

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

(Mark One)

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

For the quarterly period ended March 25, 2017 (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 NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

Number of shares of Common Stock outstanding as of April 19, 2017 was 1,428,501,223.

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PART I FINANCIAL INFORMATION**ITEM 1. Condensed Consolidated Financial Statements.****Condensed Consolidated Statement of Income**

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts, unaudited)

	12 Weeks Ended	
	3/25/2017	3/19/2016
Net Revenue	\$ 12,049	\$ 11,862
Cost of sales	5,286	5,151
Gross profit	6,763	6,711
Selling, general and administrative expenses	4,817	5,078
Amortization of intangible assets	13	14
Operating Profit	1,933	1,619
Interest expense	(252)	(246)
Interest income and other	40	14
Income before income taxes	1,721	1,387
Provision for income taxes	392	442
Net income	1,329	945
Less: Net income attributable to noncontrolling interests	11	14
Net Income Attributable to PepsiCo	\$ 1,318	\$ 931
Net Income Attributable to PepsiCo per Common Share		
Basic	\$ 0.92	\$ 0.64
Diluted	\$ 0.91	\$ 0.64
Weighted-average common shares outstanding		
Basic	1,428	1,446
Diluted	1,440	1,459
Cash dividends declared per common share	\$ 0.7525	\$ 0.7025

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

PepsiCo, Inc. and Subsidiaries

(in millions, unaudited)

	12 Weeks Ended 3/25/2017		
	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$ 1,329
Other comprehensive income			
Currency translation adjustment	\$ 512	\$ 4	516
Cash flow hedges:			
Reclassification of net gains to net income	(33)	11	(22)
Net derivative losses	(3)	(2)	(5)
Pension and retiree medical:			
Reclassification of net losses to net income	28	(9)	19
Remeasurement of net liabilities and translation	(14)	4	(10)
Unrealized gains on securities	9	(5)	4
Total other comprehensive income	\$ 499	\$ 3	502
Comprehensive income			1,831
Comprehensive income attributable to noncontrolling interests			(10)
Comprehensive Income Attributable to PepsiCo			\$ 1,821
	12 Weeks Ended 3/19/2016		
	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$ 945
Other comprehensive loss			
Currency translation adjustment	\$ (220)	\$ —	(220)
Cash flow hedges:			
Reclassification of net gains to net income	(21)	5	(16)
Net derivative losses	—	(1)	(1)
Pension and retiree medical:			
Reclassification of net losses to net income	37	(12)	25
Remeasurement of net liabilities and translation	15	(48)	(33)
Unrealized losses on securities	(12)	7	(5)
Total other comprehensive loss	\$ (201)	\$ (49)	(250)
Comprehensive income			695
Comprehensive income attributable to noncontrolling interests			(14)
Comprehensive Income Attributable to PepsiCo			\$ 681

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	12 Weeks Ended	
	3/25/2017	3/19/2016
Operating Activities		
Net income	\$ 1,329	\$ 945
Depreciation and amortization	477	481
Share-based compensation expense	72	69
Restructuring and impairment charges	27	30
Cash payments for restructuring charges	(7)	(30)
Charge related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	—	373
Pension and retiree medical plan expenses	44	60
Pension and retiree medical plan contributions	(79)	(93)
Deferred income taxes and other tax charges and credits	129	19
Change in assets and liabilities:		
Accounts and notes receivable	(128)	(349)
Inventories	(513)	(530)
Prepaid expenses and other current assets	(299)	(255)
Accounts payable and other current liabilities	(1,386)	(661)
Income taxes payable	172	318
Other, net	(37)	(72)
Net Cash (Used for)/Provided by Operating Activities	(199)	305
Investing Activities		
Capital spending	(317)	(389)
Sales of property, plant and equipment	12	25
Acquisitions and investments in noncontrolled affiliates	(36)	—
Divestitures	41	55
Short-term investments, by original maturity:		
More than three months - purchases	(3,436)	(2,556)
More than three months - maturities	3,866	1,446
More than three months - sales	138	—
Three months or less, net	—	7
Other investing, net	1	—
Net Cash Provided by/(Used for) Investing Activities	269	(1,412)
Financing Activities		
Proceeds from issuances of long-term debt	—	2,532
Payments of long-term debt	(752)	(1,251)
Short-term borrowings, by original maturity:		
More than three months - proceeds	28	—
More than three months - payments	—	(9)
Three months or less, net	2,396	480
Cash dividends paid	(1,098)	(1,038)
Share repurchases - common	(444)	(619)
Share repurchases - preferred	(1)	(2)
Proceeds from exercises of stock options	245	165
Withholding tax payments on RSUs, PSUs and PEPunits converted	(116)	(99)
Other financing	(1)	(2)
Net Cash Provided by Financing Activities	257	157
Effect of exchange rate changes on cash and cash equivalents	43	(22)
Net Increase/(Decrease) in Cash and Cash Equivalents	370	(972)
Cash and Cash Equivalents, Beginning of Year	9,158	9,096
Cash and Cash Equivalents, End of Period	\$ 9,528	\$ 8,124

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts)

	(Unaudited)	
	3/25/2017	12/31/2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,528	\$ 9,158
Short-term investments	6,461	6,967
Accounts and notes receivable, less allowance: 3/17 - \$139 and 12/16 - \$134	6,848	6,694
Inventories:		
Raw materials and packaging	1,429	1,315
Work-in-process	220	150
Finished goods	1,633	1,258
	3,282	2,723
Prepaid expenses and other current assets	1,031	908
Total Current Assets	27,150	26,450
Property, plant and equipment	37,373	36,818
Accumulated depreciation	(20,724)	(20,227)
	16,649	16,591
Amortizable Intangible Assets, net	1,259	1,237
Goodwill	14,584	14,430
Other nonamortizable intangible assets	12,338	12,196
Nonamortizable Intangible Assets	26,922	26,626
Investments in Noncontrolled Affiliates	2,003	1,950
Other Assets	639	636
Total Assets	\$ 74,622	\$ 73,490
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt obligations	\$ 8,577	\$ 6,892
Accounts payable and other current liabilities	13,067	14,243
Total Current Liabilities	21,644	21,135
Long-Term Debt Obligations	30,081	30,053
Other Liabilities	6,693	6,669
Deferred Income Taxes	4,521	4,434
Total Liabilities	62,939	62,291
Commitments and contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(194)	(192)
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: 1,430 and 1,428 shares, respectively)	24	24
Capital in excess of par value	3,857	4,091
Retained earnings	52,756	52,518
Accumulated other comprehensive loss	(13,416)	(13,919)
Repurchased common stock, in excess of par value (436 and 438 shares, respectively)	(31,499)	(31,468)
Total PepsiCo Common Shareholders' Equity	11,722	11,246
Noncontrolling interests	114	104
Total Equity	11,683	11,199
Total Liabilities and Equity	\$ 74,622	\$ 73,490

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statement of Equity

PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	12 Weeks Ended			
	3/25/2017		3/19/2016	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	\$ 41	0.8	\$ 41
Repurchased Preferred Stock				
Balance, beginning of year	(0.7)	(192)	(0.7)	(186)
Redemptions	—	(2)	—	(1)
Balance, end of period	(0.7)	(194)	(0.7)	(187)
Common Stock				
Balance, beginning of year	1,428	24	1,448	24
Change in repurchased common stock	2	—	(2)	—
Balance, end of period	1,430	24	1,446	24
Capital in Excess of Par Value				
Balance, beginning of year		4,091		4,076
Share-based compensation expense		73		70
Stock option exercises, RSUs, PSUs and PEPunits converted ^(a)		(191)		(139)
Withholding tax on RSUs, PSUs and PEPunits converted		(116)		(99)
Other		—		(2)
Balance, end of period		3,857		3,906
Retained Earnings				
Balance, beginning of year		52,518		50,472
Net income attributable to PepsiCo		1,318		931
Cash dividends declared – common		(1,080)		(1,020)
Balance, end of period		52,756		50,383
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(13,919)		(13,319)
Other comprehensive income/(loss) attributable to PepsiCo		503		(250)
Balance, end of period		(13,416)		(13,569)
Repurchased Common Stock				
Balance, beginning of year	(438)	(31,468)	(418)	(29,185)
Share repurchases	(4)	(477)	(7)	(664)
Stock option exercises, RSUs, PSUs and PEPunits converted	6	446	5	360
Other	—	—	—	2
Balance, end of period	(436)	(31,499)	(420)	(29,487)
Total PepsiCo Common Shareholders' Equity		11,722		11,257
Noncontrolling Interests				
Balance, beginning of year		104		107
Net income attributable to noncontrolling interests		11		14
Currency translation adjustment		(1)		—
Other, net		—		(1)
Balance, end of period		114		120
Total Equity		\$ 11,683		\$ 11,231

(a) Includes total tax benefits of \$53 million in 2016.

See accompanying notes to the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

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

Our Condensed Consolidated Balance Sheet as of March 25, 2017 and Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the 12 weeks ended March 25, 2017 and March 19, 2016 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 31, 2016. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 weeks ended March 25, 2017 are not necessarily indicative of the results expected for the full year.

While our financial results in the United States and Canada (North America) are reported on a 12-week basis, most of our international operations report on a monthly calendar basis 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 or volume, as applicable, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw materials handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

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

Our Divisions

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

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

Net revenue and operating profit/(loss) of each division are as follows:

	12 Weeks Ended			
	Net Revenue		Operating Profit/(Loss)	
	3/25/2017	3/19/2016	3/25/2017	3/19/2016
FLNA	\$ 3,499	\$ 3,418	\$ 1,060	\$ 1,018
QFNA	598	617	164	166
NAB	4,460	4,361	505	485
Latin America	1,077	1,042	132	175
ESSA	1,445	1,359	102	67
AMENA ^(a)	970	1,065	171	(148)
Total division	12,049	11,862	2,134	1,763
Corporate Unallocated	—	—	(201)	(144)
	<u>\$ 12,049</u>	<u>\$ 11,862</u>	<u>\$ 1,933</u>	<u>\$ 1,619</u>

(a) Operating loss for AMENA for the 12 weeks ended March 19, 2016 includes an impairment charge of \$373 million to reduce the value of our 5% indirect equity interest in Tingyi-Asahi Beverages Holding Co. Ltd. (TAB) to its estimated fair value.

Total assets of each division are as follows:

	Total Assets	
	3/25/2017	12/31/2016
FLNA	\$ 5,684	\$ 5,731
QFNA	834	811
NAB	29,016	28,172
Latin America	4,732	4,568
ESSA	12,553	12,302
AMENA	5,473	5,261
Total division	58,292	56,845
Corporate ^(a)	16,330	16,645
	<u>\$ 74,622</u>	<u>\$ 73,490</u>

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

Note 2 - Recently Issued Accounting Pronouncements

Adopted

In 2016, the Financial Accounting Standards Board (FASB) issued guidance that changes the accounting for certain aspects of share-based payments to employees. We adopted the provisions of this guidance during our first quarter of 2017, resulting in the following impacts to our financial statements:

- Income tax effects of vested or settled awards are recognized in the provision for income taxes on our income statement on a prospective basis. Previously, these tax effects were recorded on our equity statement in capital in excess of par value. Our excess tax benefits were \$60 million for the 12 weeks ended March 25, 2017, resulting in a \$0.04 increase to diluted net income attributable to PepsiCo per common share. For the 12 weeks ended March 19, 2016, our excess tax benefits recognized were \$53 million. If we had applied this standard in 2016, the impact would have been a \$0.04 increase to diluted net income attributable to PepsiCo per common share for the 12 weeks ended March 19, 2016. The ongoing impact on our financial statements is dependent on the timing of award vesting or exercises, our tax rate and the intrinsic value when awards vest or are exercised.

- Excess tax benefits are retrospectively presented within operating activities and withholding tax payments upon vesting of restricted stock units (RSUs), performance stock units (PSUs) and PepsiCo equity performance units (PEPunits) are retrospectively presented within financing activities in the cash flow statement. The adoption resulted in an increase of \$204 million and \$174 million in our operating cash flow with a corresponding decrease in our financing cash flow for the 12 weeks ended March 25, 2017 and March 19, 2016, respectively.

The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes and not classify the award as a liability that requires valuation on a mark-to-market basis. Our accounting treatment for outstanding awards was not impacted by our adoption of this provision. In addition, the guidance allows for a policy election to account for forfeitures as they occur. We will continue to apply our policy of estimating forfeitures as they occur.

In 2016, the FASB issued guidance that eliminates the requirement that an investor retrospectively apply equity method accounting for an investment originally accounted for by another method. The guidance requires that an equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investor's ability to exercise significant influence over the investment is achieved. We adopted the provisions of this guidance prospectively during our first quarter of 2017; the adoption did not impact our financial statements.

In 2015, the FASB issued guidance that requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. We adopted the provisions of this guidance retrospectively during our first quarter of 2017, resulting in the reclassification of \$639 million of deferred taxes from current to non-current on our balance sheet as of December 31, 2016.

Not Yet Adopted

In 2017, the FASB issued guidance that requires companies 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 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. The guidance is effective beginning in 2018 and we will adopt in the first quarter of 2018. We are currently evaluating the impact of this guidance on our financial statements. See Note 7 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and 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. The guidance is effective beginning in 2018 with early adoption permitted. The guidance is not expected to have a material impact on our financial statements. We are currently evaluating the timing of adoption of this guidance.

In 2016, the FASB issued guidance that changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking expected loss model that will replace today's incurred loss model and generally will result in earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The guidance is effective beginning in 2020 with early adoption permitted in 2019. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption.

In 2016, the FASB issued guidance that requires lessees to recognize most leases on their balance sheets, but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective beginning in 2019 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements and the timing of adoption. This adoption will result in an increase in the assets and liabilities on our balance sheet. We commenced our assessment of the impact of the guidance on our current lease portfolio from both a lessor and lessee perspective. See Note 13 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for our minimum lease payments under non-cancelable operating leases.

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. The guidance is effective beginning in 2018. Since early adoption is not permitted, we will adopt the guidance in the first quarter of 2018. We are currently evaluating the impact of this guidance on our financial statements, including the impact on certain of our investments in noncontrolled affiliates and our available-for-sale securities. We are evaluating opportunities to reduce the risk and volatility of these investments in the future. See Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and Note 10 for further information on our available-for-sale 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 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). The guidance is effective beginning in 2018, with early adoption permitted.

We are utilizing 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 continue to make significant progress on our contract reviews and are also in the process of evaluating the impact, if any, on changes to our business processes, systems and controls to support recognition and disclosure under the new guidance. Based on the foregoing, we do not currently expect this guidance to have a material impact on our financial statements. We are continuing with our implementation plan and currently expect to adopt the new guidance beginning in 2018 using the cumulative effect approach.

Note 3 - Restructuring and Impairment Charges

We publicly announced a multi-year productivity plan on February 13, 2014 (2014 Productivity Plan) that includes the next generation of productivity initiatives that we believe will strengthen our food, snack and beverage 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.

In the 12 weeks ended March 25, 2017, we incurred pre- and after-tax restructuring charges of \$27 million (\$0.02 per share) in conjunction with our 2014 Productivity Plan. Additionally, we incurred \$30 million (\$25 million after-tax or \$0.02 per share) in the 12 weeks ended March 19, 2016. All of these net charges were recorded in selling, general and administrative expenses and primarily relate to severance and other employee-related costs, asset impairments (all non-cash) and other costs associated with the implementation of our initiatives, including contract termination costs. Substantially all of the restructuring accrual at March 25, 2017 is expected to be paid by the end of 2017.

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

	12 Weeks Ended							
	3/25/2017				3/19/2016			
	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
FLNA ^(a)	\$ 1	\$ —	\$ —	\$ 1	\$ (4)	\$ —	\$ —	\$ (4)
QFNA	—	—	—	—	—	—	—	—
NAB	—	—	2	2	7	—	—	7
Latin America	12	11	1	24	—	—	—	—
ESSA	4	—	—	4	1	9	9	19
AMENA ^(b)	—	—	(6)	(6)	3	2	—	5
Corporate	1	—	1	2	1	—	2	3
	<u>\$ 18</u>	<u>\$ 11</u>	<u>\$ (2)</u>	<u>\$ 27</u>	<u>\$ 8</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 30</u>

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

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

Since the inception of the 2014 Productivity Plan, we incurred restructuring charges of \$766 million:

	2014 Productivity Plan Costs to Date			
	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
FLNA	\$ 65	\$ 9	\$ 23	\$ 97
QFNA	15	—	6	21
NAB	97	68	84	249
Latin America	64	24	25	113
ESSA	85	37	56	178
AMENA	21	6	14	41
Corporate	18	—	49	67
	<u>\$ 365</u>	<u>\$ 144</u>	<u>\$ 257</u>	<u>\$ 766</u>

A summary of our 2014 Productivity Plan activity for the 12 weeks ended March 25, 2017 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 31, 2016	\$ 88	\$ —	\$ 8	\$ 96
2017 restructuring charges	18	11	(2)	27
Cash payments	(5)	—	(2)	(7)
Non-cash charges and translation	(1)	(11)	6	(6)
Liability as of March 25, 2017	\$ 100	\$ —	\$ 10	\$ 110

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

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

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

Note 4 - Intangible Assets

A summary of our amortizable intangible assets is as follows:

	3/25/2017			12/31/2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired franchise rights	\$ 830	\$ (113)	\$ 717	\$ 827	\$ (108)	\$ 719
Reacquired franchise rights	105	(102)	3	106	(102)	4
Brands	1,288	(990)	298	1,277	(977)	300
Other identifiable intangibles	541	(300)	241	522	(308)	214
	\$ 2,764	\$ (1,505)	\$ 1,259	\$ 2,732	\$ (1,495)	\$ 1,237

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

	Balance 12/31/2016	Translation and Other	Balance 3/25/2017
FLNA			
Goodwill	\$ 270	\$ 2	\$ 272
Brands	23	—	23
	293	2	295
QFNA			
Goodwill	175	—	175
NAB			
Goodwill	9,843	5	9,848
Reacquired franchise rights	7,064	8	7,072
Acquired franchise rights	1,512	1	1,513
Brands	314	—	314
	18,733	14	18,747
Latin America			
Goodwill	553	16	569
Brands	150	6	156
	703	22	725
ESSA			
Goodwill	3,177	110	3,287
Reacquired franchise rights	488	14	502
Acquired franchise rights	184	1	185
Brands	2,358	105	2,463
	6,207	230	6,437
AMENA			
Goodwill	412	21	433
Brands	103	7	110
	515	28	543
Total goodwill	14,430	154	14,584
Total reacquired franchise rights	7,552	22	7,574
Total acquired franchise rights	1,696	2	1,698
Total brands	2,948	118	3,066
	\$ 26,626	\$ 296	\$ 26,922

Note 5 - Income Taxes

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

	3/25/2017	12/31/2016
Balance, beginning of year	\$ 1,885	\$ 1,547
Additions for tax positions related to the current year	57	349
Additions for tax positions from prior years	6	139
Reductions for tax positions from prior years	(2)	(70)
Settlement payments	(2)	(26)
Statutes of limitations expiration	(6)	(27)
Translation and other	13	(27)
Balance, end of period	<u>\$ 1,951</u>	<u>\$ 1,885</u>

Note 6 - Share-Based Compensation

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

	12 Weeks Ended	
	3/25/2017	3/19/2016
Share-based compensation expense - equity awards	\$ 72	\$ 69
Share-based compensation expense - liability awards	4	2
Restructuring and impairment charges	1	1
Total	<u>\$ 77</u>	<u>\$ 72</u>

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

	12 Weeks Ended			
	3/25/2017		3/19/2016	
	Granted ^(a)	Weighted-Average Grant Price	Granted ^(a)	Weighted-Average Grant Price
Stock options	1.3	\$ 109.75	1.5	\$ 98.75
RSUs and PSUs	2.7	\$ 109.75	2.9	\$ 98.74

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

We granted long-term cash awards to certain executive officers and other senior executives with an aggregate target value of \$19 million and \$16 million during the 12 weeks ended March 25, 2017 and March 19, 2016, respectively.

