PEPSICO INC
Form 10-Q
April 19, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 23, 2013 (12 weeks)
OR

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

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

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

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

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

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

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

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

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

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

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

Number of shares of Common Stock outstanding as of April 11, 2013: 1,546,416,318

Table of Contents

PepsiCo, Inc. and Subsidiaries

Table of Contents

Table of Contents

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

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

	12 Weeks Ended	
	3/23/2013	3/24/2012
Net Revenue	$12,581	$12,428
Cost of sales	5,834	5,889
Selling, general and administrative expenses	5,066	4,792
Amortization of intangible assets	23	25
Operating Profit	1,658	1,722
Interest expense	(214)	(198)
Interest income and other	27	23
Income before income taxes	1,471	1,547
Provision for income taxes	386	414
Net income	1,085	1,133
Less: Net income attributable to noncontrolling interests	10	6
Net Income Attributable to PepsiCo	$1,075	$1,127
Net Income Attributable to PepsiCo per Common Share		
Basic	$0.69	$0.72
Diluted	$0.69	$0.71
Weighted-average common shares outstanding		
Basic	1,544	1,568
Diluted	1,563	1,584
Cash dividends declared per common share	$0.5375	$0.515

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	12 Weeks Ended 3/23/2013		
	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$1,085
Other Comprehensive Loss			
Currency translation adjustment	$(235)	$—	(235)
Cash flow hedges:			
Net derivative losses	(23)	17	(6)
Reclassification of net losses to net income	59	(21)	38
Pension and retiree medical:			
Reclassification of net losses to net income	79	(27)	52
Remeasurement of net liabilities and translation	43	(12)	31
Unrealized losses on securities	(1)	—	(1)
Total Other Comprehensive Loss	$(78)	$(43)	(121)
Comprehensive income			964
Comprehensive income attributable to noncontrolling interests			(9)
Comprehensive Income Attributable to PepsiCo			$955

	12 Weeks Ended 3/24/2012		
	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$1,133
Other Comprehensive Income			
Currency translation adjustment	$1,687	$—	1,687
Cash flow hedges:			
Net derivative losses	(15)	1	(14)
Reclassification of net losses to net income	12	(5)	7
Pension and retiree medical:			
Reclassification of net losses to net income	67	(23)	44
Remeasurement of net liabilities and translation	(16)	4	(12)
Unrealized gains on securities	13	—	13
Other	—	36	36
Total Other Comprehensive Income	$1,748	$13	1,761
Comprehensive income			2,894
Comprehensive income attributable to noncontrolling interests			(2)
Comprehensive Income Attributable to PepsiCo			$2,892

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	12 Weeks Ended	
	3/23/2013	3/24/2012
Operating Activities		
Net income	$1,085	$1,133
Depreciation and amortization	551	555
Stock-based compensation expense	77	56
Merger and integration charges	1	2
Cash payments for merger and integration charges	(11)	(20)
Restructuring and impairment charges	11	33
Cash payments for restructuring charges	(30)	(44)
Cash payments for restructuring and other charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	(1)	—
Non-cash foreign exchange loss related to Venezuela devaluation	111	—
Excess tax benefits from share-based payment arrangements	(36)	(35)
Pension and retiree medical plan contributions	(87)	(1,100)
Pension and retiree medical plan expenses	149	129
Deferred income taxes and other tax charges and credits	(23)	120
Change in accounts and notes receivable	(175)	(71)
Change in inventories	(351)	(266)
Change in prepaid expenses and other current assets	(201)	(197)
Change in accounts payable and other current liabilities	(578)	(960)
Change in income taxes payable	244	90
Other, net	(34)	(115)
Net Cash Provided by/(Used for) Operating Activities	702	(690)
Investing Activities		
Capital spending	(303)	(316)
Sales of property, plant and equipment	8	17
Acquisitions and investments in noncontrolled affiliates	(30)	(32)
Divestitures	—	9
Short-term investments, by original maturity - three months or less, net	40	52
Other investing, net	—	13
Net Cash Used for Investing Activities	(285)	(257)

(Continued on following page)

