

PEPSICO INC
Form 10-Q
April 19, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

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

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

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

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

North Carolina
(State or Other Jurisdiction of
Incorporation or Organization) 13-1584302
(I.R.S. Employer
Identification No.)

700 Anderson Hill Road, Purchase, New York
(Address of Principal Executive Offices) 10577
(Zip Code)

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

N/A

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

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

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

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

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

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

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

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

See accompanying notes to the condensed consolidated financial statements.

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

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

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

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

See accompanying notes to the condensed consolidated financial statements.

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

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

(Continued on following page)

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Condensed Consolidated Balance Sheet (continued)

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts)

| | (Unaudited) | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|------------|
| | 3/23/2013 | 12/29/2012 |
| Liabilities and Equity | | |
| Current Liabilities | | |
| Short-term obligations | \$6,175 | \$4,815 |
| Accounts payable and other current liabilities | 11,244 | 11,903 |
| Income taxes payable | 575 | 371 |
| Total Current Liabilities | 17,994 | 17,089 |
| Long-term Debt Obligations | 23,225 | 23,544 |
| Other Liabilities | 6,621 | 6,543 |
| Deferred Income Taxes | 5,051 | 5,063 |
| Total Liabilities | 52,891 | 52,239 |
| Commitments and Contingencies | | |
| Preferred Stock, no par value | 41 | 41 |
| Repurchased Preferred Stock | (166 |) (164 |
| PepsiCo Common Shareholders' Equity | | |
| Common stock, par value 1 ² / ₃ ¢ per share (authorized 3,600 shares, issued, net of repurchased common stock at par value: 1,545 and 1,544 shares, respectively) | 26 | 26 |
| Capital in excess of par value | 4,136 | 4,178 |
| Retained earnings | 43,395 | 43,158 |
| Accumulated other comprehensive loss | (5,607 |) (5,487 |
| Repurchased common stock, in excess of par value (321 and 322 shares, respectively) | (19,474 |) (19,458 |
| Total PepsiCo Common Shareholders' Equity | 22,476 | 22,417 |
| Noncontrolling interests | 113 | 105 |
| Total Equity | 22,464 | 22,399 |
| Total Liabilities and Equity | \$75,355 | \$74,638 |

See accompanying notes to the condensed consolidated financial statements.

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

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

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

(a) Includes total tax benefits of \$26 million in 2013 and \$14 million in 2012.
See accompanying notes to the condensed consolidated financial statements.

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Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

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

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

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

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

Our Divisions

We are organized into four business units, as follows:

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

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

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

| | 12 Weeks Ended | | Operating Profit | |
|------------------------------------------|----------------|-----------|------------------|------------|
| | Net Revenue | | | |
| | 3/23/2013 | 3/24/2012 | 3/23/2013 | 3/24/2012 |
| FLNA | \$3,123 | \$3,010 | \$828 | \$780 |
| QFNA | 634 | 623 | 180 | 187 |
| LAF | 1,367 | 1,235 | 216 | 183 |
| PAB | 4,420 | 4,448 | 565 | 525 |
| Europe | 1,942 | 1,845 | 88 | 81 |
| AMEA | 1,095 | 1,267 | 184 | 148 |
| Total division | 12,581 | 12,428 | 2,061 | 1,904 |
| Corporate Unallocated | | | | |
| Mark-to-market net impact (losses)/gains | | | (16 |) 84 |
| Restructuring and impairment charges | | | (1 |) 2 |
| Venezuela currency devaluation | | | (124 |) — |
| Other | | | (262 |) (268 |
| | \$12,581 | \$12,428 | \$1,658 | \$1,722 |
| | | | Total Assets | |
| | | | 3/23/2013 | 12/29/2012 |
| FLNA | | | \$5,298 | \$5,332 |
| QFNA | | | 997 | 966 |
| LAF | | | 5,027 | 4,993 |
| PAB | | | 31,293 | 30,899 |
| Europe | | | 18,989 | 19,218 |
| AMEA | | | 5,714 | 5,738 |
| Total division | | | 67,318 | 67,146 |
| Corporate ^(a) | | | 8,037 | 7,492 |
| | | | \$75,355 | \$74,638 |