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

	12 Weeks Ended	
	3/25/2017	3/19/2016
Expected life	5 years	6 years
Risk-free interest rate	2.0%	1.5%
Expected volatility	11%	12%
Expected dividend yield	2.7%	2.7%

Note 7 - Pension and Retiree Medical Benefits

Effective January 1, 2017, the U.S. qualified defined benefit pension plans were reorganized into the PepsiCo Employees Retirement Plan A, or active plan, and the PepsiCo Employees Retirement Plan I, or inactive plan. Actuarial gains and losses associated with the active plan are amortized over the average remaining service life of the active participants (approximately 11 years beginning in 2017), while the actuarial gains and losses associated with the inactive plan are amortized over the remaining life expectancy of the inactive participants (approximately 27 years beginning in 2017). The pre-tax reduction in net periodic benefit cost associated with this change was \$10 million (\$6 million after-tax with a nominal amount per share) in the first quarter of 2017 and will approximate \$40 million in 2017, primarily impacting corporate unallocated.

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	3/25/2017	3/19/2016	3/25/2017	3/19/2016	3/25/2017	3/19/2016
	U.S.		International			
Service cost	\$ 93	\$ 91	\$ 16	\$ 15	\$ 6	\$ 7
Interest cost	108	111	15	18	9	9
Expected return on plan assets	(196)	(192)	(30)	(31)	(5)	(5)
Amortization of prior service credits	—	—	—	—	(6)	(9)
Amortization of net losses/(gains)	28	38	9	8	(3)	—
	33	48	10	10	1	2
Special termination benefits	1	—	—	—	—	—
Total expense	\$ 34	\$ 48	\$ 10	\$ 10	\$ 1	\$ 2

There were no discretionary contributions made in the first quarter of 2017. During the first quarter of 2016, we made discretionary contributions of \$7 million to our international pension plans.

We regularly evaluate different opportunities to reduce risk and volatility associated with our pension and retiree medical plans.

Note 8 - Debt Obligations

In the 12 weeks ended March 25, 2017, \$0.8 billion of senior notes matured and were paid.

As of March 25, 2017, we had \$4.5 billion of commercial paper outstanding.

Note 9 - Accumulated Other Comprehensive Loss

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

	12 Weeks Ended		Affected Line Item in the Income Statement
	3/25/2017	3/19/2016	
Cash flow hedges:			
Foreign exchange contracts	\$ (5)	\$ (21)	Cost of sales
Interest rate derivatives	(30)	(3)	Interest expense
Commodity contracts	2	1	Cost of sales
Commodity contracts	—	2	Selling, general and administrative expenses
Net gains before tax	(33)	(21)	
Tax amounts	11	5	
Net gains after tax	\$ (22)	\$ (16)	
Pension and retiree medical items:			
Amortization of prior service credits ^(a)	\$ (6)	\$ (9)	
Amortization of net losses ^(a)	34	46	
Net losses before tax	28	37	
Tax amounts	(9)	(12)	
Net losses after tax	\$ 19	\$ 25	
Total net (gains)/losses reclassified, net of tax	\$ (3)	\$ 9	

(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 rates and currency restrictions; and
- interest rates.

There have been no material changes during the 12 weeks ended March 25, 2017 with respect to our risk management policies or strategies and valuation techniques used in measuring the fair value of the financial assets or liabilities disclosed in Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The notional amounts of our financial instruments used to hedge the above risks as of March 25, 2017 and December 31, 2016 are as follows:

	Notional Amounts ^(a)	
	3/25/2017	12/31/2016
Foreign exchange	\$ 1.6	\$ 1.6
Interest rate	\$ 11.2	\$ 11.2
Commodity	\$ 0.9	\$ 0.8
Net investment	\$ 0.8	\$ 0.8

(a) In billions.

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

As of March 25, 2017, approximately 42% of total debt, after the impact of the related interest rate derivative instruments, was subject to variable rates, compared to approximately 38% as of December 31, 2016.

Fair Value Measurements

The fair values of our financial assets and liabilities as of March 25, 2017 and December 31, 2016 are categorized as follows:

	3/25/2017		12/31/2016	
	Assets ^(a)	Liabilities ^(a)	Assets ^(a)	Liabilities ^(a)
Available-for-sale securities:				
Equity securities ^(b)	\$ 93	\$ —	\$ 82	\$ —
Debt securities ^(c)	11,964	—	11,369	—
	\$ 12,057	\$ —	\$ 11,451	\$ —
Short-term investments ^(d)	\$ 202	\$ —	\$ 193	\$ —
Prepaid forward contracts ^(e)	\$ 27	\$ —	\$ 25	\$ —
Deferred compensation ^(f)	\$ —	\$ 483	\$ —	\$ 472
Derivatives designated as fair value hedging instruments:				
Interest rate ^(g)	\$ 54	\$ 81	\$ 66	\$ 71
Derivatives designated as cash flow hedging instruments:				
Foreign exchange ^(h)	\$ 30	\$ 16	\$ 51	\$ 8
Interest rate ^(h)	—	389	—	408
Commodity ⁽ⁱ⁾	1	1	2	1
	\$ 31	\$ 406	\$ 53	\$ 417
Derivatives not designated as hedging instruments:				
Foreign exchange ^(h)	\$ —	\$ 9	\$ 2	\$ 15
Commodity ⁽ⁱ⁾	54	32	61	26
	\$ 54	\$ 41	\$ 63	\$ 41
Total derivatives at fair value ⁽ⁱ⁾	\$ 139	\$ 528	\$ 182	\$ 529
Total	\$ 12,425	\$ 1,011	\$ 11,851	\$ 1,001

(a) Unless otherwise noted, financial assets are classified on our balance sheet within prepaid expenses and other current assets and other assets. Financial liabilities are classified on our balance sheet within accounts payable and other current liabilities and other liabilities. 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. These equity securities are classified as investments in noncontrolled affiliates. The pre-tax unrealized gains on our investments in marketable equity securities were \$83 million and \$72 million as of March 25, 2017 and December 31, 2016, respectively.

(c) Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data. As of March 25, 2017, \$5.7 billion and \$6.3 billion of debt securities were classified as cash equivalents and short-term investments, respectively. As of December 31, 2016, \$4.6 billion and \$6.8 billion of debt securities were classified as cash equivalents and short-term investments, respectively. Unrealized gains and losses on our investments in debt securities as of March 25, 2017 and December 31, 2016 were not material. All of our available-for-sale debt securities have maturities of one year or less.

(d) Based on the price of index funds. Categorized as a Level 1 asset. These investments are classified as short-term investments and are used to manage a portion of market risk arising from our deferred compensation liability.

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

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

(g) Based on LIBOR forward rates.

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

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

(j) Unless otherwise noted, 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 March 25, 2017 and December 31, 2016 were not material. Collateral received against any of our asset positions was not material.

The carrying amounts of our cash equivalents and short-term investments approximate fair value due to their short-term maturity. The fair value of our debt obligations as of March 25, 2017 and December 31, 2016 was \$40 billion and \$38 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:

	12 Weeks Ended					
	Fair Value/Non-designated Hedges		Cash Flow and Net Investment Hedges			
	Losses/(Gains) Recognized in Income Statement ^(a)		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement ^(b)	
	3/25/2017	3/19/2016	3/25/2017	3/19/2016	3/25/2017	3/19/2016
Foreign exchange	\$ (5)	\$ 33	\$ 20	\$ 16	\$ (5)	\$ (21)
Interest rate	22	(69)	(19)	(16)	(30)	(3)
Commodity	3	4	2	—	2	3
Net investment	—	—	18	—	—	—
Total	\$ 20	\$ (32)	\$ 21	\$ —	\$ (33)	\$ (21)

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

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

Based on current market conditions, we expect to reclassify net losses of \$4 million related to our cash flow hedges from accumulated other comprehensive loss into net income during the next 12 months.

Tingyi-Asahi Beverages Holding Co. Ltd.

During the first quarter of 2016, we concluded that the decline in estimated fair value of our 5% indirect equity interest in TAB was other than temporary based on significant negative economic trends in China and changes in assumptions associated with TAB's future financial performance arising from the disclosure by TAB'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 the first quarter of 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 TAB 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 TAB was \$166 million as of March 25, 2017. We continue to monitor the impact of economic and other developments on the remaining value of our investment in TAB.

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

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			
	3/25/2017		3/19/2016	
	Income	Shares ^(a)	Income	Shares ^(a)
Net income attributable to PepsiCo	\$ 1,318		\$ 931	
Preferred shares:				
Redemption premium	(2)		(1)	
Net income available for PepsiCo common shareholders	\$ 1,316	1,428	\$ 930	1,446
Basic net income attributable to PepsiCo per common share	\$ 0.92		\$ 0.64	
Net income available for PepsiCo common shareholders	\$ 1,316	1,428	\$ 930	1,446
Dilutive securities:				
Stock options, RSUs, PSUs, PEPunits and Other	—	11	—	12
Employee stock ownership plan (ESOP) convertible preferred stock	2	1	1	1
Diluted	\$ 1,318	1,440	\$ 931	1,459
Diluted net income attributable to PepsiCo per common share	\$ 0.91		\$ 0.64	

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

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

	12 Weeks Ended	
	3/25/2017	3/19/2016
Out-of-the-money options ^(a)	1.4	2.9
Average exercise price per option	\$ 109.69	\$ 98.99

(a) In millions.

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

FINANCIAL REVIEW

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

Our Critical Accounting Policies

The critical accounting policies below should be read in conjunction with those outlined in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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’s judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. Certain advertising and marketing costs are also based on annual targets.

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.

Income Taxes

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

Our Business Risks

This Quarterly Report on Form 10-Q (Form 10-Q) contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “expressed confidence,” “forecast,” “future,” “goal,” “guidance,” “intend,” “may,” “objective,” “outlook,” “plan,” “position,” “potential,” “project,” “seek,” “should,” “strategy,” “target,” “will” or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing

events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. Such risks and uncertainties include, but are not limited to: changes in demand for PepsiCo's products, as a result of changes in consumer preferences or otherwise; changes in, or failure to comply with, applicable laws and regulations; imposition or proposed imposition of new or increased taxes aimed at PepsiCo's products; imposition of labeling or warning requirements on PepsiCo's products; changes in laws related to packaging and disposal of PepsiCo's products; PepsiCo's ability to compete effectively; political conditions, civil unrest or other developments and risks in the markets where PepsiCo's products are made, manufactured, distributed or sold; PepsiCo's ability to grow its business in developing and emerging markets; unfavorable economic conditions in the countries in which PepsiCo operates; the ability to protect information systems against, or effectively respond to, a cybersecurity incident or other disruption; increased costs, disruption of supply or shortages of raw materials and other supplies; business disruptions; product contamination or tampering or issues or concerns with respect to product quality, safety and integrity; damage to PepsiCo's reputation or brand image; failure to successfully complete or integrate acquisitions and joint ventures into PepsiCo's existing operations or to complete or manage divestitures or refranchisings; changes in estimates and underlying assumptions regarding future performance that could result in an impairment charge; increase in income tax rates, changes in income tax laws or disagreements with tax authorities; failure to realize anticipated benefits from PepsiCo's productivity initiatives or global operating model; PepsiCo's ability to recruit, hire or retain key employees or a highly skilled and diverse workforce; loss of any key customer or changes to the retail landscape; any downgrade or potential downgrade of PepsiCo's credit ratings; PepsiCo's ability to implement shared services or utilize information technology systems and networks effectively; fluctuations or other changes in exchange rates; climate change or water scarcity, or legal, regulatory or market measures to address climate change or water scarcity; failure to successfully negotiate collective bargaining agreements, or strikes or work stoppages; infringement of intellectual property rights; potential liabilities and costs from litigation or legal proceedings; and other factors that may adversely affect the price of PepsiCo's publicly traded securities and financial performance including those described in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" of this Form 10-Q. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

In the 12 weeks ended March 25, 2017, our operations outside of North America reflect the months of January and February. In the 12 weeks ended March 25, 2017, our operations outside of the United States generated 34% of our net revenue, with Canada, Mexico, Russia, the United Kingdom and Brazil comprising approximately 16% of our net revenue. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. In the 12 weeks ended March 25, 2017, net unfavorable foreign exchange reduced net revenue growth by 1 percentage point due to declines in the Egyptian pound, Mexican peso and the Pound sterling, partially offset by appreciation in the Russian ruble 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 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, and the potential impact, if any, for the ESSA segment and our other businesses.

We continue to monitor the economic, operating and political environment in Russia closely. In the 12 weeks ended March 25, 2017 and March 19, 2016, total net revenue generated by our operations in Russia represented 4% and 3%, respectively, of our net revenue. As of March 25, 2017, we have \$4.6 billion of long-lived assets in Russia.

Due to exchange restrictions and other conditions, effective at the end of the third quarter of 2015 we deconsolidated our Venezuelan subsidiaries and began accounting for our investments in our Venezuelan subsidiaries and joint venture using the cost method of accounting. We reduced the value of the cost method investments to their estimated fair values, resulting in a full impairment. The factors that led to our conclusions at the end of the third quarter of 2015 continued to exist through the end of the first quarter of 2017.

We do not have any guarantees related to our Venezuelan entities, and our ongoing contractual commitments to our Venezuelan businesses are not material. We will recognize income from dividends and sales of inventory to our Venezuelan entities, which have not been and are not expected to be material, to the extent cash in U.S. dollars is received. We have not received any cash in U.S. dollars from our Venezuelan entities since our deconsolidation at the end of the third quarter of 2015. We continue to monitor the conditions in Venezuela and their impact on our accounting and disclosures.

In addition, certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased taxes on the manufacture, sale or distribution 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.

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

See Note 10 to our condensed consolidated financial statements for the fair values of our financial instruments as of March 25, 2017 and December 31, 2016 and Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for a discussion of these items. Cautionary statements included above and in "Item 1A. Risk Factors" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, should be considered when evaluating our trends and future results.

Results of Operations – Consolidated Review

Consolidated Results

Volume

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products. For the 12 weeks ended March 25, 2017, total servings increased 0.5%. For the 12 weeks ended March 19, 2016, total servings increased 2%.

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

Total Net Revenue and Operating Profit/(Loss)

	12 Weeks Ended		
	3/25/2017	3/19/2016	Change
Total net revenue	\$ 12,049	\$ 11,862	2 %
Operating profit/(loss)			
FLNA	\$ 1,060	\$ 1,018	4 %
QFNA	164	166	(1)%
NAB	505	485	4 %
Latin America	132	175	(24)%
ESSA	102	67	51 %
AMENA	171	(148)	n/m
Corporate Unallocated	(201)	(144)	40 %
Total operating profit	\$ 1,933	\$ 1,619	19 %
Total operating profit margin	16.0%	13.7%	2.3

n/m - Not meaningful due to the impact of a 2016 impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value.

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

Total operating profit increased 19% and operating margin increased 2.3 percentage points. Operating profit growth was primarily driven by items affecting comparability (see “Items Affecting Comparability”), which contributed 19 percentage points to operating profit growth and increased total operating profit margin by 2.7 percentage points, primarily reflecting a prior year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value. Additionally, operating profit growth was driven by effective net pricing and planned cost reductions across a number of expense categories. These impacts were partially offset by operating cost increases and higher commodity costs. Commodity inflation reduced

operating profit growth by 5 percentage points, primarily attributable to inflation in the AMENA, Latin America and ESSA segments, partially offset by deflation in the NAB and QFNA segments. Corporate unallocated expenses increased 40%, primarily due to mark-to-market net impact associated with commodity derivatives which is also included in the items affecting comparability mentioned above.

Other Consolidated Results

	12 Weeks Ended		
	3/25/2017	3/19/2016	Change
Interest expense, net	\$ (212)	\$ (232)	\$ (20)
Tax rate	22.7%	31.9%	
Net income attributable to PepsiCo	\$ 1,318	\$ 931	41%
Net income attributable to PepsiCo per common share – diluted	\$ 0.91	\$ 0.64	43%
Mark-to-market net losses/(gains)	0.01	(0.02)	
Restructuring and impairment charges	0.02	0.02	
Charge related to the transaction with Tingyi	—	0.26	
Net income attributable to PepsiCo per common share – diluted, excluding above items ^(a)	\$ 0.94	\$ 0.89 ^(b)	5.5%
Impact of foreign exchange translation			2
Growth in net income attributable to PepsiCo per common share – diluted, excluding above items, on a constant currency basis ^(a)			7% ^(b)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

Net interest expense decreased \$20 million reflecting higher interest income due to higher average cash balances and interest rates, as well as gains on the market value of investments used to economically hedge a portion of our deferred compensation costs. These impacts were partially offset by higher interest expense due to higher average debt balances.

The reported tax rate decreased 9.2 percentage points reflecting the impact of the prior year impairment charge to reduce the value of our 5% indirect equity interest in TAB 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 the current year (see Note 2 to our condensed consolidated financial statements for further information).

Net income attributable to PepsiCo increased 41% and net income attributable to PepsiCo per common share increased 43%. Items affecting comparability (see “Items Affecting Comparability”) positively contributed 37 percentage points to net income attributable to PepsiCo and 38 percentage points to net income attributable to PepsiCo per common share, primarily reflecting the prior year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value.

