PEPSICO INC
Form 10-Q
April 26, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 24, 2018 (12 weeks)
OR

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

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

| | |
|---|---|
| North Carolina | 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Accelerated filer ¨

Large accelerated filer x

Smaller reporting company ¨

Non-accelerated filer ¨

(Do not check if a smaller reporting company)

Emerging growth company ¨

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

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

Number of shares of Common Stock outstanding as of April 19, 2018 was 1,417,848,788.

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PepsiCo, Inc. and Subsidiaries

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

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

| | 12 Weeks Ended | |
|---|---|---|
| | 3/24/2018 | 3/25/2017 |
| Net Revenue | $12,562 | $12,049 |
| Cost of sales | 5,655 | 5,290 |
| Gross profit | 6,907 | 6,759 |
| Selling, general and administrative expenses | 5,100 | 4,896 |
| Operating Profit | 1,807 | 1,863 |
| Other pension and retiree medical benefits income | 75 | 70 |
| Interest expense | (294) | (252) |
| Interest income and other | 69 | 40 |
| Income before income taxes | 1,657 | 1,721 |
| Provision for income taxes | 304 | 392 |
| Net income | 1,353 | 1,329 |
| Less: Net income attributable to noncontrolling interests | 10 | 11 |
| Net Income Attributable to PepsiCo | $1,343 | $1,318 |
| Net Income Attributable to PepsiCo per Common Share | | |
| Basic | $0.94 | $0.92 |
| Diluted | $0.94 | $0.91 |
| Weighted-average common shares outstanding | | |
| Basic | 1,420 | 1,428 |
| Diluted | 1,430 | 1,440 |
| Cash dividends declared per common share | $0.805 | $0.7525 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 12 Weeks Ended | |
|---|---|---|
| | 3/24/2018 | 3/25/2017 |
| Net income | $1,353 | $ 1,329 |
| Other comprehensive income, net of taxes: | | |
| Net currency translation adjustment | 290 | 516 |
| Net change on cash flow hedges | 28 | (27 ) |
| Net pension and retiree medical adjustments | 24 | 9 |
| Net change on available-for-sale securities | (2 ) | 4 |
| | 340 | 502 |
| Comprehensive income | 1,693 | 1,831 |
| Comprehensive income attributable to noncontrolling interests | (10 ) | (10 ) |
| Comprehensive Income Attributable to PepsiCo | $1,683 | $ 1,821 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 12 Weeks Ended | |
|---|---|---|
| | 3/24/2018 | 3/25/2017 |
| Operating Activities | | |
| Net income | $1,353 | $ 1,329 |
| Depreciation and amortization | 496 | 477 |
| Share-based compensation expense | 80 | 72 |
| Restructuring and impairment charges | 12 | 27 |
| Cash payments for restructuring charges | (39) | (7) |
| Pension and retiree medical plan expenses | 46 | 44 |
| Pension and retiree medical plan contributions | (1,521) | (79) |
| Deferred income taxes and other tax charges and credits | 50 | 129 |
| Change in assets and liabilities: | | |
| Accounts and notes receivable | (162) | (128) |
| Inventories | (383) | (513) |
| Prepaid expenses and other current assets | (347) | (299) |
| Accounts payable and other current liabilities | (1,050) | (1,386) |
| Income taxes payable | 178 | 172 |
| Other, net | (22) | (31) |
| Net Cash Used for Operating Activities | (1,309) | (193) |
| Investing Activities | | |
| Capital spending | (352) | (317) |
| Sales of property, plant and equipment | 9 | 12 |
| Acquisitions and investments in noncontrolled affiliates | (36) | (36) |
| Divestitures | 42 | 41 |
| Short-term investments, by original maturity: | | |
| More than three months - purchases | (3,416) | (3,436) |
| More than three months - maturities | 4,609 | 3,866 |
| More than three months - sales | 533 | 138 |
| Three months or less, net | 7 | — |
| Other investing, net | — | 1 |
| Net Cash Provided by Investing Activities | 1,396 | 269 |
| Financing Activities | | |
| Payments of long-term debt | — | (752) |
| Short-term borrowings, by original maturity: | | |
| More than three months - proceeds | — | 28 |
| More than three months - payments | (1) | — |
| Three months or less, net | 4,291 | 2,396 |
| Cash dividends paid | (1,160) | (1,098) |
| Share repurchases - common | (493) | (444) |
| Share repurchases - preferred | (2) | (1) |
| Proceeds from exercises of stock options | 125 | 245 |
| Withholding tax payments on restricted stock units (RSUs), performance stock units (PSUs) and PepsiCo | (76) | (116) |

