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

(Mark One)

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

For the quarterly period ended September 8, 2018 (36 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	13-1584302
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
700 Anderson Hill Road, Purchase, New York	10577
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO ☐

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

Large accelerated filer x	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Number of shares of Common Stock outstanding as of September 25, 2018 was 1,411,568,000.

PepsiCo, Inc. and Subsidiaries

Table of Contents

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

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

	12 Weeks Ended		36 Weeks Ended	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017
Net Revenue	**$ 16,485**	$ 16,240	**$ 45,137**	$ 43,999
Cost of sales	**7,527**	7,368	**20,445**	19,717
Gross profit	**8,958**	8,872	**24,692**	24,282
Selling, general and administrative expenses	**6,114**	5,948	**17,013**	16,576
Operating Profit	**2,844**	2,924	**7,679**	7,706
Other pension and retiree medical benefits income	**74**	69	**231**	210
Interest expense	**(302)**	(269)	**(904)**	(786)
Interest income and other	**81**	52	**248**	141
Income before income taxes	**2,697**	2,776	**7,254**	7,271
Provision for income taxes (See Note 5)	**188**	620	**1,562**	1,668
Net income	**2,509**	2,156	**5,692**	5,603
Less: Net income attributable to noncontrolling interests	**11**	12	**31**	36
Net Income Attributable to PepsiCo	**$ 2,498**	$ 2,144	**$ 5,661**	$ 5,567
Net Income Attributable to PepsiCo per Common Share				
Basic	**$ 1.77**	$ 1.50	**$ 3.99**	$ 3.90
Diluted	**$ 1.75**	$ 1.49	**$ 3.97**	$ 3.87
Weighted-average common shares outstanding				
Basic	**1,414**	1,425	**1,417**	1,427
Diluted	**1,424**	1,438	**1,427**	1,440
Cash dividends declared per common share	**$ 0.9275**	$ 0.805	**$ 2.66**	$ 2.3625

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		36 Weeks Ended	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017
Net income	**$ 2,509**	$ 2,156	**$ 5,692**	$ 5,603
Other comprehensive (loss)/income, net of taxes:				
Net currency translation adjustment	**(728)**	320	**(1,409)**	1,156
Net change on cash flow hedges	**(1)**	(32)	**75**	(83)
Net pension and retiree medical adjustments	**54**	9	**134**	20
Net change on available-for-sale securities	**2**	2	**4**	(64)
Other	**—**	—	**—**	16
	(673)	299	**(1,196)**	1,045
Comprehensive income	**1,836**	2,455	**4,496**	6,648
Comprehensive income attributable to noncontrolling interests	**(11)**	(12)	**(31)**	(37)
Comprehensive Income Attributable to PepsiCo	**$ 1,825**	$ 2,443	**$ 4,465**	$ 6,611

See accompanying notes to the condensed consolidated financial statements.

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

	36 Weeks Ended	
	9/8/2018	9/9/2017
Operating Activities		
Net income	**$ 5,692**	$ 5,603
Depreciation and amortization	**1,636**	1,604
Share-based compensation expense	**203**	206
Restructuring and impairment charges	**79**	69
Cash payments for restructuring charges	**(179)**	(83)
Pension and retiree medical plan expenses	**147**	141
Pension and retiree medical plan contributions	**(1,664)**	(169)
Deferred income taxes and other tax charges and credits	**(609)**	284
Provisional net tax expense related to the Tax Cuts and Jobs Act (TCJ Act)	**854**	—
Change in assets and liabilities:		
Accounts and notes receivable	**(1,299)**	(999)
Inventories	**(362)**	(424)
Prepaid expenses and other current assets	**(158)**	(119)
Accounts payable and other current liabilities	**116**	(496)
Income taxes payable	**633**	633
Other, net	**(357)**	(163)
Net Cash Provided by Operating Activities	**4,732**	6,087
Investing Activities		
Capital spending	**(1,578)**	(1,474)
Sales of property, plant and equipment	**119**	82
Acquisitions and investments in noncontrolled affiliates	**(253)**	(45)
Divestitures	**294**	143
Short-term investments, by original maturity:		
More than three months - purchases	**(5,637)**	(11,742)
More than three months - maturities	**11,874**	10,400
More than three months - sales	**772**	345
Three months or less, net	**7**	4
Other investing, net	**—**	9
Net Cash Provided by/(Used for) Investing Activities	**5,598**	(2,278)
Financing Activities		
Proceeds from issuances of long-term debt	**—**	3,525
Payments of long-term debt	**(2,506)**	(3,256)
Short-term borrowings, by original maturity:		
More than three months - proceeds	**2**	77
More than three months - payments	**(17)**	(91)
Three months or less, net	**(1,384)**	1,526
Cash dividends paid	**(3,621)**	(3,324)
Share repurchases - common	**(1,442)**	(1,464)
Share repurchases - preferred	**(2)**	(4)
Proceeds from exercises of stock options	**215**	396
Withholding tax payments on restricted stock units (RSUs), performance stock units (PSUs) and PepsiCo equity performance units (PEPunits) converted	**(93)**	(131)
Other financing	**(23)**	(29)
Net Cash Used for Financing Activities	**(8,871)**	(2,775)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	**(73)**	76
Net Increase in Cash and Cash Equivalents and Restricted Cash	**1,386**	1,110
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	**10,657**	9,169
Cash and Cash Equivalents and Restricted Cash, End of Period	**$ 12,043**	$ 10,279

See accompanying notes to the condensed consolidated financial statements.

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

	(Unaudited) 9/8/2018	12/30/2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,991	$ 10,610
Short-term investments	1,907	8,900
Accounts and notes receivable, less allowance: 9/18 - $120 and 12/17 - $129	7,975	7,024
Inventories:		
Raw materials and packaging	1,401	1,344
Work-in-process	164	167
Finished goods	1,577	1,436
	3,142	2,947
Prepaid expenses and other current assets	827	1,546
Total Current Assets	25,842	31,027
Property, plant and equipment	38,878	39,106
Accumulated depreciation	(22,337)	(21,866)
	16,541	17,240
Amortizable Intangible Assets, net	1,193	1,268
Goodwill	14,332	14,744
Other nonamortizable intangible assets	12,273	12,570
Nonamortizable Intangible Assets	26,605	27,314
Investments in Noncontrolled Affiliates	2,394	2,042
Other Assets	1,057	913
Total Assets	$ 73,632	$ 79,804
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt obligations	$ 4,474	$ 5,485
Accounts payable and other current liabilities	15,230	15,017
Total Current Liabilities	19,704	20,502
Long-Term Debt Obligations	30,643	33,796
Other Liabilities	9,538	11,283
Deferred Income Taxes	3,358	3,242
Total Liabilities	63,243	68,823
Commitments and contingencies		
Preferred Stock, no par value	—	41
Repurchased Preferred Stock	—	(197)
PepsiCo Common Shareholders’ Equity		
Common stock, par value $1^{2}/_{3}$¢ per share (authorized 3,600 shares; issued, net of repurchased common stock at par value: 1,412 and 1,420 shares, respectively)	24	24
Capital in excess of par value	3,939	3,996
Retained earnings	54,404	52,839
Accumulated other comprehensive loss	(14,253)	(13,057)
Repurchased common stock, in excess of par value (455 and 446 shares, respectively)	(33,828)	(32,757)
Total PepsiCo Common Shareholders’ Equity	10,286	11,045
Noncontrolling interests	103	92
Total Equity	10,389	10,981
Total Liabilities and Equity	$ 73,632	$ 79,804

See accompanying notes to the condensed consolidated financial statements.

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

	36 Weeks Ended			
	9/8/2018		9/9/2017	
	Shares	**Amount**	Shares	Amount
Preferred Stock				
Balance, beginning of year	**0.8**	**$ 41**	0.8	$ 41
Conversion to common stock	**(0.1)**	**(6)**	—	—
Retirement of preferred stock	**(0.7)**	**(35)**	—	—
Balance, end of period	**—**	**—**	0.8	41
Repurchased Preferred Stock				
Balance, beginning of year	**(0.7)**	**(197)**	(0.7)	(192)
Redemptions	**—**	**(2)**	—	(4)
Retirement of preferred stock	**0.7**	**199**	—	—
Balance, end of period	**—**	**—**	(0.7)	(196)
Common Stock				
Balance, beginning of year	**1,420**	**24**	1,428	24
Shares issued in connection with preferred stock conversion to common stock	**1**	**—**	—	—
Change in repurchased common stock	**(9)**	**—**	(5)	—
Balance, end of period	**1,412**	**24**	1,423	24
Capital in Excess of Par Value				
Balance, beginning of year		**3,996**		4,091
Share-based compensation expense		**204**		209
Equity issued in connection with preferred stock conversion to common stock		**6**		—
Stock option exercises, RSUs, PSUs and PEPunits converted		**(172)**		(221)
Withholding tax on RSUs, PSUs and PEPunits converted		**(93)**		(131)
Other		**(2)**		(4)
Balance, end of period		**3,939**		3,944
Retained Earnings				
Balance, beginning of year		**52,839**		52,518
Cumulative effect of accounting changes		**(145)**		—
Net income attributable to PepsiCo		**5,661**		5,567
Cash dividends declared – common		**(3,787)**		(3,387)
Retirement of preferred stock		**(164)**		—
Balance, end of period		**54,404**		54,698
Accumulated Other Comprehensive Loss				
Balance, beginning of year		**(13,057)**		(13,919)
Other comprehensive (loss)/income attributable to PepsiCo		**(1,196)**		1,044
Balance, end of period		**(14,253)**		(12,875)
Repurchased Common Stock				
Balance, beginning of year	**(446)**	**(32,757)**	(438)	(31,468)
Share repurchases	**(14)**	**(1,453)**	(13)	(1,495)
Stock option exercises, RSUs, PSUs and PEPunits converted	**5**	**381**	8	620
Other	**—**	**1**	—	2
Balance, end of period	**(455)**	**(33,828)**	(443)	(32,341)
Total PepsiCo Common Shareholders' Equity		**10,286**		13,450
Noncontrolling Interests				
Balance, beginning of year		**92**		104
Net income attributable to noncontrolling interests		**31**		36
Distributions to noncontrolling interests		**(20)**		(25)
Currency translation adjustment		**—**		1
Balance, end of period		**103**		116
Total Equity		**$ 10,389**		$ 13,411

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 September 8, 2018, Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 8, 2018 and September 9, 2017, and the Condensed Consolidated Statements of Cash Flows and Equity for the 36 weeks ended September 8, 2018 and September 9, 2017 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (2017 Form 10-K), as modified to reflect the adoption of those recently issued accounting pronouncements disclosed in Note 2 in this Form 10-Q. This report should be read in conjunction with our 2017 Form 10-K. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks ended September 8, 2018 are not necessarily indicative of the results expected for any future period or the full year.

While our financial results in the United States and Canada (North America) are reported on a 12-week basis, most of our international operations report on a monthly calendar basis. In the 12 weeks ended September 8, 2018, our financial results outside of North America reflect the months of June, July and August. In the 36 weeks ended September 8, 2018, our financial results outside of North America reflect the months of January through August.