Non-GAAP Measures

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

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

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

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

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

Operating Profit/Loss, 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

Operating profit/loss, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, each excludes the net impact of mark-to-market gains and losses on centrally managed commodities that do not qualify for hedge accounting, restructuring and impairment charges related to our 2014 Productivity Plan and a charge related to the transaction with Tingyi (see “Items Affecting Comparability” for a detailed description of each of these items). We also evaluate performance on these measures on a constant currency basis, which measures our financial results assuming constant foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior-year average foreign exchange rates. We believe these measures provide useful information in evaluating the results of our business because they exclude items that we believe are not indicative of our ongoing performance.

Organic Revenue

We define organic revenue as net revenue adjusted for the impact of foreign exchange translation, as well as the impact from acquisitions, divestitures and other structural changes. In addition, our fiscal 2016 reported results included an extra week of results (53rd reporting week). Organic revenue excludes the impact of the 53rd reporting week in the fourth quarter of 2016. We believe organic revenue provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year.

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

Free Cash Flow

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

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

Items Affecting Comparability

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

	12 Weeks Ended 3/25/2017					
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Provision for income taxes ^(a)	Net income attributable to PepsiCo
Reported, GAAP Measure	\$ 5,286	\$ 6,763	\$ 4,817	\$ 1,933	\$ 392	\$ 1,318
Items Affecting Comparability						
Mark-to-market net impact	19	(19)	(33)	14	5	9
Restructuring and impairment charges	—	—	(27)	27	—	27
Core, Non-GAAP Measure	\$ 5,305	\$ 6,744	\$ 4,757	\$ 1,974	\$ 397	\$ 1,354
	12 Weeks Ended 3/19/2016					
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Provision for income taxes ^(a)	Net income attributable to PepsiCo
Reported, GAAP Measure	\$ 5,151	\$ 6,711	\$ 5,078	\$ 1,619	\$ 442	\$ 931
Items Affecting Comparability						
Mark-to-market net impact	18	(18)	28	(46)	(17)	(29)
Restructuring and impairment charges	—	—	(30)	30	5	25
Charge related to the transaction with Tingyi	—	—	(373)	373	—	373
Core, Non-GAAP Measure	\$ 5,169	\$ 6,693	\$ 4,703	\$ 1,976	\$ 430	\$ 1,300

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

Mark-to-Market Net Impact

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

Restructuring and Impairment Charges

In connection with our 2014 Productivity Plan, we expect to incur pre-tax charges of approximately \$990 million, of which approximately \$705 million represents cash expenditures, summarized by period as follows:

	Charges	Cash Expenditures
2013	\$ 53	\$ —
2014	357	175 ^(b)
2015	169	165 ^(b)
2016	160	95
First quarter 2017	27	7
	766	442
Remainder of 2017 (expected)	100	144
2018 (expected)	124	119
	\$ 990 ^(a)	\$ 705

(a) This total pre-tax charge is expected to consist of approximately \$490 million of severance and other employee-related costs, approximately \$155 million for asset impairments (all non-cash) resulting from plant closures and related actions, and approximately \$345 million for other costs associated with the implementation of our initiatives, including contract termination costs. This charge is expected to impact reportable segments and Corporate approximately as follows: FLNA 12%, QFNA 2%, NAB 30%, Latin America 20%, ESSA 25%, AMENA 4% and Corporate 7%.

(b) In 2015 and 2014, cash expenditures included \$2 million and \$10 million, respectively, reported on our cash flow statement in pension and retiree medical plan contributions.

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

We regularly evaluate different productivity initiatives beyond the 2014 Productivity Plan discussed above and in Note 3 to our condensed consolidated financial statements.

Charge Related to the Transaction with Tingyi

In the 12 weeks ended March 19, 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 TAB to its estimated fair value. See Note 10 to our condensed consolidated financial statements for further information.

Results of Operations – Division Review

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

In the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries, and “net pricing” reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. 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	NAB	Latin America	ESSA	AMENA	Total
3/25/2017	\$ 3,499	\$ 598	\$ 4,460	\$ 1,077	\$ 1,445	\$ 970	\$ 12,049
3/19/2016	\$ 3,418	\$ 617	\$ 4,361	\$ 1,042	\$ 1,359	\$ 1,065	\$ 11,862
<i>% Impact of:</i>							
Volume ^(a)	(1)%	(1)%	— %	0.5 %	—%	2 %	— %
Effective net pricing ^(b)	3	(2)	1.5	6	3.5	—	2
Foreign exchange translation	—	—	—	(2)	2	(11)	(1)
Acquisitions and divestitures	—	—	1	(1)	—	—	—
<i>Reported Growth ^(c)</i>	<i>2 %</i>	<i>(3)%</i>	<i>2 %</i>	<i>3 %</i>	<i>6%</i>	<i>(9)%</i>	<i>2 %</i>

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

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

(c) Amounts may not sum due to rounding.

Organic Revenue Growth

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

12 Weeks Ended 3/25/2017	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Reported Growth	2 %	(3)%	2 %	3%	6 %	(9)%	2 %
<i>% Impact of:</i>							
Foreign exchange translation	—	—	—	2	(2)	11	1
Acquisitions and divestitures	—	—	(1)	1	—	—	—
<i>Organic Growth ^(a)</i>	<i>2 %</i>	<i>(3.5)%</i>	<i>1 %</i>	<i>6%</i>	<i>4 %</i>	<i>2 %</i>	<i>2 %</i>

(a) Amounts may not sum due to rounding.

Frito-Lay North America

	12 Weeks Ended		% Change
	3/25/2017	3/19/2016	
Net revenue	\$ 3,499	\$ 3,418	2
Impact of foreign exchange translation			—
Organic revenue growth ^(a)			2
Operating profit	\$ 1,060	\$ 1,018	4
Restructuring and impairment charges	1	(4)	
Operating profit excluding above item ^(a)	\$ 1,061	\$ 1,014	5
Impact of foreign exchange translation			—
Operating profit growth excluding above item, on a constant currency basis ^(a)			4 ^(b)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

Net revenue increased 2% and volume declined 1.5%. The net revenue growth was driven by effective net pricing, partially offset by the decline in volume. The volume decline reflects mid-single-digit declines in trademark Lay’s and Doritos, a double-digit decline in our Sabra joint venture products and a high-single-digit decline in dips, partially offset by double-digit growth in variety packs and trademark Ruffles. Volume performance was negatively impacted by approximately 1 percentage point as a result of the shift in the New Year’s holiday week due to the 53rd reporting week in 2016.

Operating profit increased 4%, primarily reflecting the effective net pricing and planned cost reductions across a number of expense categories. These impacts were partially offset by certain operating cost increases.

Quaker Foods North America

	12 Weeks Ended		% Change
	3/25/2017	3/19/2016	
Net revenue	\$ 598	\$ 617	(3)
Impact of foreign exchange translation			—
Organic revenue growth ^(a)			(3.5) ^(b)
Operating profit	\$ 164	\$ 166	(1)
Restructuring and impairment charges	—	—	
Operating profit excluding above item ^(a)	\$ 164	\$ 166	(1)
Impact of foreign exchange translation			—
Operating profit growth excluding above item, on a constant currency basis ^(a)			(1)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

Net revenue declined 3% and volume declined 1%. The net revenue decline reflects unfavorable net pricing and mix, as well as the volume decline. The volume decline was driven by a low-single-digit decline in oatmeal and a high-single-digit decline in trademark Roni.

Operating profit decreased 1%, reflecting the net revenue performance and higher advertising and marketing expenses. These impacts were partially offset by planned cost reductions across a number of expense categories, as well as lower commodity costs, which positively contributed 4 percentage points to operating profit performance.

North America Beverages

	12 Weeks Ended		% Change
	3/25/2017	3/19/2016	
Net revenue	\$ 4,460	\$ 4,361	2
Impact of foreign exchange translation			—
Impact of acquisitions and divestitures			(1)
Organic revenue growth ^(a)			1
Operating profit	\$ 505	\$ 485	4
Restructuring and impairment charges	2	7	
Operating profit excluding above item ^(a)	\$ 507	\$ 492	3
Impact of foreign exchange translation			—
Operating profit growth excluding above item, on a constant currency basis ^(a)			3

(a) See “Non-GAAP Measures.”

Net revenue increased 2%, primarily reflecting effective net pricing, partially offset by a slight decline in volume. Acquisitions contributed 1 percentage point to the net revenue growth.

Volume decreased nearly 1%, driven by a 4% decline in carbonated soft drink volume, partially offset by a 4% increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected a double-digit increase in our overall water portfolio and a mid-single-digit increase in Gatorade sports drinks.

Operating profit increased 4%, primarily reflecting the effective net pricing and planned cost reductions across a number of expense categories. Additionally, lower commodity costs and favorable settlements of promotional spending accruals contributed 3 percentage points and 2 percentage points to operating profit growth, respectively. These impacts were partially offset by certain operating cost increases.

Latin America

	12 Weeks Ended		% Change
	3/25/2017	3/19/2016	
Net revenue	\$ 1,077	\$ 1,042	3
Impact of foreign exchange translation			2
Impact of acquisitions and divestitures			1
Organic revenue growth ^(a)			6
Operating profit	\$ 132	\$ 175	(24)
Restructuring and impairment charges	24	—	
Operating profit excluding above item ^(a)	\$ 156	\$ 175	(11)
Impact of foreign exchange translation			11
Operating profit growth excluding above item, on a constant currency basis ^(a)			—

(a) See “Non-GAAP Measures.”

Net revenue increased 3%, reflecting effective net pricing and net volume growth, partially offset by unfavorable foreign exchange and the impact of refranchising a portion of our beverage business in Colombia, which reduced net revenue growth by 2 percentage points and 1 percentage point, respectively.

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

Beverage volume declined 3%, reflecting high-single-digit declines in Brazil and Argentina, partially offset by slight growth in Mexico, a high-single-digit increase in Guatemala and a low-single-digit increase in Chile.

Operating profit decreased 24%, reflecting certain operating cost increases, higher advertising and marketing expenses, as well as higher commodity costs, which negatively impacted operating profit performance by 18 percentage points. In addition, restructuring and impairment charges in the above table (see “Items Affecting Comparability”) and unfavorable foreign exchange negatively impacted operating profit performance by 13 percentage points and 11 percentage points, respectively. These impacts were partially offset by the effective net pricing, planned cost reductions across a number of expense categories and the net volume growth.

Europe Sub-Saharan Africa

	12 Weeks Ended		% Change
	3/25/2017	3/19/2016	
Net revenue	\$ 1,445	\$ 1,359	6
Impact of foreign exchange translation			(2)
Organic revenue growth ^(a)			<u>4</u>
Operating profit	\$ 102	\$ 67	51
Restructuring and impairment charges	4	19	
Operating profit excluding above item ^(a)	<u>\$ 106</u>	<u>\$ 86</u>	23
Impact of foreign exchange translation			3.5
Operating profit growth excluding above item, on a constant currency basis ^(a)			<u>26</u> ^(b)

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

Net revenue increased 6%, reflecting effective net pricing, as well as favorable foreign exchange, which contributed 2 percentage points to net revenue growth.

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

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

Operating profit increased 51%, reflecting the effective net pricing, planned cost reductions across a number of expense categories and net volume growth. Additionally, the impacts of restructuring and impairment charges in the above table (see “Items Affecting Comparability”) and a prior year impairment charge associated with certain production assets in Russia contributed 29 percentage points and 13 percentage points to operating profit growth, respectively. These impacts were partially offset by higher commodity costs, which reduced operating profit growth by 23 percentage points, certain operating cost increases and higher advertising and marketing expenses.

Asia, Middle East and North Africa

	12 Weeks Ended		% Change
	3/25/2017	3/19/2016	
Net revenue	\$ 970	\$ 1,065	(9)
Impact of foreign exchange translation			11
Organic revenue growth ^(a)			2
Operating profit/(loss)	\$ 171	\$ (148)	n/m
Restructuring and impairment charges	(6)	5	
Charge related to the transaction with Tingyi	—	373	
Operating profit excluding above items ^(a)	\$ 165	\$ 230	(28)
Impact of foreign exchange translation			3
Operating profit growth excluding above items, on a constant currency basis ^(a)			(25)

(a) See “Non-GAAP Measures.”

n/m - Not meaningful due to the impact of a 2016 impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value.

Net revenue decreased 9%, primarily reflecting unfavorable foreign exchange, which negatively impacted net revenue performance by 11 percentage points. This impact was partially offset by volume growth.

Snacks volume grew 7%, reflecting high-single-digit growth in the Middle East and double-digit growth in Australia. Additionally, India experienced low-single-digit growth and China experienced mid-single-digit growth.

Beverage volume grew 3%, driven by double-digit growth in China and high-single-digit growth in Pakistan, partially offset by a double-digit decline in India. Additionally, the Middle East and the Philippines each experienced low-single-digit growth.

Operating profit improvement primarily reflected a prior year impairment charge to reduce the value of our 5% indirect equity interest in TAB to its estimated fair value, included in items affecting comparability in the above table (see “Items Affecting Comparability”). Additionally, planned cost reductions across a number of expense categories and the volume growth contributed to operating profit growth. These impacts were partially offset by higher commodity costs, which reduced operating profit growth by 25 percentage points, largely due to transaction-related foreign exchange on purchases of raw materials led by a strong U.S. dollar, and certain operating cost increases. Unfavorable foreign exchange translation reduced operating profit growth by 3 percentage points.

Our Liquidity and Capital Resources

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing, such as commercial paper borrowings and long-term debt financing, will be adequate to meet our operating, investing and financing needs. Our primary sources of cash available to fund cash outflows, such as our anticipated share repurchases, dividend payments and scheduled debt maturities, include cash from operations and proceeds obtained from issuances of commercial paper and long-term debt. 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 “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

As of March 25, 2017, we had cash, cash equivalents and short-term investments in our consolidated subsidiaries of \$15.5 billion outside of the United States. As of March 25, 2017, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material. To the extent foreign earnings are repatriated, such amounts would be subject to certain tax liabilities, both in the United States and in various applicable foreign jurisdictions.

Operating Activities

During the 12 weeks ended March 25, 2017, net cash used for operating activities was \$199 million, compared to net cash provided by operating activities of \$305 million in the prior-year period. The operating cash flow performance primarily reflects unfavorable working capital (comprised of changes in accounts and notes receivable, inventories, prepaid expenses and other current assets, and accounts payable and other current liabilities, each adjusted for the effects of currency translation) comparisons to the prior year. This decrease is mainly due to higher current year payments to vendors, earlier settlements with customers, timing of advertising and marketing spend, and the impact of higher trade accruals as of December 31, 2016, as compared to the prior year-end.

Investing Activities

During the 12 weeks ended March 25, 2017, net cash provided by investing activities was \$0.3 billion, primarily reflecting net maturities and sales of debt securities greater than three months of \$0.6 billion, partially offset by net capital spending of \$0.3 billion.

We expect 2017 net capital spending to be approximately \$3 billion, within our long-term capital spending target of less than or equal to 5% of net revenue.

Financing Activities

During the 12 weeks ended March 25, 2017, net cash provided by financing activities was \$0.3 billion, primarily reflecting net proceeds from short-term borrowings of \$2.4 billion, partially offset by the return of operating cash flow to our shareholders through dividend payments and share repurchases of \$1.5 billion, and net payments of long-term debt borrowings of \$0.8 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. On February 15, 2017, we announced a 7.0% increase in our annualized dividend to \$3.22 per share from \$3.01 per share, effective with the dividend expected to be paid in June 2017. We expect to return a total of approximately \$6.5 billion to shareholders in 2017 through share repurchases of approximately \$2.0 billion and dividends of approximately \$4.5 billion. See Part II, “Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” for a description of our share repurchase program.

Free Cash Flow

Free cash flow is a non-GAAP financial measure. For further information on free cash flow see “Non-GAAP Measures.”

The table below reconciles net cash provided by operating activities, as reflected on our cash flow statement, to our free cash flow.

	12 Weeks Ended	
	3/25/2017	3/19/2016
Net cash (used for)/provided by operating activities	\$ (199)	\$ 305
Capital spending	(317)	(389)
Sales of property, plant and equipment	12	25
Free cash flow ^(a)	\$ (504)	\$ (59)

(a) See “Non-GAAP Measures.” In addition, when evaluating free cash flow, we also consider the following items impacting comparability: \$7 million and \$30 million of payments related to restructuring charges in the 12 weeks ended March 25, 2017 and March 19, 2016, respectively; net cash tax benefits related to restructuring charges of \$1 million in the 12 weeks ended March 19, 2016; and \$7 million in discretionary pension contributions in the 12 weeks ended March 19, 2016.

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 ensure appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, 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 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and Note 8 to our condensed consolidated financial statements in this Form 10-Q.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of March 25, 2017, the related Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the twelve weeks ended March 25, 2017 and March 19, 2016. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 31, 2016, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 15, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

New York, New York
April 26, 2017

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks.” In addition, see “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” and Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ITEM 4. Controls and Procedures.

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

There were no changes in our internal control over financial reporting during our first fiscal quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During our first fiscal quarter of 2017, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. 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.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

The following information should be read in conjunction with the discussion set forth under Part I, “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

We and our subsidiaries are party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. Management believes that the final outcome of the foregoing will not have a material adverse effect on our financial condition, results of operations or cash flows. See also “Item 1. Business – Regulatory Matters” and “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

A summary of our common stock repurchases (in millions, except average price per share) during the first quarter of 2017 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
12/31/2016				\$ 7,352
1/1/2017 - 1/28/2017	1.7	\$ 103.42	1.7	(179) 7,173
1/29/2017 - 2/25/2017	1.0	\$ 104.99	1.0	(100) 7,073
2/26/2017 - 3/25/2017	1.8	\$ 110.40	1.8	(198)
Total	4.5	\$ 106.55	4.5	\$ 6,875

(a) All shares were repurchased in open market transactions pursuant to the \$12 billion repurchase program authorized by our Board of Directors and publicly announced on February 11, 2015, which commenced on July 1, 2015 and expires on June 30, 2018. Such shares may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

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. The preferences, limitations and relative rights of the shares of convertible preferred stock are set forth in Exhibit A to our amended and restated articles of incorporation. Quaker made the final award to the ESOP in June 2001. The Company does not have any authorized, but unissued, “blank check preferred stock.” PepsiCo repurchases shares of its convertible preferred stock from the ESOP in connection with share redemptions by ESOP participants.

The following table summarizes our convertible preferred share repurchases during the first quarter of 2017.

Issuer Purchases of Convertible Preferred Stock

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
1/1/2017 - 1/28/2017	—	\$ —	N/A	N/A
1/29/2017 - 2/25/2017	700	\$ 547.76	N/A	N/A
2/26/2017 - 3/25/2017	1,500	\$ 553.35	N/A	N/A
Total	<u>2,200</u>	<u>\$ 551.57</u>	<u>N/A</u>	<u>N/A</u>

ITEM 6. Exhibits.

See “Index to Exhibits” on page [43](#).

