

PEPSICO INC
Form 10-K
February 12, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 27, 2014

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)

700 Anderson Hill Road, Purchase, New York

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: 914-253-2000

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Common Stock, par value 1-2/3 cents per share	New York and Chicago Stock Exchanges
2.500% Senior Notes Due 2022	New York Stock Exchange
1.750% Senior Notes Due 2021	New York Stock Exchange
2.625% Senior Notes Due 2026	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No "

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
" No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this
chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer x

Accelerated filer "

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Non-accelerated filer

Smaller reporting company

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

The aggregate market value of PepsiCo, Inc. Common Stock held by nonaffiliates of PepsiCo, Inc. (assuming for these purposes, but without conceding, that all executive officers and directors of PepsiCo, Inc. are affiliates of PepsiCo, Inc.) as of June 13, 2014, the last day of business of our most recently completed second fiscal quarter, was \$131.6 billion (based on the closing sale price of PepsiCo, Inc.'s Common Stock on that date as reported on the New York Stock Exchange).

The number of shares of PepsiCo, Inc. Common Stock outstanding as of February 6, 2015 was 1,482,368,514.

Documents Incorporated by Reference

Portions of the Proxy Statement relating to PepsiCo, Inc.'s 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

PepsiCo, Inc.
 Form 10-K Annual Report
 For the Fiscal Year Ended December 27, 2014
 Table of Contents

PART I

Item 1.	<u>Business</u>	<u>2</u>
Item 1A.	<u>Risk Factors</u>	<u>11</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>25</u>
Item 2.	<u>Properties</u>	<u>25</u>
Item 3.	<u>Legal Proceedings</u>	<u>27</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>27</u>

PART II

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>31</u>
Item 6.	<u>Selected Financial Data</u>	<u>34</u>
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>122</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>122</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>122</u>
Item 9A.	<u>Controls and Procedures</u>	<u>122</u>
Item 9B.	<u>Other Information</u>	<u>123</u>

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>123</u>
Item 11.	<u>Executive Compensation</u>	<u>123</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>123</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>124</u>
Item 14.	<u>Principal Accounting Fees and Services</u>	<u>124</u>

PART IV

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>125</u>
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Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “express confidence,” “forecast,” “future,” “goals,” “guidance,” “intend,” “may,” “objectives,” “outlook,” “plan,” “position,” “potential,” “should,” “strategy,” “target,” “will” or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. These risks and uncertainties include, but are not limited to, those described in “Risk Factors” in Item 1A. and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business – Our Business Risks” in Item 7. 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. The discussion of risks below and elsewhere in this report is by no means all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our future performance.

PART I

Item 1. Business.

PepsiCo, Inc. was incorporated in Delaware in 1919 and was reincorporated in North Carolina in 1986. When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries, collectively.

We are a leading global food and beverage company with a complementary portfolio of enjoyable brands, including Frito-Lay, Gatorade, Pepsi-Cola, Quaker and Tropicana. Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of convenient and enjoyable beverages, foods and snacks, serving customers and consumers in more than 200 countries and territories.

Performance with Purpose is our goal to deliver sustained value by providing a wide range of beverages, foods and snacks, from treats to healthy eats; finding innovative ways to minimize our impact on the environment and lower our costs through energy and water conservation as well as reduce our use of packaging material; providing a safe and inclusive workplace for our employees globally; and respecting, supporting and investing in the local communities in which we operate. PepsiCo was again recognized for its leadership in this area in 2014 by earning a place on the prestigious Dow Jones World Index for the eighth consecutive year and on the North America Index for the ninth consecutive year.

Certain terms used in this Annual Report on Form 10-K are defined in the Glossary included in Item 7. of this report.

Table of Contents

Our Operations

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

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

See Note 1 to our consolidated financial statements for financial information about our divisions and geographic areas. See also “Risk Factors” in Item 1A. below for a discussion of certain risks associated with our operations outside the United States.

