Compensation costs related to these awards are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.
A summary of our RSU and PSU activity for the year ended December 29, 2018 is as follows:

| | RSUs/PSUs[(a)] | Weighted-Average Grant-Date Fair Value | Weighted-Average Contractual Life Remaining (years) | Aggregate Intrinsic Value[(a)] |
|---|---|---|---|---|
| Outstanding at December 30, 2017 | 7,293 | $ 102.30 | | |
| Granted [(b)] | 2,634 | $ 108.75 | | |
| Converted | (2,362) | $ 99.73 | | |
| Forfeited | (647) | $ 105.21 | | |
| Actual performance change [(c)] | 257 | $ 98.92 | | |
| Outstanding at December 29, 2018 [(d)] | 7,175 | $ 105.13 | 1.22 | $ 791,878 |
| Expected to vest as of December 29, 2018 | 6,667 | $ 104.90 | 1.15 | $ 735,813 |

(a) In thousands.
(b) Grant activity for all PSUs are disclosed at target.
(c) Reflects the net number of PSUs above and below target levels based on actual performance measured at the end of the performance period.
(d) The outstanding PSUs for which the performance period has not ended as of December 29, 2018, at the threshold, target and maximum award levels were zero, 0.9 million and 1.6 million, respectively.

PEPunits

PEPunits provide an opportunity to earn shares of PepsiCo common stock with a value that adjusts based upon changes in PepsiCo's absolute stock price as well as PepsiCo's Total Shareholder Return relative to the S&P 500 over a three-year performance period.
The fair value of PEPunits is measured using the Monte-Carlo simulation model.
PEPunits were last granted in 2015 and all 248,000 units outstanding at December 30, 2017, with a weighted average grant date fair value of $68.94, were converted to 278,000 shares during fiscal year 2018.

Long-Term Cash

Certain executive officers and other senior executives were granted long-term cash awards for which final payout is based on PepsiCo's Total Shareholder Return relative to a specific set of peer companies and achievement of a specified performance target over a three-year performance period.
Long-term cash awards that qualify as liability awards under share-based compensation guidance are valued through the end of the performance period on a mark-to-market basis using the Monte Carlo simulation model until actual performance is determined.

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A summary of our long-term cash activity for the year ended December 29, 2018 is as follows:

| | Long-Term Cash Award[(a)] | Balance Sheet Date Fair Value[(a)] | Contractual Life Remaining (years) |
|---|---|---|---|
| Outstanding at December 30, 2017 | $ 33,200 | | |
| Granted [(b)] | 20,926 | | |
| Forfeited | (2,292 ) | | |
| Actual performance change [(c)] | 2,876 | | |
| Outstanding at December 29, 2018 [(d)] | $ 54,710 | $ 55,809 | 1.22 |
| Expected to vest as of December 29, 2018 | $ 51,159 | $ 52,148 | 1.17 |

(a) In thousands.
(b) Grant activity for all long-term cash awards are disclosed at target.
(c) Reflects the net number of long-term cash awards above and below target levels based on actual performance measured at the end of the performance period.
(d) The outstanding long-term cash awards for which the performance period has not ended as of December 29, 2018, at the threshold, target and maximum award levels were zero, 37.3 million and 74.5 million, respectively.

Other Share-Based Compensation Data

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Stock Options | | | |
| Total number of options granted [(a)] | 1,429 | 1,481 | 1,743 |
| Weighted-average grant-date fair value of options granted | $ 9.80 | $ 8.25 | $ 6.94 |
| Total intrinsic value of options exercised [(a)] | $ 224,663 | $ 327,860 | $ 290,131 |
| Total grant-date fair value of options vested [(a)] | $ 15,506 | $ 23,122 | $ 18,840 |
| RSUs/PSUs | | | |
| Total number of RSUs/PSUs granted [(a)] | 2,634 | 2,824 | 3,054 |
| Weighted-average grant-date fair value of RSUs/PSUs granted | $ 108.75 | $ 109.92 | $ 99.06 |
| Total intrinsic value of RSUs/PSUs converted [(a)] | $ 260,287 | $ 380,269 | $ 359,401 |
| Total grant-date fair value of RSUs/PSUs vested [(a)] | $ 232,141 | $ 264,923 | $ 257,648 |
| PEPunits | | | |
| Total intrinsic value of PEPunits converted [(a)] | $ 30,147 | $ 39,782 | $ 38,558 |
| Total grant-date fair value of PEPunits vested [(a)] | $ 9,430 | $ 18,833 | $ 16,572 |

(a) In thousands.

As of December 29, 2018 and December 30, 2017, there were approximately 248,000 and 250,000 outstanding awards, respectively, consisting primarily of phantom stock units that were granted under the PepsiCo Director Deferral Program and will be settled in shares of PepsiCo common stock pursuant to the LTIP at the end of the applicable deferral period, not included in the tables above.

Note 7 — Pension, Retiree Medical and Savings Plans

Effective January 1, 2017, the U.S. qualified defined benefit pension plans were reorganized into Plan A and Plan I. Actuarial gains and losses associated with Plan A are amortized over the average remaining service life of the active participants, while the actuarial gains and losses associated with Plan I are amortized over the remaining life expectancy of the inactive participants. As a result of this change, the pre-tax net periodic

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benefit cost decreased by $42 million ($27 million after-tax, reflecting tax rates effective for the 2017 tax year, or $0.02 per share) in 2017, primarily impacting corporate unallocated expenses. See “Our Critical Accounting Policies” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

Gains and losses resulting from actual experience differing from our assumptions, including the difference between the actual return on plan assets and the expected return on plan assets, as well as changes in our assumptions, are determined at each measurement date. These differences are recognized as a component of net gain or loss in accumulated other comprehensive loss. If this net accumulated gain or loss exceeds 10% of the greater of the market-related value of plan assets or plan liabilities, a portion of the net gain or loss is included in other pension and retiree medical benefits income/(expense) for the following year based upon the average remaining service life for participants in Plan A (approximately 10 years) and retiree medical (approximately 7 years), or the remaining life expectancy for participants in Plan I (approximately 25 years). The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in other pension and retiree medical benefits income/(expense) on a straight-line basis over the average remaining service life for participants in Plan A or the remaining life expectancy for participants in Plan I.