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

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

Our Divisions

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

1) Frito-Lay North America (FLNA), which includes our branded food and snack businesses in the United States and Canada;

2) Quaker Foods North America (QFNA), which includes our cereal, rice, pasta and other branded food businesses in the United States and Canada;

3) North America Beverages (NAB), which includes our beverage businesses in the United States and Canada;

4) Latin America, which includes all of our beverage, food and snack businesses in Latin America;

5) Europe Sub-Saharan Africa (ESSA), which includes all of our beverage, food and snack businesses in Europe and Sub-Saharan Africa; and

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

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

	12 Weeks Ended		36 Weeks Ended	
Net Revenue	**9/8/2018[(a)]**	9/9/2017	**9/8/2018[(a)]**	9/9/2017
FLNA	**$ 3,891**	$ 3,792	**$ 11,345**	$ 10,969
QFNA	**567**	578	**1,695**	1,729
NAB	**5,456**	5,332	**15,064**	15,034
Latin America	**1,868**	1,873	**4,935**	4,773
ESSA	**3,161**	3,098	**7,945**	7,355
AMENA	**1,542**	1,567	**4,153**	4,139
Total division	**$ 16,485**	$ 16,240	**$ 45,137**	$ 43,999

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

	12 Weeks Ended		36 Weeks Ended	
Operating Profit	**9/8/2018**	9/9/2017[(a)]	**9/8/2018**	9/9/2017[(a)]
FLNA	**$ 1,241**	$ 1,199	**$ 3,491**	$ 3,392
QFNA	**143**	145	**443**	453
NAB	**703**	813	**1,838**	2,204
Latin America	**284**	284	**742**	645
ESSA [(b)]	**439**	427	**995**	1,015
AMENA [(c)]	**311**	267	**994**	745
Total division	**$ 3,121**	$ 3,135	**$ 8,503**	$ 8,454
Corporate unallocated	**(277)**	(211)	**(824)**	(748)
	$ 2,844	$ 2,924	**$ 7,679**	$ 7,706

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

(b) Operating profit for ESSA for the 36 weeks ended September 9, 2017 includes a gain of $95 million associated with the sale of our minority stake in Britvic plc (Britvic).

(c) Operating profit for AMENA for the 36 weeks ended September 8, 2018 includes a gain of $144 million associated with refranchising a portion of our beverage business in Thailand.

Note 2 - Recently Issued Accounting Pronouncements

Adopted

In 2017, the Financial Accounting Standards Board (FASB) issued guidance to retrospectively present the service cost component of net periodic benefit cost for pension and retiree medical plans along with other compensation costs in operating profit and present the other components of net periodic benefit cost separately below operating profit in the income statement. The guidance also allows only the service cost component of net periodic benefit cost to be eligible for capitalization within inventory or fixed assets on a prospective basis. We adopted the provisions of this guidance retrospectively in the first quarter of 2018, using historical information previously disclosed in our pension and retiree medical benefits footnote as the estimation basis. We also updated our allocation of service costs to our divisions to better approximate actual service cost. The impact from retrospective adoption of this guidance resulted in an increase to cost of sales and selling, general and administrative expenses of $2 million and $67 million, respectively, for the 12 weeks ended September 9, 2017 and $9 million and $201 million, respectively, for the 36 weeks ended September 9, 2017. We recorded a corresponding increase to other pension and retiree medical benefits income below operating profit of $69 million and $210 million for the 12 and 36 weeks ended September 9, 2017, respectively.

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

	9/9/2017	
	12 Weeks Ended	**36 Weeks Ended**
FLNA [(a)]	$ (9)	$ (29)
QFNA	(1)	(3)
NAB [(b)]	(4)	(12)
Latin America	3	4
ESSA	(9)	(24)
AMENA	—	—
Corporate unallocated [(c)]	(49)	(146)
Total	$ (69)	$ (210)

(a) Includes restructuring charges of $1 million for the 12 and 36 weeks ended September 9, 2017.
(b) Includes restructuring charges of $1 million for the 36 weeks ended September 9, 2017.
(c) Includes restructuring charges of $1 million and $2 million for the 12 weeks and 36 weeks ended September 9, 2017, respectively.

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

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

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

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

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

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

As a result of implementing certain changes, which did not have a material impact on our accounting policies upon adoption, in the first quarter of 2018, we recorded an adjustment of $137 million to beginning retained earnings to reflect marketplace spending that our customers and independent bottlers expect to be entitled to in line with revenue recognition. In addition, we excluded from net revenue and cost of sales all sales, use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions that were not already excluded. The impact of these taxes previously recognized in net revenue and cost of sales was $19 million and $58 million for the 12 and 36 weeks ended September 9, 2017, respectively, and approximately $75 million for the fiscal year ended December 30, 2017, with no impact on operating profit. Shipping and handling activities, including certain merchandising activities, that are performed after a customer obtains control of the product are recorded as fulfillment costs in selling, general and administrative expenses. See Note 2 to our consolidated financial statements in our 2017 Form 10-K for further information on our significant accounting policies related to revenue recognition and total marketplace spending.

Not Yet Adopted

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

In 2017, the FASB issued guidance to amend and simplify the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, as well as eases certain hedge effectiveness assessment requirements. We are currently evaluating the impact of this guidance, including transition elections and required disclosures, on our financial statements. We will adopt the guidance when it becomes effective in the first quarter of 2019.

In 2016, the FASB issued guidance on leases, with amendments issued in 2018. The guidance requires lessees to recognize most leases on the balance sheet but record expenses on the income statement in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The two permitted transition methods under the guidance are the modified retrospective transition approach, which requires application of the guidance in all comparative periods presented, and the cumulative effect adjustment approach, which requires application at the adoption date. We are currently evaluating the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet and the impact on our current lease portfolio from both a lessor and lessee perspective. To facilitate this, we are progressing on our comprehensive review of our lease portfolio and enhancing our controls. We identified our significant leases by geography and by asset type that will be impacted by the new guidance, and we are in the process of implementing a new software platform, and corresponding controls, for administering our leases and facilitating compliance with the new guidance. In addition, we are currently evaluating the method of transition. We will adopt the guidance when it becomes effective in the first quarter of 2019. See Note 13 to our consolidated financial statements in our 2017 Form 10-K for our minimum lease payments under non-cancelable operating leases.

Note 3 - Restructuring and Impairment Charges

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

In the 12 weeks ended September 8, 2018 and September 9, 2017, we incurred restructuring charges of $35 million ($31 million after-tax or $0.02 per share) and $8 million ($7 million after-tax with a nominal amount per share), respectively, in conjunction with our 2014 Productivity Plan. In the 36 weeks ended September 8, 2018 and September 9, 2017, we incurred restructuring charges of $79 million ($66 million after-tax or $0.05 per share) and $69 million ($65 million after-tax or $0.05 per share), respectively. These net charges were recorded in selling, general and administrative expenses and other pension and retiree medical benefits income and primarily relate to severance and other employee-related costs, asset impairments (all non-cash) and other costs associated with the implementation of our initiatives, including contract termination costs. The majority of the restructuring accrual at September 8, 2018 is expected to be paid by the end of 2018.

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

	12 Weeks Ended							
	9/8/2018				9/9/2017			
	Severance and Other Employee Costs[(a)]	**Asset Impairments**	**Other Costs**	**Total**	Severance and Other Employee Costs[(a)]	Asset Impairments	Other Costs[(b)]	Total
FLNA	**$ (4)**	**$ —**	**$ 1**	**$ (3)**	$ 2	$ —	$ —	$ 2
QFNA	**—**	**—**	**—**	**—**	—	—	—	—
NAB	**9**	**2**	**2**	**13**	—	—	(3)	(3)
Latin America	**2**	**1**	**3**	**6**	(5)	2	1	(2)
ESSA	**16**	**—**	**1**	**17**	10	1	1	12
AMENA	**1**	**—**	**1**	**2**	(2)	—	(1)	(3)
Corporate	**—**	**—**	**—**	**—**	2	—	—	2
	$ 24	**$ 3**	**$ 8**	**$ 35**	$ 7	$ 3	$ (2)	$ 8

(a) There were no net charges related to other pension and retiree medical benefits for the 12 weeks ended September 8, 2018. The 12 weeks ended September 9, 2017 includes charges related to other pension and retiree medical benefits of $2 million. Income amounts represent adjustments for changes in estimates of previously recorded amounts.

(b) Income amount for NAB primarily reflects a gain on the sale of property, plant and equipment. Income amount for AMENA represents an adjustment for changes in estimates of previously recorded amounts.

	36 Weeks Ended							
	9/8/2018				9/9/2017			
	Severance and Other Employee Costs[(a)]	**Asset Impairments**	**Other Costs**	**Total**	Severance and Other Employee Costs[(a)]	Asset Impairments	Other Costs[(b)]	Total
FLNA	**$ 1**	**$ 3**	**$ 2**	**$ 6**	$ 6	$ —	$ —	$ 6
QFNA	**1**	**—**	**—**	**1**	—	—	—	—
NAB	**13**	**6**	**6**	**25**	—	—	(1)	(1)
Latin America	**10**	**1**	**7**	**18**	28	15	4	47
ESSA	**23**	**1**	**1**	**25**	20	1	(2)	19
AMENA	**5**	**—**	**1**	**6**	(2)	—	(5)	(7)
Corporate	**(5)**	**—**	**3**	**(2)**	4	—	1	5
	$ 48	**$ 11**	**$ 20**	**$ 79**	$ 56	$ 16	$ (3)	$ 69

(a) Includes charges related to other pension and retiree medical benefits of $4 million for each of the 36 weeks ended September 8, 2018 and September 9, 2017. Income amounts represent adjustments for changes in estimates of previously recorded amounts.