Frito-Lay North America

Either independently or in conjunction with third parties, FLNA makes, markets, distributes and sells branded snack foods. These foods include Lay’s potato chips, Doritos tortilla chips, Cheetos cheese-flavored snacks, Tostitos tortilla chips, branded dips, Ruffles potato chips, Fritos corn chips and Santitas tortilla chips. FLNA’s branded products are sold to independent distributors and retailers. In addition, FLNA’s joint venture with Strauss Group makes, markets, distributes and sells Sabra refrigerated dips and spreads. FLNA’s net revenue was \$14.5 billion, \$14.1 billion and \$13.6 billion in 2014, 2013 and 2012, respectively, and approximated 22% of our total net revenue in 2014 and 21% of our total net revenue in both 2013 and 2012.

Quaker Foods North America

Either independently or in conjunction with third parties, QFNA makes, markets, distributes and sells cereals, rice, pasta, dairy and other branded products. QFNA’s products include Quaker oatmeal, Aunt Jemima mixes and syrups, Quaker Chewy granola bars, Quaker grits, Cap’n Crunch cereal, Life cereal, Rice-A-Roni side dishes, Quaker rice cakes, Quaker oat squares and Quaker natural granola. These branded products are sold to independent distributors and retailers. QFNA’s net revenue was \$2.6 billion in each of 2014, 2013 and 2012, and approximated 4% of our total net revenue in each of 2014, 2013 and 2012.

Latin America Foods

Either independently or in conjunction with third parties, LAF makes, markets, distributes and sells a number of snack food brands including Doritos, Cheetos, Marias Gamesa, Ruffles, Emperador, Saladitas, Lay’s, Rosquinhas Mabel, Elma Chips and Sabritas, as well as many Quaker-branded cereals and snacks. These branded products are sold to independent distributors and retailers. LAF’s net revenue was \$8.4 billion, \$8.3 billion and \$7.8 billion in 2014, 2013 and 2012, respectively, and approximated 12% of our total net revenue in each of 2014, 2013 and 2012.

Table of Contents

PepsiCo Americas Beverages

Either independently or in conjunction with third parties, PAB makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Gatorade, Mountain Dew, Diet Pepsi, Aquafina, 7UP (outside the United States), Diet Mountain Dew, Tropicana Pure Premium, Sierra Mist and Diet 7UP (outside the United States). PAB also, either independently or in conjunction with third parties, makes, markets and sells ready-to-drink tea and coffee products through joint ventures with Unilever (under the Lipton brand name) and Starbucks, respectively. Further, PAB manufactures and distributes certain brands licensed from Dr Pepper Snapple Group, Inc. (DPSG), including Dr Pepper, Crush and Schweppes, and certain juice brands licensed from Dole Food Company, Inc. (Dole) and Ocean Spray Cranberries, Inc. (Ocean Spray). PAB operates its own bottling plants and distribution facilities and sells branded finished goods directly to independent distributors and retailers. PAB also sells concentrate and finished goods for our brands to authorized and independent bottlers, who in turn sell our branded finished goods to independent distributors and retailers in certain markets. PAB's net revenue was \$21.2 billion, \$21.1 billion and \$21.4 billion in 2014, 2013 and 2012, respectively, and approximated 32% of our total net revenue in both 2014 and 2013, and 33% in 2012.

PepsiCo Europe

Either independently or in conjunction with third parties, Europe makes, markets, distributes and sells a number of leading snack food brands including Lay's, Walkers, Doritos, Cheetos and Ruffles, as well as many Quaker-branded cereals and snacks, through consolidated businesses as well as through noncontrolled affiliates. Europe also, either independently or in conjunction with third parties, makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Pepsi Max, 7UP, Diet Pepsi and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. In certain markets, however, Europe operates its own bottling plants and distribution facilities. Europe also, either independently or in conjunction with third parties, makes, markets and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). In addition, Europe makes, markets, sells and distributes a number of leading dairy products including Domik v Derevne, Chudo and Agusha. Europe's net revenue was \$13.3 billion, \$13.8 billion and \$13.4 billion in 2014, 2013 and 2012, respectively, and approximated 20%, 21% and 20% of our total net revenue in 2014, 2013 and 2012, respectively.