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

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Note 2 - Recent Accounting Pronouncements

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

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

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

Note 3 - Restructuring, Impairment and Integration Charges

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

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

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

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A summary of our Productivity Plan charges is as follows:

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

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

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

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

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

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

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

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

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Note 4 - Intangible Assets

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

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

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

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Note 5 - Income Taxes

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

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

Note 6 - Stock-Based Compensation

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

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

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

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

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

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

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

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

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

Note 8 - Debt Obligations and Commitments

In the first quarter of 2013, we issued:

\$625 million of floating rate notes maturing in February 2016, which bear interest at a rate equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 21 basis points;

\$625 million of 0.700% senior notes maturing in February 2016; and

\$1.250 billion of 2.750% senior notes maturing in March 2023.

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

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

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

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

Excludes \$4,425 million related to current maturities of long-term debt, \$299 million related to the increase in carrying value of long-term debt reflecting the gains on our fair value interest rate swaps, and \$268 million related

(b) to the fair value step-up of debt acquired in connection with our acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS) in February 2010.

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

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

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

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Note 9 - Accumulated Other Comprehensive Loss

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

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

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

Note 10 - Financial Instruments

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

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In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. Cash flows from derivatives used to manage commodity, foreign exchange or interest risks are classified as operating activities in the Condensed Consolidated Statement of Cash Flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. See “Our Business Risks” in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further unaudited information on our business risks. For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within common shareholders’ equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. If the derivative instrument is terminated, we continue to defer the related gain or loss and then include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss on the hedge in net income immediately.

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

Commodity Prices

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

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

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

Foreign Exchange

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

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

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

Interest Rates

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

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

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

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Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rate derivatives gains/losses are primarily from fair value hedges and are included in interest expense.

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

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

Note 11 - Net Income Attributable to PepsiCo per Common Share

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

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

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

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

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Note 12 - Divestitures

Suntory Holdings Limited

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

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

FINANCIAL REVIEW

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

Our Critical Accounting Policies

Sales Incentives and Advertising and Marketing Costs

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

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

Income Taxes

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

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Our Business Risks

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

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

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

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

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

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Results of Operations – Consolidated Review

Items Affecting Comparability

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

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

Mark-to-Market Net Impact

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

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

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

Merger and Integration Charges

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

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

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Restructuring and Impairment Charges

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

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

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

Venezuela Currency Devaluation

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

Non-GAAP Measures

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

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Volume

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

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

Consolidated Results

Total Net Revenue and Operating Profit

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

n/m = not meaningful

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

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

Other Consolidated Results

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

(a) See “Non-GAAP Measures.”

(b) Does not sum due to rounding.

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

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

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

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Results of Operations – Division Review

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

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

Net Revenue

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

Excludes the impact of acquisitions and divestitures. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our ^(a) beverage businesses, temporary timing differences between BCS and CSE. Our net revenue excludes nonconsolidated joint venture volume, and, for our beverage businesses, is based on CSE.

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

^(c) Amounts may not sum due to rounding.

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Organic Revenue Growth

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

| 12 Weeks Ended 3/23/2013 | FLNA | QFNA | LAF | PAB | Europe | AMEA | Total |
|-------------------------------|------|------|------|-------|--------|--------|-------|
| Reported Growth | 4 | % 2 | % 11 | % (1) |)% 5 | % (14) |)% 1 |
| % Impact of: | | | | | | | |
| Foreign exchange translation | — | — | 3 | — | (1) |) 2 | 0.5 |
| Acquisitions and divestitures | — | — | — | — | — | 27 | 3 |
| Organic Growth ^(a) | 4 | % 2 | % 14 | % — | % 4 | % 15 | % 4 |

(a) Amounts may not sum due to rounding.

Frito-Lay North America

| | 12 Weeks Ended | | % |
|-------------------------------------------------------------------------------------------|----------------|-----------|--------|
| | 3/23/2013 | 3/24/2012 | Change |
| Net revenue | \$3,123 | \$3,010 | 4 |
| Impact of foreign exchange translation | | | — |
| Net revenue growth, on a constant currency basis ^(a) | | | 4 |
| Operating profit | \$828 | \$780 | 6 |
| Restructuring and impairment charges | 2 | 8 | |
| Operating profit excluding above item ^(a) | \$830 | \$788 | 5 |
| Impact of foreign exchange translation | | | — |
| Operating profit growth excluding above item, on a constant currency basis ^(a) | | | 5 |

(a) See "Non-GAAP Measures."