| | | |
|---|---|---|
| equity performance units (PEPunits) converted | | |
| Other financing | (2 ) | (1 ) |
| Net Cash Provided by Financing Activities | 2,682 | 257 |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | 49 | 43 |
| Net Increase in Cash and Cash Equivalents and Restricted Cash | 2,818 | 376 |
| Cash and Cash Equivalents and Restricted Cash, Beginning of Year | 10,657 | 9,169 |
| Cash and Cash Equivalents and Restricted Cash, End of Period | $ 13,475 | $ 9,545 |

See accompanying notes to the condensed consolidated financial statements.

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

| | (Unaudited) 3/24/2018 | 12/30/2017 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 13,443 | $ 10,610 |
| Short-term investments | 7,167 | 8,900 |
| Accounts and notes receivable, less allowance: 3/18 - $141 and 12/17 - $129 | 7,171 | 7,024 |
| Inventories: | | |
| Raw materials and packaging | 1,406 | 1,344 |
| Work-in-process | 200 | 167 |
| Finished goods | 1,729 | 1,436 |
| | 3,335 | 2,947 |
| Prepaid expenses and other current assets | 1,931 | 1,546 |
| Total Current Assets | 33,047 | 31,027 |
| Property, plant and equipment | 39,383 | 39,106 |
| Accumulated depreciation | (22,242) | (21,866) |
| | 17,141 | 17,240 |
| Amortizable Intangible Assets, net | 1,252 | 1,268 |
| Goodwill | 14,795 | 14,744 |
| Other nonamortizable intangible assets | 12,591 | 12,570 |
| Nonamortizable Intangible Assets | 27,386 | 27,314 |
| Investments in Noncontrolled Affiliates | 2,115 | 2,042 |
| Other Assets | 946 | 913 |
| Total Assets | $ 81,887 | $ 79,804 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Short-term debt obligations | $ 11,600 | $ 5,485 |
| Accounts payable and other current liabilities | 14,285 | 15,017 |
| Total Current Liabilities | 25,885 | 20,502 |
| Long-Term Debt Obligations | 31,931 | 33,796 |
| Other Liabilities | 9,855 | 11,283 |
| Deferred Income Taxes | 3,231 | 3,242 |
| Total Liabilities | 70,902 | 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: 1,419 and 1,420 shares, respectively) | 24 | 24 |
| Capital in excess of par value | 3,866 | 3,996 |
| Retained earnings | 52,726 | 52,839 |
| Accumulated other comprehensive loss | (12,717) | (13,057) |

| | | |
|---|---|---|
| Repurchased common stock, in excess of par value (448 and 446 shares, respectively) | (33,016 ) | (32,757 ) |
| Total PepsiCo Common Shareholders' Equity | 10,883 | 11,045 |
| Noncontrolling interests | 102 | 92 |
| Total Equity | 10,985 | 10,981 |
| Total Liabilities and Equity | $ 81,887 | $ 79,804 |

See accompanying notes to the condensed consolidated financial statements.