SIGNATURES

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

PepsiCo, Inc.
(Registrant)

Date: April 26, 2017

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

Date: April 26, 2017

/s/ Tony West
Tony West
Executive Vice President, Government Affairs,
General Counsel and Corporate Secretary
(Duly Authorized Officer)

INDEX TO EXHIBITS

ITEM 6

EXHIBITS

Exhibit 3.1	Articles of Incorporation of PepsiCo, Inc., as amended and restated, effective as of May 9, 2011, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2011.
Exhibit 3.2	By-Laws of PepsiCo, Inc., as amended and restated, effective as of January 11, 2016, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2016.
Exhibit 10.1	PepsiCo Executive Income Deferral Program (Plan Document for the 409A Program), amended and restated effective as of January 1, 2005 (with amendments through March 9, 2017).
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 15	Letter re: Unaudited Interim Financial Information.
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 25, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) the Condensed Consolidated Balance Sheet, (v) the Condensed Consolidated Statement of Equity, and (vi) Notes to the Condensed Consolidated Financial Statements.

PEPSICO

EXECUTIVE INCOME

DEFERRAL PROGRAM

Plan Document for the 409A Program
Amended and Restated Effective as of January 1, 2005
(with Amendments through March 9, 2017)

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ARTICLE I – INTRODUCTION

PepsiCo, Inc. (the “Company”) established the PepsiCo Executive Income Deferral Program (the “Plan”) in 1972 to permit Eligible Executives to defer certain cash awards made under its executive compensation programs. Deferrals under the Plan that were earned and vested on or before December 31, 2004 are governed by a separate set of documents that set forth the pre-Section 409A terms of the Plan (the “Pre-409A Program”). The terms of the Plan that are applicable to deferrals that are subject to Section 409A, *i.e.*, generally, deferred amounts that are earned or vested after December 31, 2004 (the “409A Program”) are governed by this document. This document sets forth the 409A Program and is effective as of January 1, 2005 (the “Effective Date”). Except as otherwise provided herein, this document reflects the provisions in effect from and after January 1, 2005, and the rights and benefits of individuals who are Participants in the Plan from and after that date (and of those claiming through or on behalf of such individuals) shall be governed by the provisions of this document in the case of actions and events occurring on or after the Effective Date with respect to deferrals that are subject to the 409A Program. For purposes of the preceding sentence, the term “actions and events” shall include all distribution trigger events and dates. The rights and benefits with respect to persons who only participated in the Plan prior to January 1, 2005 shall be governed by the applicable provisions of the Pre-409A Program documents that were in effect at such time, and shall not be governed by the 409A Program documents.

Together, the documents for the 409A Program and the documents for the Pre-409A Program describe the terms of a single plan. However, amounts subject to the terms of the 409A Program and amounts subject to the terms of the Pre-409A Program shall be tracked separately at all times. The preservation of the terms of the Pre-409A Program, without material modification, and the separation between the 409A Program amounts and the Pre-409A Program amounts are intended to permit the Pre-409A Program to remain exempt from Section 409A, and the administration of the Plan shall be consistent with this intent.

In addition, this document incorporates all of the amendments to the 409A Program through March 9, 2017. As a result of these amendments, certain provisions include specific effective dates that are after the general Effective Date of this restatement. Earlier versions of this restatement should be consulted for the provisions that were in effect between the general Effective Date and these specific effective dates.

For federal income tax purposes, the Plan is intended to be a nonqualified deferred compensation plan that is unfunded and unsecured. For purposes of ERISA, the Plan is intended to be a plan described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA providing benefits to a select group of management or highly compensated employees.

ARTICLE II – DEFINITIONS

When used in this Plan, the following underlined terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

2.01 Account:

The account maintained for a Participant on the books of his or her Employer to determine, from time to time, the Participant's interest under this Plan. The balance in such Account shall be determined by the Recordkeeper pursuant to any guidelines established by the Plan Administrator. Each Participant's Account shall consist of at least one Deferral Subaccount for each separate deferral under Section 4.01. In accordance with Section 5.05, some or all of a separate deferral may be held in a Risk of Forfeiture Subaccount. The Recordkeeper may also establish such additional Deferral Subaccounts as it deems necessary for the proper administration of the Plan. Except as provided in Section 5.05, the Recordkeeper may also combine Deferral Subaccounts to the extent it deems separate accounts are not needed for sound recordkeeping. Where appropriate, a reference to a Participant's Account shall include a reference to each applicable Deferral Subaccount that has been established thereunder.

2.02 Act:

The Securities Exchange Act of 1934, as amended from time to time.

2.03 Base Compensation:

Effective on or after January 1, 2011, an Eligible Executive's adjusted base salary, to the extent payable in U.S. dollars from an Employer's U.S. payroll (or otherwise provided with respect to currency and payroll in Section 3.01(a)). The Plan Administrator shall be entitled to specify on the Election Form applicable to a particular deferral election (or in other documentation applicable to such deferral election) whether and to what extent (if at all) amounts will be subtracted from gross base salary to arrive at adjusted base salary. Any such specifications shall be made in writing no later than the date on which such deferral election becomes irrevocable pursuant to Section 4.02 of this Plan, and any amount to be subtracted that is variable shall be permitted to be variable under Section 409A.

2.04 Beneficiary:

The person or persons (including a trust or trusts) properly designated by a Participant, as determined by the Recordkeeper (or for designations filed prior to June 3, 2002, as determined by the Plan Administrator), to receive the amounts in one or more of the Participant's Deferral Subaccounts in the event of the Participant's death in accordance with Section 4.02(d).

2.05 Bonus Compensation:

Effective on or after May 21, 2010, an Eligible Executive's adjusted annual incentive award under his or her Employer's annual incentive plan or the Executive Incentive

Compensation Plan, to the extent payable in U.S. dollars from an Employer's U.S. payroll (or as otherwise provided with respect to currency and payroll in Section 3.01(a)). The Plan Administrator shall be entitled to specify on the Election Form applicable to a particular deferral election (or in other documentation applicable to such deferral election whether and to what extent (if at all) amounts will be subtracted from a gross annual incentive award to arrive at an adjusted annual incentive award. Any such specifications shall be made in writing no later than the date on which such deferral election become irrevocable pursuant to Section 4.02 of this Plan, and any amount to be subtracted that is variable shall be permitted to be variable under Section 409A.

2.06 Code:

The Internal Revenue Code of 1986, as amended from time to time.

2.07 Company:

PepsiCo, Inc., a corporation organized and existing under the laws of the State of North Carolina, or its successor or successors.

2.08 Deferral Subaccount:

A subaccount of a Participant's Account maintained to reflect his or her interest in the Plan attributable to each deferral (or separately tracked portion of a deferral) of Base Compensation and Bonus Compensation, and earnings or losses credited to such subaccount in accordance with Section 5.01(b).

2.09 Disability:

A Participant shall be considered to suffer from a Disability or be Disabled hereunder if the Participant is considered "disabled" under the PepsiCo Disability Plan (as amended and restated from time to time). The Participant's disability must also meet the duration requirements to qualify for a distribution on account of Disability in accordance with Section 6.06(a).

2.10 Distribution Valuation Date:

Each date as specified by the Plan Administrator from time to time as of which Participant Accounts are valued for purposes of a distribution from a Participant's Account. The current Distribution Valuation Dates are January 1, April 1, July 1 and October 1. Any current Distribution Valuation Date may be changed by the Plan Administrator, provided that such change does not result in a change in when deferrals are paid out that is impermissible under Section 409A. Values are determined as of the close of a Distribution Valuation Date or, if such date is not a business day, as of the close of the following business day.

2.11 Election Form:

The form prescribed by the Plan Administrator on which a Participant specifies the amount of his or her Base Compensation and Bonus Compensation to be deferred and the timing and form of his or her deferral payout, pursuant to the provisions of Article IV. An Election Form need not exist in a paper format, and it is expressly authorized that the Plan Administrator may make available for use such technologies, including voice response systems, Internet-based forms and any other electronic forms for use as an Election Form, as it deems appropriate from time to time.

2.12 Eligible Executive:

The term, Eligible Executive, shall have the meaning given to it in Section 3.01(a)(1).

2.13 Employer:

The Company and each division, subsidiary or affiliate of the Company (if any) that is currently designated as an Employer for purposes of this Plan by the Plan Administrator. An entity shall be an Employer hereunder only for the period that it is (i) so designated by the Plan Administrator, and (ii) a member of the PepsiCo Organization.

2.14 ERISA:

Public Law 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.15 Executive:

Any person in a salaried classification of an Employer who (i) is receiving remuneration for personal services rendered in the employment of the Employer, and (ii) is paid in U.S. dollars from the Employer's U.S. payroll. Notwithstanding the foregoing sentence, any person meeting the requirements of the foregoing sentence who is working outside the U.S. shall not be included as an Executive hereunder, if applicable local law of the country in which the person is working (*e.g.*, local law relating to the payment of compensation) does not permit the person to defer the receipt of compensation that is eligible for deferral hereunder.

2.16 409A Program:

The program described in this document. The term "409A Program" is used to identify the portion of the Plan that is subject to Section 409A.

2.17 Key Employee:

Effective from and after January 1, 2011, the individuals identified in accordance with the principles set forth below.

(a) General. Any Participant who at any time during the applicable year is:

(1) An officer of any member of the PepsiCo Organization having annual compensation greater than \$130,000 (as adjusted for the applicable year under Code Section 416(i)(1));

(2) A 5-percent owner of any member of the PepsiCo Organization ; or

(3) A 1-percent owner of any member of the PepsiCo Organization having annual compensation of more than \$150,000.

For purposes of (1) above, no more than 50 employees identified in the order of their annual compensation shall be treated as officers. For purposes of this Section, annual compensation means compensation as defined in Treas. Reg. §1.415(c)-2(a), without regard to Treas. Reg. §§1.415(c)-2(d), 1.415(c)-2(e), and 1.415(c)-2(g). The Plan Administrator shall determine who is a Key Employee in accordance with Code Section 416(i) and the applicable regulations and other guidance of general applicability issued thereunder or in connection therewith (provided, that Code Section 416(i)(5) shall not apply in making such determination), and provided further that the applicable year shall be determined in accordance with Section 409A and that any modification of the foregoing definition that applies under Section 409A shall be taken into account.

(b) Applicable Year. The Plan Administrator shall determine Key Employees effective as of the last day of each calendar year, based on compensation for such year, and such designation shall be effective for purposes of this Plan for the twelve month period commencing on April 1st of the next following calendar year (*e.g.*, the Key Employees determined by the Plan Administrator as of December 31, 2008 applied to the period from April 1, 2009 to March 31, 2010).

(c) Rule of Administrative Convenience. Effective from and after January 1, 2008, in addition to the foregoing, the Plan Administrator shall treat all other employees classified as Band IV and above on the applicable determination date prescribed in subsection (b) (*i.e.*, the last day of each calendar year) as a Key Employee for purposes of the Plan for the twelve month period commencing on April 1st of the next following calendar year; provided that if this would result in counting more than 200 individuals as Key Employees as of any such determination date, then the number treated as Key Employees will be reduced to 200 by eliminating from consideration those employees otherwise added by this subsection (c) in order by their base compensation, from the lowest to the highest.

2.18 NAV:

The net asset value of a phantom unit in one of the phantom funds offered for investment under the Plan, determined as of any date in the same manner as applies on that date under the actual fund that is the basis of the phantom fund offered by the Plan.

2.19 Participant:

Any Executive who is qualified to participate in this Plan in accordance with Section 3.01 and who has an Account. An active Participant is one who is currently deferring under Section 4.01.

2.20 PepsiCo Organization:

The controlled group of organizations of which the Company is a part, as defined by Code section 414(b) and (c) and the regulations issued thereunder. An entity shall be considered a member of the PepsiCo Organization only during the period it is one of the group of organizations described in the preceding sentence.

2.21 Performance Period:

The 52/53 week fiscal year of the Employer for which Bonus Compensation is calculated and determined. A Performance Period shall be deemed to relate to the Plan Year in which the Performance Period ends.

2.22 Plan:

The PepsiCo Executive Income Deferral Program, the plan set forth herein and in the Pre-409A Program documents, as it may be amended and restated from time to time (subject to the limitations on amendment that are applicable hereunder and under the Pre-409A Program).

2.23 Plan Administrator:

The Compensation Committee of the Board of Directors of the Company (Compensation Committee) or its delegate or delegates, which shall have the authority to administer the Plan as provided in Article VII. As of the Effective Date, the Company's Senior Vice President, Compensation and Benefits is delegated the responsibility for the operational administration of the Plan. In turn, the Senior Vice President, Compensation and Benefits, has the authority to re-delegate operational responsibilities to other persons or parties. As of the Effective Date, the Senior Vice President, Compensation and Benefits, has re-delegated certain operational responsibilities to the Recordkeeper. However, references in this document to the Plan Administrator shall be understood as referring to the Compensation Committee, the Senior Vice President, Compensation and Benefits and those delegated by the Senior Vice President, Compensation and Benefits other than the Recordkeeper. All delegations made under the authority granted by this Section are subject to Section 7.06.

2.24 Plan Year:

The 12-consecutive month period beginning on January 1 and ending on December 31.

2.25 Pre-409A Program:

The portion of the Plan that governs deferrals that are not subject to Section 409A. The terms of the “Pre-409A Program” are set forth in a separate set of documents.

2.26 Prohibited Misconduct:

Any of the following activities engaged in, directly or indirectly, by a Participant shall constitute Prohibited Misconduct:

(a) The Participant accepting any employment, assignment, position or responsibility, or acquiring any ownership interest, which involves the Participant’s “Participation” (as defined below) in a business entity that markets, sells, distributes or produces “Covered Products” (as defined below), unless such business entity makes retail sales or consumes Covered Products without in any way competing with the PepsiCo Organization.

(b) The Participant, directly or indirectly (including through someone else acting on the Participant’s recommendation, suggestion, identification or advice), soliciting any PepsiCo Organization employee to leave the PepsiCo Organization’s employment or to accept any position with any other entity.

(c) The Participant using or disclosing to anyone any confidential information regarding the PepsiCo Organization other than as necessary in his or her position with the PepsiCo Organization. Such confidential information shall include all non-public information the Participant acquired as a result of his or her positions with the PepsiCo Organization which might be of any value to a competitor of the PepsiCo Organization, or which might cause any economic loss or substantial embarrassment to the PepsiCo Organization or its customers, bottlers, distributors or suppliers if used or disclosed. Examples of such confidential information include non-public information about the PepsiCo Organization’s customers, suppliers, distributors and potential acquisition targets; its business operations and structure; its product lines, formulas and pricing; its processes, machines and inventions; its research and know-how; its financial data; and its plans and strategies.

(d) The Participant engaging in any acts that are considered to be contrary to the PepsiCo Organization’s best interests, including violating the Company’s Code of Conduct, engaging in unlawful trading in the securities of the Company or of any other company based on information gained as a result of his or her employment with the PepsiCo Organization, or engaging in any other activity which constitutes gross misconduct.

(e) The Participant engaging in any activity that constitutes fraud.

For purposes of this Section, “Covered Products” shall mean any product that falls into one or more of the following categories, so long as the PepsiCo Organization is producing, marketing, selling or licensing such product anywhere in the world – beverages, including without limitation carbonated soft drinks, tea, water, juice drinks, sports drinks, coffee drinks and value-added dairy drinks; juices and juice products; snacks, including salty snacks, sweet snacks meat snacks, granola and cereal bars, and cookies; hot cereals; pancake mixes; value-added rice products; pancake syrups; value-added pasta products; ready-to-eat cereals; dry pasta products ; or any product or service that the Participant had reason to know was under development by the PepsiCo Organization during the Participant’s employment with the PepsiCo Organization.

For purposes of this Section, “Participation” shall be construed broadly to include: (i) serving as a director, officer, employee, consultant or contractor with respect to such a business entity; (ii) providing input, advice, guidance or suggestions to such a business entity; or (iii) providing a recommendation or testimonial on behalf of such a business entity or one or more products it produces.

Nothing in the Plan or in any other confidentiality provision to which the Participant may be subject as a result of the Participant’s employment with the Company shall prohibit the Participant from, without notice to the Company, communicating with government agencies, providing information to government agencies, participating in government agency investigations, filing a complaint with government agencies, or testifying in government agency proceedings concerning any possible legal violations or from receiving any monetary award for information provided to a government agency. The Company nonetheless asserts and does not waive its attorney-client privilege over any information appropriately protected by the privilege. Further, pursuant to the Defend Trade Secrets Act: “An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.”

2.27 Recordkeeper:

For any designated period of time, the party that is delegated the responsibility, pursuant to the authority granted in the definition of Plan Administrator, to maintain the records of Participant Accounts, process Participant transactions and perform other duties in accordance with any procedures and rules established by the Plan Administrator.

2.28 Retirement:

A Participant's Separation from Service after attaining (whichever of the following occurs earlier): (a) at least age 55 with 10 or more years of service, or (b) at least age 65 with 5 or more years of service. Effective from and after January 1, 2008, a Participant's "years of service" (for purposes of this Section) shall be equal to the sum of the following – (a) all periods of time a Participant was employed by a member of the PepsiCo Organization, plus (b) if a Participant is employed by a member of the PepsiCo Organization, the Participant's employment terminates with all members of the PepsiCo Organization and then the Participant is rehired by a member of the PepsiCo Organization thereafter, the period of time during which the Participant was not employed by a member of the PepsiCo Organization. Notwithstanding the foregoing, the period of time prior to a Participant being first employed by a member of the PepsiCo Organization shall not be counted as part of a Participant's "years of service," and the period of time after a Participant terminates employment with all members of the PepsiCo Organization shall not be counted, unless the Participant is rehired by a member of the PepsiCo Organization thereafter (and then only upon his/her rehire date).

2.29 Risk of Forfeiture Subaccount:

The Deferral Subaccount provided for by Section 5.05 to contain the portion of each separate deferral that is subject to forfeiture.

2.30 Second Look Election:

The term, Second Look Election, shall have the meaning given to it in Section 4.05.

2.31 Section 409A:

Section 409A of the Code and the applicable regulations and other guidance of general applicability that are issued thereunder.

2.32 Separation from Service:

A Participant's separation from service as defined in Section 409A; provided that for purposes of determining whether a Separation from Service has occurred, the Plan has determined, based upon legitimate business criteria, to use the twenty percent (20%) test described in Treas. Reg. §1.409A-1(h)(3). In the event a Participant also provides services other than as an Executive for the Company and its affiliates, as determined under the prior sentence, such other services shall not be taken into account in determining when a Separation from Service occurs to the extent permitted under Treas. Reg. § 1.409A-1(h)(5). The term may also be used as a verb (*i.e.*, "Separates from Service") with no change in meaning.