Net revenue grew 4%, primarily reflecting pound volume growth of 4%. The volume growth was driven by high-single-digit growth in trademark Lay's and Cheetos and mid-single-digit growth in trademark Doritos, partially offset by a high-single-digit decline in SunChips.

Operating profit grew 6%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by other cost increases reflecting strategic investments.

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Quaker Foods North America

| | 12 Weeks Ended | | % Change |
|-------------------------------------------------------------------------------------------|----------------|-----------|-------------|
| | 3/23/2013 | 3/24/2012 | |
| Net revenue | \$634 | \$623 | 2 |
| Impact of foreign exchange translation | | | — |
| Net revenue growth, on a constant currency basis ^(a) | | | 2 |
| Operating profit | \$180 | \$187 | (4) |
| Restructuring and impairment charges | (1) | 5 | |
| Operating profit excluding above item ^(a) | \$179 | \$192 | (6) |
| Impact of foreign exchange translation | | | — |
| Operating profit growth excluding above item, on a constant currency basis ^(a) | | | (6) |

(a) See "Non-GAAP Measures."

Net revenue increased 2% and volume increased 5%. Net revenue performance benefited from the volume growth, partially offset by unfavorable net pricing. The volume growth reflects the new Müller Quaker Dairy (MQD) products and double-digit growth in Aunt Jemima syrup and mix and Chewy granola bars, as well as low-single-digit growth in oatmeal.

Operating profit declined 4%, reflecting start-up costs of our MQD joint venture, which negatively impacted operating profit performance by 4 percentage points, certain operating cost increases and higher advertising and marketing expenses. These impacts were partially offset by planned cost reductions across a number of expense categories and the net revenue growth.

Latin America Foods

| | 12 Weeks Ended | | % Change |
|-------------------------------------------------------------------------------------------|----------------|-----------|-------------|
| | 3/23/2013 | 3/24/2012 | |
| Net revenue | \$1,367 | \$1,235 | 11 |
| Impact of foreign exchange translation | | | 3 |
| Net revenue growth, on a constant currency basis ^(a) | | | 14 |
| Operating profit | \$216 | \$183 | 18 |
| Restructuring and impairment charges | 4 | 6 | |
| Operating profit excluding above item ^(a) | \$220 | \$189 | 17 |
| Impact of foreign exchange translation | | | 8 |
| Operating profit growth excluding above item, on a constant currency basis ^(a) | | | 25 |

(a) See "Non-GAAP Measures."

Net revenue increased 11%, primarily reflecting favorable effective net pricing. Unfavorable foreign exchange reduced net revenue growth by over 3 percentage points.

Volume increased 1%, reflecting broad-based increases including a low-single-digit increase in Mexico, partially offset by a mid-single-digit decrease in Brazil.

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Operating profit increased 18%, reflecting the net revenue growth, 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 18 percentage points. Unfavorable foreign exchange reduced operating profit growth by 8 percentage points.

PepsiCo Americas Beverages

| | 12 Weeks Ended | | % Change |
|----------------------------------------------------------------------------------------------|----------------|-----------|-------------|
| | 3/23/2013 | 3/24/2012 | |
| Net revenue | \$4,420 | \$4,448 | (1) |
| Impact of foreign exchange translation | | | — |
| Net revenue growth, on a constant currency basis ^(a) | | | — (b) |
| Operating profit | \$565 | \$525 | 8 |
| Restructuring and impairment charges | — | 8 | |
| Venezuela currency devaluation | (13) | — | |
| Operating profit excluding above items ^(a) | \$552 | \$533 | 3 |
| Impact of foreign exchange translation | | | — |
| Operating profit growth excluding above item, on a constant currency basis ^(a) | | | 4 (b) |

(a) See "Non-GAAP Measures."

(b) Does not sum due to rounding.