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

Since the inception of the 2014 Productivity Plan, we incurred restructuring charges of $1,113 million:

	2014 Productivity Plan Costs to Date			
	Severance and Other Employee Costs	**Asset Impairments**	**Other Costs**	**Total**
FLNA	$ 132	$ 12	$ 25	$ 169
QFNA	27	—	6	33
NAB	162	75	89	326
Latin America	119	30	21	170
ESSA	150	42	60	252
AMENA	28	6	16	50
Corporate	57	—	56	113
	$ 675	**$ 165**	**$ 273**	**$ 1,113**

A summary of our 2014 Productivity Plan activity for the 36 weeks ended September 8, 2018 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 30, 2017	$ 212	$ —	$ 14	$ 226
2018 restructuring charges	48	11	20	79
Cash payments	(150)	—	(29)	(179)
Non-cash charges and translation	(10)	(11)	2	(19)
Liability as of September 8, 2018	**$ 100**	**$ —**	**$ 7**	**$ 107**

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:

	9/8/2018			12/30/2017		
	Gross	**Accumulated Amortization**	**Net**	Gross	Accumulated Amortization	Net
Acquired franchise rights	**$ 846**	**$ (136)**	**$ 710**	$ 858	$ (128)	$ 730
Reacquired franchise rights	**106**	**(104)**	**2**	106	(104)	2
Brands	**1,297**	**(1,027)**	**270**	1,322	(1,026)	296
Other identifiable intangibles	**494**	**(283)**	**211**	521	(281)	240
	$ 2,743	**$ (1,550)**	**$ 1,193**	$ 2,807	$ (1,539)	$ 1,268

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

	Balance 12/30/2017	Translation and Other	Balance 9/8/2018
FLNA [(a)]			
Goodwill	$ 280	$ 23	**$ 303**
Brands	25	140	**165**
	305	163	**468**
QFNA			
Goodwill	175	—	**175**
NAB			
Goodwill	9,854	(24)	**9,830**
Reacquired franchise rights	7,126	(39)	**7,087**
Acquired franchise rights	1,525	(9)	**1,516**
Brands	353	—	**353**
	18,858	(72)	**18,786**
Latin America			
Goodwill	555	(51)	**504**
Brands	141	(17)	**124**
	696	(68)	**628**
ESSA			
Goodwill	3,452	(330)	**3,122**
Reacquired franchise rights	549	(45)	**504**
Acquired franchise rights	195	(31)	**164**
Brands	2,545	(288)	**2,257**
	6,741	(694)	**6,047**
AMENA			
Goodwill	428	(30)	**398**
Brands	111	(8)	**103**
	539	(38)	**501**
Total goodwill	14,744	(412)	**14,332**
Total reacquired franchise rights	7,675	(84)	**7,591**
Total acquired franchise rights	1,720	(40)	**1,680**
Total brands	3,175	(173)	**3,002**
	$ 27,314	$ (709)	**$ 26,605**

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

Note 5 - Income Taxes

A reconciliation of unrecognized tax benefits is as follows:

	9/8/2018	12/30/2017
Balance, beginning of year	**$ 2,212**	$ 1,885
Additions for tax positions related to the current year	**102**	309
Additions for tax positions from prior years	**124**	86
Reductions for tax positions from prior years	**(734)**	(51)
Settlement payments	**(229)**	(4)
Statutes of limitations expiration	**(28)**	(33)
Translation and other	**(10)**	20
Balance, end of period	**$ 1,437**	$ 2,212

For the 12 weeks ended September 8, 2018, we recognized a non-cash tax benefit of $364 million ($0.26 per share) resulting from the conclusion of certain international tax audits. In the second quarter of 2018, we reached an agreement with the Internal Revenue Service (IRS) resolving all open matters related to the audits of taxable years 2012 and 2013. The conclusion of certain international tax audits and the resolution with the IRS, collectively, resulted in a non-cash tax benefit totaling $678 million ($0.48 per share) for the 36 weeks ended September 8, 2018.

Tax Cuts and Jobs Act

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

For the 12 weeks ended September 8, 2018, we recognized additional provisional transition tax expense of $76 million ($0.05 per share) reflecting the TCJ Act impact on the conclusion of certain international tax audits, as discussed above. For the 36 weeks ended September 8, 2018, we recognized additional provisional transition tax expense of $854 million ($0.60 per share) reflecting the impact of additional transition tax guidance issued by the IRS through the third quarter of 2018, the TCJ Act impact on the conclusion of certain international tax audits and the resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013, as discussed above, as well as the impact of actions taken by states within the United States that adopted the TCJ Act. These amounts were in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017.

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

The components of the provisional net tax expense recorded in 2017 and through the 36 weeks ended September 8, 2018 were based on currently available information and additional information needs to be prepared, obtained and/or analyzed to determine the final amounts. The provisional tax expense for the mandatory repatriation of undistributed international earnings will require further analysis of certain foreign exchange gains or losses, substantiation of foreign tax credits, as well as estimated cash and cash equivalents as of November 30, 2018, the tax year-end of our foreign subsidiaries. The provisional tax benefit for the remeasurement of deferred taxes will require additional information necessary for the preparation of our U.S. federal tax return, and further analysis and interpretation of certain provisions of the TCJ Act impacting deferred taxes, for example 100% expensing of qualified assets, could impact our deferred tax balance as of December 30, 2017.

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

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

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

Note 6 - Share-Based Compensation

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

	12 Weeks Ended		36 Weeks Ended	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017
Share-based compensation expense - equity awards	**$ 57**	$ 63	**$ 203**	$ 206
Share-based compensation expense - liability awards	**2**	3	**4**	10
Restructuring and impairment charges	**(1)**	1	**1**	3
Total	**$ 58**	$ 67	**$ 208**	$ 219

For the 12 weeks ended September 8, 2018 and September 9, 2017, our grants of stock options, RSUs, PSUs and long-term cash awards were nominal.

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

	36 Weeks Ended			
	9/8/2018		9/9/2017	
	Granted[(a)]	**Weighted-Average Grant Price**	Granted[(a)]	Weighted-Average Grant Price
Stock options	**1.4**	**$ 108.75**	1.4	$ 110.04
RSUs and PSUs	**2.6**	**$ 108.70**	2.8	$ 109.84

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

We granted long-term cash awards to certain executive officers and other senior executives with an aggregate target value of $21 million and $19 million during the 36 weeks ended September 8, 2018 and September 9, 2017, respectively.

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

	36 Weeks Ended	
	9/8/2018	9/9/2017
Expected life	**5 years**	5 years
Risk-free interest rate	**2.6%**	2.0%
Expected volatility	**12%**	11%
Expected dividend yield	**2.7%**	2.7%

Note 7 - Pension and Retiree Medical Benefits

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

	12 Weeks Ended					
	Pension				Retiree Medical	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017	**9/8/2018**	9/9/2017
	U.S.		International			
Service cost	**$ 99**	$ 93	**$ 23**	$ 21	**$ 7**	$ 6
Interest cost	**111**	108	**23**	21	**8**	8
Expected return on plan assets	**(218)**	(196)	**(50)**	(42)	**(4)**	(5)
Amortization of prior service cost/(credits)	**1**	—	**—**	—	**(5)**	(5)
Amortization of net losses/(gains)	**41**	29	**12**	12	**(2)**	(3)
	34	34	**8**	12	**4**	1
Settlement loss	**7**	—	**2**	2	**—**	—
Special termination benefits	**—**	2	**—**	—	**—**	—
Total	**$ 41**	$ 36	**$ 10**	$ 14	**$ 4**	$ 1

	36 Weeks Ended					
	Pension				Retiree Medical	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017	**9/8/2018**	9/9/2017
	U.S.		International			
Service cost	**$ 298**	$ 278	**$ 63**	$ 58	**$ 22**	$ 19
Interest cost	**333**	324	**63**	57	**24**	25
Expected return on plan assets	**(653)**	(588)	**(134)**	(112)	**(13)**	(15)
Amortization of prior service cost/(credits)	**2**	1	**—**	—	**(14)**	(17)
Amortization of net losses/(gains)	**124**	85	**31**	33	**(7)**	(9)
	104	100	**23**	36	**12**	3
Settlement loss	**7**	—	**2**	2	—	—
Special termination benefits	**3**	4	**1**	—	**—**	—
Total	**$ 114**	$ 104	**$ 26**	$ 38	**$ 12**	$ 3

We regularly evaluate opportunities to reduce risk and volatility associated with our pension and retiree medical plans. During the first quarter of 2018, we made discretionary contributions of $1.4 billion to the PepsiCo Employees Retirement Plan A (Plan A) in the United States. During the third quarter of 2018, we made discretionary contributions of $37 million to fund U.S. retiree medical plan benefits. We made discretionary contributions to our international pension plans of $17 million and $6 million for the 36 weeks ended September 8, 2018 and September 9, 2017, respectively.

Note 8 - Debt Obligations

In the 36 weeks ended September 8, 2018, $2.5 billion of senior notes matured and were paid.

As of September 8, 2018, we had no commercial paper outstanding.

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

Also in the second quarter of 2018, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 3, 2019. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to $3.75 billion, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.5 billion. We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than the anniversary of the then effective termination date. The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our $3.75 billion five-year credit agreement and our $3.75 billion 364-day credit agreement, both dated as of June 5, 2017. Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes. Subject to certain conditions, we may borrow, prepay and reborrow amounts under these agreements. As of September 8, 2018, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

Note 9 - Financial Instruments

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

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

There have been no material changes during the 36 weeks ended September 8, 2018 with respect to our risk management policies or strategies and valuation techniques used in measuring the fair value of the financial assets or liabilities disclosed in Note 9 to our consolidated financial statements in our 2017 Form 10-K.

The notional amounts of our financial instruments used to hedge the above risks as of September 8, 2018 and December 30, 2017 are as follows:

	Notional Amounts[a]	
	9/8/2018	12/30/2017
Commodity	**$ 0.9**	$ 0.9
Foreign exchange	**$ 1.9**	$ 1.6
Interest rate	**$ 11.9**	$ 14.2
Net investment	**$ 1.4**	$ 1.5

(a) In billions.

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

As of September 8, 2018, approximately 36% of total debt, after the impact of the related interest rate derivative instruments, was subject to variable rates, compared to approximately 43% as of December 30, 2017.

Fair Value Measurements

The fair values of our financial assets and liabilities as of September 8, 2018 and December 30, 2017 are categorized as follows:

	Fair Value Hierarchy Levels	9/8/2018 Assets[(a)]	9/8/2018 Liabilities[(a)]	12/30/2017 Assets[(a)]	12/30/2017 Liabilities[(a)]
Available-for-sale debt securities [(b)]	2	$ 8,218	$ —	$ 14,510	$ —
Short-term investments [(c)]	1	$ 234	$ —	$ 228	$ —
Prepaid forward contracts [(d)]	2	$ 22	$ —	$ 27	$ —
Deferred compensation [(e)]	2	$ —	$ 489	$ —	$ 503
Derivatives designated as fair value hedging instruments:					
Interest rate [(f)]	2	$ —	$ 224	$ 24	$ 130
Derivatives designated as cash flow hedging instruments:					
Foreign exchange [(g)]	2	$ 46	$ 10	$ 15	$ 31
Interest rate [(g)]	2	—	242	—	213
Commodity [(h)]	1	—	1	—	2
Commodity [(i)]	2	2	—	2	—
		$ 48	$ 253	$ 17	$ 246
Derivatives not designated as hedging instruments:					
Foreign exchange [(g)]	2	$ 2	$ 6	$ 10	$ 3
Commodity [(h)]	1	1	16	—	19
Commodity [(i)]	2	47	32	85	12
		$ 50	$ 54	$ 95	$ 34
Total derivatives at fair value [(j)]		$ 98	$ 531	$ 136	$ 410
Total		$ 8,572	$ 1,020	$ 14,901	$ 913

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

(b) Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data. As of September 8, 2018, $6.5 billion and $1.7 billion of debt securities were classified as cash equivalents and short-term investments, respectively. As of December 30, 2017, $5.8 billion and $8.7 billion of debt securities were classified as cash equivalents and short-term investments, respectively. Unrealized gains and losses on our investments in debt securities as of September 8, 2018 and December 30, 2017 were not material. All of our available-for-sale debt securities have maturities of one year or less.