Table of Contents

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

	12 Weeks Ended	
	3/23/2013	3/24/2012
Financing Activities		
Proceeds from issuances of long-term debt	$2,491	$2,733
Payments of long-term debt	(1,190)	(9)
Short-term borrowings, by original maturity		
More than three months – proceeds	5	13
More than three months – payments	(464)	(107)
Three months or less, net	306	(1,696)
Cash dividends paid	(831)	(816)
Share repurchases – common	(626)	(142)
Share repurchases – preferred	(2)	(1)
Proceeds from exercises of stock options	449	274
Excess tax benefits from share-based payment arrangements	36	35
Other financing	(1)	(1)
Net Cash Provided by Financing Activities	173	283
Effect of exchange rate changes on cash and cash equivalents	(172)	82
Net Increase/(Decrease) in Cash and Cash Equivalents	418	(582)
Cash and Cash Equivalents, Beginning of Year	6,297	4,067
Cash and Cash Equivalents, End of Period	$6,715	$3,485

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	(Unaudited) 3/23/2013	12/29/2012
Assets		
Current Assets		
Cash and cash equivalents	$6,715	$6,297
Short-term investments	296	322
Accounts and notes receivable, less allowance: 3/13 – $164, 12/12 – $157	7,234	7,041
Inventories		
Raw materials	1,846	1,875
Work-in-process	265	173
Finished goods	1,809	1,533
	3,920	3,581
Prepaid expenses and other current assets	1,745	1,479
Total Current Assets	19,910	18,720
Property, Plant and Equipment	36,213	36,162
Accumulated Depreciation	(17,369)	(17,026)
	18,844	19,136
Amortizable Intangible Assets, net	1,749	1,781
Goodwill	16,915	16,971
Other nonamortizable intangible assets	14,655	14,744
Nonamortizable Intangible Assets	31,570	31,715
Investments in Noncontrolled Affiliates	1,676	1,633
Other Assets	1,606	1,653
Total Assets	$75,355	$74,638

(Continued on following page)

Table of Contents

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

	(Unaudited) 3/23/2013	12/29/2012
Liabilities and Equity		
Current Liabilities		
Short-term obligations	$6,175	$4,815
Accounts payable and other current liabilities	11,244	11,903
Income taxes payable	575	371
Total Current Liabilities	17,994	17,089
Long-term Debt Obligations	23,225	23,544
Other Liabilities	6,621	6,543
Deferred Income Taxes	5,051	5,063
Total Liabilities	52,891	52,239
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(166)	(164)
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: 1,545 and 1,544 shares, respectively)	26	26
Capital in excess of par value	4,136	4,178
Retained earnings	43,395	43,158
Accumulated other comprehensive loss	(5,607)	(5,487)
Repurchased common stock, in excess of par value (321 and 322 shares, respectively)	(19,474)	(19,458)
Total PepsiCo Common Shareholders' Equity	22,476	22,417
Noncontrolling interests	113	105
Total Equity	22,464	22,399
Total Liabilities and Equity	$75,355	$74,638

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	12 Weeks Ended			
	3/23/2013		3/24/2012	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	$41	0.8	$41
Repurchased Preferred Stock				
Balance, beginning of year	(0.6)	(164)	(0.6)	(157)
Redemptions	—	(2)	—	(1)
Balance, end of period	(0.6)	(166)	(0.6)	(158)
Common Stock				
Balance, beginning of year	1,544	26	1,565	26
Repurchased common stock	1	—	3	—
Balance, end of period	1,545	26	1,568	26
Capital in Excess of Par Value				
Balance, beginning of year		4,178		4,461
Stock-based compensation expense		77		56
Stock option exercises/RSUs converted [(a)]		(113)		(194)
Withholding tax on RSUs converted		(8)		(52)
Other		2		(20)
Balance, end of period		4,136		4,251
Retained Earnings				
Balance, beginning of year		43,158		40,316
Net income attributable to PepsiCo		1,075		1,127
Cash dividends declared – common		(831)		(809)
Cash dividends declared – RSUs		(7)		(3)
Balance, end of period		43,395		40,631
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(5,487)		(6,229)
Currency translation adjustment		(234)		1,691
Cash flow hedges, net of tax:				
Net derivative losses		(6)		(14)
Reclassification of net losses to net income		38		7
Pension and retiree medical, net of tax:				
Reclassification of net losses to net income		52		44
Remeasurement of net liabilities and translation		31		(12)
Unrealized (losses)/gains on securities, net of tax		(1)		13
Other		—		36
Balance, end of period		(5,607)		(4,464)
Repurchased Common Stock				
Balance, beginning of year	(322)	(19,458)	(301)	(17,870)
Share repurchases	(9)	(626)	(5)	(294)
Stock option exercises	9	589	6	356
Other	1	21	2	122
Balance, end of period	(321)	(19,474)	(298)	(17,686)
Total PepsiCo Common Shareholders' Equity		22,476		22,758
Noncontrolling Interests				
Balance, beginning of year		105		311

Net income attributable to noncontrolling interests	10	6
Currency translation adjustment	(1)	(4)
Acquisitions and divestitures	—	(1)
Other, net	(1)	1
Balance, end of period	113	313
Total Equity	$22,464	$22,954

(a) Includes total tax benefits of $26 million in 2013 and $14 million in 2012.