Net revenue decreased 1%, primarily reflecting volume declines partially offset by favorable effective net pricing. Unfavorable foreign exchange had a slight negative impact on net revenue performance.

Volume decreased 3%, driven by a 4% decline in North America volume, partially offset by a 1% increase in Latin America volume. North America volume declines were driven by a 6% decline in CSDs and a 1% decline in non-carbonated beverage volumes. Latin America volume growth primarily reflected a double-digit increase in Venezuela and a low-single-digit increase in Mexico, partially offset by a high-single-digit decline in Brazil and a mid-single-digit decline in Argentina.

Operating profit increased 8%. Excluding the items affecting comparability in the above table (see "Items Affecting Comparability"), operating profit increased 3%. This increase primarily reflects the favorable effective net pricing and planned cost reductions across a number of expense categories, as well as lower commodity costs, which increased reported operating profit by 12 percentage points. These impacts were partially offset by certain operating cost increases and the volume decline.

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Europe

| | 12 Weeks Ended | | % Change |
|----------------------------------------------------------------------------------------------|----------------|-----------|-------------|
| | 3/23/2013 | 3/24/2012 | |
| Net revenue | \$1,942 | \$1,845 | 5 |
| Impact of foreign exchange translation | | | (1) |
| Net revenue growth, on a constant currency basis ^(a) | | | 4 |
| Operating profit | \$88 | \$81 | 10 |
| Merger and integration charges | 1 | 2 | |
| Restructuring and impairment charges | 4 | (1) | |
| Operating profit excluding above items ^(a) | \$93 | \$82 | 14 |
| Impact of foreign exchange translation | | | (0.5) |
| Operating profit growth excluding above item, on a constant currency basis ^(a) | | | 14 (b) |

(a) See "Non-GAAP Measures."

(b) Does not sum due to rounding.

Net revenue increased 5%, primarily reflecting effective net pricing and volume growth. Favorable foreign exchange increased net revenue growth by 1 percentage point.

Snacks volume grew 4%, primarily reflecting double-digit growth in South Africa and high-single-digit growth in the Netherlands, partially offset by a slight decline in Russia. Additionally, the United Kingdom experienced low-single-digit growth.

Beverage volume increased 1%, primarily reflecting double-digit growth in Poland and mid-single-digit growth in Germany and Turkey, partially offset by low-single-digit declines in the United Kingdom and Russia.

Operating profit increased 10%, primarily reflecting the net revenue growth and planned cost reductions across a number of expense categories, partially offset by higher commodity costs, which reduced operating profit growth by 17 percentage points, as well as other cost increases reflecting strategic investments and higher advertising and marketing expenses. In addition, the impact of lapping unfavorable settlements of promotional spending accruals in the prior year increased operating profit growth by 10 percentage points, offset by a pricing adjustment for certain commodity purchases, which reduced operating profit growth by 10 percentage points. The items affecting comparability in the above table (see "Items Affecting Comparability") reduced operating profit growth by 4 percentage points and favorable foreign exchange contributed 0.5 percentage points to operating profit growth.

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Asia, Middle East & Africa

| | 12 Weeks Ended | | % |
|-------------------------------------------------------------------------------------------|----------------|-----------|--------|
| | 3/23/2013 | 3/24/2012 | Change |
| Net revenue | \$1,095 | \$1,267 | (14) |
| Impact of foreign exchange translation | | | 2 |
| Net revenue growth, on a constant currency basis ^(a) | | | (12) |
| Operating profit | \$184 | \$148 | 24 |
| Restructuring and impairment charges | 1 | 9 | |
| Operating profit excluding above item ^(a) | \$185 | \$157 | 18 |
| Impact of foreign exchange translation | | | 1 |
| Operating profit growth excluding above item, on a constant currency basis ^(a) | | | 19 |

(a) See "Non-GAAP Measures."

Net revenue declined 14%, reflecting the impact of the prior year transaction with Tingyi and the deconsolidation of International Dairy and Juice Limited, which negatively impacted net revenue performance by 25 percentage points and 2 percentage points, respectively, partially offset by volume growth. Unfavorable foreign exchange reduced net revenue by 2 percentage points.