PepsiCo Asia, Middle East and Africa

Either independently or in conjunction with third parties, AMEA makes, markets, distributes and sells a number of leading snack food brands including Lay's, Kurkure, Chippy, Doritos, Cheetos and Crunchy through consolidated businesses as well as through noncontrolled affiliates. Further, either independently or in conjunction with third parties, AMEA makes, markets, distributes and sells many Quaker-branded cereals and snacks. AMEA also makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Pepsi, Mirinda, 7UP, Mountain Dew, Aquafina and Tropicana. These branded products are sold to authorized bottlers, independent distributors and retailers. However, in certain markets, AMEA operates its own bottling plants and distribution facilities. AMEA also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea products through an international joint venture with Unilever (under the Lipton brand name). Further, we license the Tropicana brand for use in China on co-branded juice products in connection with a strategic alliance with Tingyi (Cayman Islands) Holding Corp. (Tingyi). AMEA's net revenue was \$6.7 billion, \$6.5 billion and \$6.7 billion in 2014, 2013 and 2012, respectively, and approximated 10% of our total net revenue in each of 2014, 2013 and 2012.

See Note 15 to our consolidated financial statements for additional information about our transaction with Tingyi in 2012.

Table of Contents

Our Distribution Network

Our products are brought to market through direct-store-delivery (DSD), customer warehouse and distributor networks. The distribution system used depends on customer needs, product characteristics and local trade practices.

Direct-Store-Delivery

We, our independent bottlers and our distributors operate DSD systems that deliver beverages, foods and snacks directly to retail stores where the products are merchandised by our employees or our independent bottlers. DSD enables us to merchandise with maximum visibility and appeal. DSD is especially well-suited to products that are restocked often and respond to in-store promotion and merchandising.

Customer Warehouse

Some of our products are delivered from our manufacturing plants and warehouses to customer warehouses and retail stores. These less costly systems generally work best for products that are less fragile and perishable, and have lower turnover.

Distributor Networks

We distribute many of our products through third-party distributors. Third-party distributors are particularly effective when greater distribution reach can be achieved by including a wide range of products on the delivery vehicles. For example, our foodservice and vending business distributes beverages, foods and snacks to restaurants, businesses, schools and stadiums through third-party foodservice and vending distributors and operators.

Ingredients and Other Supplies

The principal ingredients we use in our beverage, food and snack products are apple, orange and pineapple juice and other juice concentrates, aspartame, corn, corn sweeteners, flavorings, flour, grapefruit and other fruits, oats, oranges, potatoes, raw milk, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. We also use water in the manufacturing of our products. Our key packaging materials include plastic resins, including polyethylene terephthalate (PET) and polypropylene resins used for plastic beverage bottles and film packaging used for snack foods, aluminum used for cans, glass bottles, closures, cardboard and paperboard cartons. Fuel and natural gas are also important commodities for us due to their use in our facilities and in the trucks delivering our products. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages. Many of these ingredients, raw materials and commodities are purchased in the open market. The prices we pay for such items are subject to fluctuation, and we manage this risk through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, including swaps and futures. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. When prices increase, we may or may not pass on such increases to our customers. See Note 10 to our consolidated financial statements for additional information on how we manage our exposure to commodity costs. See also “Item 1A. Risk Factors – Our business, financial condition or results of operations may be adversely affected by increased costs, disruption of supply or shortages of raw materials or other supplies.”