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

| | 12 Weeks Ended | | | |
|---|---|---|---|---|
| | 3/24/2018 | | 3/25/2017 | |
| | Shares | Amount | Shares | Amount |
| Preferred Stock | | | | |
| Balance, beginning of year | 0.8 | $41 | 0.8 | $41 |
| Conversion to common stock | (0.1) | (6) | — | — |
| Retirement of preferred stock | (0.7) | (35) | — | — |
| Balance, end of period | — | — | 0.8 | 41 |
| Repurchased Preferred Stock | | | | |
| Balance, beginning of year | (0.7) | (197) | (0.7) | (192) |
| Redemptions | — | (2) | — | (2) |
| Retirement of preferred stock | 0.7 | 199 | — | — |
| Balance, end of period | — | — | (0.7) | (194) |
| Common Stock | | | | |
| Balance, beginning of year | 1,420 | 24 | 1,428 | 24 |
| Shares issued in connection with preferred stock conversion to common stock | 1 | — | — | — |
| Change in repurchased common stock | (2) | — | 2 | — |
| Balance, end of period | 1,419 | 24 | 1,430 | 24 |
| Capital in Excess of Par Value | | | | |
| Balance, beginning of year | | 3,996 | | 4,091 |
| Share-based compensation expense | | 83 | | 73 |
| Equity issued in connection with preferred stock conversion to common stock | | 6 | | — |
| Stock option exercises, RSUs, PSUs and PEPunits converted | | (142) | | (191) |
| Withholding tax on RSUs, PSUs and PEPunits converted | | (76) | | (116) |
| Other | | (1) | | — |
| Balance, end of period | | 3,866 | | 3,857 |
| Retained Earnings | | | | |
| Balance, beginning of year | | 52,839 | | 52,518 |
| Cumulative effect of accounting change | | (145) | | — |
| Net income attributable to PepsiCo | | 1,343 | | 1,318 |
| Cash dividends declared – common | | (1,147) | | (1,080) |
| Retirement of preferred stock | | (164) | | — |
| Balance, end of period | | 52,726 | | 52,756 |
| Accumulated Other Comprehensive Loss | | | | |
| Balance, beginning of year | | (13,057) | | (13,919) |
| Other comprehensive income attributable to PepsiCo | | 340 | | 503 |
| Balance, end of period | | (12,717) | | (13,416) |
| Repurchased Common Stock | | | | |
| Balance, beginning of year | (446) | (32,757) | (438) | (31,468) |
| Share repurchases | (5) | (521) | (4) | (477) |
| Stock option exercises, RSUs, PSUs and PEPunits converted | 3 | 261 | 6 | 446 |
| Other | — | 1 | — | — |
| Balance, end of period | (448) | (33,016) | (436) | (31,499) |
| Total PepsiCo Common Shareholders' Equity | | 10,883 | | 11,722 |

| | | |
|---|---|---|
| Noncontrolling Interests | | |
| Balance, beginning of year | 92 | 104 |
| Net income attributable to noncontrolling interests | 10 | 11 |
| Currency translation adjustment | — | (1) |
| Balance, end of period | 102 | 114 |
| Total Equity | $10,985 | $11,683 |

See accompanying notes to the condensed consolidated financial statements.

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Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

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

Our Condensed Consolidated Balance Sheet as of March 24, 2018, Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the 12 weeks ended March 24, 2018 and March 25, 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 during the 12 weeks ended March 24, 2018 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 weeks ended March 24, 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 for which the months of January and February are reflected in our first quarter results.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives and certain advertising and marketing costs in proportion to revenue or volume, as applicable, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw materials handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product, 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 12 weeks ended March 24, 2018 of those recently issued accounting pronouncements disclosed in Note 2.

Our Divisions

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

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

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

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

| | 12 Weeks Ended | | | |
|---|---|---|---|---|
| | Net Revenue | | Operating Profit | |
| | 3/24/2018[(a)] | 3/25/2017 | 3/24/2018 | 3/25/2017[(b)] |
| FLNA | $3,617 | $ 3,499 | $1,050 | $ 1,050 |
| QFNA | 601 | 598 | 155 | 163 |
| NAB | 4,415 | 4,460 | 388 | 501 |
| Latin America | 1,224 | 1,077 | 189 | 133 |
| ESSA | 1,668 | 1,445 | 118 | 96 |
| AMENA | 1,037 | 970 | 187 | 171 |
| Total division | $12,562 | $ 12,049 | $2,087 | $ 2,114 |
| Corporate unallocated | — | — | (280 ) | (251 ) |
| | $12,562 | $ 12,049 | $1,807 | $ 1,863 |

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

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

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 $4 million and $66 million, respectively, and a corresponding increase to other pension and retiree medical benefits income below operating profit of $70 million for the 12 weeks ended March 25, 2017.

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The following table shows the (decreases)/increases to operating profit for each division and to corporate unallocated for the 12 weeks ended March 25, 2017:

| | |
|---|---|
| FLNA | $(10) |
| QFNA | (1 ) |
| NAB | (4 ) |
| Latin America | 1 |
| ESSA | (6 ) |
| AMENA | — |
| Corporate unallocated [(a)] | (50 ) |
| Total | $(70) |

(a) Includes restructuring charges of $1 million.