Snacks volume grew 15%, reflecting broad-based increases including double-digit growth in China and the Middle East. Additionally, India grew at a high-single-digit rate and Thailand and Australia both grew at a low-single-digit rate.

Beverage volume grew 17%, driven by double-digit growth in China (including new co-branded juice products distributed through our joint venture with Tingyi) and in the Middle East, partially offset by a double-digit decline in Thailand. The Tingyi co-branded volume contributed 6 percentage points to AMEA's beverage volume growth. Additionally, India experienced low-single-digit growth.

Operating profit grew 24%, driven primarily by the volume growth and planned cost reductions across a number of expense categories, partially offset by certain operating cost increases and higher advertising and marketing expenses. Unfavorable foreign exchange decreased operating profit growth by 1 percentage point and the impact of acquisitions and divestitures increased operating profit growth slightly.

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 (including long-term debt financing which, depending upon market conditions, we may use to replace a portion of our commercial paper borrowings), will be adequate to meet our operating, investing and financing needs. Sources of cash available to us to fund cash outflows, such as our anticipated share repurchases and dividend payments, include cash from operations and proceeds obtained in the U.S. debt markets. 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.

As of March 23, 2013, we had cash, cash equivalents and short-term investments of \$6.3 billion outside the U.S. To the extent foreign earnings are repatriated, such amounts would be subject to income tax liabilities, both in the U.S. and in various applicable foreign jurisdictions. In addition, currency restrictions enacted by

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the government in Venezuela have impacted our ability to pay dividends outside of the country from our snack and beverage operations in Venezuela. Effective February 2013, the Venezuelan government devalued the bolivar by resetting the official exchange rate from 4.3 bolivars to 6.3 bolivars per dollar. As of March 23, 2013, our operations in Venezuela comprised 5% of our cash and cash equivalents balance. For additional information on the impact of the devaluation, see "Our Business Risks" and "Items Affecting Comparability."

Operating Activities

During the 12 weeks in 2013, net cash provided by operating activities was \$702 million, compared to net cash used for operating activities of \$690 million in the prior year period. The operating cash flow performance primarily reflects the lapping of pension and retiree medical contributions of \$1.1 billion in the prior year and favorable working capital comparisons to the prior year.

Also see "Management Operating Cash Flow" below for certain other items impacting net cash provided by operating activities.

Investing Activities

During the 12 weeks in 2013, net cash used for investing activities was \$285 million, primarily reflecting \$295 million for net capital spending.

We expect 2013 net capital spending to be approximately \$3.0 billion, within our long-term capital spending target of less than or equal to 5% of net revenue.

Financing Activities

During the 12 weeks in 2013, net cash provided by financing activities was \$173 million, primarily reflecting net proceeds from long-term debt of \$1.3 billion and stock option proceeds of \$0.4 billion, partially offset by the return of operating cash flow to our shareholders through share repurchases and dividend payments of \$1.46 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. In the first quarter of 2013, we approved a new share repurchase program providing for the repurchase of up to \$10 billion of PepsiCo common stock from July 1, 2013 through June 30, 2016, which will succeed the current repurchase program that expires on June 30, 2013. In addition, we announced a 5.6% increase in our annualized dividend to \$2.27 per share from \$2.15 per share, effective with the dividend payable in June 2013. Under these programs, we expect to return a total of \$6.4 billion to shareholders in 2013 through dividends of approximately \$3.4 billion and share repurchases of approximately \$3.0 billion.

Management Operating Cash Flow

Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that management operating cash flow 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. Additionally, we consider certain items (included in the table below), in evaluating management operating cash flow. We believe investors should consider these items in evaluating our management operating cash flow results. Management operating cash flow excluding certain items is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by U.S GAAP. Therefore, this measure is not, and should not be viewed as, a substitute for U.S. GAAP cash flow measures.