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

Our Condensed Consolidated Balance Sheet as of March 23, 2013 and the Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the 12 weeks ended March 23, 2013 and March 24, 2012 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 weeks are not necessarily indicative of the results expected for the full year.

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

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

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year’s amounts to conform to the 2013 presentation. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

Our Divisions

We are organized into four business units, as follows:

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

Table of Contents

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

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

	12 Weeks Ended			
	Net Revenue		Operating Profit	
	3/23/2013	3/24/2012	3/23/2013	3/24/2012
FLNA	$3,123	$3,010	$828	$780
QFNA	634	623	180	187
LAF	1,367	1,235	216	183
PAB	4,420	4,448	565	525
Europe	1,942	1,845	88	81
AMEA	1,095	1,267	184	148
Total division	12,581	12,428	2,061	1,904
Corporate Unallocated				
Mark-to-market net impact (losses)/gains			(16)	84
Restructuring and impairment charges			(1)	2
Venezuela currency devaluation			(124)	—
Other			(262)	(268)
	$12,581	$12,428	$1,658	$1,722

	Total Assets	
	3/23/2013	12/29/2012
FLNA	$5,298	$5,332
QFNA	997	966
LAF	5,027	4,993
PAB	31,293	30,899
Europe	18,989	19,218
AMEA	5,714	5,738
Total division	67,318	67,146
Corporate [a]	8,037	7,492
	$75,355	$74,638

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

11

Table of Contents

Note 2 - Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance that requires an entity to disclose information showing the effect of items reclassified from accumulated other comprehensive income on the line items of net income. The provisions of this new guidance were effective prospectively as of the beginning of our 2013 fiscal year. Accordingly, we have included enhanced footnote disclosure for the 12 weeks ended March 23, 2013 in Note 9.

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

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

Note 3 - Restructuring, Impairment and Integration Charges

In the 12 weeks ended March 23, 2013, we incurred restructuring and impairment charges of $11 million ($8 million after-tax or $0.01 per share) in conjunction with our multi-year productivity plan (Productivity Plan). All of these net charges were recorded in selling, general and administrative expenses. Substantially all cash payments related to these charges are expected to be paid by the end of 2013.

In the 12 weeks ended March 24, 2012, we incurred restructuring and impairment charges of $33 million ($23 million after-tax or $0.01 per share) in conjunction with our Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. Substantially all cash payments related to these charges were paid by the end of 2012.

The Productivity Plan includes actions in every aspect of our business that we believe will strengthen our complementary food, snack and beverage businesses by leveraging new technologies and processes across PepsiCo’s operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The Productivity Plan is expected to enhance PepsiCo’s cost-competitiveness, provide a source of funding for future brand-building and innovation initiatives, and serve as a financial cushion for potential macroeconomic uncertainty.

Table of Contents

A summary of our Productivity Plan charges is as follows:

	12 Weeks Ended	
	3/23/2013	3/24/2012
FLNA	$2	$8
QFNA [(a)]	(1)	5
LAF	4	6
PAB	—	8
Europe [(a)]	4	(1)
AMEA	1	9
Corporate [(a)]	1	(2)
	$11	$33

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

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

	Severance and Other Employee Costs	Asset Impairment	Other Costs	Total
Liability as of December 29, 2012	$91	$—	$36	$127
2013 restructuring charges	2	1	8	11
Cash payments	(21)	—	(9)	(30)
Non-cash charges and other	(6)	(1)	—	(7)
Liability as of March 23, 2013	$66	$—	$35	$101

In the 12 weeks ended March 23, 2013, we incurred merger and integration charges of $1 million ($1 million after-tax with a nominal amount per share) related to our acquisition of Wimm-Bill-Dann Foods OJSC (WBD). These charges were recorded in selling, general and administrative expenses in the Europe segment. Substantially all cash payments related to these charges are expected to be paid by the end of 2013.

In the 12 weeks ended March 24, 2012, we incurred merger and integration charges of $2 million ($2 million after-tax with a nominal amount per share) related to our acquisition of WBD. These charges were recorded in selling, general and administrative expenses in the Europe segment.