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

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

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

(f) Based on LIBOR forward rates.

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

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

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

(j) Derivative assets and liabilities are presented on a gross basis on our balance sheet. Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on the balance sheet as of September 8, 2018 and December 30, 2017 were not material. Collateral received or posted against our asset or liability positions was not material. Collateral posted is classified as restricted cash. See Note 13 for further information.

The carrying amounts of our cash and cash equivalents and short-term investments approximate fair value due to their short-term maturity. The fair value of our debt obligations as of September 8, 2018 and December 30, 2017 was $35 billion and $41 billion, respectively, based upon prices of similar instruments in the marketplace, which are considered Level 2 inputs.

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

	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)]	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017	**9/8/2018**	9/9/2017
Foreign exchange	**$ 11**	$ 16	**$ (10)**	$ 47	**$ (10)**	$ 5
Interest rate	**(20)**	(18)	**20**	(102)	**17**	(102)
Commodity	**20**	(32)	**1**	2	**—**	—
Net investment	**—**	—	**3**	118	**—**	—
Total	**$ 11**	$ (34)	**$ 14**	$ 65	**$ 7**	$ (97)

	36 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)]	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017	**9/8/2018**	9/9/2017
Foreign exchange	**$ 8**	$ 4	**$ (40)**	$ 83	**$ 6**	$ (6)
Interest rate	**118**	(37)	**29**	(156)	**72**	(180)
Commodity	**17**	(12)	**(1)**	3	**2**	3
Net investment	**—**	—	**(52)**	184	**—**	—
Total	**$ 143**	$ (45)	**$ (64)**	$ 114	**$ 80**	$ (183)

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

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

Based on current market conditions, we expect to reclassify net gains of $13 million related to our cash flow hedges from accumulated other comprehensive loss into net income during the next 12 months.

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

Available-for-Sale Equity Securities

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

Note 10 - Net Income Attributable to PepsiCo per Common Share

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

	12 Weeks Ended			
	9/8/2018		9/9/2017	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 2,498**		$ 2,144	
Preferred shares:				
Redemption premium	**—**		(1)	
Net income available for PepsiCo common shareholders	**$ 2,498**	**1,414**	$ 2,143	1,425
Basic net income attributable to PepsiCo per common share	**$ 1.77**		$ 1.50	
Net income available for PepsiCo common shareholders	**$ 2,498**	**1,414**	$ 2,143	1,425
Dilutive securities:				
Stock options, RSUs, PSUs, PEPunits and Other	**—**	**10**	—	12
Employee stock ownership plan (ESOP) convertible preferred stock	**—**	**—**	1	1
Diluted	**$ 2,498**	**1,424**	$ 2,144	1,438
Diluted net income attributable to PepsiCo per common share	**$ 1.75**		$ 1.49	

	36 Weeks Ended			
	9/8/2018		9/9/2017	
	Income	**Shares[(a)]**	Income	Shares[(a)]
Net income attributable to PepsiCo	**$ 5,661**		$ 5,567	
Preferred shares:				
Redemption premium	**(2)**		(3)	
Net income available for PepsiCo common shareholders	**$ 5,659**	**1,417**	$ 5,564	1,427
Basic net income attributable to PepsiCo per common share	**$ 3.99**		$ 3.90	
Net income available for PepsiCo common shareholders	**$ 5,659**	**1,417**	$ 5,564	1,427
Dilutive securities:				
Stock options, RSUs, PSUs, PEPunits and Other	**—**	**10**	—	12
ESOP convertible preferred stock	**2**	**—**	3	1
Diluted	**$ 5,661**	**1,427**	$ 5,567	1,440
Diluted net income attributable to PepsiCo per common share	**$ 3.97**		$ 3.87	

(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		36 Weeks Ended	
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017
Out-of-the-money options [(a)]	**0.1**	—	**1.0**	0.5
Average exercise price per option	**$ 115.75**	$ —	**$ 109.63**	$ 109.69

(a) In millions.

Note 11 - Preferred Stock

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

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

Note 12 - Accumulated Other Comprehensive Loss Attributable to PepsiCo

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

	Currency Translation Adjustment	Cash Flow Hedges	Pension and Retiree Medical	Available-For-Sale Securities	Other	Accumulated Other Comprehensive Loss Attributable to PepsiCo
Balance as of December 30, 2017 [(a)]	$ (10,277)	$ 47	$ (2,804)	$ (4)	$ (19)	$ (13,057)
Other comprehensive (loss)/income before reclassifications [(b)]	288	93	(13)	(2)	—	366
Amounts reclassified from accumulated other comprehensive loss	—	(55)	43	—	—	(12)
Net other comprehensive (loss)/income	288	38	30	(2)	—	354
Tax amounts	2	(10)	(6)	—	—	(14)
Balance as of March 24, 2018 [(a)]	(9,987)	75	(2,780)	(6)	(19)	(12,717)
Other comprehensive (loss)/income before reclassifications [(c)]	(953)	(70)	28	4	—	(991)
Amounts reclassified from accumulated other comprehensive loss	—	128	46	—	—	174
Net other comprehensive (loss)/income	(953)	58	74	4	—	(817)
Tax amounts	(18)	(10)	(18)	—	—	(46)
Balance as of June 16, 2018 [(a)]	(10,958)	123	(2,724)	(2)	(19)	(13,580)
Other comprehensive (loss)/income before reclassifications [(d)]	(730)	(11)	16	2	—	(723)
Amounts reclassified from accumulated other comprehensive loss	—	7	56	—	—	63
Net other comprehensive (loss)/income	(730)	(4)	72	2	—	(660)
Tax amounts	2	3	(18)	—	—	(13)
Balance as of September 8, 2018 [(a)]	**$ (11,686)**	**$ 122**	**$ (2,670)**	**$ —**	**$ (19)**	**$ (14,253)**

(a) Pension and retiree medical amounts are net of taxes of $1,338 million as of December 30, 2017, $1,332 million as of March 24, 2018, $1,314 million as of June 16, 2018 and $1,296 million as of September 8, 2018.
(b) Currency translation adjustment primarily reflects the appreciation in the Russian ruble and Mexican peso.
(c) Currency translation adjustment primarily reflects the depreciation in the Russian ruble, Brazilian real and Mexican peso.
(d) Currency translation adjustment primarily reflects the depreciation in the Russian ruble, Turkish lira and Pound sterling.

	Currency Translation Adjustment	Cash Flow Hedges	Pension and Retiree Medical	Available-For-Sale Securities	Other	Accumulated Other Comprehensive Loss Attributable to PepsiCo
Balance as of December 31, 2016 [a]	$ (11,386)	$ 83	$ (2,645)	$ 64	$ (35)	$ (13,919)
Other comprehensive (loss)/income before reclassifications [b]	513	(3)	(14)	9	—	505
Amounts reclassified from accumulated other comprehensive loss	—	(33)	28	—	—	(5)
Net other comprehensive (loss)/income	513	(36)	14	9	—	500
Tax amounts	4	9	(5)	(5)	—	3
Balance as of March 25, 2017 [a]	(10,869)	56	(2,636)	68	(35)	(13,416)
Other comprehensive (loss)/income before reclassifications [c]	297	20	(27)	18	—	308
Amounts reclassified from accumulated other comprehensive loss [d]	—	(53)	32	(99)	—	(120)
Net other comprehensive (loss)/income	297	(33)	5	(81)	—	188
Tax amounts	21	9	(3)	11	16	54
Balance as of June 17, 2017 [a]	(10,551)	32	(2,634)	(2)	(19)	(13,174)
Other comprehensive (loss)/income before reclassifications [e]	277	53	(20)	2	—	312
Amounts reclassified from accumulated other comprehensive loss	—	(97)	35	—	—	(62)
Net other comprehensive (loss)/income	277	(44)	15	2	—	250
Tax amounts	43	12	(6)	—	—	49
Balance as of September 9, 2017 [a]	**$ (10,231)**	**$ —**	**$ (2,625)**	**$ —**	**$ (19)**	**$ (12,875)**

(a) Pension and retiree medical amounts are net of taxes of $1,280 million as of December 31, 2016, $1,275 million as of March 25, 2017, $1,272 million as of June 17, 2017 and $1,266 million as of September 9, 2017.
(b) Currency translation adjustment primarily reflects the appreciation in the Russian ruble, Egyptian pound and Australian dollar.
(c) Currency translation adjustment primarily reflects the appreciation in the euro and Russian ruble.
(d) Available-for-sale securities reflect a reclassification associated with the sale of our minority stake in Britvic.
(e) Currency translation adjustment primarily reflects the appreciation in the Canadian dollar and euro.

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

	12 Weeks Ended		36 Weeks Ended		Affected Line Item in the Income Statement
	9/8/2018	9/9/2017	**9/8/2018**	9/9/2017	
Cash flow hedges:					
Foreign exchange contracts	**$ (1)**	$ —	**$ (1)**	$ —	Net revenue
Foreign exchange contracts	**(9)**	5	**7**	(6)	Cost of sales
Interest rate derivatives	**17**	(102)	**72**	(180)	Interest expense
Commodity contracts	**1**	—	**4**	4	Cost of sales
Commodity contracts	**(1)**	—	**(2)**	(1)	Selling, general and administrative expenses
Net losses/(gains) before tax	**7**	(97)	**80**	(183)	
Tax amounts	**(3)**	37	**(20)**	67	
Net losses/(gains) after tax	**$ 4**	$ (60)	**$ 60**	$ (116)	
Pension and retiree medical items:					
Amortization of prior service credits	**$ (4)**	$ (5)	**$ (12)**	$ (16)	Other pension and retiree medical benefits income
Amortization of net losses	**51**	38	**148**	109	Other pension and retiree medical benefits income
Settlement losses	**9**	2	**9**	2	Other pension and retiree medical benefits income
Net losses before tax	**56**	35	**145**	95	
Tax amounts	**(12)**	(10)	**(32)**	(28)	
Net losses after tax	**$ 44**	$ 25	**$ 113**	$ 67	
Available-for-sale securities:					
Sale of Britvic securities	**$ —**	$ —	**$ —**	$ (99)	Selling, general and administrative expenses
Tax amount	**—**	—	**—**	10	
Net gain after tax	**$ —**	$ —	**$ —**	$ (89)	
Total net losses/(gains) reclassified, net of tax	**$ 48**	$ (35)	**$ 173**	$ (138)	

Note 13 - Restricted Cash

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

	9/8/2018	12/30/2017
Cash and cash equivalents	**$ 11,991**	$ 10,610
Restricted cash included in other assets	**52**	47
Total cash and cash equivalents and restricted cash	**$ 12,043**	$ 10,657

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

Note 14 - Acquisitions & Divestitures

Acquisition of SodaStream International Ltd. (SodaStream)

On August 20, 2018, we entered into an agreement under which we will acquire all of the outstanding shares of SodaStream for $144.00 per share in cash, in a transaction valued at approximately $3.2 billion.