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The table below reconciles net cash provided by/(used for) operating activities, as reflected in our statement of cash flows, to our management operating cash flow excluding the impact of the items below.

| | 12 Weeks Ended | |
|-------------------------------------------------------------------------------------|----------------|-----------|
| | 3/23/2013 | 3/24/2012 |
| Net cash provided by/(used for) operating activities | \$702 | \$(690) |
| Capital spending | (303) | (316) |
| Sales of property, plant and equipment | 8 | 17 |
| Management operating cash flow | 407 | (989) |
| Discretionary pension and retiree medical contributions | 13 | 1,000 |
| Merger and integration payments (after-tax) | 9 | 20 |
| Payments related to restructuring charges | 30 | 44 |
| Capital investments related to the PBG/PAS integration | — | 4 |
| Capital investments related to the Productivity Plan | 4 | — |
| Payments for restructuring and other charges related to the transaction with Tingyi | 1 | — |
| Management operating cash flow excluding above items | \$464 | \$79 |

In all periods presented, management operating cash flow was used primarily to repurchase shares and pay dividends. We expect to continue to return management operating cash flow to our shareholders through dividends and share repurchases while maintaining credit ratings that provide us with ready access to global and capital credit markets. However, see Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks, included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 for certain factors that may impact our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, could increase our future borrowing costs or impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See "Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks", included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 and Note 8 to our condensed consolidated financial statements.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

PepsiCo, Inc.:

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of March 23, 2013, and the related Condensed Consolidated Statements of Income, Comprehensive Income, Cash Flows, and Equity for the twelve weeks ended March 23, 2013 and March 24, 2012. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 29, 2012, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the fiscal year then ended not presented herein; and in our report dated February 21, 2013, 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 29, 2012, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

New York, New York

April 19, 2013

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

See “Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks” and Note 10 to our condensed consolidated financial statements. In addition, see “Item 1A. Risk Factors” and “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Our Business Risks” in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

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 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, to allow timely decisions regarding required disclosure. During our first fiscal quarter of 2013, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses over the course of the next few years. Moreover, we continue to integrate our WBD business, which was acquired in 2011. In connection with these implementations and integration, 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.

Except as described above, there were no changes in our internal control over financial reporting during our first fiscal quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings.

The following information supplements and amends the discussion set forth under Part I, Item 3. "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

As previously disclosed, in September 2010, Rosprirodnadzor (the Russian Environmental Compliance Body) identified certain violations connected to the discharge of packaging and other waste in excess of permitted limits and without valid permits at the Kashira plant of our subsidiary, Frito-Lay Manufacturing OOO (FLM) for the period from 2008 to 2010. Rosprirodnadzor is now time-barred from seeking fines, penalties or damages for the alleged violations that took place in 2008 and 2009, and we expect that any fines, penalties or damages that FLM may be required to pay in connection with alleged violations that took place in 2010 will be less than \$100,000.

Also as previously disclosed, on December 22, 2009, Wojewodzka Inspekcja Ochrony Srodowiska, the Polish environmental control authority, began an audit of a bottling plant of our subsidiary, Pepsi-Cola General Bottlers Poland SP, z.o.o. (PCGB), in Michrow, Poland and alleged that the plant was not in compliance in 2007 and 2008 with applicable regulations requiring the use of approved laboratories for the analysis of the plant's waste. The Wojewodzka Inspekcja Ochrony Srodowiska sought monetary sanctions of \$1.2 million. On January 6, 2011, Wojewodzka Inspekcja Ochrony Srodowiska began an audit alleging non-compliance in 2009 and subsequently sought monetary sanctions of \$700,000. PCGB appealed these decisions and, on January 15, 2013, the Supreme Administrative Court found that the sanctions against PCGB were imposed in violation of applicable environmental law and released PCGB from all liability with respect to such sanctions. The ruling of the Supreme Administrative Court is final and non-appealable.

In addition, we and our subsidiaries are party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. While the results of these proceedings, claims and inquiries cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows. See "Item 1. Business - Regulatory Environment and Environmental Compliance" in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

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

A summary of our common stock repurchases (in millions, except average price per share) during the first quarter under the \$15.0 billion repurchase program authorized by our Board of Directors and publicly announced on March 15, 2010, and expiring on June 30, 2013, is set forth in the following table. All such shares of common stock were repurchased pursuant to open market transactions. In addition, in the first quarter of 2013, we announced a new \$10 billion repurchase program for repurchases of our common stock, commencing on July 1, 2013 and expiring on June 30, 2016.