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

	Severance and Other Employee Costs	Other Costs	Total
Liability as of December 29, 2012	$18	$6	$24
2013 merger and integration charges	—	1	1
Cash payments	(9)	(2)	(11)
Liability as of March 23, 2013	$9	$5	$14

Table of Contents

Note 4 - Intangible Assets

	3/23/2013			12/29/2012		
Amortizable intangible assets, net	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired franchise rights	$923	$(71)	$852	$931	$(67)	$864
Reacquired franchise rights	110	(72)	38	110	(68)	42
Brands	1,411	(978)	433	1,422	(980)	442
Other identifiable intangibles	733	(307)	426	736	(303)	433
	$3,177	$(1,428)	$1,749	$3,199	$(1,418)	$1,781

Table of Contents

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

	Balance 12/29/2012	Translation and Other	Balance 3/23/2013
FLNA			
Goodwill	$316	$(5)	$311
Brands	31	(1)	30
	347	(6)	341
QFNA			
Goodwill	175	—	175
LAF			
Goodwill	716	9	725
Brands	223	3	226
	939	12	951
PAB			
Goodwill	9,988	(16)	9,972
Reacquired franchise rights	7,337	(32)	7,305
Acquired franchise rights	1,573	(3)	1,570
Brands	153	1	154
	19,051	(50)	19,001
Europe			
Goodwill	5,214	(41)	5,173
Reacquired franchise rights	772	(6)	766
Acquired franchise rights	223	(1)	222
Brands	4,284	(48)	4,236
	10,493	(96)	10,397
AMEA			
Goodwill	562	(3)	559
Brands	148	(2)	146
	710	(5)	705
Total goodwill	16,971	(56)	16,915
Total reacquired franchise rights	8,109	(38)	8,071
Total acquired franchise rights	1,796	(4)	1,792
Total brands	4,839	(47)	4,792
	$31,715	$(145)	$31,570

Table of Contents

Note 5 - Income Taxes

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

	3/23/2013	12/29/2012
Balance, beginning of year	$2,425	$2,167
Additions for tax positions related to the current year	41	275
Additions for tax positions from prior years	4	161
Reductions for tax positions from prior years	—	(172)
Settlement payments	—	(17)
Statute of limitations expiration	(19)	(3)
Translation and other	(1)	14
Balance, end of period	$2,450	$2,425

Note 6 - Stock-Based Compensation

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

	12 Weeks Ended	
	3/23/2013	3/24/2012
Stock-based compensation expense	$77	$56
Merger and integration charges	—	1
Restructuring and impairment benefits	—	(7)
Total	$77	$50

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

	12 Weeks Ended 3/23/2013
Expected life	6 years
Risk free interest rate	1.0 %
Expected volatility [(a)]	17 %
Expected dividend yield	2.7 %

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

For the 12 weeks ended March 23, 2013 we granted 2.5 million stock options, 3.9 million restricted stock units (RSUs) and 0.4 million PepsiCo equity performance units at a weighted-average grant price of $75.75 under the terms of our 2007 Long-Term Incentive Plan.

We did not grant any stock options or RSUs in the 12 weeks ended March 24, 2012, as our annual equity award was delayed until the second quarter in the prior year, in connection with our Productivity Plan.

Table of Contents

Note 7 - Pension and Retiree Medical Benefits

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	3/23/2013	3/24/2012	3/23/2013	3/24/2012	3/23/2013	3/24/2012
	U.S.		International			
Service cost	$108	$95	$22	$18	$10	$12
Interest cost	121	123	22	20	13	15
Expected return on plan assets	(190)	(184)	(30)	(26)	(6)	(5)
Amortization of prior service cost/(benefit)	4	4	—	—	(5)	(6)
Amortization of net losses	67	60	13	10	—	—
	110	98	27	22	12	16
Settlement/curtailment gain	—	(7)	—	—	—	—
Special termination benefits	1	4	—	—	—	4
Total expense	$111	$95	$27	$22	$12	$20

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

Note 8 - Debt Obligations and Commitments

In the first quarter of 2013, we issued:

- $625 million of floating rate notes maturing in February 2016, which bear interest at a rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 21 basis points;
- $625 million of 0.700% senior notes maturing in February 2016; and
- $1.250 billion of 2.750% senior notes maturing in March 2023.

The net proceeds from the issuances of the above notes were used for general corporate purposes, including the repayment of commercial paper.

As of March 23, 2013, we had $1.5 billion of commercial paper outstanding.