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

| | Pension | | | | Retiree Medical | |
|---|---|---|---|---|---|---|
| | U.S. | | International | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Change in projected benefit liability | | | | | | |
| Liability at beginning of year | $14,777 | $13,192 | $3,490 | $3,124 | $1,187 | $1,208 |
| Service cost | 431 | 401 | 92 | 91 | 32 | 28 |
| Interest cost | 482 | 468 | 93 | 89 | 34 | 36 |
| Plan amendments | 83 | 10 | 2 | 2 | — | (5) |
| Participant contributions | — | — | 2 | 2 | — | — |
| Experience (gain)/loss | (972) | 1,529 | (230) | 5 | (147) | 21 |
| Benefit payments | (956) | (825) | (114) | (104) | (108) | (107) |
| Settlement/curtailment | (74) | (58) | (35) | (22) | — | — |
| Special termination benefits | 36 | 60 | 2 | — | 1 | 2 |
| Other, including foreign currency adjustment | — | — | (204) | 303 | (3) | 4 |
| Liability at end of year | $13,807 | $14,777 | $3,098 | $3,490 | $996 | $1,187 |
| | | | | | | |
| Change in fair value of plan assets | | | | | | |
| Fair value at beginning of year | $12,582 | $11,458 | $3,460 | $2,894 | $321 | $320 |
| Actual return on plan assets | (789) | 1,935 | (136) | 288 | (21) | 52 |
| Employer contributions/funding | 1,495 | 60 | 120 | 104 | 93 | 56 |
| Participant contributions | — | — | 2 | 2 | — | — |
| Benefit payments | (956) | (825) | (114) | (104) | (108) | (107) |
| Settlement | (74) | (46) | (32) | (18) | — | — |
| Other, including foreign currency adjustment | — | — | (210) | 294 | — | — |
| Fair value at end of year | $12,258 | $12,582 | $3,090 | $3,460 | $285 | $321 |
| Funded status | $(1,549) | $(2,195) | $(8) | $(30) | $(711) | $(866) |
| | | | | | | |
| Amounts recognized | | | | | | |
| Other assets | $185 | $286 | $81 | $85 | $— | $— |
| Other current liabilities | (107) | (74) | (1) | (1) | (41) | (75) |
| Other liabilities | (1,627) | (2,407) | (88) | (114) | (670) | (791) |
| Net amount recognized | $(1,549) | $(2,195) | $(8) | $(30) | $(711) | $(866) |
| | | | | | | |
| Amounts included in accumulated other comprehensive loss (pre-tax) | | | | | | |
| Net loss/(gain) | $4,093 | $3,520 | $780 | $782 | $(287) | $(189) |
| Prior service cost/(credit) | 109 | 29 | (1) | (3) | (51) | (71) |
| Total | $4,202 | $3,549 | $779 | $779 | $(338) | $(260) |
| | | | | | | |
| Changes recognized in net loss/(gain) included in other comprehensive loss | | | | | | |
| Net loss/(gain) arising in current year | $760 | $431 | $103 | $(115) | $(107) | $(9) |
| Amortization and settlement recognition | (187) | (131) | (56) | (60) | 8 | 12 |
| Foreign currency translation (gain)/loss | — | — | (49) | 73 | 1 | 1 |
| Total | $573 | $300 | $(2) | $(102) | $(98) | $4 |
| | | | | | | |
| Accumulated benefit obligation at end of year | $12,890 | $13,732 | $2,806 | $2,985 | | |

The net loss/(gain) arising in the current year is attributed to actual asset returns different from expected returns, partially offset by the change in discount rate.

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The amount we report in operating profit as pension and retiree medical cost is service cost, which is the value of benefits earned by employees for working during the year.

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

- Interest cost is the accrued interest on the projected benefit obligation due to the passage of time.
- Expected return on plan assets is the long-term return we expect to earn on plan investments for our funded plans that will be used to settle future benefit obligations.
- Amortization of prior service cost/(credit) represents the recognition in the income statement of benefit changes resulting from plan amendments.
- Amortization of net loss/(gain) represents the recognition in the income statement of changes in the amount of plan assets and the projected benefit obligation based on changes in assumptions and actual experience.
- Settlement/curtailment loss/(gain) represents the result of actions that effectively eliminate all or a portion of related projected benefit obligations. Settlements are triggered when payouts to settle the projected benefit obligation of a plan due to lump sums or other events exceed the annual service and interest cost. Settlements are recognized when actions are irrevocable and we are relieved of the primary responsibility and risk for projected benefit obligations. Curtailments are due to events such as plant closures or the sale of a business resulting in a reduction of future service or benefits. Curtailment losses are recognized when an event is probable and estimable, while curtailment gains are recognized when an event has occurred (when the related employees terminate or an amendment is adopted).
- Special termination benefits are the additional benefits offered to employees upon departure due to actions such as restructuring.

The components of total pension and retiree medical benefit costs are as follows:

| | Pension | | | | | | Retiree Medical | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. | | | International | | | | | |
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Service cost | $431 | $401 | $393 | $92 | $ 91 | $ 80 | $32 | $28 | $31 |
| Interest cost | 482 | 468 | 484 | 93 | 89 | 94 | 34 | 36 | 41 |
| Expected return on plan assets | (943 ) | (849 ) | (834 ) | (197) | (176 ) | (163 ) | (19 ) | (22 ) | (24 ) |
| Amortization of prior service cost/(credits) | 3 | 1 | (1 ) | — | — | — | (20 ) | (25 ) | (38 ) |
| Amortization of net losses/(gains) | 179 | 123 | 168 | 45 | 53 | 40 | (8 ) | (12 ) | (1 ) |
| | 152 | 144 | 210 | 33 | 57 | 51 | 19 | 5 | 9 |
| Settlement/curtailment losses/(gain) [(a)] | 8 | 8 | 245 | 6 | 11 | 9 | — | — | (14 ) |
| Special termination benefits | 36 | 60 | 11 | 2 | — | 1 | 1 | 2 | 1 |
| Total | $196 | $212 | $466 | $41 | $ 68 | $ 61 | $20 | $7 | $(4 ) |

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

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

| | Pension | | | | | | Retiree Medical | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. | | | International | | | | | |
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Liability discount rate | 4.4 % | 3.7 % | 4.4 % | 3.4 % | 3.0 % | 3.1 % | 4.2 % | 3.5 % | 4.0 % |
| Service cost discount rate | 3.8 % | 4.5 % | 4.6 % | 3.5 % | 3.6 % | 4.1 % | 3.6 % | 4.0 % | 4.3 % |
| Interest cost discount rate | 3.4 % | 3.7 % | 3.8 % | 2.8 % | 2.8 % | 3.5 % | 3.0 % | 3.2 % | 3.3 % |
| Expected return on plan assets | 7.2 % | 7.5 % | 7.5 % | 6.0 % | 6.0 % | 6.2 % | 6.5 % | 7.5 % | 7.5 % |
| Liability rate of salary increases | 3.1 % | 3.1 % | 3.1 % | 3.7 % | 3.7 % | 3.6 % | | | |
| Expense rate of salary increases | 3.1 % | 3.1 % | 3.1 % | 3.7 % | 3.6 % | 3.6 % | | | |