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 ^(a) |
|--------------------|------------------------------------|------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| 12/29/12 | | | | \$7,828 |
| 12/30/12 - 1/26/13 | 2.5 | \$71.26 | 2.5 | (179) 7,649 |
| 1/27/13 - 2/23/13 | 3.1 | \$72.64 | 3.1 | (228) 7,421 |
| 2/24/13 - 3/23/13 | 2.9 | \$76.85 | 2.9 | (219) |
| Total | 8.5 | \$73.64 | 8.5 | \$7,202 |

(a) Maximum does not include shares authorized for repurchase under the share repurchase program approved in the first quarter of 2013.

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PepsiCo also repurchases shares of its convertible preferred stock from an ESOP fund established by Quaker in connection with share redemptions by ESOP participants. The following table summarizes our convertible preferred share repurchases during the first quarter.

Issuer Purchases of Convertible Preferred Stock

| Period | Total Number of Shares Repurchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs |
|--------------------|------------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| 12/30/12 - 1/26/13 | 1,400 | \$344.64 | N/A | N/A |
| 1/27/13 - 2/23/13 | 2,700 | \$367.02 | N/A | N/A |
| 2/24/13 - 3/23/13 | 1,300 | \$381.37 | N/A | N/A |
| Total | 5,400 | \$364.67 | N/A | N/A |

ITEM 6. Exhibits

See "Index to Exhibits" on page 44.

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SIGNATURES

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

PepsiCo, Inc.
(Registrant)

Date: April 19, 2013

/s/ Marie T. Gallagher
Marie T. Gallagher
Senior Vice President and Controller

Date: April 19, 2013

/s/ Kelly Mahon Tullier
Kelly Mahon Tullier
Senior Vice President,
Deputy General Counsel
(Duly Authorized Officer)

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INDEX TO EXHIBITS

ITEM 6

EXHIBITS

- Exhibit 2.1 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., The Pepsi Bottling Group, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2009.
- Exhibit 2.2 Agreement and Plan of Merger dated as of August 3, 2009, among PepsiCo, Inc., PepsiAmericas, Inc. and Pepsi-Cola Metropolitan Bottling Company, Inc. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.2 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2009.
- Exhibit 2.3 Purchase Agreement dated as of December 1, 2010 among PepsiCo, Inc., Pepsi-Cola (Bermuda) Limited, Gavril A. Yushvaev, David Iakobachvili, Mikhail V. Dubinin, Sergei A. Plastinin, Alexander S. Orlov, Mikhail I. Vishnaykov, Aladaro Limited, Tony D. Maher, Dmitry Ivanov, Wimm Bill Dann Finance Cyprus Ltd. and Wimm-Bill-Dann Finance Co. Ltd. (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K), which is incorporated herein by reference to Exhibit 2.1 to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2010.
- 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, effective as of March 8, 2012, 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 March 12, 2012.
- Exhibit 4.1 Form of Floating Rate Note due 2016, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2013.
- Exhibit 4.2 Form of 0.700% Senior Note due 2016, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2013.
- Exhibit 4.3 Form of 2.750% Senior Note due 2023, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2013.
- Exhibit 4.4 Board of Directors Resolutions Authorizing PepsiCo's Officers to Establish the Terms of the Floating Rate Note due 2016, the 0.700% Senior Note due 2016 and the 2.750% Senior Note due 2023, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2013.

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| Exhibit 10.1 | Form of Annual Long-Term Incentive Award Agreement, which is incorporated herein by reference to Exhibit 10.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2013. |
| Exhibit 12 | Computation of Ratio of Earnings to Fixed Charges. |
| Exhibit 15 | Letter re: Unaudited Interim Financial Information. |
| Exhibit 24 | Power of Attorney executed by Indra K. Nooyi, Hugh F. Johnston, Marie T. Gallagher, Shona L. Brown, George W. Buckley, Ian M. Cook, Dina Dublon, Victor J. Dzau, Ray L. Hunt, Alberto Ibarguen, Sharon Percy Rockefeller, James J. Schiro, Lloyd G. Trotter, Daniel Vasella and Alberto Weisser, which is incorporated herein by reference to Exhibit 24 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 29, 2012. |
| Exhibit 31 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 101 | The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 23, 2013 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. |