Table of Contents

Long-Term Contractual Commitments [(a)]

	Payments Due by Period				
	Total	2013	2014 – 2015	2016 – 2017	2018 and beyond
Long-term debt obligations [(b)]	$22,658	$—	$3,792	$4,355	$14,511
Interest on debt obligations [(c)]	8,917	730	1,560	1,321	5,306
Operating leases	2,047	371	666	379	631
Purchasing commitments [(d)]	2,586	974	1,190	204	218
Marketing commitments [(d)]	2,297	221	637	491	948
	$38,505	$2,296	$7,845	$6,750	$21,614

(a) Based on quarter-end foreign exchange rates.

(b) Excludes $4,425 million related to current maturities of long-term debt, $299 million related to the increase in carrying value of long-term debt reflecting the gains on our fair value interest rate swaps, and $268 million related to the fair value step-up of debt acquired in connection with our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS) in February 2010.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of March 23, 2013.

(d) Primarily reflects non-cancelable commitments as of March 23, 2013.

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for packaging materials and oranges and orange juice. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding to independent bottlers is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. Accrued liabilities for pension and retiree medical plans are not reflected in our long-term contractual commitments because they do not represent expected future cash outflows. See Note 7 for additional information regarding our pension and retiree medical obligations.

Table of Contents

Note 9 - Accumulated Other Comprehensive Loss

The following table summarizes the reclassifications from Accumulated Other Comprehensive Loss to the Condensed Consolidated Statement of Income for the 12 weeks ended March 23, 2013:

	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Condensed Consolidated Statement of Income
Losses/(gains) on cash flow hedges:			
Foreign exchange contracts	$3		Cost of sales
Interest rate derivatives	51		Interest expense
Commodity contracts	6		Cost of sales
Commodity contracts	(1	)	Selling, general and administrative expenses
Total before tax	59		
Tax amounts	(21	)	
Losses after tax	$38		
Amortization of pension and retiree medical items:			
Net prior service benefit	$(1	) (a)	
Net actuarial losses	80	(a)	
Total before tax	79		
Tax amounts	(27	)	
Losses after tax	$52		
Total losses reclassified for the period net of tax	$90		

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

Note 10 - Financial Instruments

We are exposed to market risks arising from adverse changes in:
- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange risks and currency restrictions; and
- interest rates.

Table of Contents

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity, foreign exchange or interest risks are classified as operating activities in the Condensed Consolidated Statement of Cash Flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. See "Our Business Risks" in Management's Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks.

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

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes. We perform assessments of our counterparty credit risk regularly, including a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements and derivatives. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. We use derivatives, with terms of no more than three years, to economically hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for agricultural products, energy and metals. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately in corporate unallocated expenses. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of $24 million related to these hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

Our open commodity derivative contracts that qualify for hedge accounting had a face value of $537 million as of March 23, 2013 and $552 million as of March 24, 2012.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of $958 million as of March 23, 2013 and $628 million as of March 24, 2012.

Foreign Exchange

We are also exposed to foreign currency risk from foreign currency purchases and foreign currency assets and liabilities created in the normal course of business. We manage this risk through sourcing purchases from

Table of Contents

local suppliers, negotiating contracts in local currencies with foreign suppliers and through the use of derivatives, primarily forward contracts with terms of no more than two years. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred.

Our foreign currency derivatives had a total face value of $2.9 billion as of March 23, 2013 and $2.7 billion as of March 24, 2012. During the next 12 months, we expect to reclassify net gains of $13 million related to foreign currency contracts that qualify for hedge accounting from accumulated other comprehensive loss into net income. Additionally, ineffectiveness for our foreign currency hedges was not material for all periods presented. For foreign currency derivatives that do not qualify for hedge accounting treatment, all losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Interest Rates

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

The notional amounts of the interest rate derivative instruments outstanding as of March 23, 2013 and March 24, 2012 were $7.8 billion and $8.3 billion, respectively. For those interest rate derivative instruments that qualify for cash flow hedge accounting, any ineffectiveness is recorded immediately. Ineffectiveness was not material for all periods presented. During the next 12 months, we expect to reclassify net losses of $23 million related to these hedges from accumulated other comprehensive loss into net income.