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

| | Pension | | | | Retiree Medical | |
|---|---|---|---|---|---|---|
| | U.S. | | International | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Selected information for plans with accumulated benefit obligation in excess of plan assets | | | | | | |
| Liability for service to date | $(8,040) | $(8,355) | $(155) | $(161) | | |
| Fair value of plan assets | $7,223 | $6,919 | $121 | $119 | | |
| Selected information for plans with projected benefit liability in excess of plan assets | | | | | | |
| Benefit liability | $(8,957) | $(9,400) | $(514) | $(1,273) | $(996) | $(1,187) |
| Fair value of plan assets | $7,223 | $6,919 | $426 | $1,158 | $285 | $321 |

Of the total projected pension benefit liability as of December 29, 2018, approximately $830 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.

Future Benefit Payments

Our estimated future benefit payments are as follows:

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 - 2028 |
|---|---|---|---|---|---|---|
| Pension | $1,060 | $960 | $875 | $915 | $950 | $5,265 |
| Retiree medical [(a)] | $115 | $105 | $100 | $100 | $95 | $395 |

(a) Expected future benefit payments for our retiree medical plans do not reflect any estimated subsidies expected to be received under the 2003 Medicare Act. Subsidies are expected to be approximately $2 million for each of the years from 2019 through 2023 and approximately $6 million in total for 2024 through 2028.

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

Funding

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

| | Pension | | | Retiree Medical | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Discretionary [(a)] | $1,417 | $6 | $459 | $37 | $ — | $ — |
| Non-discretionary | 198 | 158 | 200 | 56 | 56 | 36 |
| Total | $1,615 | $164 | $659 | $93 | $ 56 | $ 36 |

(a) Includes $1.4 billion contribution in 2018 to fund Plan A in the United States. Includes $452 million in 2016 relating to the funding of the group annuity contract purchase from an unrelated insurance company.

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In January 2019, we made discretionary contributions of $150 million to Plan A in the United States. In addition, in 2019, we expect to make non-discretionary contributions of approximately $205 million to our U.S. and international pension benefit plans and approximately $40 million for retiree medical benefits. We regularly evaluate opportunities to reduce risk and volatility associated with our pension and retiree medical plans.

Plan Assets

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

For 2019 and 2018, our expected long-term rate of return on U.S. plan assets is 7.1% and 7.2%, respectively. Our target investment allocations for U.S. plan assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Fixed income | 47 % | 47 % |
| U.S. equity | 29 % | 29 % |
| International equity | 20 % | 20 % |
| Real estate | 4 % | 4 % |

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

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

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Plan assets measured at fair value as of fiscal year-end 2018 and 2017 are categorized consistently by level, and are as follows:

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| U.S. plan assets [(a)] | | | | | |
| Equity securities, including preferred stock [(b)] | $5,605 | $ 5,595 | $ 10 | $ — | $6,904 |
| Government securities [(c)] | 1,674 | — | 1,674 | — | 1,365 |
| Corporate bonds [(c)] | 4,145 | — | 4,145 | — | 3,429 |
| Mortgage-backed securities [(c)] | 212 | — | 212 | — | 217 |
| Contracts with insurance companies [(d)] | 9 | — | — | 9 | 8 |
| Cash and cash equivalents | 215 | 215 | — | — | 236 |
| Sub-total U.S. plan assets | 11,860 | $ 5,810 | $ 6,041 | $ 9 | 12,159 |
| Real estate commingled funds measured at net asset value [(e)] | 618 | | | | 675 |
| Dividends and interest receivable, net of payables | 65 | | | | 69 |
| Total U.S. plan assets | $12,543 | | | | $12,903 |
| International plan assets | | | | | |
| Equity securities [(b)] | $1,651 | $ 1,621 | $ 30 | $ — | $1,928 |
| Government securities [(c)] | 433 | — | 433 | — | 492 |
| Corporate bonds [(c)] | 478 | — | 478 | — | 493 |
| Fixed income commingled funds [(f)] | 356 | 356 | — | — | 383 |
| Contracts with insurance companies [(d)] | 36 | — | — | 36 | 36 |
| Cash and cash equivalents | 27 | 27 | — | — | 19 |
| Sub-total international plan assets | 2,981 | $ 2,004 | $ 941 | $ 36 | 3,351 |
| Real estate commingled funds measured at net asset value [(e)] | 102 | | | | 102 |
| Dividends and interest receivable | 7 | | | | 7 |
| Total international plan assets | $3,090 | | | | $3,460 |

(a) 2018 and 2017 amounts include $285 million and $321 million, respectively, of retiree medical plan assets that are restricted for purposes of providing health benefits for U.S. retirees and their beneficiaries.

(b) The equity securities portfolio was invested in U.S. and international common stock and commingled funds, and the preferred stock portfolio in the U.S. was invested in domestic and international corporate preferred stock investments. The common stock is based on quoted prices in active markets. The U.S. commingled funds are based on fair values of the investments owned by these funds that are benchmarked against various U.S. large, mid-cap and small company indices, and includes one large-cap fund that represents 15% and 19% of total U.S. plan assets for 2018 and 2017, respectively. The international commingled funds are based on the fair values of the investments owned by these funds that track various non-U.S. equity indices. The preferred stock investments are based on quoted bid prices for comparable securities in the marketplace and broker/dealer quotes in active markets.

(c) These investments are based on quoted bid prices for comparable securities in the marketplace and broker/dealer quotes in active markets. Corporate bonds of U.S.-based companies represent 28% and 23% of total U.S. plan assets for 2018 and 2017, respectively.

(d) Based on the fair value of the contracts as determined by the insurance companies using inputs that are not observable. The changes in Level 3 amounts were not significant in the years ended December 29, 2018 and December 30, 2017.

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

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

Retiree Medical Cost Trend Rates

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Average increase assumed | 6 | % | 6 | % |
| Ultimate projected increase | 5 | % | 5 | % |
| Year of ultimate projected increase | 2039 | | 2039 | |

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These assumed health care cost trend rates have an impact on the retiree medical plan expense and liability, however the cap on our share of retiree medical costs limits the impact.

Savings Plan

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

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

In 2018, 2017 and 2016, our total Company contributions were $180 million, $176 million and $164 million, respectively.