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

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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 to 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 $23 million for the 12 weeks ended March 25, 2017 and approximately $75 million for the fiscal year ended December 30, 2017, with no impact to 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 Tax Cuts and Jobs Act (TCJ Act) for the optional reclassification of the residual tax effects, arising from the change in corporate tax rate, in accumulated other comprehensive loss to retained earnings. The reclassification is the difference between the amount previously recorded in other comprehensive income at the historical U.S. federal tax rate that remains in accumulated other comprehensive loss at the time the TCJ Act was effective, and the amount that would have been recorded using the newly enacted rate. If elected, the guidance can be applied retrospectively to each period during which the impact of the TCJ Act is recognized or in the period of adoption. The guidance is effective in 2019 with early adoption permitted. We are currently evaluating the impact and adoption of this guidance.

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

In 2016, the FASB issued guidance that requires lessees to recognize most leases on the balance sheet, but record expenses on the income statement in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective beginning in 2019 with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet and the impact on our current lease portfolio from both a lessor and lessee perspective.

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To facilitate this, we are utilizing a comprehensive approach to review our lease portfolio, as well as assessing system requirements and control implications. We have identified our significant leases by geography and by asset type that will be impacted by the new guidance, as well as a software tool to begin tracking the requirements of the guidance. In addition, we are currently evaluating the timing of adoption of this guidance. See Note 13 to our consolidated financial statements in our 2017 Form 10-K for our minimum lease payments under non-cancelable operating leases.

Note 3 - Restructuring and Impairment Charges

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

In the 12 weeks ended March 24, 2018, we incurred restructuring charges of $12 million ($11 million after-tax or $0.01 per share) in conjunction with our 2014 Productivity Plan. In the 12 weeks ended March 25, 2017, we incurred pre- and after-tax restructuring charges of $27 million ($0.02 per share). These net charges were recorded in selling, general and administrative expenses and other pension and retiree medical benefits income and primarily relate to severance and other employee-related costs, asset impairments (all non-cash) and other costs associated with the implementation of our initiatives, including contract termination costs. Substantially all of the restructuring accrual at March 24, 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 3/24/2018 | | | | 3/25/2017 | | | |
| | Severance and Other Employee Costs[a] | Asset Impairments | Other Costs | Total | Severance and Other Employee Costs[a] | Asset Impairments | Other Costs | Total |
| FLNA | $1 | $ 3 | $ 1 | $5 | $1 | $ — | $ — | $1 |
| QFNA | 1 | — | — | 1 | — | — | — | — |
| NAB | 1 | 1 | 1 | 3 | — | — | 2 | 2 |
| Latin America | 7 | — | 2 | 9 | 12 | 11 | 1 | 24 |
| ESSA | 4 | — | — | 4 | 4 | — | — | 4 |
| AMENA [b] | 2 | — | — | 2 | — | — | (6 ) | (6 ) |
| Corporate [c] | (13) | — | 1 | (12 ) | 1 | — | 1 | 2 |
| | $3 | $ 4 | $ 5 | $12 | $18 | $ 11 | $ (2 ) | $27 |

(a) Includes charges related to other pension and retiree medical benefits of $4 million and $1 million for the 12 weeks ended March 24, 2018 and March 25, 2017, respectively.

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

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

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Since the inception of the 2014 Productivity Plan, we incurred restructuring charges of $1,046 million:

| | 2014 Productivity Plan Costs to Date | | | |
|---|---|---|---|---|
| | Severance and Other Employee Costs | Asset Impairments | Other Costs | Total |
| FLNA | $132 | $ 12 | $ 24 | $168 |
| QFNA | 27 | — | 6 | 33 |
| NAB | 150 | 70 | 84 | 304 |
| Latin America | 116 | 29 | 16 | 161 |
| ESSA | 131 | 41 | 59 | 231 |
| AMENA | 25 | 6 | 15 | 46 |
| Corporate | 49 | — | 54 | 103 |
| | $630 | $ 158 | $ 258 | $1,046 |

A summary of our 2014 Productivity Plan activity for the 12 weeks ended March 24, 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 | 3 | 4 | 5 | 12 |
| Cash payments | (28) | — | (11) | (39) |
| Non-cash charges and translation | (6) | (4) | — | (10) |
| Liability as of March 24, 2018 | $ 181 | $ — | $ 8 | $189 |