The acquisition has been unanimously approved by the Boards of Directors of both companies. The transaction is subject to a SodaStream shareholder vote, certain regulatory approvals and other customary conditions, and is currently expected to close by January 2019.

Refranchising in Thailand

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

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

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

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

FINANCIAL REVIEW

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

Our Critical Accounting Policies

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

Revenue Recognition and Total Marketplace Spending

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

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

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period's actual gross revenue or volume, as applicable, to our forecasted annual gross revenue or volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized beginning in the interim period that they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for certain advertising and other marketing activities.

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

Income Taxes

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

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional transition tax expense of $76 million ($0.05 per share) for the 12 weeks ended September 8, 2018 and $854 million ($0.60 per share) for the 36 weeks ended September 8, 2018. These amounts were in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017. See Note 5 to our condensed consolidated financial statements in this Form 10-Q and Note 5 to our consolidated financial statements in our 2017 Form 10-K for further information on our provisional net tax expense.

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

Our Business Risks

This Quarterly Report on Form 10-Q (Form 10-Q) contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as "aim," "anticipate," "believe," "drive," "estimate," "expect," "expressed confidence," "forecast," "future," "goal," "guidance," "intend," "may," "objective," "outlook," "plan," "position," "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; uncertain or unfavorable economic conditions in the countries in which PepsiCo operates; the ability to protect information systems against, or effectively respond to, a cybersecurity incident or other disruption; increased costs, disruption of supply or shortages of raw materials and other supplies; business disruptions; product contamination or tampering or issues or concerns with respect to product quality, safety and integrity; damage to PepsiCo's reputation or brand image; failure to successfully complete or integrate acquisitions and joint ventures into PepsiCo's existing operations or to complete or manage divestitures or refranchisings; changes in estimates and underlying assumptions regarding future performance that could result in an impairment charge; increase in income tax rates, changes in income tax laws or disagreements with tax authorities; failure to realize anticipated benefits from PepsiCo's productivity initiatives or global operating model; PepsiCo's ability to recruit, hire or retain key employees or a highly skilled and diverse workforce; loss of any key customer or disruption to the retail landscape, including rapid growth in hard discounters and the e-commerce channel; any downgrade or potential downgrade of PepsiCo's credit ratings; PepsiCo's ability to implement shared services or utilize information technology systems and networks *effectively; fluctuations or other changes in exchange rates; climate change or water scarcity, or legal, regulatory or market measures to address climate change or water scarcity; failure to successfully negotiate collective bargaining agreements, or strikes or work stoppages; infringement of intellectual property rights; potential liabilities and costs from litigation, claims, legal or regulatory proceedings, inquiries or investigations; and other factors that may adversely affect the price of PepsiCo's publicly traded securities and financial performance including those described in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our 2017 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" of this Form 10-Q. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.*

In the 12 weeks ended September 8, 2018, our financial results outside of North America reflect the months of June, July and August. In the 36 weeks ended September 8, 2018, our financial results outside of North America reflect the months of January through August. In the 36 weeks ended September 8, 2018, our operations outside of the United States generated 42% of our consolidated net revenue, with Mexico, Russia, Canada, the United Kingdom and Brazil comprising approximately 19% of our consolidated net revenue. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. In the 12 weeks ended September 8, 2018, unfavorable foreign exchange negatively impacted net revenue growth by 2 percentage points, primarily due to declines in the Turkish lira, Mexican peso, Brazilian real and Russian ruble. In the 36 weeks ended September 8, 2018, unfavorable foreign exchange had a net nominal impact on net revenue growth due to declines in the Turkish lira and Brazilian real, offset by appreciation in the euro. Currency declines against the U.S. dollar which are not offset could adversely impact our future financial results.

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

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

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

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

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

See Note 9 to our condensed consolidated financial statements in this Form 10-Q for the fair values of our financial instruments as of September 8, 2018 and December 30, 2017 and Note 9 to our consolidated financial statements in our 2017 Form 10-K for a discussion of these items. Cautionary statements included above and in "Item 1A. Risk Factors" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our 2017 Form 10-K, should be considered when evaluating our trends and future results.

Results of Operations – Consolidated Review

Consolidated Results

Volume

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products. For the 12 and 36 weeks ended September 8, 2018, total servings increased 3% and 2%, respectively.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by our Company-owned and franchise-owned bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report the majority of our international beverage volume on a monthly basis. The 12 weeks ended September 8, 2018 include beverage volume outside of North America for the months of June, July and August. The 36 weeks ended September 8, 2018 include beverage volume outside of North America for the months of January through August. 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.

Net Revenue and Operating Profit

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**Change**	**9/8/2018**	9/9/2017	**Change**
Net revenue	**$ 16,485**	$ 16,240	**1.5 %**	**$ 45,137**	$ 43,999	**3 %**
Operating profit	**$ 2,844**	$ 2,924 [(a)]	**(3)%**	**$ 7,679**	$ 7,706 [(a)]	**— %**
Operating margin	**17.3%**	18.0% [(a)]	**(0.7)**	**17.0%**	17.5% [(a)]	**(0.5)**

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

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

12 Weeks

Operating profit decreased 3% and operating margin decreased 0.7 percentage points. The operating profit decrease was driven by certain operating cost increases, higher commodity costs, higher advertising and marketing expenses and unfavorable foreign exchange translation. Higher commodity costs negatively impacted operating profit performance by 6 percentage points, attributable to inflation in the NAB, Latin America, ESSA, AMENA and QFNA segments. These impacts were partially offset by net revenue growth and planned cost reductions across a number of expense categories. Corporate unallocated expenses (see Note 1 to our condensed consolidated financial statements) increased 32%, primarily due to mark-to-market net impact associated with commodity derivatives (see "Items Affecting Comparability"). Items affecting comparability, primarily mark-to-market net impact included in corporate unallocated expenses, negatively impacted operating profit performance by 3 percentage points.

36 Weeks

Operating profit decreased slightly and operating margin decreased 0.5 percentage points. The operating profit decrease was driven by certain operating cost increases and higher advertising and marketing expenses, as well as higher commodity costs across all divisions which negatively impacted operating profit performance by 5 percentage points. Additionally, a prior-year gain associated with the sale of our minority stake in Britvic and a current-year bonus extended to certain U.S. employees in connection with the TCJ Act each negatively impacted operating profit performance by 1 percentage point. These impacts were partially offset by planned cost reductions across a number of expense categories and net revenue growth, as well as a gain on refranchising our beverage business in Thailand in 2018 which positively contributed 2 percentage points to operating profit performance. Corporate unallocated expenses (see Note 1 to our condensed consolidated financial statements) increased 10%, primarily due to mark-to-market net impact associated with commodity derivatives (see "Items Affecting Comparability") and higher foreign exchange transaction losses. Items affecting comparability, primarily mark-to-market net impact included in corporate unallocated expenses, negatively impacted operating profit performance by 1 percentage point.

Other Consolidated Results

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**Change**	**9/8/2018**	9/9/2017	**Change**
Other pension and retiree medical benefits income	**$ 74**	$ 69 [a]	**$ 5**	**$ 231**	$ 210 [a]	**$ 21**
Net interest expense	**$ (221)**	$ (217)	**$ (4)**	**$ (656)**	$ (645)	**$ (11)**
Tax rate [b]	**7.0%**	22.3%		**21.5%**	22.9%	
Net income attributable to PepsiCo	**$ 2,498**	$ 2,144	**16%**	**$ 5,661**	$ 5,567	**2%**
Net income attributable to PepsiCo per common share – diluted	**$ 1.75**	$ 1.49	**18%**	**$ 3.97**	$ 3.87	**3%**
Mark-to-market net impact	**0.02**	(0.01)		**0.03**	0.01	
Restructuring and impairment charges	**0.02**	—		**0.05**	0.05	
Provisional net tax expense related to the TCJ Act [b]	**0.05**	—		**0.60**	—	
Tax benefits	**(0.26)**	—		**(0.48)**	—	
Net income attributable to PepsiCo per common share – diluted, excluding above items [c]	**$ 1.59** [d]	$ 1.48	**7%**	**$ 4.17**	$ 3.92 [d]	**6%**
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 [c]			**9%**			**6%**

(a) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.
(b) See Note 5 to our condensed consolidated financial statements.
(c) See "Non-GAAP Measures."
(d) Does not sum due to rounding.

12 Weeks

Other pension and retiree medical benefits income increased $5 million, reflecting the impact of the $1.4 billion discretionary pension contributions to Plan A in the United States, as well as the recognition of net asset gains, partially offset by higher amortization of net losses.

Net interest expense increased $4 million, reflecting higher interest expense due to higher interest rates on average debt balances, partially offset by higher interest income due to higher interest rates on average cash balances, as well as gains on the market value of investments used to economically hedge a portion of our deferred compensation liability.

The reported tax rate decreased 15.4 percentage points, reflecting the favorable conclusion of certain international tax audits, which reduced the reported tax rate by 13 percentage points, as well as a lower U.S. corporate income tax rate related to the enactment of the TCJ Act. These impacts were partially offset by the provisional net tax expense related to the TCJ Act, which increased the reported tax rate by 3 percentage points. See Note 5 to our condensed consolidated financial statements for further information.

Net income attributable to PepsiCo increased 16% and net income attributable to PepsiCo per common share increased 18%. Items affecting comparability (see "Items Affecting Comparability") positively contributed 10 percentage points to both net income attributable to PepsiCo growth and net income attributable to PepsiCo per common share growth.

36 Weeks

Other pension and retiree medical benefits income increased $21 million, reflecting the impact of the $1.4 billion discretionary pension contributions to Plan A in the United States, as well as the recognition of net asset gains, partially offset by higher amortization of net losses.

Net interest expense increased $11 million, reflecting higher interest expense due to higher interest rates on average debt balances, as well as lower gains on the market value of investments used to economically hedge a portion of our deferred compensation liability. These impacts were partially offset by higher interest income due to higher interest rates on average cash balances.

The reported tax rate decreased 1.4 percentage points, reflecting a lower U.S. corporate income tax rate related to the enactment of the TCJ Act, as well as the favorable conclusion of certain international tax audits and the favorable resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013. The conclusion of certain international tax audits and the resolution with the IRS, collectively, reduced the reported tax rate by 9 percentage points. These impacts were partially offset by the provisional net tax expense related to the TCJ Act, which increased the reported tax rate by 12 percentage points. See Note 5 to our condensed consolidated financial statements for further information.

Net income attributable to PepsiCo increased 2% and net income attributable to PepsiCo per common share increased 3%. Items affecting comparability (see "Items Affecting Comparability") negatively impacted both net income attributable to PepsiCo growth and net income attributable to PepsiCo per common share growth by 4 percentage points.