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

Note 8 — Debt Obligations

The following table summarizes the Company’s debt obligations:

| | 2018[a] | 2017[a] |
|---|---|---|
| Short-term debt obligations [b] | | |
| Current maturities of long-term debt | $3,953 | $4,020 |
| Commercial paper (1.3%) | — | 1,385 |
| Other borrowings (6.0% and 4.7%) | 73 | 80 |
| | $4,026 | $5,485 |
| Long-term debt obligations [b] | | |
| Notes due 2018 (2.4%) | $— | $4,016 |
| Notes due 2019 (3.1% and 2.1%) | 3,948 | 3,933 |
| Notes due 2020 (3.9% and 3.1%) | 3,784 | 3,792 |
| Notes due 2021 (3.1% and 2.4%) | 3,257 | 3,300 |
| Notes due 2022 (2.8% and 2.6%) | 3,802 | 3,853 |
| Notes due 2023 (2.9% and 2.4%) | 1,270 | 1,257 |
| Notes due 2024-2047 (3.7% and 3.8%) | 16,161 | 17,634 |
| Other, due 2018-2026 (1.3% and 1.3%) | 26 | 31 |
| | 32,248 | 37,816 |
| Less: current maturities of long-term debt obligations | (3,953) | (4,020) |
| Total | $28,295 | $33,796 |

(a) Amounts are shown net of unamortized net discounts of $119 million and $155 million for 2018 and 2017, respectively.

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

As of December 29, 2018, our international debt of $62 million was related to borrowings from external parties including various lines of credit. These lines of credit are subject to normal banking terms and conditions and are fully committed at least to the extent of our borrowings.

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In 2018, we completed a cash tender offer for certain notes issued by PepsiCo and predecessors to a PepsiCo subsidiary for $1.6 billion in cash to redeem the following amounts:

| Interest Rate | Maturity Date | Amount Tendered |
|---|---|---|
| 7.290% | September 2026 | $ 11 |
| 7.440% | September 2026 | $ 4 |
| 7.000% | March 2029 | $ 357 |
| 5.500% | May 2035 | $ 138 |
| 4.875% | November 2040 | $ 410 |
| 5.500% | January 2040 | $ 408 |

We also completed an exchange offer for certain notes issued by predecessors to a PepsiCo subsidiary for the following newly issued PepsiCo notes. These notes were issued in an aggregate principal amount equal to the exchanged notes:

| Interest Rate | Maturity Date | Amount |
|---|---|---|
| 7.290% | September 2026 | $ 88 |
| 7.440% | September 2026 | $ 21 |
| 7.000% | March 2029 | $ 516 |
| 5.500% | May 2035 | $ 107 |

As a result of the above transactions, we recorded a pre-tax charge of $253 million ($191 million after-tax or $0.13 per share) to interest expense, primarily representing the tender price paid over the carrying value of the tendered notes. See further unaudited information in “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

In 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 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 December 29, 2018, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

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

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

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

Note 9 — Financial Instruments

Derivatives and Hedging

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

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

In the normal course of business, we manage commodity price, foreign exchange and interest rate risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. Our global purchasing programs include fixed-price contracts and purchase orders and pricing agreements.

Our hedging strategies include the use of derivatives and, in the case of our net investment hedges, debt instruments. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity price, foreign exchange or interest rate risks are classified as operating activities in the cash flow statement. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. See “Our Business Risks” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.

We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including reviewing netting agreements, if any, and a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, which primarily include swaps and futures. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for energy, agricultural products and metals. Ineffectiveness for those derivatives that qualify for hedge accounting treatment was not material for all periods presented. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are

subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit.

Our commodity derivatives had a total notional value of $1.1 billion as of December 29, 2018 and $0.9 billion as of December 30, 2017.

Foreign Exchange

Our operations outside of the United States generated 43% of our net revenue in 2018, with Mexico, Russia, Canada, the United Kingdom and Brazil comprising approximately 20% of our net revenue in 2018. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold.

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

Our foreign currency derivatives had a total notional value of $2.0 billion as of December 29, 2018 and $1.6 billion as of December 30, 2017. The total notional amount of our debt instruments designated as net investment hedges was $0.9 billion as of December 29, 2018 and $1.5 billion as of December 30, 2017. Ineffectiveness for derivatives and non-derivatives that qualify for hedge accounting treatment was not material for all periods presented. For foreign currency derivatives that do not qualify for hedge accounting treatment, all gains and losses were offset by changes in the underlying hedged items, resulting in no material net impact on earnings.

Interest Rates

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

Our interest rate derivatives had a total notional value of $10.5 billion as of December 29, 2018 and $14.2 billion as of December 30, 2017. Ineffectiveness for derivatives that qualify for cash flow hedge accounting treatment was not material for all periods presented.

As of December 29, 2018, approximately 29% 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.

Available-for-Sale Securities

Investments in debt securities are classified as available-for-sale. All highly liquid investments with original maturities of three months or less are classified as cash equivalents. Our investments in available-for-sale

debt securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of available-for-sale debt securities are recognized in accumulated other comprehensive loss within common shareholders' equity. Unrealized gains and losses on our investments in debt securities as of December 29, 2018 and December 30, 2017 were not material. Changes in the fair value of available-for-sale debt securities impact net income only when such securities are sold or an other-than-temporary impairment is recognized. We regularly review our investment portfolio to determine if any debt security is other-than-temporarily impaired. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of a debt security is less than its cost; the financial condition of the issuer and any changes thereto; and our intent to sell, or whether we will more likely than not be required to sell, the debt security before recovery of its amortized cost basis. Our assessment of whether a debt security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular debt security. We recorded no other-than-temporary impairment charges on our available-for-sale debt securities for the years ended December 29, 2018, December 30, 2017 and December 31, 2016.

In 2017, we recorded a pre-tax gain of $95 million ($85 million after-tax or $0.06 per share), net of discount and fees, associated with the sale of our minority stake in Britvic. The gain on the sale of this equity investment was recorded in our ESSA segment in selling, general and administrative expenses. See Note 2 for additional information on investments in certain equity securities.

KSF Beverage Holding Co., Ltd.

During 2016, we concluded that the decline in estimated fair value of our 5% indirect equity interest in KSFB was other than temporary based on significant negative economic trends in China and changes in assumptions associated with KSFB's future financial performance arising from the disclosure by KSFB's parent company, Tingyi, regarding the operating results of its beverage business. As a result, we recorded a pre- and after-tax impairment charge of $373 million ($0.26 per share) in 2016 in the AMENA segment. This charge was recorded in selling, general and administrative expenses on our income statement and reduced the value of our 5% indirect equity interest in KSFB to its estimated fair value. The estimated fair value was derived using both an income and market approach, and is considered a non-recurring Level 3 measurement within the fair value hierarchy. The carrying value of the investment in KSFB was $166 million as of December 29, 2018 and December 30, 2017. We continue to monitor the impact of economic and other developments on the remaining value of our investment in KSFB.