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

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

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

Note 4 - Intangible Assets

A summary of our amortizable intangible assets is as follows:

| | 3/24/2018 | | | 12/30/2017 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Acquired franchise rights | $852 | $ (131) | $721 | $858 | $ (128) | $730 |
| Reacquired franchise rights | 106 | (104) | 2 | 106 | (104) | 2 |
| Brands | 1,327 | (1,035) | 292 | 1,322 | (1,026) | 296 |
| Other identifiable intangibles | 525 | (288) | 237 | 521 | (281) | 240 |
| | $2,810 | $ (1,558) | $1,252 | $2,807 | $ (1,539) | $1,268 |

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

| | Balance 12/30/2017 | Translation and Other | Balance 3/24/2018 |
|---|---|---|---|
| FLNA | | | |
| Goodwill | $ 280 | $ (4 ) | $ 276 |
| Brands | 25 | (1 ) | 24 |
| | 305 | (5 ) | 300 |
| QFNA | | | |
| Goodwill | 175 | — | 175 |
| NAB | | | |
| Goodwill | 9,854 | (16 ) | 9,838 |
| Reacquired franchise rights | 7,126 | (27 ) | 7,099 |
| Acquired franchise rights | 1,525 | (6 ) | 1,519 |
| Brands | 353 | — | 353 |
| | 18,858 | (49 ) | 18,809 |
| Latin America | | | |
| Goodwill | 555 | 9 | 564 |
| Brands | 141 | 3 | 144 |
| | 696 | 12 | 708 |
| ESSA | | | |
| Goodwill | 3,452 | 60 | 3,512 |
| Reacquired franchise rights | 549 | 11 | 560 |
| Acquired franchise rights | 195 | (23 ) | 172 |
| Brands | 2,545 | 63 | 2,608 |
| | 6,741 | 111 | 6,852 |
| AMENA | | | |
| Goodwill | 428 | 2 | 430 |
| Brands | 111 | 1 | 112 |
| | 539 | 3 | 542 |
| Total goodwill | 14,744 | 51 | 14,795 |
| Total reacquired franchise rights | 7,675 | (16 ) | 7,659 |
| Total acquired franchise rights | 1,720 | (29 ) | 1,691 |
| Total brands | 3,175 | 66 | 3,241 |
| | $ 27,314 | $ 72 | $ 27,386 |

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## Note 5 - Income Taxes

A reconciliation of unrecognized tax benefits is as follows:

| | 3/24/2018 | 12/30/2017 |
|---|---|---|
| Balance, beginning of year | $ 2,212 | $ 1,885 |
| Additions for tax positions related to the current year | 52 | 309 |
| Additions for tax positions from prior years | 5 | 86 |
| Reductions for tax positions from prior years | — | (51) |
| Settlement payments | — | (4) |
| Statutes of limitations expiration | (14) | (33) |
| Translation and other | 16 | 20 |
| Balance, end of period | $ 2,271 | $ 2,212 |

### 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. During the first quarter of 2018, we recorded an additional provisional transition tax expense of $1 million, reflecting the impact of actions taken by states within the United States that adopted the TCJ Act. Additionally, during the second quarter of 2018, the Internal Revenue Service (IRS) issued new transition tax guidance. As a result of this guidance, we expect to record additional provisional transition tax expense in the second quarter of 2018 of approximately $700-$800 million.

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

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

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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 | |
|---|---|---|
| | 3/24/2018 | 3/25/2017 |
| Share-based compensation expense - equity awards | $ 80 | $ 72 |
| Share-based compensation expense - liability awards | 6 | 4 |
| Restructuring and impairment charges | 3 | 1 |
| Total | $ 89 | $ 77 |

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

| | 12 Weeks Ended | | | |
|---|---|---|---|---|
| | 3/24/2018 | | 3/25/2017 | |
| | Granted[(a)] | Weighted-Average Grant Price | Granted[(a)] | Weighted-Average Grant Price |
| Stock options | 1.2 | $ 108.75 | 1.3 | $ 109.75 |
| RSUs and PSUs | 2.5 | $ 108.77 | 2.7 | $ 109.75 |

(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 12 weeks ended March 24, 2018 and March 25, 2017, respectively.