Non-GAAP Measures

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

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

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

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

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

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

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

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

Organic Revenue

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

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

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

Free Cash Flow

We define free cash flow as net cash provided by operating activities less capital spending, plus sales of property, plant and equipment. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Free cash flow is used by us primarily for financing activities, including debt repayments, dividends and share repurchases. Free cash flow is not a measure of cash available for discretionary expenditures since we have certain non-discretionary obligations such as debt service that are not deducted from the measure. 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 9/8/2018						
	Cost of sales	**Gross profit**	**Selling, general and administrative expenses**	**Operating profit**	**Provision for income taxes(a)**	**Net income attributable to noncontrolling interests**	**Net income attributable to PepsiCo**
Reported, GAAP Measure	$ 7,527	$ 8,958	$ 6,114	$ 2,844	$ 188	$ 11	$ 2,498
Items Affecting Comparability							
Mark-to-market net impact	(31)	31	2	29	6	—	23
Restructuring and impairment charges	—	—	(35)	35	3	1	31
Provisional net tax expense related to the TCJ Act	—	—	—	—	(76)	—	76
Tax benefit	—	—	—	—	364	—	(364)
Core, Non-GAAP Measure	**$ 7,496**	**$ 8,989**	**$ 6,081**	**$ 2,908**	**$ 485**	**$ 12**	**$ 2,264**

	12 Weeks Ended 9/9/2017(b)						
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Other pension and retiree medical benefits income	Provision for income taxes(a)	Net income attributable to PepsiCo
Reported, GAAP Measure	$ 7,368	$ 8,872	$ 5,948	$ 2,924	$ 69	$ 620	$ 2,144
Items Affecting Comparability							
Mark-to-market net impact	1	(1)	26	(27)	—	(10)	(17)
Restructuring and impairment charges	—	—	(6)	6	2	1	7
Core, Non-GAAP Measure	$ 7,369	$ 8,871	$ 5,968	$ 2,903	$ 71	$ 611	$ 2,134

	36 Weeks Ended 9/8/2018							
	Cost of sales	**Gross profit**	**Selling, general and administrative expenses**	**Operating profit**	**Other pension and retiree medical benefits income**	**Provision for income taxes(a)**	**Net income attributable to noncontrolling interests**	**Net income attributable to PepsiCo**
Reported, GAAP Measure	$ 20,445	$ 24,692	$ 17,013	$ 7,679	$ 231	$ 1,562	$ 31	$ 5,661
Items Affecting Comparability								
Mark-to-market net impact	(51)	51	(6)	57	—	14	—	43
Restructuring and impairment charges	—	—	(75)	75	4	12	1	66
Provisional net tax expense related to the TCJ Act	—	—	—	—	—	(854)	—	854
Tax benefits	—	—	—	—	—	678	—	(678)
Core, Non-GAAP Measure	$ 20,394	$ 24,743	$ 16,932	$ 7,811	$ 235	$ 1,412	$ 32	$ 5,946

	36 Weeks Ended 9/7/2017[b]						
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Other pension and retiree medical benefits income	Provision for income taxes[a]	Net income attributable to PepsiCo
Reported, GAAP Measure	$ 19,717	$ 24,282	$ 16,576	$ 7,706	$ 210	$ 1,668	$ 5,567
Items Affecting Comparability							
Mark-to-market net impact	7	(7)	(20)	13	—	2	11
Restructuring and impairment charges	—	—	(65)	65	4	4	65
Core, Non-GAAP Measure	$ 19,724	$ 24,275	$ 16,491	$ 7,784	$ 214	$ 1,674	$ 5,643

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

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

Mark-to-Market Net Impact

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

Restructuring and Impairment Charges

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

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

	Charges	Cash Expenditures
2013	$ 53	$ —
2014	357	175 [b]
2015	169	165 [b]
2016	160	95
2017	295	113
First quarter 2018	12	45 [b]
Second quarter 2018	32	88 [b]
Third quarter 2018	35	55 [b]
	1,113	736
Fourth quarter 2018 (expected)	168	134
2019 (expected)	24	115
	$ 1,305 [a]	**$ 985**

(a) This total pre-tax charge is expected to consist of approximately $760 million of severance and other employee-related costs, approximately$185 million for asset impairments (all non-cash) resulting from plant closures and related actions, and approximately $360 million for other costs associated with the implementation of our initiatives, including contract termination costs. This charge is expected to impact reportable segments and Corporate approximately as follows: FLNA 14%, QFNA 3%, NAB 30%, Latin America 15%, ESSA 20%, AMENA 6% and Corporate 12%.

(b) In the 12 weeks ended March 24, 2018, June 16, 2018 and September 8, 2018, cash expenditures included $6 million, $1 million and $2 million, respectively, reported on our Condensed Consolidated Statement of Cash Flows in pension and retiree medical plan contributions. In 2015 and 2014, cash expenditures included $2 million and $10 million, respectively, reported on our Consolidated Statement of Cash Flows in pension and retiree medical plan contributions.

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

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

Provisional Net Tax Expense Related to the TCJ Act

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. As a result of the enactment of the TCJ Act, we recognized a provisional transition tax expense of $76 million ($0.05 per share) for the 12 weeks ended September 8, 2018 and $854 million ($0.60 per share) for the 36 weeks ended September 8, 2018. These amounts were in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017.

See Note 5 to our condensed consolidated financial statements.

Tax Benefits

For the 12 weeks ended September 8, 2018, we recognized a non-cash tax benefit of $364 million ($0.26 per share) resulting from the conclusion of certain international tax audits. During the second quarter of 2018, we reached an agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013. The conclusion of certain international tax audits and the resolution with the IRS collectively resulted in a non-cash tax benefit totaling $678 million ($0.48 per share) for the 36 weeks ended September 8, 2018.

See Note 5 to our condensed consolidated financial statements.

Results of Operations – Division Review

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

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

Net Revenue

12 Weeks Ended	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
9/8/2018	**$ 3,891**	**$ 567**	**$ 5,456**	**$ 1,868**	**$ 3,161**	**$ 1,542**	**$ 16,485**
9/9/2017	$ 3,792	$ 578	$ 5,332	$ 1,873	$ 3,098	$ 1,567	$ 16,240
% Impact of:							
Volume [(a)]	1 %	1 %	1 %	2 %	5 %	5 %	2 %
Effective net pricing [(b)]	2	(2)	2	8	2	4	3
Foreign exchange translation	—	—	—	(10)	(5)	(2)	(2)
Acquisitions and divestitures	—	—	—	—	—	(9)	(1)
Sales and certain other taxes	—	—	—	—	(1)	—	—
***Reported Growth* [(c)]**	***3 %***	***(2)%***	***2 %***	***— %***	***2 %***	***(2)%***	***1.5 %***

36 Weeks Ended	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
9/8/2018	**$ 11,345**	**$ 1,695**	**$ 15,064**	**$ 4,935**	**$ 7,945**	**$ 4,153**	**$ 45,137**
9/9/2017	$ 10,969	$ 1,729	$ 15,034	$ 4,773	$ 7,355	$ 4,139	$ 43,999
% Impact of:							
Volume [(a)]	1%	(0.5)%	(1)%	0.5 %	5.5 %	4 %	1 %
Effective net pricing [(b)]	2	(2)	1	7	2	3	2
Foreign exchange translation	—	—	—	(4)	1	1	—
Acquisitions and divestitures	—	—	—	—	—	(7)	(1)
Sales and certain other taxes	—	—	—	—	(0.5)	—	—
***Reported Growth* [(c)]**	***3%***	***(2)%***	***— %***	***3 %***	***8 %***	***— %***	***3 %***

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

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

(c) Amounts may not sum due to rounding.

Organic Revenue Growth

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

12 Weeks Ended 9/8/2018	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Reported Growth	**3 %**	**(2)%**	**2 %**	**— %**	**2%**	**(2)%**	**1.5%**
% Impact of:							
Foreign exchange translation	—	—	—	10	5	2	2
Acquisitions and divestitures	—	—	—	—	—	9	1
Sales and certain other taxes	—	—	—	—	1	—	—
***Organic Growth* [(a)]**	***3 %***	***(2)%***	***2.5 %***	***10 %***	***8%***	***9 %***	***5%***

36 Weeks Ended 9/8/2018	FLNA	QFNA	NAB	Latin America	ESSA	AMENA	Total
Reported Growth	**3 %**	**(2)%**	**— %**	**3%**	**8 %**	**— %**	**3%**
% Impact of:							
Foreign exchange translation	—	—	—	4	(1)	(1)	—
Acquisitions and divestitures	—	—	—	—	—	7	1
Sales and certain other taxes	—	—	—	—	0.5	—	—
***Organic Growth* [(a)]**	***3 %***	***(2)%***	***— %***	***7%***	***7 %***	***7 %***	***3%***

(a) Amounts may not sum due to rounding.

Frito-Lay North America

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**% Change**	**9/8/2018**	9/9/2017	**% Change**
Net revenue	**$ 3,891**	$ 3,792	**3**	**$ 11,345**	$ 10,969	**3**
Impact of foreign exchange translation			—			—
Impact of acquisitions			—			—
Organic revenue growth [a]			**3**			**3**
Operating profit	**$ 1,241**	$ 1,199 [b]	**3.5**	**$ 3,491**	$ 3,392 [b]	**3**
Restructuring and impairment charges [c]	**—**	1		**4**	5	
Operating profit excluding above item [a]	**$ 1,241**	$ 1,200	**3**	**$ 3,495**	$ 3,397	**3**
Impact of foreign exchange translation			—			—
Operating profit growth excluding above item, on a constant currency basis [a]			**4** [d]			**3**

(a) See “Non-GAAP Measures.”
(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

12 Weeks

Net revenue grew 3% and volume grew 1%. The net revenue growth was primarily driven by effective net pricing and the volume growth. The volume growth reflects high-single-digit growth in variety packs and trademark Ruffles, partially offset by a double-digit decline in Santitas and a low-single-digit decline in trademark Lay’s.

Operating profit increased 3.5%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases.

36 Weeks

Net revenue grew 3% and volume grew 2%. The net revenue growth was primarily driven by effective net pricing and the volume growth. The volume growth reflects high-single-digit growth in variety packs and mid-single-digit growth in trademark Doritos, partially offset by a double-digit decline in Santitas.

Operating profit increased 3%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories. These impacts were partially offset by certain operating cost increases, as well as higher commodity costs, primarily potatoes and motor fuel, which reduced operating profit growth by 2 percentage points. Additionally, a bonus extended to certain U.S. employees in connection with the TCJ Act reduced operating profit growth by 1 percentage point.

Quaker Foods North America

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**% Change**	**9/8/2018**	9/9/2017	**% Change**
Net revenue	**$ 567**	$ 578	**(2)**	**$ 1,695**	$ 1,729	**(2)**
Impact of foreign exchange translation			**—**			**—**
Organic revenue growth [(a)]			**(2)**			**(2)**
Operating profit	**$ 143**	$ 145 [(b)]	**(1.5)**	**$ 443**	$ 453 [(b)]	**(2)**
Restructuring and impairment charges [(c)]	**—**	—		**—**	—	
Operating profit excluding above item [(a)]	**$ 143**	$ 145	**(1)**	**$ 443**	$ 453	**(2)**
Impact of foreign exchange translation			**—**			**—**
Operating profit growth excluding above item, on a constant currency basis [(a)]			**(1)**			**(2)**

(a) See “Non-GAAP Measures.”
(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.
(c) See “Items Affecting Comparability.”