See further unaudited information in "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Fair Value Measurements

The fair values of our financial assets and liabilities as of December 29, 2018 and December 30, 2017 are categorized as follows:

| | Fair Value Hierarchy Levels[(a)] | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | | Assets[(a)] | Liabilities[(a)] | Assets[(a)] | Liabilities[(a)] |
| Available-for-sale debt securities [(b)] | 2 | $3,658 | $ — | $14,510 | $ — |
| Short-term investments [(c)] | 1 | $196 | $ — | $228 | $ — |
| Prepaid forward contracts [(d)] | 2 | $22 | $ — | $27 | $ — |
| Deferred compensation [(e)] | 2 | $— | $ 450 | $— | $ 503 |
| Derivatives designated as fair value hedging instruments: | | | | | |
| Interest rate [(f)] | 2 | $1 | $ 108 | $24 | $ 130 |
| Derivatives designated as cash flow hedging instruments: | | | | | |
| Foreign exchange [(g)] | 2 | $44 | $ 14 | $15 | $ 31 |
| Interest rate [(g)] | 2 | — | 323 | — | 213 |
| Commodity [(h)] | 1 | — | 1 | — | 2 |
| Commodity [(i)] | 2 | — | 3 | 2 | — |
| | | $44 | $ 341 | $17 | $ 246 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange [(g)] | 2 | $3 | $ 10 | $10 | $ 3 |
| Commodity [(h)] | 1 | 2 | 17 | — | 19 |
| Commodity [(i)] | 2 | 5 | 92 | 85 | 12 |
| | | $10 | $ 119 | $95 | $ 34 |
| Total derivatives at fair value [(j)] | | $55 | $ 568 | $136 | $ 410 |
| Total | | $3,931 | $ 1,018 | $14,901 | $ 913 |

(a) Fair value hierarchy levels are defined in Note 7. 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 December 29, 2018, these debt securities were primarily classified as cash equivalents. 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. The decrease primarily reflects net maturities and sales of debt securities with maturities greater than three months. Refer to the cash flow statement and “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further discussion on use of these proceeds.

(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 December 29, 2018 and December 30, 2017 were not material. Collateral received or posted against any of our asset or liability

positions were 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 as of December 29, 2018 and

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December 30, 2017 was $32 billion and $41 billion, respectively, based upon prices of similar instruments in the marketplace, which are considered Level 2 inputs.

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

| | Fair Value/Non-designated Hedges | | Cash Flow and Net Investment Hedges | | | |
|---|---|---|---|---|---|---|
| | Losses/(Gains) 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)] | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Foreign exchange | $ 9 | $ (15) | $ (52) | $ 62 | $ (8) | $ 10 |
| Interest rate | 53 | 101 | 110 | (195) | 119 | (184) |
| Commodity | 117 | (48) | 3 | 3 | — | 3 |
| Net investment | — | — | (77) | 157 | — | — |
| Total | $ 179 | $ 38 | $ (16) | $ 27 | $ 111 | $ (171) |

(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 primarily 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 $5 million related to our cash flow hedges from accumulated other comprehensive loss into net income during the next 12 months.

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Note 10 — Net Income Attributable to PepsiCo per Common Share

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

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Income | Shares[(a)] | Income | Shares[(a)] | Income | Shares[(a)] |
| Net income attributable to PepsiCo | $12,515 | | $4,857 | | $6,329 | |
| Preferred shares: | | | | | | |
| Dividends | — | | — | | (1 ) | |
| Redemption premium | (2 ) | | (4 ) | | (5 ) | |
| Net income available for PepsiCo common shareholders | $12,513 | 1,415 | $4,853 | 1,425 | $6,323 | 1,439 |
| Basic net income attributable to PepsiCo per common share | $8.84 | | $3.40 | | $4.39 | |
| Net income available for PepsiCo common shareholders | $12,513 | 1,415 | $4,853 | 1,425 | $6,323 | 1,439 |
| Dilutive securities: | | | | | | |
| Stock options, RSUs, PSUs, PEPunits and Other | — | 10 | — | 12 | 1 | 12 |
| Employee stock ownership plan (ESOP) convertible preferred stock | 2 | — | 4 | 1 | 5 | 1 |
| Diluted | $12,515 | 1,425 | $4,857 | 1,438 | $6,329 | 1,452 |
| Diluted net income attributable to PepsiCo per common share | $8.78 | | $3.38 | | $4.36 | |

(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:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Out-of-the-money options [(a)] | 0.7 | 0.4 | 0.7 |
| Average exercise price per option | $109.83 | $110.12 | $99.98 |

(a) In millions.

Note 11 — Preferred Stock

In connection with our merger with The Quaker Oats Company (Quaker) in 2001, shares of our convertible preferred stock were authorized and issued to an ESOP fund established by Quaker. Quaker made the final award to its ESOP in June 2001.

In 2018, all of the outstanding shares of our convertible preferred stock were converted into an aggregate of 550,102 shares of our common stock at the conversion ratio set forth in Exhibit A to our amended and restated articles of incorporation. As a result, there are no shares of our convertible preferred stock outstanding as of December 29, 2018 and our convertible preferred stock is retired for accounting purposes.

As of December 30, 2017, there were 3 million shares of convertible preferred stock authorized, 803,953 preferred shares issued and 114,753 shares outstanding. The outstanding preferred shares had a fair value of $68 million as of December 30, 2017.

Activities of 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 26, 2015 [a] | $ (11,080) | $ 37 | $ (2,329) | $ 88 | $ (35) | $ (13,319) |
| Other comprehensive (loss)/income before reclassifications | (313) | (74) | (750) | (43) | — | (1,180) |
| Amounts reclassified from accumulated other comprehensive loss | — | 150 | 407 | — | — | 557 |
| Net other comprehensive (loss)/income | (313) | 76 | (343) | (43) | — | (623) |
| Tax amounts | 7 | (30) | 27 | 19 | — | 23 |
| Balance as of December 31, 2016 [a] | (11,386) | 83 | (2,645) | 64 | (35) | (13,919) |
| Other comprehensive (loss)/income before reclassifications [b] | 1,049 | 130 | (375) | 25 | — | 829 |
| Amounts reclassified from accumulated other comprehensive loss | — | (171) | 158 | (99) | — | (112) |
| Net other comprehensive (loss)/income | 1,049 | (41) | (217) | (74) | — | 717 |
| Tax amounts | 60 | 5 | 58 | 6 | 16 | 145 |
| Balance as of December 30, 2017 [a] | (10,277) | 47 | (2,804) | (4) | (19) | (13,057) |
| Other comprehensive (loss)/income before reclassifications [c] | (1,664) | (61) | (813) | 6 | — | (2,532) |
| Amounts reclassified from accumulated other comprehensive loss | 44 | 111 | 218 | — | — | 373 |
| Net other comprehensive (loss)/income | (1,620) | 50 | (595) | 6 | — | (2,159) |
| Tax amounts | (21) | (10) | 128 | — | — | 97 |
| Balance as of December 29, 2018 [a] | $ (11,918) | $ 87 | $ (3,271) | $ 2 | $ (19) | $ (15,119) |

(a) Pension and retiree medical amounts are net of taxes of $1,253 million as of December 26, 2015, $1,280 million as of December 31, 2016, $1,338 million as of December 30, 2017 and $1,466 million as of December 29, 2018.