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

Table of Contents

Fair Value Measurements

The fair values of our financial assets and liabilities as of March 23, 2013 and March 24, 2012 are categorized as follows:

	2013		2012	
	Assets [a]	Liabilities [a]	Assets [a]	Liabilities [a]
Available-for-sale securities [b]	$76	$—	$72	$—
Short-term investments – index funds [c]	$176	$—	$166	$—
Prepaid forward contracts [d]	$38	$—	$37	$—
Deferred compensation [e]	$—	$502	$—	$523
Derivatives designated as fair value hedging instruments:				
Interest rate derivatives [f]	$249	$1	$274	$2
Derivatives designated as cash flow hedging instruments:				
Foreign exchange contracts [g]	$27	$9	$9	$18
Interest rate derivatives [f]	—	24	—	—
Commodity contracts [h]	4	32	14	42
	$31	$65	$23	$60
Derivatives not designated as hedging instruments:				
Foreign exchange contracts [g]	$6	$4	$30	$9
Interest rate derivatives [f]	112	140	95	128
Commodity contracts [h]	25	54	39	30
	$143	$198	$164	$167
Total derivatives at fair value	$423	$264	$461	$229
Total	$713	$766	$736	$752

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

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

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

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

(e) Based on the fair value of investments corresponding to employees' investment elections. As of March 23, 2013 and March 24, 2012, $9 million and $49 million, respectively, are categorized as Level 1 liabilities. The remaining balances are categorized as Level 2 liabilities.

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

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

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

The fair value of our debt obligations as of March 23, 2013 was $31 billion, based upon prices of similar instruments in the marketplace.

Table of Contents

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

	12 Weeks Ended					
	Fair Value/Non-designated Hedges		Cash Flow Hedges			
	Losses/(Gains) Recognized in Income Statement [a]		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement [b]	
	3/23/2013	3/24/2012	3/23/2013	3/24/2012	3/23/2013	3/24/2012
Foreign exchange contracts	$—	$(10)	$(28)	$29	$3	$(3)
Interest rate derivatives	27	27	30	4	51	4
Commodity contracts	11	(49)	21	(18)	5	11
Total	$38	$(32)	$23	$15	$59	$12

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

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

Note 11 - Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended			
	3/23/2013		3/24/2012	
	Income	Shares [a]	Income	Shares [a]
Net income attributable to PepsiCo	$1,075		$1,127	
Preferred shares:				
Dividends	—		—	
Redemption premium	(2)		(1)	
Net income available for PepsiCo common shareholders	$1,073	1,544	$1,126	1,568
Basic net income attributable to PepsiCo per common share	$0.69		$0.72	
Net income available for PepsiCo common shareholders	$1,073	1,544	$1,126	1,568
Dilutive securities:				
Stock options and RSUs [b]	—	18	—	15
Employee stock ownership plan (ESOP) convertible preferred stock	2	1	1	1
Diluted	$1,075	1,563	$1,127	1,584
Diluted net income attributable to PepsiCo per common share	$0.69		$0.71	

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

(b) Options to purchase 2.6 million shares in 2013 and 29.6 million shares in 2012 were not included in the calculation of earnings per share because these options were out-of-the-money. These out-of-the-money options had average exercise prices of $75.69 in 2013 and $66.93 in 2012.

Table of Contents

Note 12 - Divestitures

Suntory Holdings Limited

In April 2013 (during our second quarter), we completed a transaction with Suntory Holdings Limited. Under the terms of the agreement, we sold a controlling interest in our Vietnam bottling operations. The new alliance will serve as the franchise bottler for both companies. We anticipate recording an after-tax gain of approximately $140 million associated with this transaction in our second quarter results.

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

FINANCIAL REVIEW

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

Our Critical Accounting Policies

Sales Incentives and Advertising and Marketing Costs

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

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 and volume, as applicable, to our forecasted annual gross revenue and volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized in the interim period as they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for other marketplace spending, which includes the costs of advertising and other marketing activities.

Income Taxes

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

Table of Contents

Our Business Risks

This Quarterly Report on Form 10-Q contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “believe,” “expect,” “intend,” “estimate,” “project,” “anticipate,” “v similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Our operations outside of the U.S. generated approximately 40% of our net revenue in the 12 weeks ended March 23, 2013. As a result, we are exposed to foreign currency risks, including unforeseen economic changes and political unrest. During 2012 and the first quarter of 2013, amid a continued unstable environment in Europe, certain countries continued to experience debt and credit issues as well as currency fluctuations. We continue to monitor the economic environment in Europe closely and have identified actions to potentially mitigate the unfavorable impact, if any, on our 2013 financial results. In the 12 weeks ended March 23, 2013, unfavorable foreign currency movements decreased net revenue growth by 0.5 percentage points, primarily due to depreciation of the Brazilian real and the Venezuelan bolivar fuerte (bolivar), offset slightly by the appreciation of the Mexican peso. Currency declines against the U.S. dollar which are not offset could adversely impact our future results.

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

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

See Note 10 to our condensed consolidated financial statements for further discussion of our derivative instruments, including their fair values as of March 23, 2013 and March 24, 2012. Cautionary statements included in Item 1A. Risk Factors and in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks, included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, should be considered when evaluating our trends and future results.