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

| | 12 Weeks Ended | |
|---|---|---|
| | 3/24/2018 | 3/25/2017 |
| 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 % |

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Note 7 - Pension and Retiree Medical Benefits

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

| | 12 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Pension | | | | Retiree Medical | |
| | 3/24/2018 | 3/25/2017 | 3/24/2018 | 3/25/2017 | 3/24/2018 | 3/25/2017 |
| | U.S. | | International | | | |
| Service cost | $ 100 | $ 93 | $ 18 | $ 16 | $ 7 | $ 6 |
| Interest cost | 111 | 108 | 17 | 15 | 8 | 9 |
| Expected return on plan assets | (218 ) | (196 ) | (36 ) | (30 ) | (4 ) | (5 ) |
| Amortization of prior service cost/(credits) | 1 | — | — | — | (5 ) | (6 ) |
| Amortization of net losses/(gains) | 41 | 28 | 8 | 9 | (2 ) | (3 ) |
| | 35 | 33 | 7 | 10 | 4 | 1 |
| Special termination benefits | 3 | 1 | 1 | — | — | — |
| Total | $ 38 | $ 34 | $ 8 | $ 10 | $ 4 | $ 1 |

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 and $17 million to our international plans. There were no discretionary contributions made in the first quarter of 2017.

Note 8 - Debt Obligations

In the 12 weeks ended March 24, 2018, there were no maturities or prepayments of senior notes.

As of March 24, 2018, we had $5.1 billion of commercial paper outstanding.

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 12 weeks ended March 24, 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 March 24, 2018 and December 30, 2017 are as follows:

| | Notional Amounts[(a)] | |
|---|---|---|
| | 3/24/2018 | 12/30/2017 |
| Commodity | $ 0.9 | $ 0.9 |
| Foreign exchange | $ 1.7 | $ 1.6 |
| Interest rate | $ 14.2 | $ 14.2 |
| Net investment | $ 1.5 | $ 1.5 |

(a) In billions.

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

As of March 24, 2018, approximately 48% 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 March 24, 2018 and December 30, 2017 are categorized as follows:

| | | 3/24/2018 | | 12/30/2017 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy Levels[a] | Assets[a] | Liabilities[a] | Assets[a] | Liabilities[a] |
| Available-for-sale debt securities [b] | 2 | $15,223 | $ — | $14,510 | $ — |
| Short-term investments [c] | 1 | $216 | $ — | $228 | $ — |
| Prepaid forward contracts [d] | 2 | $21 | $ — | $27 | $ — |
| Deferred compensation [e] | 2 | $— | $ 485 | $— | $ 503 |
| Derivatives designated as fair value hedging instruments: | | | | | |
| Interest rate [f] | 2 | $6 | $ 223 | $24 | $ 130 |
| Derivatives designated as cash flow hedging instruments: | | | | | |
| Foreign exchange [g] | 2 | $13 | $ 27 | $15 | $ 31 |
| Interest rate [g] | 2 | — | 117 | — | 213 |
| Commodity [h] | 1 | — | — | — | 2 |
| Commodity [i] | 2 | 2 | — | 2 | — |
| | | $15 | $ 144 | $17 | $ 246 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange [g] | 2 | $— | $ — | $10 | $ 3 |
| Commodity [h] | 1 | 3 | 7 | — | 19 |
| Commodity [i] | 2 | 52 | 25 | 85 | 12 |
| | | $55 | $ 32 | $95 | $ 34 |
| Total derivatives at fair value [j] | | $76 | $ 399 | $136 | $ 410 |
| Total | | $15,536 | $ 884 | $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 March 24, 2018, $8.2 billion and $7.0 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 March 24, 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) Unless otherwise noted, derivative assets and liabilities are presented on a gross basis on our balance sheet. Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on the balance sheet as of March 24, 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.