Our Brands and Intellectual Property Rights

We own numerous valuable trademarks which are essential to our worldwide businesses, including Agusha, Amp Energy, Aquafina, Aquafina Flavorsplash, Aunt Jemima, Cap’n Crunch, Cheetos, Chester’s, Chippy, Chudo, Cracker Jack, Crunchy, Diet Mountain Dew, Diet Mug, Diet Pepsi, Diet 7UP, Diet Sierra Mist, Domik v Derevne, Doritos, Duyvis, Elma Chips, Emperador, Frito-Lay, Fritos, Fruktovy Sad, Frustyle, G Series, G2, Gatorade, Grandma’s, Imunele, Izze, Kurkure, Lay’s, Life, Lubimy, Manzanita Sol, Marias Gamesa, Matutano, Mirinda, Miss Vickie’s, Mother’s, Mountain Dew, Mountain Dew Code Red, Mountain Dew

Table of Contents

Kickstart, Mug, Munchies, Naked, Near East, O.N.E., Paso de los Toros, Pasta Roni, Pepsi, Pepsi Max, Pepsi Next, Propel, Quaker, Quaker Chewy, Rice-A-Roni, Rold Gold, Rosquinhas Mabel, Ruffles, Sabritas, Sakata, Saladitas, Sandora, Santitas, 7UP (outside the United States) and 7UP Free (outside the United States), Sierra Mist, Simba, Smartfood, Smith's, Snack a Jacks, SoBe, SoBe Lifewater, SoBe V Water, Sonric's, Stacy's, Sting, SunChips, Tonus, Tostitos, Trop 50, Tropicana, Tropicana Farmstand, Tropicana Pure Premium, Tropicana Twister, Vesely Molochnik, Walkers and Ya. We also hold long-term licenses to use valuable trademarks in connection with our products in certain markets, including Dole and Ocean Spray. We also distribute Rockstar Energy drinks, Muscle Milk protein shakes and certain DPSG brands, including Dr Pepper, Crush and Schweppes, in certain markets. Joint ventures in which we have an ownership interest either own or have the right to use certain trademarks, such as Lipton, Müller, Sabra and Starbucks. Trademarks remain valid so long as they are used properly for identification purposes, and we emphasize correct use of our trademarks. We have authorized, through licensing arrangements, the use of many of our trademarks in such contexts as snack food joint ventures and beverage bottling appointments. In addition, we license the use of our trademarks on merchandise that is sold at retail, which enhances brand awareness.

We either own or have licenses to use a number of patents which relate to certain of our products, their packaging, the processes for their production and the design and operation of various equipment used in our businesses. Some of these patents are licensed to others. See also "Item 1A. Risk Factors – Our intellectual property rights could be infringed or challenged and reduce the value of our products and brands and have an adverse impact on our business, financial condition or results of operations."

Seasonality

Our businesses are affected by seasonal variations. For instance, our beverage sales are higher during the warmer months and certain food and dairy sales are higher in the cooler months. Weekly beverage and snack sales are generally highest in the third quarter due to seasonal and holiday-related patterns, and generally lowest in the first quarter. However, taken as a whole, seasonality does not have a material impact on our consolidated financial results.

Our Customers

Our primary customers include wholesale and other distributors, foodservice customers, grocery stores, drug stores, convenience stores, discount/dollar stores, mass merchandisers, membership stores and authorized independent bottlers. We normally grant our independent bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements provide us with the right to charge our independent bottlers for concentrate, finished goods and Aquafina royalties and specify the manufacturing process required for product quality. We also grant distribution rights to our independent bottlers for certain beverage products bearing our trademarks for specified geographic areas.

Since we do not sell directly to the consumer, we rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include volume-based rebates, product placement fees, promotions and displays. For our independent bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, and other promotional offers. Advertising support is directed at advertising programs and supporting independent bottler media. New product support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually.

Table of Contents

Changes to the retail landscape, including increased consolidation of retail ownership, and the current economic environment continue to increase the importance of major customers. See “Item 1A. Risk Factors – The loss of any key customer or changes to the retail landscape could adversely affect our business, financial condition or results of operations.” In 2014, sales to Wal-Mart Stores, Inc. (Wal-Mart), including Sam’s Club (Sam’s), represented approximately 12% of our total net revenue. Our top five retail customers represented approximately 31% of our 2014 North American (United States and Canada) net revenue, with Wal-Mart (including Sam’s) representing approximately 18%. These percentages include concentrate sales to our independent bottlers, which were used in finished goods sold by them to these retailers.