(b) Currency translation adjustment primarily reflects the appreciation of the euro, Russian ruble, Pound sterling and Canadian dollar.

(c) Currency translation adjustment primarily reflects the depreciation of the Russian ruble, Canadian dollar, Pound sterling and Brazilian real.

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The following table summarizes the reclassifications from accumulated other comprehensive loss to the income statement:

| | Amount Reclassified from Accumulated Other Comprehensive Loss | | | Affected Line Item in the Income Statement |
|---|---|---|---|---|
| | 2018 | 2017 | 2016 | |
| Currency translation: | | | | |
| Divestitures | $44 | $— | $— | Selling, general and administrative expenses |
| Cash flow hedges: | | | | |
| Foreign exchange contracts | $(1 ) | $— | $2 | Net revenue |
| Foreign exchange contracts | (7 ) | 10 | (46 ) | Cost of sales |
| Interest rate derivatives | 119 | (184 ) | 187 | Interest expense |
| Commodity contracts | 3 | 4 | 3 | Cost of sales |
| Commodity contracts | (3 ) | (1 ) | 4 | Selling, general and administrative expenses |
| Net losses/(gains) before tax | 111 | (171 ) | 150 | |
| Tax amounts | (27 ) | 64 | (63 ) | |
| Net losses/(gains) after tax | $84 | $(107) | $87 | |
| Pension and retiree medical items: | | | | |
| Amortization of net prior service credit | $(17 ) | $(24 ) | $(39 ) | Other pension and retiree medical benefits income/(expense) |
| Amortization of net losses | 216 | 167 | 209 | Other pension and retiree medical benefits income/(expense) |
| Settlement/curtailment | 19 | 15 | 237 | Other pension and retiree medical benefits income/(expense) |
| Net losses before tax | 218 | 158 | 407 | |
| Tax amounts | (45 ) | (44 ) | (144 ) | |
| Net losses after tax | $173 | $114 | $263 | |
| Available-for-sale securities: | | | | |
| Sale of Britvic securities | $— | $(99 ) | $— | Selling, general and administrative expenses |
| Tax amount | — | 10 | — | |
| Net gain after tax | $— | $(89 ) | $— | |
| Total net losses/(gains) reclassified for the year, net of tax | $301 | $(82 ) | $350 | |

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Note 13 — Restricted Cash

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the balance sheet to the same items as reported in the cash flow statement.

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | $8,721 | $10,610 |
| Restricted cash [(a)] | 1,997 | — |
| Restricted cash included in other assets [(b)] | 51 | 47 |
| Total cash and cash equivalents and restricted cash | $10,769 | $10,657 |

(a) Represents consideration held by our paying agent in connection with our acquisition of SodaStream.

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

Note 14 — Acquisitions and Divestitures

Acquisition of SodaStream International Ltd.

On December 5, 2018, we acquired all of the outstanding shares of SodaStream, a manufacturer and distributor of sparkling water makers, for $144.00 per share in cash, in a transaction valued at approximately $3.3 billion. The total consideration transferred was approximately $3.3 billion (or $3.2 billion, net of cash and cash equivalents acquired), including $2.0 billion of consideration held by our paying agent in connection with this acquisition and reported as restricted cash as of December 29, 2018.

We accounted for the transaction as a business combination. We recognized and measured the identifiable assets acquired and liabilities assumed at their estimated fair values on the date of acquisition. The preliminary estimates of the fair value of the identifiable assets acquired and liabilities assumed in SodaStream as of the acquisition date include goodwill and other intangible assets of $3.0 billion and property, plant and equipment of $0.2 billion, all of which are recorded in our ESSA segment. The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in adjustments to the preliminary values discussed above as valuations are finalized. We expect to finalize these amounts as soon as possible, but no later than the end of 2019.

Under the guidance on accounting for business combinations, merger and integration costs are not included as components of consideration transferred but are accounted for as expenses in the period in which the costs are incurred. In 2018, we incurred merger and integration charges of $75 million ($0.05 per share), including $57 million in our ESSA segment and $18 million in corporate unallocated expenses. These charges include closing costs, advisory fees and employee-related costs and were recorded in selling, general and administrative expenses. See “Item 6. Selected Financial Data” and “Items Affecting Comparability” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Refranchising in Thailand

In 2018, we refranchised our beverage business in Thailand by selling a controlling interest in our Thailand bottling operations to form a joint venture, where we now have an equity method investment. 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

In 2018, we refranchised our entire beverage bottling operations and snack distribution operations in CHS (included within our ESSA segment). We recorded a pre-tax gain of $58 million ($46 million after-tax or $0.03 per share) in selling, general and administrative expenses in our ESSA segment as a result of this transaction.

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Refranchising in Jordan

In 2017, we refranchised our beverage business in Jordan by selling a controlling interest in our Jordan bottling operations to form a joint venture, where we now have an equity method investment. We recorded a pre-tax gain of $140 million ($107 million after-tax or $0.07 per share) in selling, general and administrative expenses in our AMENA segment as a result of this transaction.