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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 March 24, 2018 and December 30, 2017 was $44 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] | |
| | 3/24/2018 | 3/25/2017 | 3/24/2018 | 3/25/2017 | 3/24/2018 | 3/25/2017 |
| Foreign exchange | $(12) | $ (5) | $5 | $ 20 | $ 6 | $ (5) |
| Interest rate | 111 | 22 | (96) | (19) | (62) | (30) |
| Commodity | 19 | 3 | (2) | 2 | 1 | 2 |
| Net investment | — | — | 9 | 18 | — | — |
| Total | $118 | $ 20 | $(84) | $ 21 | $ (55) | $ (33) |

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

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

Based on current market conditions, we expect to reclassify net losses of $28 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.

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 | | | |
|---|---|---|---|---|
| | 3/24/2018 | | 3/25/2017 | |
| | Income | Shares[a] | Income | Shares[a] |
| Net income attributable to PepsiCo | $1,343 | | $1,318 | |
| Preferred shares: | | | | |
| Redemption premium | (2) | | (2) | |
| Net income available for PepsiCo common shareholders | $1,341 | 1,420 | $1,316 | 1,428 |
| Basic net income attributable to PepsiCo per common share | $0.94 | | $0.92 | |
| Net income available for PepsiCo common shareholders | $1,341 | 1,420 | $1,316 | 1,428 |
| Dilutive securities: | | | | |
| Stock options, RSUs, PSUs, PEPunits and Other | — | 10 | — | 11 |
| Employee stock ownership plan (ESOP) convertible preferred stock | 2 | — | 2 | 1 |
| Diluted | $1,343 | 1,430 | $1,318 | 1,440 |

| | | |
|---|---|---|
| Diluted net income attributable to PepsiCo per common share | $0.94 | $0.91 |

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

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

| | 12 Weeks Ended | |
|---|---|---|
| | 3/24/2018 | 3/25/2017 |
| Out-of-the-money options [(a)] | 0.1 | 1.4 |
| Average exercise price per option | $115.75 | $ 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:

| | 12 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | 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 current year 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) |

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

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

| | 12 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | 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 current year 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) |

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

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

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

| | 12 Weeks Ended | | |
|---|---|---|---|
| | 3/24/2018 | 3/25/2017 | Affected Line Item in the Income Statement |
| Cash flow hedges: | | | |
| Foreign exchange contracts | $6 | $ (5) | Cost of sales |
| Interest rate derivatives | (62) | (30) | Interest expense |
| Commodity contracts | 2 | 2 | Cost of sales |
| Commodity contracts | (1) | — | Selling, general and administrative expenses |
| Net gains before tax | (55) | (33) | |
| Tax amounts | 14 | 11 | |
| Net gains after tax | $(41) | $ (22) | |
| Pension and retiree medical items: | | | |
| Amortization of prior service credits | $(4) | $ (6) | Other pension and retiree medical benefits income |
| Amortization of net losses | 47 | 34 | Other pension and retiree medical benefits income |
| Net losses before tax | 43 | 28 | |
| Tax amounts | (10) | (9) | |
| Net losses after tax | $33 | $ 19 | |
| Total net gains reclassified, net of tax | $(8) | $ (3) | |

Note 13 - Restricted Cash

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

| | 3/24/2018 | 12/30/2017 |
|---|---|---|
| Cash and cash equivalents | $ 13,443 | $ 10,610 |
| Restricted cash included in other assets | 32 | 47 |
| Total cash and cash equivalents and restricted cash | $ 13,475 | $ 10,657 |

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

Note 14 - Divestitures

Refranchising in Thailand

During the second quarter of 2018, we refranchised our beverage business in Thailand by selling a controlling interest in our Thailand bottling operations. We expect to record a pre-tax gain of approximately $145 million ($125 million after-tax) in selling, general and administrative expenses in our AMENA segment as a result of this transaction.

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

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

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

FINANCIAL REVIEW

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

Our Critical Accounting Policies

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

Revenue Recognition and Total Marketplace Spending

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

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

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

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

Income Taxes

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

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 $1 million in the first quarter of 2018, in addition to the provisional net tax expense of $2.5 billion recognized in the fourth quarter of 2017. Additionally, during the second quarter of 2018, the IRS issued new transition tax guidance. As a result of this guidance, we expect to record additional provisional transition tax expense in the second quarter of 2018 of approximately $700-$800 million. See Note 5 to our condensed consolidated financial statements in this Form 10-Q and Note 5 to our consolidated financial statements in our 2017 Form 10-K for further information on our provisional net tax expense.

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

Our Business Risks

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

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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 ar