Table of Contents

Results of Operations – Consolidated Review

Items Affecting Comparability

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

	12 Weeks Ended	
	3/23/2013	3/24/2012
Operating profit		
Mark-to-market net impact (losses) / gains	$(16)	$84
Merger and integration charges	$(1)	$(2)
Restructuring and impairment charges	$(11)	$(33)
Venezuela currency devaluation	$(111)	$—
Net income attributable to PepsiCo		
Mark-to-market net impact (losses) / gains	$(11)	$60
Merger and integration charges	$(1)	$(2)
Restructuring and impairment charges	$(8)	$(23)
Venezuela currency devaluation	$(111)	$—
Net income attributable to PepsiCo per common share – diluted		
Mark-to-market net impact (losses) / gains	$(0.01)	$0.04
Merger and integration charges	$ (—)	$ (—)
Restructuring and impairment charges	$(0.01)	$(0.01)
Venezuela currency devaluation	$(0.07)	$—

Mark-to-Market Net Impact

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

In the 12 weeks ended March 23, 2013, we recognized $16 million ($11 million after-tax or $0.01 per share) of mark-to-market net losses on commodity hedges in corporate unallocated expenses.

In the 12 weeks ended March 24, 2012, we recognized $84 million ($60 million after-tax or $0.04 per share) of mark-to-market net gains on commodity hedges in corporate unallocated expenses.

Merger and Integration Charges

In the 12 weeks ended March 23, 2013, we incurred merger and integration charges of $1 million ($1 million after-tax with a nominal amount per share) related to our acquisition of WBD which were recorded in the Europe segment.

In the 12 weeks ended March 24, 2012, we incurred merger and integration charges of $2 million ($2 million after-tax with a nominal amount per share) related to our acquisition of WBD which were recorded in the Europe segment.

Table of Contents

Restructuring and Impairment Charges

In the 12 weeks ended March 23, 2013, we incurred restructuring and impairment charges of $11 million ($8 million after-tax or $0.01 per share) in conjunction with our Productivity Plan, including $2 million recorded in the FLNA segment, $4 million recorded in the LAF segment, $4 million recorded in the Europe segment, $1 million recorded in the AMEA segment, $1 million recorded in corporate unallocated expenses and income of $1 million recorded in the QFNA segment representing adjustments of previously recorded amounts.

In the 12 weeks ended March 24, 2012, we incurred restructuring and impairment charges of $33 million ($23 million after-tax or $0.01 per share) in conjunction with our Productivity Plan, including $8 million recorded in the FLNA segment, $5 million recorded in the QFNA segment, $6 million recorded in the LAF segment, $8 million recorded in the PAB segment, $9 million recorded in the AMEA segment and income of $1 million and $2 million recorded in the Europe segment and in corporate unallocated expenses, respectively, representing adjustments of previously recorded amounts.

In conjunction with our Productivity Plan, we expect to incur pre-tax charges of approximately $910 million, $383 million of which was reflected in our 2011 results, $279 million of which was reflected in our 2012 results, $11 million of which was reflected in our first quarter 2013 results, with approximately $140 million of additional charges during the remainder of 2013 and the balance of which will be reflected in our 2014 through 2015 results. These charges will consist of approximately $525 million of severance and other employee-related costs; approximately $285 million for other costs, including consulting-related costs and the termination of leases and other contracts; and approximately $100 million for asset impairments (all non-cash) resulting from plant closures and related actions. These charges resulted in cash expenditures of $30 million in 2011, $343 million in 2012, $30 million in the first quarter of 2013, with approximately $152 million of additional cash expenditures expected in the remainder of 2013 and the balance of approximately $145 million expected in 2014 through 2015. See Note 3 to our condensed consolidated financial statements. The Company continues to explore opportunities to further drive productivity.

Venezuela Currency Devaluation

For the 12 weeks ended March 23, 2013, we recorded a $111 million net charge related to the devaluation of the bolivar for our Venezuela businesses. $124 million of this charge was recorded in corporate unallocated expenses, with the balance (equity income of $13 million) recorded in our PAB segment. In total, this net charge had an after-tax impact of $111 million or $0.07 per share.

Non-GAAP Measures

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

Table of Contents

Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is necessary to reflect our consolidated physical unit volume. In the 12 weeks ended March 23, 2013, total servings increased 3%. For the 12 weeks ended March 24, 2012, total servings increased 2%. 2013 servings growth reflects an adjustment to the base year (2012) for divestitures that occurred in 2012.