2.33 Specific Payment Date:

A specific date selected by an Eligible Executive that triggers a lump sum payment of a deferral or the start of installment payments for a deferral, as provided in Section 4.03. The

Specific Payment Dates that are available to be selected by Eligible Executives shall be determined by the Plan Administrator, and the currently available Specific Payment Dates shall be reflected on the Election Forms that are made available from time to time by the Plan Administrator. In the event that an Election Form only provides for selecting a month or a calendar quarter and a year as the Specific Payment Date, the first day of the month or the first day of the calendar quarter that is selected shall be the Specific Payment Date.

2.34 Unforeseeable Emergency:

A severe financial hardship to the Participant resulting from (a) an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary or the Participant's dependent (as defined in Code Section 152(a), without regard to Code Sections 152(b)(1), 152(b)(2) and 152(d)(1)(B)); (b) loss of the Participant's property due to casualty; or (c) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The Recordkeeper shall determine the occurrence of an Unforeseeable Emergency in accordance with Treas. Reg. §1.409A-3(i)(3) and any guidelines established by the Plan Administrator.

2.35 U.S.:

The United States, comprised of its 50 states, the District of Columbia, and its possessions (other than Puerto Rico).

2.36 Valuation Date:

Each business day, as determined by the Recordkeeper, as of which Participant Accounts are valued in accordance with Plan procedures that are currently in effect. In accordance with procedures that may be adopted by the Plan Administrator, any current Valuation Date may be changed.

ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.01 Eligibility to Participate:

(a) In General.

(1) Effective January 1, 2006, subject to Paragraphs (2) and (3) below and the election timing rules of Article IV, an Executive shall be eligible to defer compensation under the Plan 30 days after (i) being hired by an Employer as an Executive classified as Band II or above (and while he or she remains so classified) or (ii) being promoted by an Employer from below Band II into a Band II or above position. However, an Eligible Executive who makes an irrevocable election to participate for a Plan Year shall remain an Eligible Executive for the remainder of the Plan Year (i) regardless of whether such Executive is subsequently classified in a salary band below Band II or (ii) regardless of whether such Executive subsequently is paid in non-U.S. dollars or is paid from a non-U.S. payroll; provided that the occurrence of such events shall cut off any election that has been made that has not yet required to become irrevocable in order to be timely in accordance with Section 409A. Any individual who becomes an Eligible Executive during a Plan Year (including an individual who previously was an Eligible Executive under the Plan, or who had similar status under another elective account balance plan of the Employer) may only be treated as an Eligible Executive for such Plan Year by satisfying the initial eligibility requirements of Treas. Reg. 1.409A-2(a)(7)(ii).

(2) Notwithstanding Paragraph (1) above, from time to time the Plan Administrator may modify, limit or expand the class of Executives eligible to defer hereunder, pursuant to criteria for eligibility that need not be uniform among all or any group of Executives; provided that the Plan Administrator may remove an Executive from eligibility to participate effective only as of the end of a Plan Year.

(b) During the period an individual satisfies all of the eligibility requirements of this Section, he or she shall be referred to as an Eligible Executive.

(c) Each Eligible Executive becomes an active Participant on the date an amount is first withheld from his or her compensation pursuant to an Election Form submitted by the Executive to the Recordkeeper (or, if authorized, the Plan Administrator) under Section 4.01.

3.02 Termination of Eligibility to Defer:

An individual's eligibility to participate actively by making deferrals (or a deferral election) under Article IV shall cease upon the "Election Termination Date" (as defined below) occurring after the earliest of:

(a) Subject to Section 4.01(b), the date he or she Separates from Service; or

(b) The date that the Executive ceases to be eligible under criteria described in Section 3.01(a).

An individual's "Election Termination Date" shall be a date as soon as administratively practicable following the date in subsection (a) or (b) (or such other date as may be determined in accordance with rules of the Plan Administrator) ; provided that an Election Termination Date shall not affect any election already made that otherwise has become irrevocable in accordance with the rules of this Plan. However, the occurrence of an Election Termination Date shall terminate any election that has been made that is not yet required to become irrevocable in order to be timely in accordance with Section 409A.

3.03 Termination of Participation:

An individual, who has been an active Participant under the Plan, ceases to be a Participant on the date his or her Account is fully paid out; provided, however, even if a Participant's Account is fully paid out, participation shall continue under the Plan if there is an expectation that the Participant shall be entitled to future benefits under the Plan or that a deferral will be credited to the Participant's Account in the future (*e.g.*, a deferral of Bonus Compensation that is paid in a future year).

3.04 Acquisitions and Divestitures:

A written agreement between an Employer and a party that is not part of the PepsiCo Organization regarding the purchase or sale of a business unit, division, or subsidiary ("Business") may provide for the termination or commencement of the participation of Executives in this Plan. Absent specific provision in such agreement to the contrary:

(a) Each Executive of a Business that is sold shall cease being eligible for this Plan upon such sale; and

(b) No Executive of a Business that is acquired shall be eligible for this Plan except as otherwise designated in the Plan or in such documents related to the Plan as the Plan Administrator may designate from time to time.

Unless otherwise specifically provided therein, for purposes of Article IX (amendment and termination of the Plan), approval and execution of a written agreement of acquisition or divestiture by one or more Employers is approval by the Company of the designation of the Plan eligibility under such agreement and authorization from the Company to the Plan Administrator to carry out the provisions and intent of such agreement.

ARTICLE IV – DEFERRAL OF COMPENSATION

4.01 Deferral Election:

(a) Deferrals of Base Compensation. Effective on or after January 1, 2011, each Eligible Executive may make an election to defer under the Plan any whole percentage up to 85% of his or her Base Compensation in the manner described in Section 4.02. The Plan Administrator shall be entitled to specify on the Election Form applicable to a particular deferral election (or in other documentation applicable to such deferral election) a lower percentage limitation on the amount of Base Compensation that may be deferred pursuant to such deferral election. Any such specification shall be made in writing no later than the date on which such deferral election becomes irrevocable pursuant to Section 4.02.

(b) Deferrals of Bonus Compensation.

(1) General Rules. Effective on or after May 21, 2010, each Eligible Executive may make an election to defer under the Plan any whole percentage up to 100% of his or her Bonus Compensation in the manner described in Section 4.02. The Plan Administrator shall be entitled to specify on the Election Form applicable to a particular deferral election (or in other documentation applicable to such deferral election) a lower percentage limitation on the amount of Bonus Compensation that may be deferred pursuant to such deferral election. Any such specification shall be made in writing no later than the date on which such deferral election becomes irrevocable pursuant to Section 4.02.

(2) Special Rules for Promoted Eligible Executives. An Eligible Executive that becomes an Eligible Executive during a Plan Year as a result of a promotion from below Band II into a position that is in Band II or above shall only be eligible to defer Bonus Compensation earned for the Performance Period relating to the Plan Year in which he or she is promoted, if the Eligible Executive (i) is a bonus-eligible Executive for all of such Plan Year and (ii) is promoted by May 15th of the Plan Year in which the promotion occurs. If a promoted Eligible Executive does not satisfy the requirements of the previous sentence, he or she shall not be eligible to defer Bonus Compensation earned for the Performance Period relating to the Plan Year in which he or she is promoted.

(3) Performance Criteria. Notwithstanding Subsections (b)(1) and (b)(2) above, an Eligible Executive shall not be eligible to defer Bonus Compensation for a Plan Year unless (i) the Bonus Compensation is contingent on the satisfaction of organizational or individual performance criteria for the Performance Period that relates to the Plan Year, (ii) such criteria have been established in writing by not later than 90 days after the beginning of the applicable Performance Period, and (iii) the Bonus Compensation otherwise satisfies the requirements for performance-based compensation under Section 409A.

(c) Election Form Rules. To be effective in deferring Base Compensation or Bonus Compensation, an Eligible Executive's Election Form must set forth the percentage of Base Compensation or Bonus Compensation (whichever applies) to be deferred, the deferral period under Section 4.03, the form of payment under Section 4.04, and any other information that may be required by the Plan Administrator from time to time. In addition, the Election Form must meet the requirements of Section 4.02. It is contemplated that an Eligible Executive will specify the investment choice under Section 5.02 (in multiples of 1%) for the Eligible Executive's deferral. However, this is not a condition for making an effective election.

4.02 Time and Manner of Deferral Election:

(a) Deferrals of Base Compensation. An Eligible Executive must make a deferral election for a Plan Year with respect to Base Compensation no later than December 31 of the year prior to the Plan Year in which the Base Compensation would otherwise be paid. Notwithstanding the prior sentence, the Plan Administrator may adopt policies and procedures that encourage or require earlier submission of Election Forms, but in which case any requirement for the earlier submission of an Election Form may be waived (but not beyond the date specified by the first sentence of this subsection) by the Plan Administrator to prevent undue hardship for one or more Eligible Executives. If December 31 is not a business day, the deadline shall be the preceding day that is a business day. However, an individual who newly becomes an Eligible Executive will have 30 days from the date the individual becomes an Eligible Executive to make a deferral election with respect to Base Compensation that is earned for services performed after the election is received (the "30-Day Election Period"). The 30-Day Election Period may be used to make an election for Base Compensation that otherwise would be paid in the Plan Year in which the individual becomes an Eligible Executive. In addition, the 30-Day Election Period may be used to make an election for Base Compensation that would otherwise be paid in the next Plan Year (*i.e.*, the Plan Year following when the individual becomes an Eligible Executive), if the individual becomes an Eligible Executive not later than December 31 of a Plan Year. Thus, if a Base Compensation deferral election for a Plan Year is made in reliance on the 30-day rule, then the Plan Administrator shall apply the restriction that the election may only apply to Base Compensation earned for services performed after the date the election is received.

(b) Deferrals of Bonus Compensation. An Eligible Executive must make a deferral election with respect to his or her Bonus Compensation at least six months prior to the end of the Performance Period for which the applicable Bonus Compensation is paid, and this election will be the Eligible Executive's bonus deferral election for the Plan Year to which the Performance Period relates. This applies to both continuing Eligible Executives and individuals who newly become Eligible Executives. Accordingly, if an individual becomes an Eligible Executive during a Plan Year as a result of a promotion and is eligible to defer Bonus Compensation under Section 4.01(b) for such Plan Year, such Eligible Executive must make a deferral election for Bonus Compensation that is earned for the Performance Period that relates to the Plan Year in which he or she is promoted at least six months prior to the end of the applicable Performance Period. Notwithstanding the first sentence of this subsection, the Plan Administrator may adopt policies and procedures that encourage or require earlier submission of Election Forms for Bonus Compensation, but in which case any requirement for the earlier submission of an Election Form may be waived (but not beyond the date specified by the first

sentence of this subsection) by the Plan Administrator to prevent undue hardship for one or more Eligible Executives.

(c) General Provisions. A separate deferral election under (a) or (b) above must be made by an Eligible Executive for each category of a Plan Year's compensation that is eligible for deferral. If a properly completed and executed Election Form is not actually received by the Recordkeeper (or, if authorized, the Plan Administrator) by the prescribed time in (a) and (b) above, the Eligible Executive will be deemed to have elected not to defer any Base Compensation or Bonus Compensation, as the case may be, for the applicable Plan Year. Except as provided in the next sentence, an election is irrevocable once received and determined by the Plan Administrator to be properly completed (and such determination shall be made not later than the last date for making the election in question). Increases or decreases in the amount or percentage a Participant elects to defer shall not be permitted during a Plan Year. Notwithstanding the foregoing, effective as of January 1, 2008, if a Participant receives a hardship distribution under a cash or deferred profit sharing plan that is sponsored by a member of the PepsiCo Organization and such plan requires that deferrals under such plan be suspended for a period of time following the hardship distribution, the Plan Administrator may cancel the Participant's deferral election under this Plan so that no deferrals shall be made during such suspension period. If an election is cancelled because of a hardship distribution in accordance with the prior sentence, such cancellation shall permanently apply to the deferral election or elections for any Plan Year covered by such suspension period and the Participant will only be eligible to make a new deferral election for the Plan Year that begins after the end of the suspension period pursuant to the rules in Sections 4.01 and 4.02.

(d) Beneficiaries. A Participant may designate on the Election Form (or in some other manner authorized by the Plan Administrator) one or more Beneficiaries to receive payment, in the event of his or her death, of the amounts credited to his or her Account; provided that, to be effective, any Beneficiary designation must be in writing, signed by the Participant, and must meet such other standards (including any requirement for spousal consent) as the Plan Administrator or Recordkeeper shall require from time to time. The Beneficiary designation must also be filed with the Recordkeeper (or the Plan Administrator for periods prior to June 3, 2002) prior to the Participant's death. An incomplete Beneficiary designation, as determined by the Recordkeeper or Plan Administrator, shall be void and of no effect. In determining whether a Beneficiary designation that relates to the Plan is in effect, unrevoked designations that were received under the Pre-409A Program or prior to the Effective Date shall be considered. A Beneficiary designation of an individual by name remains in effect regardless of any change in the designated individual's relationship to the Participant. Solely for periods prior to June 3, 2002, a Beneficiary designation solely by relationship (for example, a designation of "spouse," that does not give the name of the spouse) shall designate whoever is the person in that relationship to the Participant at his or her death. However, any Beneficiary designation submitted to the Recordkeeper from and after June 3, 2002 that only specifies a Beneficiary by relationship shall not be considered an effective Beneficiary designation and shall be void and of no effect. If more than one Beneficiary is specified and the Participant fails to indicate the respective percentage applicable to two or more Beneficiaries, then each Beneficiary for whom a percentage is not designated will be entitled to an equal share of the portion of the Account (if any) for which percentages have not been designated. At any time, a Participant may change a

Beneficiary designation for his or her Account in a writing that is signed by the Participant and filed with the Recordkeeper prior to the Participant's death, and that meets such other standards as the Plan Administrator shall require from time to time. An individual who is otherwise a Beneficiary with respect to a Participant's Account ceases to be a Beneficiary when all payments have been made from the Account.

4.03 Period of Deferral:

An Eligible Executive making a deferral election shall specify a deferral period on his or her Election Form by designating either a Specific Payment Date or the date he or she incurs a Separation from Service. In no event shall an Eligible Executive's deferral period end later than his or her 80th birthday, regardless of whether the Participant chose a single lump sum or installments as the form of payment. Notwithstanding an Eligible Executive's actual election of a Specific Payment Date, an Eligible Executive shall be deemed to have elected a period of deferral of not less than:

(a) For Base Compensation that is paid from and after January 1, 2008, at least twelve (12) months after the end of the Plan Year during which the Base Compensation would have been paid absent the deferral; and

(b) For Bonus Compensation that is paid from and after January 1, 2008, at least eighteen (18) months after the date the Bonus Compensation would have been paid absent the deferral.

In the case of a deferral to a Specific Payment Date, if an Eligible Executive's Election Form either fails to specify a period of deferral or specifies a period less than the applicable minimum, the Eligible Executive shall be deemed to have selected a Specific Payment Date equal to the minimum period of deferral as provided in Subsections (a) and (b) above.

4.04 Form of Deferral Payout:

An Eligible Executive making a deferral election shall specify a form of payment on his or her Election Form by designating either a lump sum payment or installment payments to be paid over a period of no more than 20 years, and not later than the Executive's 80th birthday. Any election for installment payments shall also specify (a) the frequency for which installment payments shall be paid, which shall be quarterly, semi-annually and annually and (b) whether the installment payments shall be paid in a fixed dollar amount or a fixed number of years. Installment elections for a fixed dollar amount shall be paid based on the selected frequency and the selected amount until the applicable Deferral Subaccount is exhausted, but shall not be paid for a period of more than 20 years and not later than the Executive's 80th birthday. If an Eligible Executive elects installments for a period extending beyond the Eligible Executive's 80th birthday (or for purposes of a fixed dollar amount installment election, the installments would continue beyond the Executive's 80th birthday or beyond 20 years), such election shall be treated as an election for installments over a period of whole and partial years that ends on the Eligible Executive's 80th birthday or at the end of 20 years; provided that the amounts to be distributed in connection with the installments prior to the Eligible Executive's 80th birthday or prior to the end

of 20 years shall be determined in accordance with Section 6.08 and his or her election by assuming that the installments shall continue for the full number of installments or the elected fixed dollar amount, with the entire remaining amount of the relevant Deferral Subaccount distributed on the Eligible Executive's 80th birthday or at the end of 20 years.

4.05 Second Look Election:

(a) In General. Subject to Subsection (b) below, a Participant who has made a valid initial deferral in accordance with the foregoing provisions of this Article may subsequently make another one-time election regarding the time and/or form of payment of his or her deferral. This opportunity to modify the Participant's initial election is referred to as a "Second Look Election."

(b) Requirements for Second Look Elections. A Second Look Election must comply with all of the following requirements:

(1) If a Participant's initial election specified payment based on a Specific Payment Date, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's original Specific Payment Date. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a new Specific Payment Date that is at least 5 years after the original Specific Payment Date.

(2) If a Participant's initial election specified payment based on the Participant's Separation from Service, the Participant may only make a Second Look Election if the election is made at least 12 months before the Participant's Separation from Service. In addition, in this case the Participant's Second Look Election must delay the payment of the Participant's deferral to a new Specific Payment Date that turns out to be at least 5 years after the Participant's Separation from Service. If the Specific Payment Date selected in a Second Look Election turns out to be less than 5 years after the Participant's Separation from Service, the Second Look Election is void.

(3) A Separation from Service may not be specified as the payout date resulting from a Second Look Election.

(4) A Participant may make only one Second Look Election for each individual deferral, and all Second Look Elections must comply with all of the requirements of this Section 4.05.

(5) A Participant who changes the form of his or her payment election from lump sum to installments will be subject to the provisions of the Plan regarding installment payment elections in Section 4.04, and such installment payments must begin no earlier than 5 years after when the lump sum payment would have been paid based upon the Participant's initial election. Accordingly, a Participant may not make a Second Look Election if the election would provide for installment payments to be made after the Participant's 80th birthday.

(6) If a Participant's initial election specified payment in the form of installments and the Participant wants to elect installment payments over a greater or lesser number of years or wants to elect a different frequency of installment payments (*e.g.*, change from annual installments to quarterly installments), the election will be subject to the provisions of the Plan regarding installment payment elections in Section 4.04, and the first payment date of the new installment payment schedule must be no earlier than 5 years after the first payment date that applied under the Participant's initial installment election. Accordingly, a Participant may not make a Second Look Election if the election would provide for installment payments to be made after the Participant's 80th birthday.

(7) If a Participant's initial election specified payment in the form of installments and the Participant wants to elect instead payment in a lump sum, the earliest payment date of the lump sum must be no earlier than 5 years after the first payment date that applied under the Participant's initial installment election.

(8) For purposes of this Section, all of a Participant's installment payments related to a specific deferral election shall be treated as a single payment.