See Note 8 to our consolidated financial statements for more information on our customers, including our independent bottlers.

Our Competition

Our beverage, food and snack products are in highly competitive industries and markets and compete against products of international beverage, food and snack companies that, like us, operate in multiple geographies, as well as regional, local and private label manufacturers and other value competitors. In many countries in which our products are sold, including the United States, The Coca-Cola Company is our primary beverage competitor. Other beverage, food and snack competitors include, but are not limited to, DPSG, Kellogg Company, Kraft Foods Group, Inc., Mondelez International, Inc., Monster Beverage Corporation, Nestlé S.A., Red Bull GmbH and Snyder’s-Lance, Inc.

Many of our food and snack products hold significant leadership positions in the food and snack industry worldwide. However, The Coca-Cola Company has significant carbonated soft drink (CSD) share advantage in many markets outside the United States.

Our beverage, food and snack products compete primarily on the basis of brand recognition, taste, price, quality, product variety, distribution, advertising, marketing and promotional activity, packaging, convenience, service and the ability to anticipate and respond to consumer trends. Success in this competitive environment is dependent on effective promotion of existing products, introduction of new products and the effectiveness of our advertising campaigns, marketing programs, product packaging, pricing, increased efficiency in production techniques, new vending and dispensing equipment and brand and trademark development and protection. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allows us to compete effectively. See also “Item 1A. Risk Factors – Our business, financial condition or results of operations could suffer if we are unable to compete effectively.”

Table of Contents

U.S. Savory Snacks

% Retail Sales in Measured Channels ⁽¹⁾

Includes salty snacks (including potato, tortilla, corn, pita, bagel and veggie chips, pretzels, fruit crisps and cheese puffs), snack nuts, seeds, corn nuts, meat snacks, crackers (excluding graham), popcorn, dips, trail mixes, rice cakes and soy chips.

U.S. Liquid Refreshment Beverage Category Share
% Retail Sales in Measured Channels ⁽¹⁾⁽²⁾

The categories and category share information in the charts above are through December 2014 based on data (1) provided and verified by Information Resources, Inc. (IRI). The above charts include data from most major retail chains (including Wal-Mart) but exclude data from certain retailers that do not report to this service.

(2) Does not sum due to rounding.

Research and Development

We engage in a variety of research and development activities and continue to invest to accelerate growth to drive innovation globally. These activities principally involve production, processing and packaging and include: development of new ingredients and products; reformulation and improvement in the quality of existing products; improvement and modernization of manufacturing processes; improvements in product quality, safety and integrity; development of, and improvements in, packaging technology and dispensing equipment; and efforts focused on identifying opportunities to transform, grow and broaden our product portfolio, including the development of sweetener alternatives and flavor modifiers to reduce added sugar, and recipes that allow us to reduce sodium levels in certain of our products. Our research centers are located around the world, including in Brazil, China, Germany, India, Mexico, Russia, the United Arab Emirates, the United Kingdom and the United States, and leverage nutrition science, food science, engineering and consumer insights to meet our strategy to develop nutritious, convenient beverages, foods and snacks. In 2014, we continued to refine our beverage, food and snack portfolio to meet changing consumer needs by developing a broader portfolio of product choices, including building on our important nutrition platforms and brands – Quaker (grains), Tropicana (fruits and vegetables), Gatorade (sports nutrition for athletes) and Naked Juice (super-premium juice and protein smoothies) – and expanding our portfolio of nutritious products in growing categories, such as dairy, hummus and other fresh dips, and baked grain snacks. We also made investments to minimize our impact on the environment, including innovation in our packaging to make it increasingly sustainable, and developed and implemented new technologies to enhance the quality and value of our current and future products, as well as made investments to incorporate into our operations best practices and technology to support sustainable agriculture and to minimize our impact on the environment. We continue to make investments to conserve energy and raw materials, reduce waste in our facilities, recycle containers, use renewable resources and optimize package design to use fewer materials. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were \$718 million, \$665 million and \$552 million in 2014, 2013 and 2012, respectively, and are reported within selling, general and administrative expenses. See also “Item 1A. Risk Factors – Demand for our products may be adversely affected by changes in consumer preferences or any inability on

Table of Contents

our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations.”