12 Weeks

Net revenue declined 2% and volume grew 1%. The net revenue performance reflects unfavorable net pricing and mix, partially offset by the volume growth. The volume growth was driven by mid-single-digit growth in oatmeal and Aunt Jemima syrup and mix, partially offset by a double-digit decline in trademark Gamesa.

Operating profit decreased 1.5%, reflecting certain operating cost increases and unfavorable net pricing and mix, as well as higher commodity costs which negatively impacted operating profit performance by 2.5 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories, lower advertising and marketing expenses and the volume growth. Additionally, insurance settlement recoveries related to the 2017 earthquake in Mexico positively contributed 2 percentage points to operating profit performance.

36 Weeks

Net revenue declined 2% and volume declined 0.5%. The net revenue performance reflects unfavorable net pricing and mix and the volume decline. The volume decline was driven by a double-digit decline in trademark Gamesa and a low-single-digit decline in ready-to-eat cereals, partially offset by mid-single-digit growth in oatmeal.

Operating profit decreased 2%, reflecting the net revenue performance and certain operating cost increases, as well as higher commodity costs which negatively impacted operating profit performance by 3 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories and lower advertising and marketing expenses. Additionally, insurance settlement recoveries related to the 2017 earthquake in Mexico positively contributed 1 percentage point to operating profit performance.

North America Beverages

	12 Weeks Ended		% Change	36 Weeks Ended		% Change
	9/8/2018	9/9/2017		**9/8/2018**	9/9/2017	
Net revenue	**$ 5,456**	$ 5,332	**2**	**$ 15,064**	$ 15,034	**—**
Impact of foreign exchange translation			—			—
Impact of acquisitions and divestitures			—			—
Impact of sales and certain other taxes [(a)]			—			—
Organic revenue growth [(a)]			**2.5** [(d)]			**—**
Operating profit	**$ 703**	$ 813 [(b)]	**(14)**	**$ 1,838**	$ 2,204 [(b)]	**(17)**
Restructuring and impairment charges [(c)]	**12**	(3)		**23**	(2)	
Operating profit excluding above item [(a)]	**$ 715**	$ 810	**(12)**	**$ 1,861**	$ 2,202	**(15)**
Impact of foreign exchange translation			—			—
Operating profit growth excluding above item, on a constant currency basis [(a)]			**(11)** [(d)]			**(16)** [(d)]

(a) See “Non-GAAP Measures.”
(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

12 Weeks

Net revenue grew 2% driven by effective net pricing and volume growth. Volume increased 1%, driven by a 4% increase in non-carbonated beverage volume, partially offset by a 1.5% decline in carbonated soft drink (CSD) volume. The non-carbonated beverage volume increase primarily reflected mid-single-digit increases in Gatorade sports drinks and in our overall water portfolio.

Operating profit decreased 14%, reflecting certain operating cost increases, including increased transportation costs, higher commodity costs which negatively impacted operating profit performance by 9 percentage points and higher advertising and marketing expenses. These impacts were partially offset by the net revenue growth and planned cost reductions across a number of expense categories. A current-year gain associated with a sale of an asset positively contributed 4 percentage points to operating profit performance and was offset by a gain associated with a sale of an asset in the prior year which negatively impacted operating profit performance by 3 percentage points.

36 Weeks

Net revenue was even with the prior year, primarily reflecting effective net pricing offset by a decline in volume. Volume decreased 1%, driven by a 3% decline in CSD volume, partially offset by a 2% increase in non-carbonated beverage volume. The non-carbonated beverage volume increase primarily reflected a mid-single-digit increase in our overall water portfolio and a low-single-digit increase in Gatorade sports drinks.

Operating profit decreased 17%, reflecting certain operating cost increases, including increased transportation costs, as well as higher commodity costs which negatively impacted operating profit performance by 7 percentage points. These impacts were partially offset by planned cost reductions across a number of expense categories. Current-year gains associated with sales of assets positively contributed 3 percentage points to operating profit performance and were offset by a gain associated with the sale of an asset in the prior year which negatively impacted operating profit performance by 1 percentage point. A bonus extended to certain U.S. employees in connection with the TCJ Act negatively impacted operating profit performance by 2 percentage points.

Latin America

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**% Change**	**9/8/2018**	9/9/2017	**% Change**
Net revenue	**$ 1,868**	$ 1,873	**—**	**$ 4,935**	$ 4,773	**3**
Impact of foreign exchange translation			**10**			**4**
Organic revenue growth [a]			**10**			**7**
Operating profit	**$ 284**	$ 284 [b]	**—**	**$ 742**	$ 645 [b]	**15**
Restructuring and impairment charges [c]	**4**	(2)		**16**	47	
Operating profit excluding above item [a]	**$ 288**	$ 282	**3**	**$ 758**	$ 692	**10**
Impact of foreign exchange translation			**6**			**—**
Operating profit growth excluding above item, on a constant currency basis [a]			**9**			**10**

(a) See “Non-GAAP Measures.”
(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.
(c) See “Items Affecting Comparability.”

12 Weeks

Net revenue was even with the prior year, reflecting effective net pricing and volume growth offset by unfavorable foreign exchange, which negatively impacted net revenue performance by 10 percentage points.

Snacks volume grew 3%, reflecting high-single-digit growth in Brazil and low-single-digit growth in Mexico.

Beverage volume grew 0.5%, reflecting double-digit growth in Colombia, high-single-digit growth in Guatemala and low-single-digit growth in Honduras, partially offset by low-single-digit declines in Mexico and Argentina, and a slight decline in Brazil.

Operating profit increased slightly, reflecting planned cost reductions across a number of expense categories, the effective net pricing and the volume growth, as well as insurance settlement recoveries related to the 2017 earthquake in Mexico which contributed 5 percentage points to operating profit growth. These impacts were offset by certain operating cost increases and higher advertising and marketing expenses, as well as higher commodity costs which reduced operating profit growth by 15 percentage points. Unfavorable foreign exchange translation reduced operating profit growth by 6 percentage points.

36 Weeks

Net revenue grew 3%, reflecting effective net pricing and net volume growth, partially offset by unfavorable foreign exchange, which reduced net revenue growth by 4 percentage points.

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

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

Operating profit increased 15%, reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as insurance settlement recoveries related to the 2017 earthquake in Mexico which contributed 5 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases and higher advertising and marketing expenses, as well as higher commodity costs which reduced operating profit growth by 11 percentage points. Lower restructuring and impairment charges contributed 6 percentage points to operating profit growth.

Europe Sub-Saharan Africa

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**% Change**	**9/8/2018**	9/9/2017	**% Change**
Net revenue	**$ 3,161**	$ 3,098	**2**	**$ 7,945**	$ 7,355	**8**
Impact of foreign exchange translation			**5**			**(1)**
Impact of sales and certain other taxes [a]			**1**			**0.5**
Organic revenue growth [a]			**8**			**7** [d]
Operating profit	**$ 439**	$ 427 [b]	**3**	**$ 995**	$ 1,015 [b]	**(2)**
Restructuring and impairment charges [c]	**17**	12		**25**	19	
Operating profit excluding above item [a]	**$ 456**	$ 439	**4**	**$ 1,020**	$ 1,034	**(1)**
Impact of foreign exchange translation			**5**			**(1)**
Operating profit growth excluding above item, on a constant currency basis [a]			**9**			**(2)**

(a) See “Non-GAAP Measures.”
(b) Reflects the retrospective adoption of guidance requiring the presentation of non-service cost components of net periodic benefit cost below operating profit. See Note 2 to our condensed consolidated financial statements for additional information.
(c) See “Items Affecting Comparability.”
(d) Does not sum due to rounding.

12 Weeks

Net revenue increased 2%, reflecting volume growth and effective net pricing, partially offset by unfavorable foreign exchange, which reduced net revenue growth by 5 percentage points.

Snacks volume grew 5%, reflecting high-single-digit growth in Russia and the Netherlands, double-digit growth in Poland and mid-single-digit growth in Turkey. Additionally, the United Kingdom, Spain and France experienced low-single-digit growth and South Africa experienced mid-single-digit growth.

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

Operating profit increased 3%, reflecting the net revenue growth and planned cost reductions across a number of expense categories. These impacts were partially offset by certain operating cost increases and higher advertising and marketing expenses, as well as higher commodity costs which reduced operating profit growth by 7 percentage points. Unfavorable foreign exchange translation reduced operating profit growth by 5 percentage points.

36 Weeks

Net revenue increased 8%, reflecting volume growth and effective net pricing.

Snacks volume grew 5%, reflecting mid-single-digit growth in Russia and Turkey and high-single-digit growth in France. Additionally, the United Kingdom grew slightly, South Africa and Spain experienced low-single-digit growth and the Netherlands experienced mid-single-digit growth.

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

Operating profit decreased 2%, reflecting certain operating cost increases and higher advertising and marketing expenses. Additionally, a prior-year gain associated with the sale of our minority stake in Britvic and higher commodity costs negatively impacted operating profit performance by 9 percentage points and 5 percentage points, respectively. These impacts were partially offset by the net revenue growth and planned cost reductions across a number of expense categories.

Asia, Middle East and North Africa

	12 Weeks Ended			36 Weeks Ended		
	9/8/2018	9/9/2017	**% Change**	**9/8/2018**	9/9/2017	**% Change**
Net revenue	**$ 1,542**	$ 1,567	**(2)**	**$ 4,153**	$ 4,139	**—**
Impact of foreign exchange translation			**2**			**(1)**
Impact of acquisitions and divestitures			**9**			**7**
Impact of sales and certain other taxes [(a)]			**—**			**—**
Organic revenue growth [(a)]			**9**			**7** [(c)]
Operating profit	**$ 311**	$ 267	**17**	**$ 994**	$ 745	**34**
Restructuring and impairment charges [(b)]	**2**	(3)		**6**	(7)	
Operating profit excluding above item [(a)]	**$ 313**	$ 264	**18**	**$ 1,000**	$ 738	**36**
Impact of foreign exchange translation			**1**			**(1)**
Operating profit growth excluding above item, on a constant currency basis [(a)]			**19**			**34** [(c)]

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

12 Weeks

Net revenue decreased 2%, reflecting the impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017, which negatively impacted net revenue performance by 9 percentage points, partially offset by volume growth and effective net pricing. Unfavorable foreign exchange negatively impacted net revenue performance by 2 percentage points.

Snacks volume grew 7%, reflecting double-digit growth in India, China and Pakistan and high-single-digit growth in Australia, partially offset by a low-single-digit decline in the Middle East.

Beverage volume grew 2%, reflecting double-digit growth in India and high-single-digit growth in Pakistan, partially offset by a double-digit decline in the Philippines. Additionally, China grew slightly and the Middle East experienced low-single-digit growth.