A Second Look Election will be void and payment will be made based on the Participant's original election under Sections 4.03 and 4.04 if all of the provisions of the foregoing Paragraphs of this Subsection are not satisfied in full. However, if a Participant's Second Look Election becomes effective in accordance with the provisions of this Subsection, the Participant's original election shall be superseded (including any Specific Payment Date specified therein), and this original election shall not be taken into account with respect to the deferral that is subject to the Second Look Election.

(c) Plan Administrator's Role. Each Participant has the sole responsibility to elect a Second Look Election by contacting the Recordkeeper (or, if authorized, the Plan Administrator) and to comply with the requirements of this Section. The Plan Administrator or the Recordkeeper may provide a notice of a Second Look Election opportunity to some or all Participants, but the Recordkeeper and Plan Administrator is under no obligation to provide such notice (or to provide it to all Participants, in the event a notice is provided only to some Participants). The Recordkeeper and the Plan Administrator have no discretion to waive or otherwise modify any requirement for a Second Look Election set forth in this Section or in Section 409A.

ARTICLE V – INTERESTS OF PARTICIPANTS

5.01 Accounting for Participants' Interests:

(a) Deferral Subaccounts. Each Participant shall have at least one separate Deferral Subaccount for each separate deferral of Base Compensation or Bonus Compensation made by the Participant under this Plan. A Participant's deferral shall be credited as of the date of the deferral to his or her Account as soon as administratively practicable following the date the compensation would be paid in the absence of a deferral. A Participant's Account is a bookkeeping device to track the value of the Participant's deferrals (and his or her Employer's liability therefor). No assets shall be reserved or segregated in connection with any Account, and no Account shall be insured or otherwise secured.

(b) Account Earnings or Losses. As of each Valuation Date, a Participant's Account shall be credited with earnings and gains (and shall be debited for expenses and losses) determined as if the amounts credited to his or her Account had actually been invested as directed by the Participant in accordance with this Article (as modified by Section 5.05, if applicable). The Plan provides only for "phantom investments," and therefore such earnings, gains, expenses and losses are hypothetical and not actual. However, they shall be applied to measure the value of a Participant's Account and the amount of his or her Employer's liability to make deferred payments to or on behalf of the Participant.

5.02 Investment Options:

(a) General. Each of a Participant's Deferral Subaccounts shall be invested on a phantom basis in any combination of phantom investment options specified by the Participant (or following the Participant's death, by his or her Beneficiary) from those offered by the Plan Administrator for this purpose from time to time. The Plan Administrator may discontinue any phantom investment option with respect to some or all Accounts, and it may provide rules for transferring a Participant's phantom investment from the discontinued option to a specified replacement option (unless the Participant selects another replacement option in accordance with such requirements as the Plan Administrator may apply).

(b) Phantom Investment Options. The basic phantom investment options offered under the Plan are as follows:

(1) Phantom PepsiCo Common Stock Fund. Participant Accounts invested in this phantom option are adjusted to reflect an investment in the PepsiCo Common Stock Fund, which is offered under the PepsiCo 401(k) Plan for Salaried Employees. An amount deferred or transferred into this option is converted to phantom units in the PepsiCo Common Stock Fund by dividing such amount by the NAV of the fund on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. A Participant's interest in the Phantom PepsiCo Common Stock Fund is valued as of a Valuation Date (or a Distribution Valuation Date) by multiplying the number of phantom units credited to the Participant's Account on such date by the NAV of a unit in the PepsiCo Common Stock Fund on such date. If shares of PepsiCo

Common Stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other any other corporate change treated as subject to this provision by the Plan Administrator, such equitable adjustment shall be made in the number and kind of phantom units credited to an Account or subaccount as the Plan Administrator may determine to be necessary or appropriate. In no event will shares of PepsiCo Common Stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of PepsiCo Common Stock on account of an interest in this phantom option.

(2) Phantom AFR Fund: This fund is established effective from and after December 29, 2006. Participant Accounts invested in this phantom option accrue a return based upon an interest rate that is 120% of the applicable Federal long-term rate (pursuant to Code Section 1274(d) or any successor provision) applicable for annual compounding, as published by the U.S. Internal Revenue Service from time to time. Returns accrue for each month based upon 120% of the applicable Federal long-term rate (applicable for annual compounding) in effect on the first business day of each month and are compounded annually. An amount deferred or transferred into this option is credited with the applicable rate of return beginning with the date as of which the amount is treated as invested in this option by the Plan Administrator.

(3) Other Funds. From time to time, the Plan Administrator shall designate which (if any) other investment options shall be available as phantom investment options under this Plan. These phantom investment options shall be described in materials provided to Participants from time to time. Any of these phantom investment options shall be administered under procedures implemented from time to time by the Plan Administrator. Unless otherwise specified in these materials or procedures, in the case of any such phantom investment option that is based on a unitized fund, an amount deferred or transferred into such option is converted to phantom units in the applicable fund of equivalent value by dividing such amount by the NAV of a unit in such fund on the Valuation Date as of which the amount is treated as invested in this option by the Plan Administrator. Thereafter, a Participant's interest in each such phantom option is valued as of a Valuation Date (or a Distribution Valuation Date) by multiplying the number of phantom units credited to his or her Account on such date by the NAV of a unit in such fund on such date.

5.03 Method of Allocation:

(a) Deferral Elections. With respect to any deferral election by a Participant, the Participant may use his or her Election Form to allocate the deferral in one percent increments among the phantom investment options then offered by the Plan Administrator. If an Election Form related to an original deferral election specifies phantom investment options for less than 100% of the Participant's deferral, the Recordkeeper shall allocate the Participant's deferrals to the Phantom AFR Fund to the extent necessary to provide for investment of 100% of the Participant's deferral. If an Election Form related to an original deferral election specifies phantom investment options for more than 100% of the Participant's deferral, the Recordkeeper

shall prorate all of the Participant's investment allocations to the extent necessary to reduce (after rounding to whole percents) the Participant's aggregate investment percentages to 100%.

(b) Fund Transfers. A Participant may reallocate previously deferred amounts in a Deferral Subaccount by properly completing and submitting a fund transfer form provided by the Plan Administrator or Recordkeeper and specifying, in one percent increments, the reallocation of his or her Deferral Subaccount among the phantom investment options then offered by the Plan Administrator for this purpose. (The rules relating to non-paper formats for Election Forms shall also apply to the fund transfer form.) If a fund transfer form provides for investing less than or more than 100% of the Participant's Deferral Subaccount, it will be void and disregarded. Any transfer form that is not void under the preceding sentence shall be effective as of the Valuation Date next occurring after its receipt by the Recordkeeper, but the Plan Administrator or Recordkeeper may also specify a minimum number of days in advance of which such transfer form must be received in order for the form to become effective as of such next Valuation Date. If more than one fund transfer form is received on a timely basis, the form that the Plan Administrator or Recordkeeper determines to be the most recent shall be followed.

(c) Phantom PepsiCo Common Stock Fund Restrictions. Notwithstanding the preceding provisions of this Section, the Plan Administrator may at any time alter the effective date of any investment or allocation involving the Phantom PepsiCo Common Stock Fund pursuant to Section 7.03(j) (relating to safeguards against insider trading). The Plan Administrator may also, to the extent necessary to ensure compliance with Rule 16b-3(f) of the Act, arrange for tracking of any such transaction defined in Rule 16b-3(b)(1) of the Act and bar any such transaction to the extent it would not be exempt under Rule 16b-3(f). The Company may also impose blackout periods pursuant to the requirements of the Sarbanes-Oxley Act of 2002 whenever the Company determines that circumstances warrant. Further, the Company may impose quarterly blackout periods on insider trading in the Phantom PepsiCo Common Stock Fund as needed (as determined by the Company), timed to coincide with the release of the Company's quarterly earnings reports. The commencement and termination of these blackout periods in each quarter, the parties to which they apply and the activities they restrict shall be as set forth in the official insider trading policy promulgated by the Company from time to time. These provisions shall apply notwithstanding any provision of the Plan to the contrary except Section 7.07 (relating to compliance with Section 409A).

5.04 Vesting of a Participant's Account:

Subject to Section 5.05, a Participant's interest in the value of his or her Account shall at all times be 100 percent vested, which means that it will not forfeit as a result of his or her Separation from Service.

5.05 Risk of Forfeiture Subaccounts:

(a) In the case of compensation earned on or after January 1, 2005, a Participant may no longer elect to defer Base Compensation or Bonus Compensation to a Risk of Forfeiture Subaccount. However, if a Participant had, as of December 31, 2004, a deferred compensation subaccount maintained under a forfeiture agreement (as defined below), and the

Participant has not yet attained eligibility for Retirement or terminated as of December 31, 2004, then the amounts in such subaccount shall be held in a Risk of Forfeiture Subaccount under this 409A Program. (A “forfeiture agreement” is an agreement with any Employer, or one of their predecessors providing that the subaccount would be forfeited if the Participant terminated employment voluntarily or on account of misconduct prior to Retirement. “Misconduct” solely for purposes of this Section shall have the definition provided for this term in the forfeiture agreement or other written document applicable for this purpose as determined by the Plan Administrator.) A Participant who meets these requirements may continue to invest (his or her compensation that was earned prior to January 1, 2005) in his or her Risk of Forfeiture Subaccount and this Subaccount will be maintained in accordance with the terms of this Section. However, such Participant shall not be eligible to transfer into or contribute to his or her Risk of Forfeiture Subaccount any compensation earned on or after January 1, 2005. (The date when a Participant attains eligibility for Retirement is specified in the definition of “Retirement.”)

(b) A Risk of Forfeiture Subaccount will be terminated and forfeited in the event that the Participant has a Separation from Service that is voluntary or because of his or her misconduct prior to the earliest of:

- (1) The end of the deferral period designated in his or her Election Form for such deferral (or if later, the end of such minimum period as may be required under Section 4.03);
- (2) The date the Participant attains eligibility for Retirement; or
- (3) The date indicated on his or her Election Form as the end of the risk of forfeiture condition (but not before completing the minimum risk of forfeiture period required by the Plan Administrator from time to time).

(c) A Risk of Forfeiture Subaccount shall become fully vested (and shall cease to be a Risk of Forfeiture Subaccount) when:

- (1) The Participant reaches any of the dates in Subsection (b) above while still employed by the Company or one of its affiliates (as defined by the Plan Administrator for this purpose), or
- (2) On the date the Participant terminates involuntarily from his or her Employer, including death and termination because of the Participant’s disability (whether or not this constitutes a Disability), provided that such termination is not for his or her misconduct.

(d) No amounts credited to a Risk of Forfeiture Subaccount may be transferred to a Subaccount of the Participant that is not a Risk of Forfeiture Subaccount. No amounts credited to a Subaccount of the Participant that is not a Risk of Forfeiture Subaccount may be transferred to a Risk of Forfeiture Subaccount.

(e) A Participant may reallocate his or her Risk of Forfeiture Subaccount to any of the phantom investment options under the Plan that are currently available for such direction or reallocation. During the period before a Risk of Forfeiture Subaccount ceases to be a Risk of Forfeiture Subaccount, the return under any such phantom investment option shall be supplemented as follows:

(1) In the case of the Phantom PepsiCo Common Stock Fund, the Participant's interest in the Phantom PepsiCo Common Stock Fund shall be increased in value by 2% as of the end of the Plan Year. If the Participant's Subaccount was not a Risk of Forfeiture Subaccount for the entire year (or if the Participant reallocated amounts to the Phantom PepsiCo Common Stock Fund after the beginning of the year), the above additional investment return for the year will be prorated down appropriately, as determined by the Plan Administrator.

(2) In the case of any other available phantom investment option for the Plan Year, the return on each such option shall be supplemented with an additional 2% annual return for the period that it is held within a Risk of Forfeiture Subaccount (but prorated for periods of such investment of less than a year).

(f) Any deferrals allocated to a Risk of Forfeiture Subaccount as of December 31, 2004, will be subject to the requirements of Section 409A.

5.06 Forfeiture of Earnings for Prohibited Misconduct:

Effective beginning with deferrals for Bonus Compensation for the 2006 Plan Year and deferrals for Base Compensation for the 2007 Plan Year, and notwithstanding any other provision of this Plan to the contrary, if the Plan Administrator determines that a Participant has engaged in Prohibited Misconduct at any time prior to the second anniversary of his or her Separation from Service, the Participant shall forfeit all current and future net earnings and gains that have been or will be credited to his or her Account under the provisions of Sections 5.01(b) and/or 6.08, and his or her Account balance shall be adjusted to reflect such forfeiture. Accordingly, a Participant who has engaged in Prohibited Misconduct during such period shall only be eligible to receive a distribution of the lesser of: (a) the aggregate amount of his or her Base Compensation and Bonus Compensation deferrals under this Plan that relate to elections made for and after the 2006 Plan Year for Bonus Compensation and the 2007 Plan Year for Base Compensation (the "Affected Deferrals"), or (b) the net value of the Participant's Affected Deferrals as of the date the Plan Administrator determines that the Participant has engaged in Prohibited Misconduct.

ARTICLE VI – DISTRIBUTIONS

6.01 General:

A Participant's Deferral Subaccount(s) that are governed by the terms of this 409A Program shall be distributed as provided in this Article, subject in all cases to Section 7.03(j) (relating to safeguards against insider trading) and Section 7.06 (relating to compliance with Section 16 of the Act). All Deferral Subaccount balances (including those hypothetically invested in the Phantom PepsiCo Common Stock Fund) shall be distributed in cash. In no event shall any portion of a Participant's Account be distributed earlier or later than is allowed under Section 409A.

The following general rules shall apply for purposes of interpreting the provisions of this Article VI.

(a) Section 6.02 (Distributions Based on a Specific Payment Date) applies when a Participant has elected to defer until a Specific Payment Date and the Specific Payment Date is reached before the Participant's (i) Separation from Service (other than for Retirement), (ii) Disability, or (iii) death. However, if such a Participant Separates from Service (other than for Retirement or death) prior to the Specific Payment Date (or prior to processing of the first installment or Second Look Election payment due in connection with the Specific Payment Date), Section 6.03 shall apply. If such a Participant dies prior to the Specific Payment Date, Section 6.04 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account. If such a Participant becomes Disabled prior to the Specific Payment Date, Section 6.06 shall apply to the extent it would result in an earlier distribution of all or part of a Participant's Account.

(b) Section 6.03 (Distributions on Account of a Separation from Service) applies (i) when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service (other than for Retirement or death), or (ii) when applicable under Subsection (a) above.

(c) Section 6.04 (Distributions on Account of Death) applies when the Participant dies. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 (see below) at the time of his death, Section 6.04 shall take precedence over those sections to the extent Section 6.04 would result in an earlier distribution of all or part of a Participant's Account.

(d) Section 6.05 (Distributions on Account of Retirement) applies when a Participant has elected to defer until a Separation from Service and then the Participant Separates from Service on account of his or her Retirement. Subsections (c) and (e) of this Section provide for when Section 6.04 or 6.06 take precedence over Section 6.05.

(e) Section 6.06 (Distributions on Account of Disability) applies when the Participant becomes Disabled. If a Participant who becomes Disabled dies, Section 6.04 shall

take precedence over Section 6.06 to the extent it would result in an earlier distribution of all or part of a Participant's Account. If a Participant is entitled to receive or is receiving a distribution under Section 6.02, 6.03 or 6.05 at the time of his Disability, Section 6.06 shall take precedence over those sections to the extent Section 6.06 would result in an earlier distribution of all or part of a Participant's Account.

(f) Section 6.07 (Distributions on Account of Unforeseeable Emergency) applies when the Participant incurs an Unforeseeable Emergency prior to when a Participant's Account is distributed under Sections 6.02 through 6.06. In this case, the provisions of Section 6.07 shall take precedence over Sections 6.02 through 6.06 to the extent Section 6.07 would result in an earlier distribution of all or part of the Participant's Account.

6.02 Distributions Based on a Specific Payment Date:

This Section shall apply to distributions that are to be made upon the occurrence of a Specific Payment Date. In the event a Participant's Specific Payment Date for a Deferral Subaccount is reached before (i) the Participant's Disability, (ii) the Participant's Separation from Service (other than for Retirement), or (iii) the Participant's death, such Deferral Subaccount shall be distributed based on the occurrence of such Specific Payment Date in accordance with the following terms and conditions:

(a) If a Participant's Deferral Subaccount is to be paid in the form of a lump sum pursuant to Section 4.04 or 4.05, whichever is applicable, the Deferral Subaccount shall be valued as of the last Distribution Valuation Date that occurs on or immediately precedes the Participant's Specific Payment Date, and the resulting amount shall be paid in a single lump sum on the Specific Payment Date.

(b) This subsection shall be effective for Specific Payment Dates and Separations from Service occurring from and after January 1, 2009. If a Participant's Deferral Subaccount is to be paid in the form of installments pursuant to Section 4.04 or 4.05, whichever is applicable, the Participant's first installment payment shall be paid on the Specific Payment Date. Thereafter, installment payments shall continue in accordance with the schedule elected by the Participant (subject to the provisions of this Plan that constrain such elections), except as provided in Sections 6.03, 6.04, 6.06 and 6.07 (relating to distributions upon Separation from Service (other than Retirement), death, Disability or Unforeseeable Emergency). The amount of each installment shall be determined under Section 6.08. Notwithstanding the preceding provisions of this Subsection, if before the date the last installment distribution is processed for payment the Participant Separates from Service (other than Retirement) or the Participant would be entitled to a distribution in accordance with Section 6.04 or 6.06 (relating to distributions on account of death or Disability), the remaining balance of the Participant's Deferral Subaccounts that would otherwise be distributed based on such Specific Payment Date shall instead be distributed in accordance with Section 6.03, 6.04 or 6.06 (relating to distributions on account of Separation from Service (other than Retirement), death or Disability), whichever applies, but only to the extent it would result in an earlier distribution of the Participant's Subaccounts in the case of Section 6.04 or Section 6.06.

6.03 Distributions on Account of a Separation from Service:

A Participant's total Account shall be distributed upon the occurrence of a Participant's Separation from Service (other than for Retirement, Disability or death) in accordance with the terms and conditions of this Section. When used in this Section, the phrase "Separation from Service" shall only refer to a Separation from Service that is not for Retirement, Disability or death. The rules of this Section shall be effective for Specific Payment Dates and Separations from Service occurring from and after January 1, 2009.

(a) Subject to Subsection (c), for those Deferral Subaccounts that have a Specific Payment Date that is after the Participant's Separation from Service, such Deferral Subaccounts shall be distributed in a single lump sum payment on the first day of the calendar quarter that follows the Participant's Separation from Service.