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Note 15 — Supplemental Financial Information

Balance Sheet

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Accounts and notes receivable | | | |
| Trade receivables | $6,079 | $5,956 | |
| Other receivables | 1,164 | 1,197 | |
| | 7,243 | 7,153 | |
| Allowance, beginning of year | 129 | 134 | $130 |
| Net amounts charged to expense | 16 | 26 | 37 |
| Deductions [a] | (33) | (35) | (30) |
| Other [b] | (11) | 4 | (3) |
| Allowance, end of year | 101 | 129 | $134 |
| Net receivables | $7,142 | $7,024 | |
| | | | |
| Inventories [c] | | | |
| Raw materials and packaging | $1,312 | $1,344 | |
| Work-in-process | 178 | 167 | |
| Finished goods | 1,638 | 1,436 | |
| | $3,128 | $2,947 | |
| | | | |
| Other assets | | | |
| Noncurrent notes and accounts receivable | $86 | $59 | |
| Deferred marketplace spending | 112 | 134 | |
| Pension plans [d] | 269 | 374 | |
| Other | 293 | 346 | |
| | $760 | $913 | |
| | | | |
| Accounts payable and other current liabilities | | | |
| Accounts payable | $7,213 | $6,727 | |
| Accrued marketplace spending | 2,541 | 2,390 | |
| Accrued compensation and benefits | 1,755 | 1,785 | |
| Dividends payable | 1,329 | 1,161 | |
| SodaStream consideration payable | 1,997 | — | |
| Other current liabilities | 3,277 | 2,954 | |
| | $18,112 | $15,017 | |

(a) Includes accounts written off.

(b) Includes adjustments related primarily to currency translation and other adjustments.

(c) Approximately 5% of the inventory cost in 2018 and 2017 were computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories were not material.

(d) See Note 7 for additional information regarding our pension plans.

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Statement of Cash Flows

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Interest paid [(a)] | $1,388 | $1,123 | $1,102 |
| Income taxes paid, net of refunds [(b)] | $1,203 | $1,962 | $1,393 |

(a) In 2018 and 2016, excludes the premiums paid in accordance with the debt transactions discussed in Note 8.
(b) In 2018, includes tax payments of $115 million related to the TCJ Act.

Lease Information

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Rent expense | $771 | $742 | $701 |

Minimum lease payments under non-cancelable operating leases by period

| | Operating Lease Payments |
|---|---|
| 2019 | $ 459 |
| 2020 | 406 |
| 2021 | 294 |
| 2022 | 210 |
| 2023 | 161 |
| 2024 and beyond | 310 |
| Total minimum operating lease payments | $ 1,840 |

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Management's Responsibility for Financial Reporting

To Our Shareholders:

At PepsiCo, our actions – the actions of all our associates – are governed by our Global Code of Conduct. This Code is clearly aligned with our stated values – a commitment to deliver sustained growth through empowered people acting with responsibility and building trust. Both the Code and our core values enable us to operate with integrity – both within the letter and the spirit of the law. Our Code of Conduct is reinforced consistently at all levels and in all countries. We have maintained strong governance policies and practices for many years.

The management of PepsiCo is responsible for the objectivity and integrity of our consolidated financial statements. The Audit Committee of the Board of Directors has engaged independent registered public accounting firm, KPMG LLP, to audit our consolidated financial statements, and they have expressed an unqualified opinion.

We are committed to providing timely, accurate and understandable information to investors. Our commitment encompasses the following:

Maintaining strong controls over financial reporting. Our system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled Internal Control – Integrated Framework (2013). The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the United States. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified time periods. We monitor these internal controls through self-assessments and an ongoing program of internal audits. Our internal controls are reinforced through our Global Code of Conduct, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law.

Exerting rigorous oversight of the business. We continuously review our business results and strategies. This encompasses financial discipline in our strategic and daily business decisions. Our Executive Committee is actively involved – from understanding strategies and alternatives to reviewing key initiatives and financial performance. The intent is to ensure we remain objective in our assessments, constructively challenge our approach to potential business opportunities and issues, and monitor results and controls.

Engaging strong and effective Corporate Governance from our Board of Directors. We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight as a representative of our shareholders. Our Audit Committee is comprised of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. We review our critical accounting policies, financial reporting and internal control matters with them and encourage their direct communication with KPMG LLP, with our Internal Auditor and with our General Counsel. We also have a Compliance & Ethics Department, led by our Chief Compliance & Ethics Officer, who coordinates our compliance policies and practices.

Providing investors with financial results that are complete, transparent and understandable. The consolidated financial statements and financial information included in this report are the responsibility of management. This includes preparing the financial statements in accordance with accounting principles generally accepted in the United States, which require estimates based on management's best judgment.

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PepsiCo has a strong history of doing what's right. We realize that great companies are built on trust, strong ethical standards and principles. Our financial results are delivered from that culture of accountability, and we take responsibility for the quality and accuracy of our financial reporting.
February 15, 2019

/s/ MARIE T. GALLAGHER
Marie T. Gallagher
Senior Vice President and Controller
(Principal Accounting Officer)

/s/ HUGH F. JOHNSTON
Hugh F. Johnston
Vice Chairman, Executive Vice President and
Chief Financial Officer

/s/ RAMON L. LAGUARTA
Ramon L. Laguarta
Chairman of the Board of Directors and
Chief Executive Officer

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Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors
PepsiCo, Inc.:
Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting
We have audited the accompanying Consolidated Balance Sheets of PepsiCo, Inc. and Subsidiaries (the "Company") as of December 29, 2018 and December 30, 2017, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows, and Equity for each of the fiscal years in the three-year period ended December 29, 2018 and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
As permitted by SEC guidance, the scope of management's assessment of the effectiveness of internal control over financial reporting as of December 29, 2018 excluded SodaStream International Ltd. and its subsidiaries ("SodaStream"), which the Company acquired in December 2018. SodaStream's total assets and net revenue represented approximately 5% and 1%, respectively, of the consolidated total assets and net revenue of PepsiCo, Inc. as of and for the year ended December 29, 2018. Our audit of internal control over financial reporting of PepsiCo, Inc. also excluded an evaluation of the internal control over financial reporting of SodaStream.
Basis for Opinions
The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.
Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over

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financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 1990.

New York, New York

February 15, 2019

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GLOSSARY

Acquisitions and divestitures: all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

Bottler Case Sales (BCS): measure of physical beverage volume shipped to retailers and independent distributors from both PepsiCo and our independent bottlers.

Bottler funding: financial incentives we give to our independent bottlers to assist in the distribution and promotion of our beverage products.

Concentrate Shipments and Equivalents (CSE): measure of our physical beverage volume shipments to independent bottlers, retailers and independent distributors.

Constant currency: 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.

Consumers: people who eat and drink our products.

CSD: carbonated soft drinks.

Customers: authorized independent bottlers, distributors and retailers.

Derivatives: financial instruments, such as futures, swaps, Treasury locks, cross currency swaps and forward contracts that we use to manage our risk arising from changes in commodity prices, interest rates and foreign exchange rates.

Direct-Store-Delivery (DSD): delivery system used by us and our independent bottlers to deliver snacks and beverages directly to retail stores where our products are merchandised.

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.

Free cash flow: net cash provided by operating activities less capital spending plus sales of property, plant and equipment.