Regulatory Environment and Environmental Compliance

The conduct of our businesses, including the production, storage, distribution, sale, display, advertising, marketing, labeling, quality and safety of our products, occupational safety and health practices, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to laws and regulations administered by government entities and agencies outside the United States in markets in which our products are made, manufactured, distributed or sold. It is our policy to abide by the laws and regulations around the world that apply to our businesses.

We are required to comply with a variety of U.S. laws and regulations, including but not limited to: the Federal Food, Drug and Cosmetic Act and various state laws governing food safety; the Food Safety Modernization Act; the Occupational Safety and Health Act; the Clean Air Act; the Clean Water Act; the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Federal Motor Carrier Safety Act; the Lanham Act; various federal and state laws and regulations governing competition and trade practices; various federal and state laws and regulations governing our employment practices, including those related to equal employment opportunity, such as the Equal Employment Opportunity Act and the National Labor Relations Act; customs and foreign trade laws and regulations; and laws regulating the sale of certain of our products in schools. In our business dealings, we are also required to comply with the Foreign Corrupt Practices Act, the U.K. Bribery Act and the Trade Sanctions Reform and Export Enhancement Act. We are also subject to various state and local statutes and regulations, including state consumer protection laws such as Proposition 65 in California which requires that, unless a safe harbor level exists and has been met, a specific warning appear on any product that contains a substance listed by the State of California as having been found to cause cancer or birth defects. See also “Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”

We are also subject to numerous similar and other laws and regulations outside the United States, including but not limited to laws and regulations governing food safety, health and safety, anti-corruption and data privacy. In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions, as is compliance with anti-corruption laws. We rely on legal and operational compliance programs, as well as in-house and outside counsel, to guide our businesses in complying with applicable laws and regulations of the countries in which we do business. See also “Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.” and “Item 1A. Risk Factors – Our business, financial condition or results of operations could be adversely affected if we are unable to grow our business in developing and emerging markets or as a result of unstable political conditions, civil unrest or other developments and risks in the markets where our products are made, manufactured, distributed or sold.”

Certain jurisdictions in which our products are sold have either imposed, or are considering imposing, taxes or other limitations on, or regulations pertaining to, the sale of certain of our products, ingredients or substances contained in our products or commodities used in the production of our products, including certain of our products that contain added sugar, exceed specified caloric content or include specified ingredients such as caffeine; this includes regulations imposing additional labeling requirements. For example, in 2014, Mexico imposed a tax on sugar-sweetened beverages and certain packaged foods. In addition, certain jurisdictions require or are considering proposals to require labeling of foods that are, or contain ingredients that are, genetically modified and to restrict the use of benefit programs, such as the Supplemental Nutrition Assistance

Table of Contents

Program, to purchase certain beverages and foods. In addition, legislation has been enacted in certain U.S. states and in certain other countries in which our products are sold that requires collection and recycling of containers or that prohibits the sale of our beverages in certain non-refillable containers, unless a deposit or other fee is charged. It is possible that similar or more restrictive legal requirements may be proposed or enacted in the future. In addition, we are subject to taxes in the United States and numerous foreign jurisdictions. Economic and political conditions may result in changes in tax rates which could affect our financial performance. See also “Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.” and “Item 1A. Risk Factors – Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.”

The cost of compliance with U.S. and foreign laws does not have a material financial impact on our consolidated results of operations.