(b) Subject to Subsection (c), if the Participant's Separation from Service is on or after the Specific Payment Date (including a Specific Payment Date resulting from a Second Look Election) applicable to a Participant's Deferral Subaccount and the Participant has selected installment payments as the form of distribution for the Deferral Subaccount, then such Deferral Subaccount shall be distributed as follows:

(1) If the first installment payment has been processed prior to the Participant's Separation from Service, then the Participant's installment payment election shall be void and the Participant shall be paid a single lump sum distribution for the remaining balance of the Deferral Subaccount based upon the provisions of Subsection (a) above; and

(2) If the first installment payment has not yet been processed prior to the Participant's Separation from Service, then the Participant's installment payment election shall be void and the Participant shall be paid a single lump sum distribution for the Deferral Subaccount based upon the provisions of Subsection (a) above.

(c) If the Participant is classified as a Key Employee at the time of the Participant's Separation from Service (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Separation from Service, earlier than the first day of the calendar quarter that is at least 6 months after the Participant's Separation from Service.

(d) If a Participant has Separated from Service, the Participant's entire Account balance has been distributed under this Article VI as a result of such Separation from Service, and later the Participant's Account is credited with a deferral of compensation that was not available for credit before the time the Participant's Account was previously paid out (*e.g.*, Bonus Compensation), then the new balance of such Participant's Account shall be distributed as a result of such prior Separation from Service and the distribution shall be made in a single lump sum payment on the first day of the calendar quarter that follows the date that the deferral was credited to the Participant's Account, subject however to the rules of subsection (c).

6.04 Distributions on Account of Death:

(a) Upon a Participant's death, the value of the Participant's Account under the Plan shall be distributed in a single lump sum payment on the first day of the calendar quarter beginning after the first anniversary of the Participant's death. If the Participant is receiving installment payments at the time of the Participant's death, such installment payments shall continue in accordance with the terms of the applicable deferral election that governs such payments until the time that the lump sum payment is due to be paid under the preceding sentence of this Subsection. Immediately prior to the time that such lump sum payment is scheduled to be paid, all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at such scheduled payment time in a single lump sum. Amounts paid following a Participant's death, whether a lump sum or continued installments, shall be paid to the Participant's Beneficiary. If some but not all of the persons designated by a Participant to receive his or her Account at death predecease the Participant, the Participant's surviving Beneficiaries shall be entitled to the portion of the Participant's Account intended for such pre-deceased persons in proportion to the surviving Beneficiaries' respective shares.

(b) Effective for deaths occurring from and after January 1, 2009, if no designation is in effect at the time of a Participant's death (as determined by the Plan Administrator) or if all persons designated as Beneficiaries have predeceased the Participant, then the payments to be made pursuant to this Section shall be distributed as follows:

(1) If the Participant is married at the time of his/her death, all payments made pursuant to this Section shall be paid to the Participant's spouse; and

(2) If the Participant is not married at the time of his/her death, all payments made pursuant to this Section shall be paid to the Participant's estate.

The Plan Administrator shall determine whether a Participant is "married" and shall determine a Participant's "spouse" based on the state or local law where the Participant has his/her primary residence at the time of death. The Plan Administrator is authorized to make any applicable inquiries and to request any documents, certificates or other information that it deems necessary or appropriate in order to make the above determinations.

(c) Prior to the time the value of the Participant's Account is distributed under Subsection (a), the Participant's Beneficiary may apply for a distribution under Section 6.07 (relating to a distribution on account of an Unforeseeable Emergency).

(d) Any claim to be paid any amounts standing to the credit of a Participant in connection with the Participant's death must be received by the Recordkeeper or the Plan Administrator at least 14 days before any such amount is paid out by the Recordkeeper. Any claim received thereafter is untimely, and it shall be unenforceable against the Plan, the Company, the Plan Administrator, the Recordkeeper or any other party acting for one or more of them.

6.05 Distributions on Account of Retirement:

If a Participant incurs a Separation from Service on account of his or her Retirement, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

(a) If the Participant's Retirement is prior to the Specific Payment Date that is applicable to a Deferral Subaccount, the Participant's deferral election pursuant to Sections 4.03, 4.04 or 4.05 (*i.e.*, time and form of payment) shall continue to be given effect, and the Deferral Subaccount shall be distributed based upon the provisions of Subsections (a) and (b) under Section 6.02, whichever applies (relating to distributions based on a Specific Payment Date).

(b) If the Participant has selected payment of his or her deferral on account of Separation from Service, distribution of the related Deferral Subaccount shall commence on the first day of the calendar quarter following Retirement. Such distribution shall be made in either a single lump sum payment or in installment payments depending upon the Participant's deferral election under Sections 4.04 or 4.05. If the Participant is entitled to installment payments, such payments shall be made in accordance with the Participant's installment election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency) and with the installment payment amounts determined under Section 6.08. However, if the Participant is classified as a Key Employee at the time of the Participant's Retirement (or at such other time for determining Key Employee status as may apply under Section 409A), then such Participant's Account shall not be paid, as a result of the Participant's Retirement, earlier than the first day of the calendar quarter that is at least 6 months after the Participant's Retirement.

(c) If the Participant is receiving installment payments in accordance with Section 6.02 (relating to distributions on account of a Specific Payment Date) for one or more Deferral Subaccounts at the time of his or her Retirement, such installment payments shall continue to be paid based upon the Participant's deferral election (but subject to acceleration under Sections 6.04, 6.06 and 6.07 relating to distributions on account of death, Disability and Unforeseeable Emergency).

6.06 Distributions on Account of Disability:

If a Participant incurs a Disability, the Participant's Account shall be distributed in accordance with the terms and conditions of this Section.

(a) The value of the Participant's Account under the Plan as of the most recent Distribution Valuation Date shall be distributed in a single lump sum payment on the first date (i) on which the Participant is Disabled (determined without regard to the duration requirement of the next clause), (ii) that is at least 12 months following the first date the Participant was Disabled from the cause of the current Disability, and (iii) that is after the Participant has received payments from a PepsiCo disability plan (including the PepsiCo Disability Plan) for the current cause of Disability (determined without regard to the duration requirement of this clause).

(b) If the Participant is receiving installment payments at the time of the Participant's Disability, such installment payments shall continue to be paid in accordance with the provisions of the Participant's applicable deferral election until the time that the lump sum payment is due to be paid under the provisions of Subsection (a). Immediately prior to the time that such lump sum payment is scheduled to be paid, all installment payments shall cease and the remaining balance of the Participant's Account shall be distributed at the time specified in Subsection (a) in a single lump sum.

6.07 Distributions on Account of Unforeseeable Emergency:

Prior to the time that an amount would become distributable under Sections 6.02 through 6.06, a Participant or Beneficiary may file a written request with the Recordkeeper for accelerated payment of all or a portion of the amount credited to the Participant's Account based upon an Unforeseeable Emergency. After an individual has filed a written request pursuant to this Section, along with all supporting material that may be required by the Recordkeeper from time to time, the Recordkeeper shall determine within 60 days (or such other number of days that is necessary if special circumstances warrant additional time) whether the individual meets the criteria for an Unforeseeable Emergency. If the Recordkeeper determines that an Unforeseeable Emergency has occurred, the Participant or Beneficiary shall receive a distribution from his or her Account as of the day the Recordkeeper finalizes the determination. However, such distribution shall not exceed the dollar amount necessary to satisfy the Unforeseeable Emergency (plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution) after taking into account the extent to which the Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

6.08 Valuation:

In determining the amount of any individual distribution pursuant to this Article, the Participant's Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that is used in determining the amount of the distribution under this Article. If a particular Section in this Article does not specify a Distribution Valuation Date to be used in calculating the distribution, the Participant's Deferral Subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) as specified in Article V until the Distribution Valuation Date that precedes such distribution. In determining the value of a Participant's remaining Deferral Subaccount following an installment distribution from the Deferral Subaccount (or a partial distribution under Section 6.07 relating to a distribution on account of an Unforeseeable Emergency), such distribution shall reduce the value of the Participant's Deferral Subaccount as of the close of the Distribution Valuation Date preceding the payment date for such installment (or partial distribution). The amount to be distributed in connection with any installment payment (other than a fixed amount elected under Section 4.04) shall be determined by dividing the value of a Participant's Deferral Subaccount as of such preceding Distribution Valuation Date (determined before reduction of the Deferral Subaccount as of such Distribution

Valuation Date in accordance with the preceding sentence) by the remaining number of installments to be paid with respect to the Deferral Subaccount. The amount distributed in connection with a fixed dollar amount installment election shall be equal to the dollar amount elected and subject to the rules in Section 4.04.

6.09 Section 162(m) Compliance:

Notwithstanding Sections 6.01 through 6.07 of this Article, Plan distributions may be delayed in accordance with the special rule in Treas. Reg. §1.409A-2(b)(7)(i) (the “162(m) Provision”). The 162(m) Provision’s special rule permits distributions to be delayed to the extent the Employer reasonably anticipates that, if the distribution were made as otherwise scheduled, the Employer’s deduction for the distribution would not be permitted as a result of Code Section 162(m). Use of the 162(m) Provision’s special rule is subject to conditions, including:

(a) The Employer must treat all similarly situated employees on a reasonably consistent basis,

(b) If the Employer delays a Plan distribution under the 162(m) Provision, the Employer must delay all payments of deferred compensation to a Participant (including payments under other arrangements) that (i) could be delayed under the 162(m) Provision, and (ii) are scheduled to be paid to the Participant in the same tax year in which the delayed distribution was scheduled to be paid, and

(c) Distribution must be made in accordance with the schedule specified in the 162(m) Provision (including any applicable six-month delay) once a distribution would be deductible taking into account Code Section 162(m).

6.10 Impact of Section 16 of the Act on Distributions:

The provisions of Sections 5.03(c) and 7.06 shall apply in determining whether a Participant’s distribution shall be delayed beyond the date applicable under the preceding provisions of this Article VI.

6.11 Actual Payment Date:

An amount payable on a date specified in this Article VI shall be paid no later than the later of (a) the end of the calendar year in which the specified date occurs, or (b) the 15th day of the third calendar month following such specified date. In addition, the Participant (or Beneficiary) is not permitted to designate the taxable year of the payment.

ARTICLE VII – PLAN ADMINISTRATION

7.01 Plan Administrator:

The Plan Administrator is responsible for the administration of the Plan. The Plan Administrator has the authority to name one or more delegates to carry out certain responsibilities hereunder, as specified in the definition of Plan Administrator. Any such delegation shall state the scope of responsibilities being delegated and is subject to Section 7.06 below.

7.02 Action:

Action by the Plan Administrator may be taken in accordance with procedures that the Plan Administrator adopts from time to time or that the Company's Law Department determines are legally permissible.

7.03 Powers of the Plan Administrator:

The Plan Administrator shall administer and manage the Plan and shall have (and shall be permitted to delegate) all powers necessary to accomplish that purpose, including the following:

- (a) To exercise its discretionary authority to construe, interpret, and administer this Plan;
- (b) To exercise its discretionary authority to make all decisions regarding eligibility, participation and deferrals, to make allocations and determinations required by this Plan, and to maintain records regarding Participants' Accounts;
- (c) To compute and certify to the Employers the amount and kinds of payments to Participants or their Beneficiaries, and to determine the time and manner in which such payments are to be paid;
- (d) To authorize all disbursements by the Employer pursuant to this Plan;
- (e) To maintain (or cause to be maintained) all the necessary records for administration of this Plan;
- (f) To make and publish such rules for the regulation of this Plan as are not inconsistent with the terms hereof;
- (g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;
- (h) To establish or to change the phantom investment options or arrangements under Article V;

(i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan; and

(j) Notwithstanding any other provision of this Plan except Section 7.07 (relating to compliance with Section 409A), the Plan Administrator or the Recordkeeper may take any action the Plan Administrator deems is necessary to assure compliance with any policy of the Company respecting insider trading as may be in effect from time to time. Such actions may include altering the effective date of intra-fund transfers or the distribution date of Deferral Subaccounts. Any such actions shall alter the normal operation of the Plan to the minimum extent necessary.

The Plan Administrator has the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, and its decisions on such matters will be final and conclusive on all parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the Plan Administrator, even if (1) such discretion is not expressly granted by the Plan provisions in question, or (2) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. As a result, benefits under this Plan will be paid only if the Plan Administrator decides in its discretion that the applicant is entitled to them. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the Plan Administrator's discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious.

7.04 Compensation, Indemnity and Liability:

The Plan Administrator will serve without bond and without compensation for services hereunder. All expenses of the Plan and the Plan Administrator will be paid by the Employers. To the extent deemed appropriate by the Plan Administrator, any such expense may be charged against specific Participant Accounts, thereby reducing the obligation of the Employers. No member of the Committee (which serves as the Plan Administrator), and no individual acting as the delegate of the Committee, shall be liable for any act or omission of any other member or individual, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Employers (other than the Company) will indemnify and hold harmless each member of the Committee and any employee of the Company (or a Company affiliate, if recognized as an affiliate for this purpose by the Plan Administrator) acting as the delegate of the Committee against any and all expenses and liabilities, including reasonable legal fees and expenses, arising in connection with this Plan out of his or her membership on the Committee (or his or her serving as the delegate of the Committee), excepting only expenses and liabilities arising out of his or her own willful misconduct or bad faith.

7.05 Withholding:

The Employer shall withhold from amounts due under this Plan, any amount necessary to enable the Employer to remit to the appropriate government entity or entities on behalf of the

Participant as may be required by the federal income tax provisions of the Code, by an applicable state's income tax provisions, and by an applicable city, county or municipality's earnings or income tax provisions. Further, the Employer shall withhold from the payroll of, or collect from, a Participant the amount necessary to remit on behalf of the Participant any Social Security or Medicare taxes which may be required with respect to amounts deferred or accrued by a Participant hereunder, as determined by the Employer. In addition, to the extent required by Section 409A, amounts deferred under this Plan shall be reported on each Participant's Form W-2 for the applicable tax year, and any amounts that become taxable hereunder shall be reported as taxable wages on the Participant's Form W-2 for the applicable tax year. All such reporting shall be performed based on the rules and procedures of Section 409A.

7.06 Section 16 Compliance:

(a) In General. This Plan is intended to be a formula plan for purposes of Section 16 of the Act. Accordingly, in the case of a deferral or other action under the Plan that constitutes a transaction that could be covered by Rule 16b-3(d) or (e), if it were approved by the Company's Board or Compensation Committee ("Board Approval"), it is intended that the Plan shall be administered by delegates of the Compensation Committee, in the case of a Participant who is subject to Section 16 of the Act, in a manner that will permit the Board Approval of the Plan to avoid any additional Board Approval of specific transactions to the maximum possible extent.

(b) Approval of Distributions: This Subsection shall govern the distribution of a deferral that (i) is wholly or partly invested in the Phantom PepsiCo Common Stock Fund at the time the deferral would be valued to determine the amount of cash to be distributed to a Participant, (ii) either was the subject of a Second Look Election or was not covered by an agreement, made at the time of the Participant's original deferral election, that any investments in the Phantom PepsiCo Common Stock Fund would, once made, remain in that fund until distribution of the deferral, (iii) is made to a Participant who is subject to Section 16 of the Act at the time the interest in the Phantom PepsiCo Common Stock Fund would be liquidated in connection with the distribution, and (iv) if paid at the time the distribution would be made without regard to this subsection, could result in a violation of Section 16 of the Act because there is an opposite way transaction that would be matched with the liquidation of the Participant's interest in the PepsiCo Common Stock Fund (either as a "discretionary transaction," within the meaning of Rule 16b-3(b)(1), or as a regular transaction, as applicable) (a "Covered Distribution"). In the case of a Covered Distribution, if the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution has not received Board Approval by the time the distribution would be made if it were not a Covered Distribution, or if it is a discretionary transaction, then the actual distribution to the Participant shall be delayed only until the earlier of:

(1) In the case of a transaction that is not a discretionary transaction, Board Approval of the liquidation of the Participant's interest in the Phantom PepsiCo Common Stock Fund in connection with the distribution, and

(2) The date the distribution would no longer violate Section 16 of the Act, *e.g.*, when the Participant is no longer subject to Section 16 of the Act, when the Deferral Subaccount related to the distribution is no longer invested in the Phantom PepsiCo Common Stock Fund or when the time between the liquidation and an opposite way transaction is sufficient.

7.07 Conformance with Section 409A:

Effective from and after January 1, 2009, at all times during each Plan Year, this Plan shall be operated (i) in accordance with the requirements of Section 409A, and (ii) to preserve the status of deferrals under the Pre-409A Program as being exempt from Section 409A, *i.e.*, to preserve the grandfathered status of the Pre-409A Program. In all cases, the provisions of this Section shall apply notwithstanding any contrary provision of the Plan that is not contained in this Section.

ARTICLE VIII – CLAIMS PROCEDURE

8.01 Claims for Benefits:

If a Participant, Beneficiary or other person (hereafter, “Claimant”) does not receive timely payment of any benefits which he or she believes are due and payable under the Plan, he or she may make a claim for benefits to the Plan Administrator. The claim for benefits must be in writing and addressed to the Plan Administrator. If the claim for benefits is denied, the Plan Administrator will notify the Claimant within 90 days after the Plan Administrator initially received the benefit claim. However, if special circumstances require an extension of time for processing the claim, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 90-day period and such extension may not exceed one additional, consecutive 90-day period. Any notice of a denial of benefits shall advise the Claimant of the basis for the denial, any additional material or information necessary for the Claimant to perfect his or her claim, and the steps which the Claimant must take to appeal his or her claim for benefits.

8.02 Appeals of Denied Claims:

Each Claimant whose claim for benefits has been denied may file a written appeal for a review of his or her claim by the Plan Administrator. The request for review must be filed by the Claimant within 60 days after he or she received the notice denying his or her claim. The decision of the Plan Administrator will be communicated to the Claimant within 60 days after receipt of a request for appeal. The notice shall set forth the basis for the Plan Administrator’s decision. However, if special circumstances require an extension of time for processing the appeal, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 60-day period and such extension may not exceed one additional, consecutive 60-day period. In no event shall the Plan Administrator’s decision be rendered later than 120 days after receipt of a request for appeal.

8.03 Special Claims Procedures for Disability Determinations:

Notwithstanding Sections 8.01 and 8.02, if the claim or appeal of the Claimant relates to Disability benefits, such claim or appeal shall be processed pursuant to the applicable provisions of Department of Labor Regulation Section 2560.503-1 relating to Disability benefits, including Sections 2560.503-1(d), 2560.503-1(f)(3), 2560.503-1(h)(4) and 2560.503-1(i)(3).

ARTICLE IX– AMENDMENT AND TERMINATION

9.01 Amendment of Plan:

The Compensation Committee of the Board of Directors of the Company has the right in its sole discretion to amend this Plan in whole or in part at any time and in any manner, including the manner of making deferral elections, the terms on which distributions are made, and the form and timing of distributions. However, except for mere clarifying amendments necessary to avoid an inappropriate windfall, no Plan amendment shall reduce the amount credited to the Account of any Participant as of the date such amendment is adopted. Any amendment shall be in writing and adopted by the Committee. All Participants and Beneficiaries shall be bound by such amendment. Any amendments made to the Plan shall be subject to any restrictions on amendment that are applicable to ensure continued compliance under Section 409A.