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

Consolidated Results

Total Net Revenue and Operating Profit

	12 Weeks Ended		
	3/23/2013	3/24/2012	Change
Total net revenue	$12,581	$12,428	1 %
Operating profit			
FLNA	$828	$780	6 %
QFNA	180	187	(4)%
LAF	216	183	18 %
PAB	565	525	8 %
Europe	88	81	10 %
AMEA	184	148	24 %
Corporate unallocated			
Mark-to-market net impact (losses)/gains	(16)	84	n/m
Restructuring and impairment charges	(1)	2	n/m
Venezuela currency devaluation	(124)	—	n/m
Other	(262)	(268)	(2)%
Total operating profit	$1,658	$1,722	(4)%
Total operating profit margin	13.2 %	13.9 %	(0.7)

n/m = not meaningful

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

Table of Contents

On a reported basis, total operating profit decreased 4% and operating margin decreased 0.7 percentage points. Operating profit performance was primarily driven by items affecting comparability (see “Items Affecting Comparability”), which reduced operating profit performance by 11 percentage points and reduced total operating margin by 1.5 percentage points. Excluding these items, operating profit increased, driven by effective net pricing, planned cost reductions across a number of expense categories and volume growth, partially offset by cost increases reflecting strategic investments and higher advertising and marketing expenses. Net commodity costs decreased slightly compared to the prior year period, primarily attributable to deflation in PAB offset by inflation in LAF and Europe.

Other Consolidated Results

	12 Weeks Ended		
	3/23/2013	3/24/2012	Change
Interest expense, net	$(187)	$(175)	$(12)
Tax rate	26.3%	26.7%	
Net income attributable to PepsiCo	$1,075	$1,127	(5)%
Net income attributable to PepsiCo per common share - diluted	$0.69	$0.71	(3)%
Mark-to-market net impact losses/(gains)	0.01	(0.04)	
Merger and integration charges	—	—	
Restructuring and impairment charges	0.01	0.01	
Venezuela currency devaluation	0.07	—	
Net income attributable to PepsiCo per common share - diluted, excluding above items [(a)]	$0.77 [(b)]	$0.69 [(b)]	12%
Impact of foreign exchange translation			1
Growth in net income attributable to PepsiCo per common share - diluted, excluding above items, on a constant currency basis [(a)]			13%

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

Net interest expense increased $12 million, primarily reflecting higher average debt balances and losses in the market value of investments used to economically hedge a portion of our deferred compensation costs, partially offset by an increase in interest income resulting from higher average cash and cash equivalent balances.

The reported tax rate decreased 0.4% compared to prior year, primarily due to income mix shift during the quarter and the reversal of international tax reserves due to the expiration of a statute of limitations, partially offset by the lapping of a 2012 tax benefit related to the pre-payment of Medicare subsidy liabilities and the impact of the 2013 Venezuela devaluation.

Net income attributable to PepsiCo decreased 5% and net income attributable to PepsiCo per common share decreased 3%. Items affecting comparability (see “Items Affecting Comparability”) reduced both net income attributable to PepsiCo and net income attributable to PepsiCo per common share by 15 percentage points.

Table of Contents

Results of Operations – Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Accordingly, 2013 volume growth measures reflect an adjustment to the base year (2012) for divestitures that occurred in 2012. See "Items Affecting Comparability" for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

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

Net Revenue

12 Weeks Ended	FLNA	QFNA	LAF	PAB	Europe	AMEA	Total
3/23/2013	$3,123	$634	$1,367	$4,420	$1,942	$1,095	$12,581
3/24/2012	$3,010	$623	$1,235	$4,448	$1,845	$1,267	$12,428
% Impact of:							
Volume [(a)]	4 %	3 %	1 %	(5)%	2 %	15 %	1 %
Effective net pricing [(b)]	—	(1)	13	5	2	—	3
Foreign exchange translation	—	—	(3)	—	1	(2)	(0.5)
Acquisitions and divestitures	—	—	—	—	—	(27)	(3)
Reported Growth [(c)]	4 %	2 %	11 %	(1)%	5 %	(14)%	1 %

(a) 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. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

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

(c) Amounts may not sum due to rounding.

Table of Contents

Organic Revenue Growth

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

12 Weeks Ended 3/23/2013	FLNA		QFNA		LAF		PAB		Europe		AMEA		Total	
Reported Growth	4	%	2	%	11	%	(1	)%	5	%	(14	)%	1	%
% Impact of:														
Foreign exchange translation	—		—		3		—		(1	)	2		0.5	
Acquisitions and divestitures	—		—		—		—							