Hedge accounting: treatment for qualifying hedges that allows fluctuations in a hedging instrument's fair value to offset corresponding fluctuations in the hedged item in the same reporting period. Hedge accounting is allowed only in cases where the hedging relationship between the hedging instruments and hedged items is highly effective, and only prospectively from the date a hedging relationship is formally documented.

Independent bottlers: customers to whom we have granted exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographical area.

Mark-to-market net gain or loss: change in market value for commodity derivative contracts that we purchase to mitigate the volatility in costs of energy and raw materials that we consume. The market value is determined based on prices on national exchanges and recently reported transactions in the marketplace.

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Organic: a measure that adjusts for impacts of acquisitions, divestitures and other structural changes, and foreign exchange translation. In excluding the impact of foreign exchange translation, we assume constant foreign exchange rates used for translation based on the rates in effect for the comparable prior-year period. See the definition of “Constant currency” for additional information. Our 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 organic revenue growth excludes the impact of these taxes previously recognized in net revenue. In addition, our fiscal 2016 reported results included an extra week of results. Our 2017 organic revenue growth excludes the impact of the 53rd reporting week from our 2016 results.
Servings: common metric reflecting our consolidated physical unit volume. Our divisions’ physical unit measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.
Total marketplace spending: includes sales incentives and discounts offered through various programs to our customers, consumers or independent bottlers, as well as advertising and other marketing activities.
Transaction gains and losses: the impact on our consolidated financial statements of exchange rate changes arising from specific transactions.
Translation adjustment: the impact of converting our foreign affiliates’ financial statements into U.S. dollars for the purpose of consolidating our financial statements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks.”

Item 8. Financial Statements and Supplementary Data.
See “Item 15. Exhibits and Financial Statement Schedules.”

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
Not applicable.

Item 9A. Controls and Procedures.
(a) Disclosure 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.
(b) Management’s Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon criteria established in Internal Control – Integrated Framework (2013) by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 29, 2018.
As permitted by SEC guidance, the scope of management’s assessment of the effectiveness of our internal control over financial reporting as of December 29, 2018 excluded SodaStream International Ltd. and its subsidiaries (SodaStream), which we acquired in December 2018. SodaStream’s total assets and net revenue represented approximately 5% and 1%, respectively, of the consolidated total assets and net revenue of PepsiCo, Inc. as of and for the year ended December 29, 2018.
Attestation Report of the Registered Public Accounting Firm. KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.
(c) Changes in Internal Control over Financial Reporting. Except as discussed, there have been no changes in our internal control over financial reporting during our fourth fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.
During our fourth 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

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transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses. In addition, in connection with our 2019 multi-year productivity program, we continue to migrate to shared business models across our operations to further simplify, harmonize and automate processes. 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. These transitions have not materially affected, and we do not expect them to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our directors and persons nominated to become directors is contained under the caption “Election of Directors” in our Proxy Statement for our 2019 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended December 29, 2018 (the 2019 Proxy Statement) and is incorporated herein by reference. Information about our executive officers is reported under the caption “Executive Officers of the Registrant” in Part I of this report.

Information on beneficial ownership reporting compliance is contained under the caption “Ownership of PepsiCo Common Stock – Section 16(a) Beneficial Ownership Reporting Compliance” in our 2019 Proxy Statement and is incorporated herein by reference.

We have a written code of conduct that applies to all of our employees, including our Chairman of the Board of Directors and Chief Executive Officer, Chief Financial Officer and Controller, and to our Board of Directors. Our Global Code of Conduct is distributed to all employees and is available on our website at http://www.pepsico.com. A copy of our Global Code of Conduct may be obtained free of charge by writing to Investor Relations, PepsiCo, Inc., 700 Anderson Hill Road, Purchase, New York 10577. Any amendment to our Global Code of Conduct and any waiver applicable to our executive officers or senior financial officers will be posted on our website within the time period required by the SEC and applicable rules of The Nasdaq Stock Market LLC.

Information about the procedures by which security holders may recommend nominees to our Board of Directors can be found in our 2019 Proxy Statement under the caption “Board Composition and Refreshment – Shareholder Recommendations and Nominations of Director Candidates” and is incorporated herein by reference.

Information concerning the composition of the Audit Committee and our Audit Committee financial experts is contained in our 2019 Proxy Statement under the caption “Corporate Governance at PepsiCo – Committees of the Board of Directors – Audit Committee” and is incorporated herein by reference.

Item 11. Executive Compensation.

Information about director and executive officer compensation, Compensation Committee interlocks and the Compensation Committee Report is contained in our 2019 Proxy Statement under the captions “2018 Director Compensation,” “Executive Compensation,” “Corporate Governance at PepsiCo – Committees of the Board of Directors – Compensation Committee – Compensation Committee Interlocks and Insider Participation” and “Executive Compensation – Compensation Committee Report” and is incorporated herein by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
Information with respect to securities authorized for issuance under equity compensation plans can be found under the caption “Executive Compensation – Securities Authorized for Issuance Under Equity Compensation Plans” in our 2019 Proxy Statement and is incorporated herein by reference.
Information on the number of shares of PepsiCo Common Stock beneficially owned by each director and named executive officer, by all directors and executive officers as a group and on each beneficial owner of more than 5% of PepsiCo Common Stock is contained under the caption “Ownership of PepsiCo Common Stock” in our 2019 Proxy Statement and is incorporated herein by reference.
Item 13. Certain Relationships and Related Transactions, and Director Independence.
Information with respect to certain relationships and related transactions and director independence is contained under the captions “Corporate Governance at PepsiCo – Related Person Transactions” and “Corporate Governance at PepsiCo – Director Independence” in our 2019 Proxy Statement and is incorporated herein by reference.
Item 14. Principal Accounting Fees and Services.
Information on our Audit Committee’s pre-approval policy and procedures for audit and other services and information on our principal accountant fees and services is contained in our 2019 Proxy Statement under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm – Audit and Other Fees” and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)1. Financial Statements

The following consolidated financial statements of PepsiCo, Inc. and its affiliates are included herein by reference to the pages indicated on the index appearing in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations":

Consolidated Statement of Income – Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016

Consolidated Statement of Comprehensive Income – Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016

Consolidated Statement of Cash Flows – Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016

Consolidated Balance Sheet – December 29, 2018 and December 30, 2017

Consolidated Statement of Equity – Fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016

Notes to Consolidated Financial Statements, and

Report of Independent Registered Public Accounting Firm.

(a)2. Financial Statement Schedules

These schedules are omitted because they are not required or because the information is set forth in the financial statements or the notes thereto.

(a)3. Exhibits