9.02 Termination of Plan:

(a) The Company expects to continue this Plan, but does not obligate itself to do so. The Company, acting by the Compensation Committee of the Board of Directors, or through its entire Board of Directors, reserves the right to discontinue and terminate the Plan at any time, in whole or in part, for any reason (including a change, or an impending change, in the tax laws of the United States or any State). Termination of the Plan will be binding on all Participants (and a partial termination shall be binding upon all affected Participants) and their Beneficiaries, but in no event may such termination reduce the amounts credited at that time to any Participant's Account. If this Plan is terminated (in whole or in part), the termination resolution shall provide for how amounts theretofore credited to affected Participants' Accounts will be distributed.

(b) This Section is subject to the same restrictions related to compliance with Section 409A that apply to Section 9.01. In accordance with these restrictions, the Company intends to have the maximum discretionary authority to terminate the Plan and make distributions in connection with a Change in Control (as defined in Section 409A), and the maximum flexibility with respect to how and to what extent to carry this out following a Change in Control (as defined in Section 409A) as is permissible under Section 409A. The previous sentence contains the exclusive terms under which a distribution may be made in connection with any change in control with respect to deferrals made under this 409A Program.

ARTICLE X – MISCELLANEOUS

10.01 Limitation on Participant's Rights:

Participation in this Plan does not give any Participant the right to be retained in the Employer's employ (or any right or interest in this Plan or any assets of the Employer other than as herein provided). The Employer reserves the right to terminate the employment of any Participant without any liability for any claim against the Employer under this Plan, except for a claim for payment of deferrals as provided herein.

10.02 Unfunded Obligation of Individual Employer:

(a) The benefits provided by this Plan are unfunded. All amounts payable under this Plan to Participants are paid from the general assets of the Participant's individual Employer. Nothing contained in this Plan requires an Employer to set aside or hold in trust any amounts or assets for the purpose of paying benefits to Participants. Neither a Participant, Beneficiary, nor any other person shall have any property interest, legal or equitable, in any specific Employer asset. This Plan creates only a contractual obligation on the part of a Participant's individual Employer, and the Participant has the status of a general unsecured creditor of this Employer with respect to amounts of compensation deferred hereunder. Such a Participant shall not have any preference or priority over the rights of any other unsecured general creditor of the Employer. No other Employer guarantees or shares such obligation, and no other Employer shall have any liability to the Participant or his or her Beneficiary. In the event, a Participant transfers from the employment of one Employer to another, the former Employer shall transfer the liability for deferrals made while the Participant was employed by that Employer to the new Employer (and the books of both Employers shall be adjusted appropriately).

(b) Notwithstanding the provisions of Subsection (a), for purposes of this Section an "Employer" shall only refer to those entities which are part of the PepsiCo Organization. If a Participant transfers to an entity that is not part of the PepsiCo Organization, the liability for deferrals made while the Participant was employed by the PepsiCo Organization shall remain with his or her last Employer that was part of the PepsiCo Organization.

10.03 Other Plans:

This Plan shall not affect the right of any Eligible Executive or Participant to participate in and receive benefits under and in accordance with the provisions of any other employee benefit plans which are now or hereafter maintained by any Employer, unless the terms of such other employee benefit plan or plans specifically provide otherwise or it would cause such other plan to violate a requirement for tax favored treatment.

10.04 Receipt or Release:

Any payment to a Participant in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan Administrator, the

Recordkeeper, the Company, and all Employers, and the Plan Administrator may require such Participant, as a condition precedent to such payment, to execute a receipt and release to such effect.

10.05 Governing Law:

This Plan shall be construed, administered, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by federal law, in accordance with the laws of the State of North Carolina. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

10.06 Adoption of Plan by Related Employers:

The Plan Administrator may select as an Employer (other than the Company, which is automatically an Employer hereunder) any division of the Company, as well as any subsidiary or affiliate related to the Company by ownership (and that is a member of the PepsiCo Organization), and permit or cause such division, subsidiary or affiliate to adopt the Plan. The selection by the Plan Administrator shall govern the effective date of the adoption of the Plan by such related Employer. The requirements for Plan adoption are entirely within the discretion of the Plan Administrator and, in any case where the status of an entity as an Employer is at issue, the determination of the Plan Administrator shall be absolutely conclusive.

10.07 Gender, Tense and Examples:

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine, or neuter gender shall be deemed to include the other. Whenever an example is provided or the text uses the term "including" followed by a specific item or items, or there is a passage having a similar effect, such passage of the Plan shall be construed as if the phrase "without limitation" followed such example or term (or otherwise applied to such passage in a manner that avoids limitation on its breadth of application).

10.08 Successors and Assigns; Nonalienation of Benefits:

This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to the Account of a Participant are not (except as provided in Sections 5.06 and 7.05) subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, including, without limitation, any assignment or alienation in connection with a separation, divorce, child support or similar arrangement, will be null and void and not binding on the Plan or the Company or any Employer. Notwithstanding the foregoing, the Plan Administrator reserves the right to make payments in accordance with a divorce decree, judgment or other court order as and when cash payments are made in accordance with the terms

of this Plan from the Deferral Subaccount of a Participant. Any such payment shall be charged against and reduce the Participant's Account.

10.09 Facility of Payment:

Whenever, in the Plan Administrator's opinion, a Participant or Beneficiary entitled to receive any payment hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the Employer to make payments to such person or to the legal representative of such person for his or her benefit, or to apply the payment for the benefit of such person in such manner as the Plan Administrator considers advisable. Any payment in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment to the Participant or Beneficiary under the Plan.

ARTICLE XI – AUTHENTICATION

The 409A Program was first adopted and approved by the Compensation Committee of the Company's Board of Directors at the Compensation Committee's duly authorized meeting on November 18, 2005. This 409A Program document as amended and restated was adopted and approved by the Compensation Committee at the Compensation Committee's duly authorized meeting on September 11, 2008 and incorporates all of the amendments to the 409A Program through March 9, 2017.

APPENDIX

The following Appendix articles modify particular terms of the Plan. Except as specifically modified in the Appendix, the foregoing main provisions of the Plan shall fully apply in determining the rights and benefits of Eligible Executives, Participants and Beneficiaries (and of any other individual claiming a benefit through or under the foregoing). In the event of a conflict between the Appendix and the foregoing main provisions of the Plan, the Appendix shall govern.

Appendix

APPENDIX ARTICLE A

[RESERVED]

APPENDIX ARTICLE B – PARTICIPATING EMPLOYERS

The following members of the PepsiCo Organization have been designated as Employers as of December 31, 2009:

PepsiCo, Inc.
Alpac Corporation
Beverage Services, Inc.
Beverages, Foods & Service Industries, Inc.
Border Properties, Inc.
Breckinridge, Inc.
Davlyn Realty Corporation
Duo Juice Company
FL Transportation, Inc.
FLRC, Inc.
Frito-Lay, Inc.
Frito-Lay Dip Company, Inc.
Frito-Lay North America, Inc.
Frito-Lay RFLS Holdings, Inc.
Frito-Lay Sales Inc.
Fuelosophy, Inc.
Gamesa USA, Inc.
Gatorade Puerto Rico Company
Golden Grain Company
Goldfinch Holdings LLC
Greenville Holding Corp.
Hayfield Finance Company
Heathland LP
Hillbrook Insurance Company, Inc.
Homefinding Company of Texas
IZZE Beverage Co.
J.E. Duke II, Inc.
Long Bay, Inc.
Midland Bottling Co.
Mountainview Insurance Company, Inc.
Naked Juice Co.
Naked Juice Co. Holdings, Inc.
Naked Juice Co. Illinois, Inc.
Naked Juice of Glendora, Inc.
Naked Juice of New Jersey, Inc.
NCN, Inc.
New Century Beverage Company
New Whirled Company PCNA
Manufacturing, Inc. Pepsi
Bottling Holdings, Inc. Pepsi

Logistics Company, Inc. Pepsi
Promotions, Inc.
PepsiCo (Malaysia) Sdn. Bhd.
PepsiCo Captive Holdings, Inc. PepsiCo
Finance (Antilles A) N.Y. PepsiCo
Financial Shared Services, Inc.
PepsiCo Foods International Holdings, Inc.
PepsiCo Overseas Corp.
PepsiCo Pension Management Services, Ltd.
PepsiCo Puerto Rico, Inc.
PepsiCo Services International, Inc.
PepsiCo World Trading Company, Inc.
Pepsi-Cola Advertising and Marketing, Inc.
Pepsi-Cola Bottling Company of St. Louis, Inc.
Pepsi-Cola Company
Pepsi-Cola Fountain Company, Inc.
Pepsi-Cola International Limited (U.S.A.)
Pepsi-Cola Management and Administrative Services, Inc.
Pepsi-Cola Mediterranean, Ltd.
Pepsi-Cola Metropolitan Bottling Company, Inc.
Pepsi-Cola Operating Company of Chesapeake and Indianapolis
Pepsi-Cola Panamericana, LLC
Pepsi-Cola Sales and Distribution, Inc.
Pepsi-Cola Technical Operations, Inc.
PlayCo, Inc.
Prestwick, Inc.
PRS, Inc.
Putnam Holdings, Inc.
PV Merger Corp. QFL
OHQ Sdn. Bhd. QTG
Development, Inc. QTG
Services, Inc.
Quaker Manufacturing LLC
Quaker Mexico Holdings, LLC
Quaker Oats Asia, Inc.
Quaker Oats Capital Corporation
Quaker Oats Company, The
Quaker Oats Europe, LLC
Quaker Oats Europe, Inc.
Quaker Sales & Distribution, Inc.
Rolling Frito-Lay Sales, LP
RUSCAN, Inc.
Seven-Up Asia, Inc.
Seven-Up Great Britain, Inc.
Seven-Up Southern Hemisphere, Inc.

Smartfoods, Inc.
SOBE Operating Corp., Inc.
South Beach Beverage Company, Inc.
Stacey's Pita Chip Company
Stokely-Van Camp, Inc.
Sun Foods, Inc.
SVC Latin America, Inc.
SVC Logistics, Inc.
SVC Manufacturing, Inc.
TFL Holdings, Inc.
The Fresh Juice Company of Florida, Inc.
The Gatorade Company
TPI Urban Renewal Corporation
Tropicana Manufacturing Company, Inc.
Tropicana Products Sales, Inc.
Tropicana Products, Inc.
Tropicana Services, Inc.
Tropicana Transportation Corporation

APPENDIX ARTICLE C – PBG AND PAS EXECUTIVES

C.1 Purpose. The purpose of this Article is to provide for a “home plan rules” approach for employees who move between, or are newly hired by, a PepsiCo Business, a PBG Business or PAS Business following the merger of The Pepsi Bottling Group, Inc. and PepsiAmericas, Inc. into the Pepsi-Cola Metropolitan Company, Inc., a wholly owned subsidiary the Company, except as provided herein with respect to the deferral of Bonus Compensation under the Plan by PBG Executives and PAS Executives for the 2010 Plan Year. This Article C is effective as of the Effective Time.

C.2 Definitions. The definitions listed below apply for purposes of this Article C. Any other defined term used herein shall have the meaning applied to that term in the main portion of the Plan document.

(a) “Effective Time” means:

- (1) With respect to the provisions of this Article C applicable to PAS Executives or PAS Businesses, the meaning given to that term under the Agreement and Plan of Merger dated as of August 3, 2009, among PepsiAmericas, Inc., PepsiCo, Inc., and Pepsi-Cola Metropolitan Bottling Company, Inc.; and
- (2) With respect to the provisions of this Article C applicable to PBG Executives or PBG Businesses, the meaning given to that term under the Agreement and Plan of Merger dated as of August 3, 2009, among Pepsi Bottling Group, Inc., PepsiCo, Inc., and Pepsi-Cola Metropolitan Bottling Company, Inc.

(b) “PAS Business” means each Employer, division of an Employer or other organizational subdivision of an Employer that the Company classifies as part of the PAS business.

(c) “PAS Executive” means an individual who is employed by a PAS Business.

(d) “PBG Business” means each Employer, division of an Employer or other organizational subdivision of an Employer that the Company classifies as part of the PBG business.

(e) “PBG Executive” means an individual who is employed by a PBG Business.

(f) “PepsiCo Business” means each Employer, division of an Employer or other organizational subdivision of an Employer that the Company classifies as part of the PepsiCo business.

C.3 Participating Employers. PBG Businesses and PAS Businesses are not Employers under the Plan, except with respect to:

(a) Individuals who are hired by a PAS Business or PBG Business and who were Executives immediately before such date of hire; and

(b) PAS Executives and PBG Executives who elect to defer their Bonus Compensation under the Plan for the Plan Year beginning January 1, 2010 and later Plan Years.

C.4 Eligibility to Participate. PBG Executives and PAS Executives are eligible to participate in this Plan as follows:

(a) An individual who is hired by a PepsiCo Business after the Effective Time shall be eligible to participate in the Plan upon satisfying the Plan's eligibility requirements (and shall not be eligible to participate in the non-qualified defined contribution plan of another member of the PepsiCo Organization) unless he was employed by a member of the PepsiCo Organization that is not a PepsiCo Business immediately before such date of hire with a PepsiCo Business. PBG Executives and PAS Executives are ineligible to participate in this Plan, except that an individual who is hired by a PBG Business or PAS Business on or after the Effective Time, and who is an Executive immediately before such date of hire, shall be eligible to continue participating in this Plan for so long as he is continuously employed by a member of the PepsiCo Organization, to the same extent as if he had remained an Executive.

(b) Notwithstanding the foregoing, the PBG Executive and PAS Executives are eligible to defer Base Compensation and Bonus Compensation under the Plan, subject to the terms and conditions of the main provisions of the Plan, beginning with Bonus Compensation payable for the Performance Period that relates to the Plan Year that begins on January 1, 2010, and Base Compensation for the Plan Year that begins on January 1, 2011.

C.5 No Special Rights. Nothing in this Article is intended to override the provisions of Section 3.04 of the Plan or to otherwise confer any rights under the Plan not specifically authorized herein.

Computation of Ratio of Earnings to Fixed Charges

PepsiCo, Inc. and Subsidiaries

(in millions except ratio amounts, unaudited)

	12 Weeks Ended	
	3/25/2017	3/19/2016
Earnings:		
Income before income taxes	\$ 1,721	\$ 1,387
Unconsolidated affiliates' interests, net	(36)	(42)
Amortization of capitalized interest	1	1
Interest expense ^(a)	252	246
Interest portion of rent expense ^(b)	50	48
Earnings available for fixed charges	\$ 1,988	\$ 1,640
Fixed Charges:		
Interest expense ^(a)	\$ 252	\$ 246
Capitalized interest	3	1
Interest portion of rent expense ^(b)	50	48
Total fixed charges	\$ 305	\$ 295
Ratio of Earnings to Fixed Charges ^(c)	6.52	5.56

(a) Excludes interest related to our reserves for income taxes as such interest is included in provision for income taxes and includes net amortization of debt premium/discount.

(b) One-third of rent expense is the portion deemed representative of the interest factor.

(c) Based on unrounded amounts.

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
PepsiCo, Inc.:

We hereby acknowledge our awareness of the use of our report dated April 26, 2017 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve weeks ended March 25, 2017, and incorporated by reference in the following Registration Statements and in the related Prospectuses:

Description, Registration Statement Number

Form S-3

- PepsiCo Automatic Shelf Registration Statement, 333-216082
- PepsiCo Automatic Shelf Registration Statement, 333-197640
- PepsiCo Automatic Shelf Registration Statement, 333-177307
- PepsiCo Automatic Shelf Registration Statement, 333-154314
- PepsiCo Automatic Shelf Registration Statement, 333-133735
- PepsiAmericas, Inc. 2000 Stock Incentive Plan, 333-165176
- PBG 2004 Long Term Incentive Plan, PBG 2002 Long Term Incentive Plan, PBG Long Term Incentive Plan, The Pepsi Bottling Group, Inc. 1999 Long Term Incentive Plan and PBG Stock Incentive Plan, 333-165177

Form S-8

- The PepsiCo 401(k) Plan for Hourly Employees, 333-76204 and 333-150868
- The PepsiCo 401(k) Plan for Salaried Employees, 333-76196 and 333-150867
- PepsiCo, Inc. 2007 Long-Term Incentive Plan, 333-142811 and 333-166740
- PepsiCo, Inc. 2003 Long-Term Incentive Plan, 333-109509
- PepsiCo SharePower Stock Option Plan, 33-29037, 33-35602, 33-42058, 33-51496, 33-54731, 33-66150 and 333-109513
- Director Stock Plan, 33-22970 and 333-110030
- 1979 Incentive Plan and the 1987 Incentive Plan, 33-19539
- 1994 Long-Term Incentive Plan, 33-54733
- PepsiCo, Inc. 1995 Stock Option Incentive Plan, 33-61731, 333-09363 and 333-109514
- 1979 Incentive Plan, 2-65410
- PepsiCo, Inc. Long Term Savings Program, 2-82645, 33-51514 and 33-60965
- PepsiCo 401(k) Plan, 333-89265
- Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union #173) and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates, 333-65992
- The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors, 333-66632
- The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees, 333-66634
- The PepsiCo Share Award Plan, 333-87526
- PBG 401(k) Savings Program, PBG 401(k) Program, PepsiAmericas, Inc. Salaried 401(k) Plan and PepsiAmericas, Inc. Hourly 401(k) Plan, 333-165106
- PBG 2004 Long Term Incentive Plan, PBG 2002 Long Term Incentive Plan, PBG Long Term Incentive Plan, The Pepsi Bottling Group, Inc. 1999 Long Term Incentive Plan, PBG Directors' Stock Plan, PBG Stock Incentive Plan and PepsiAmericas, Inc. 2000 Stock Incentive Plan, 333-165107

Pursuant to Rule 436(c) under the Securities Act of 1933 (the "Act"), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

New York, New York
April 26, 2017

CERTIFICATION

I, **Indra K. Nooyi**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2017

/s/ Indra K. Nooyi

Indra K. Nooyi

Chairman of the Board of Directors and

Chief Executive Officer

CERTIFICATION

I, **Hugh F. Johnston**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2017

/s/ Hugh F. Johnston

Hugh F. Johnston

Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended March 25, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Indra K. Nooyi, Chairman of the Board of Directors and Chief Executive Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: April 26, 2017

/s/ Indra K. Nooyi

Indra K. Nooyi

Chairman of the Board of Directors and
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended March 25, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh F. Johnston, Chief Financial Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: April 26, 2017

/s/ Hugh F. Johnston

Hugh F. Johnston

Chief Financial Officer