Operating profit increased 17%, reflecting the effective net pricing, planned cost reductions across a number of expense categories and the volume growth. These impacts were partially offset by certain operating cost increases and higher advertising and marketing expenses. Additionally, higher commodity costs reduced operating profit growth by 6 percentage points and the impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017 reduced operating profit growth by 4 percentage points.

36 Weeks

Net revenue grew slightly, reflecting volume growth and effective net pricing. The impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017 reduced net revenue growth by 7 percentage points.

Snacks volume grew 6%, reflecting double-digit growth in China, India and Pakistan, partially offset by a mid-single-digit decline in the Middle East. Additionally, Australia experienced mid-single-digit growth.

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

Operating profit increased 34%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, as well as the net impact of refranchising our beverage businesses in Thailand in 2018 and Jordan in 2017, which contributed 15 percentage points to operating profit growth. These impacts were partially offset by certain operating cost increases, as well as higher commodity costs which reduced operating profit growth by 4 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, debt repayments and our pending acquisition of SodaStream, include cash from operations, proceeds obtained from issuances of commercial paper and long-term debt and cash, cash equivalents and short-term investments repatriated from our foreign subsidiaries. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us, or at all. See “Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in our 2017 Form 10-K.

As of December 30, 2017, we had cash, cash equivalents and short-term investments in our consolidated subsidiaries of $18.9 billion outside the United States. The TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings, including the $18.9 billion held in our consolidated subsidiaries outside the United States as of December 30, 2017, as a result of which we recognized a provisional mandatory transition tax liability of $854 million in the 36 weeks ended September 8, 2018, in addition to approximately $4 billion that we recognized as part of the $2.5 billion provisional net tax expense in the fourth quarter of 2017. Under the provisions of the TCJ Act, this transition tax liability must be paid over eight years. We currently expect to pay approximately $0.4 billion per year in 2019 to 2023, $0.7 billion in 2024, $1.0 billion in 2025 and $1.2 billion in 2026. The recorded impact of the TCJ Act is provisional and the final amount may differ from the above estimate, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in IRS interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the TCJ Act and future actions by states within the United States that have not currently adopted the TCJ Act.

As of September 8, 2018, we had cash, cash equivalents and short-term investments in our consolidated subsidiaries of $8.4 billion outside the United States. In connection with the enactment of the TCJ Act, during the 36 weeks ended September 8, 2018, we repatriated $13.7 billion of cash, cash equivalents and short-term investments held in our foreign subsidiaries without such funds being subject to further U.S. income tax liability. The repatriated cash was used primarily for repayment of commercial paper and to fund discretionary benefit plan contributions, scheduled debt maturities, dividend and share repurchases. We are currently evaluating when to repatriate any additional funds currently held by our foreign subsidiaries and how to utilize such funds, including whether to utilize such funds or other available methods of debt financing such as commercial paper borrowings to fund our anticipated share repurchases, dividend payments, scheduled debt maturities, discretionary benefit plan contributions, capital expenditures, certain investments into our business, our pending acquisition of SodaStream, or other uses. See “Item 1A. Risk Factors” in our 2017 Form 10-K and “Our Critical Accounting Policies,” “Our Business Risks” and “Items Affecting Comparability” and Note 5 to our condensed consolidated financial statements in this Form 10-Q.

As of September 8, 2018, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material.

Operating Activities

During the 36 weeks ended September 8, 2018, net cash provided by operating activities was $4.7 billion, compared to $6.1 billion in the prior-year period. The operating cash flow performance primarily reflects the discretionary contributions of $1.5 billion to our pension and retiree medical plans in the current year. See also Note 7 to our condensed consolidated financial statements.

Investing Activities

During the 36 weeks ended September 8, 2018, net cash provided by investing activities was $5.6 billion, primarily reflecting net maturities and sales of debt securities with maturities greater than three months of $7.0 billion, partially offset by net capital spending of $1.5 billion.

We expect 2018 net capital spending to be approximately $3.3 billion.

Financing Activities

During the 36 weeks ended September 8, 2018, net cash used for financing activities was $8.9 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of $5.1 billion, payments of long-term debt borrowings of $2.5 billion and net payments of short-term borrowings of $1.4 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. On February 11, 2015, we announced a share repurchase program providing for the repurchase of up to $12.0 billion of PepsiCo common stock which commenced on July 1, 2015 and expired on June 30, 2018 (2015 share repurchase program). The 2015 share repurchase program had approximately $4.3 billion of authorized repurchase capacity unused at expiration. On February 13, 2018, we announced a new share repurchase program providing for the repurchase of up to $15.0 billion of PepsiCo common stock which commenced on July 1, 2018 and will expire on June 30, 2021 (2018 share repurchase program). In addition, on February 13, 2018, we announced a 15.2% increase in our annualized dividend to $3.71 per share from $3.22 per share, effective with the dividend paid in June 2018. We expect to return a total of approximately $7 billion to shareholders in 2018 through share repurchases of approximately $2 billion and dividends of approximately $5 billion. See Part II, "Item 2. Unregistered Sales of Equity Securities and Use of Proceeds" for a description of our share repurchase program.

Free Cash Flow

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

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

	36 Weeks Ended	
	9/8/2018	9/9/2017
Net cash provided by operating activities	**$ 4,732**	$ 6,087
Capital spending	**(1,578)**	(1,474)
Sales of property, plant and equipment	**119**	82
Free cash flow [(a)]	**$ 3,273**	$ 4,695

(a) See "Non-GAAP Measures." In addition, when evaluating free cash flow, we also consider the following items impacting comparability: $1.5 billion and $6 million in discretionary pension and retiree medical contributions in the 36 weeks ended September 8, 2018 and September 9, 2017, respectively; net cash tax benefit related to discretionary pension and retiree medical contributions of $302 million and $1 million in the 36 weeks ended September 8, 2018 and September 9, 2017, respectively; $188 million and $83 million of payments related to restructuring charges in the 36 weeks ended September 8, 2018 and September 9, 2017, respectively; net cash tax benefits related to restructuring charges of $9 million and $23 million in the 36 weeks ended September 8, 2018 and September 9, 2017, respectively; and tax payments related to the TCJ Act of $41 million in the 36 weeks ended September 8, 2018.

We use free cash flow primarily for financing activities, including debt repayments, dividends and share repurchases. We expect to continue to return free cash flow to our shareholders through dividends and share repurchases while maintaining Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. See “Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our 2017 Form 10-K, for certain factors that may impact our credit ratings or our operating cash flows.

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
PepsiCo, Inc.:

Results of Review of Interim Financial Information

We have reviewed the Condensed Consolidated Balance Sheet of PepsiCo, Inc. and subsidiaries (the Company) as of September 8, 2018, the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 8, 2018 and September 9, 2017, and the related Condensed Consolidated Statements of Cash Flows and Equity for the thirty-six weeks ended September 8, 2018 and September 9, 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Balance Sheet of the Company as of December 30, 2017, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the year then ended (not presented herein); and in our report dated February 13, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 30, 2017, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

/s/ KPMG LLP

New York, New York
October 2, 2018

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

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

ITEM 4. Controls and Procedures.

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

There were no changes in our internal control over financial reporting during our third fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During our third fiscal quarter of 2018, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting. This transition has not materially affected, and we do not expect it to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

The following information should be read in conjunction with the discussion set forth under Part I, “Item 3. Legal Proceedings” in our 2017 Form 10-K and Part II, “Item 1. Legal Proceedings” in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 24, 2018 and June 16, 2018.

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

In addition, we and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations. While the results of such litigation, claims, legal or regulatory proceedings, inquiries and investigations cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our financial condition, results of operations or cash flows. Sanctions imposed by foreign authorities are levied in local currency and disclosed using the U.S. dollar equivalent at the time of imposition and are subject to currency fluctuations. See also “Item 1. Business – Regulatory Matters” and “Item 1A. Risk Factors” in our 2017 Form 10-K.

ITEM 1A. Risk Factors.

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

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

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

Issuer Purchases of Common 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[c]
2015 Repurchase Program					
6/17/2018 - 6/30/2018	0.7	(a)	$ 107.38	0.7	
Total	0.7		$ 107.38	0.7	$ —
2018 Repurchase Program					
					$ 15,000
7/1/2018 - 7/14/2018	0.3	(b)	$ 109.09	0.3	(30)
					14,970
7/15/2018 - 8/11/2018	1.4	(b)	$ 114.66	1.4	(161)
					14,809
8/12/2018 - 9/8/2018	1.6	(b)	$ 112.51	1.6	(178)
Total	**3.3**		**$ 113.15**	**3.3**	**14,631**
Total Repurchase Programs	**4.0**		**$ 112.08**	**4.0**	**$ 14,631**

(a) All shares were repurchased in open market transactions pursuant to the $12 billion 2015 repurchase program authorized by our Board of Directors and publicly announced on February 11, 2015, which commenced on July 1, 2015 and expired on June 30, 2018. The 2015 share repurchase program had approximately $4.3 billion of authorized repurchase capacity unused at expiration.

(b) All shares were repurchased in open market transactions pursuant to the $15 billion 2018 repurchase program authorized by our Board of Directors and publicly announced on February 13, 2018, which commenced on July 1, 2018 and will expire on June 30, 2021.

(c) Represents shares authorized for repurchase under the 2018 share repurchase program. Such shares may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

ITEM 6. Exhibits.

See “Index to Exhibits” on page 54.

INDEX TO EXHIBITS
ITEM 6

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

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: October 2, 2018	/s/ Marie T. Gallagher Marie T. Gallagher Senior Vice President and Controller (Principal Accounting Officer)
Date: October 2, 2018	/s/ David Yawman David Yawman Executive Vice President, Government Affairs, General Counsel and Corporate Secretary (Duly Authorized Officer)

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges
PepsiCo, Inc. and Subsidiaries
(in millions except ratio amounts, unaudited)

	36 Weeks Ended	
	9/8/2018	9/9/2017
Earnings:		
Income before income taxes	**$ 7,254**	$ 7,271
Unconsolidated affiliates' interests, net	**(57)**	(50)
Amortization of capitalized interest	**4**	5
Interest expense [a]	**904**	786
Interest portion of rent expense [b]	**174**	167
Earnings available for fixed charges	**$ 8,279**	$ 8,179
Fixed Charges:		
Interest expense [a]	**$ 904**	$ 786
Capitalized interest	**10**	8
Interest portion of rent expense [b]	**174**	167
Total fixed charges	**$ 1,088**	$ 961
Ratio of Earnings to Fixed Charges [c]	**7.61**	8.51

(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.

EXHIBIT 15

Consent of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
PepsiCo, Inc.:

We hereby acknowledge our awareness of the use of our report dated October 2, 2018 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve and thirty-six weeks ended September 8, 2018, 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
October 2, 2018

EXHIBIT 31

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: October 2, 2018

/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: October 2, 2018

/s/ Hugh F. Johnston

Hugh F. Johnston

Chief Financial Officer

EXHIBIT 32

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 September 8, 2018 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: October 2, 2018	/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 September 8, 2018 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: October 2, 2018	/s/ Hugh F. Johnston
	Hugh F. Johnston
	Chief Financial Officer