We are also subject to national and local environmental laws in the United States and in foreign countries in which we do business, including laws related to water consumption and treatment, wastewater discharge and air emissions. In the United States, our facilities must comply with the Clean Air Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and other federal and state laws regarding handling, storage, release and disposal of wastes generated on-site and sent to third-party owned and operated off-site licensed facilities and our facilities outside the United States must comply with similar laws and regulations. Our policy is to meet all applicable environmental compliance requirements, and we have internal programs in place to enhance our global environmental compliance. We have made, and plan to continue making, necessary expenditures for compliance with applicable laws. While these expenditures have not had a material impact on our business, financial condition or results of operations, changes in environmental compliance requirements, and any expenditures necessary to comply with such requirements, could affect our financial performance. In addition, we and our subsidiaries are subject to environmental remediation obligations in the normal course of business, as well as remediation and related indemnification obligations in connection with certain historical activities and contractual obligations, including those of businesses acquired by our subsidiaries. While these environmental and indemnification obligations cannot be predicted with certainty, environmental compliance costs have not had, and are not expected to have, a material impact on our capital expenditures, earnings or competitive position. See also “Item 1A. Risk Factors – Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.”

The Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA) requires disclosure of certain activities relating to Iran by PepsiCo or its affiliates that occurred during our 2014 fiscal year. As previously disclosed, one of our foreign subsidiaries historically maintained a small office in Iran, which provided sales support to independent bottlers in Iran in connection with in-country sales of foreign-owned beverage brands, and which was not in contravention of any applicable U.S. sanctions laws. The office ceased all commercial activity since the enactment of ITRA. In addition, the office of the foreign subsidiary had one local bank account, containing aggregate deposits of approximately \$180, with a bank identified on the list of “Specially Designated Nationals” maintained by the U.S. Treasury Department’s Office of Foreign Assets Control (OFAC). During our 2014 fiscal year, our foreign subsidiary received a license from OFAC authorizing it to engage in activities related to the winding down of the office in Iran and to close the bank account. Following receipt of this license, our foreign subsidiary restarted the process of winding down its office and closed the bank account. Subsequent to the end of 2014, this license expired and the foreign subsidiary ceased the process of winding down its office upon expiration of the license. The foreign subsidiary has applied for a license from OFAC to authorize continuation and completion of wind-down activities and intends to continue such activities upon receipt thereof. The foreign subsidiary did not engage in any activities in Iran other than wind-down activities in 2014, or have any revenues or profits attributable to activities in Iran during 2014.

Table of Contents

Employees

As of December 27, 2014, we employed approximately 271,000 people worldwide, including approximately 107,000 people within the United States. Our employment levels are subject to seasonal variations. We or our subsidiaries are a party to numerous collective bargaining agreements. We expect that we will be able to renegotiate these collective bargaining agreements on satisfactory terms when they expire. We believe that relations with our employees are generally good.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (SEC). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are also available free of charge on our Internet site at <http://www.pepsico.com> as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

Item 1A. Risk Factors.

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the following factors that could have a material adverse effect on our business, financial condition, results of operations or the price of our common stock. The following information should be read together and in conjunction with "Forward-Looking Statements," "Item 1. Business," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the accompanying notes thereto. The risks below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, results of operations or the price of our common stock.

Demand for our products may be adversely affected by changes in consumer preferences or any inability on our part to innovate or market our products effectively and any significant reduction in demand could adversely affect our business, financial condition or results of operations.

We are a global food and beverage company operating in highly competitive categories and we rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Any significant changes in consumer preferences or any inability on our part to anticipate or react to such changes could result in reduced demand for our products and erosion of our competitive and financial position and could adversely affect our business, financial condition or results of operations. Our success depends on: our ability to anticipate and effectively respond to shifts in consumer trends, including increased demand for products that meet the needs of consumers who are concerned with health and wellness, convenience and location of origin or source of the products they consume; our product quality; our ability to extend our portfolio of convenient beverages, foods and snacks in growing markets; our ability to develop or acquire new products that are responsive to certain consumer preferences, including reducing sodium, added sugars and saturated fat; our ability to develop a broader portfolio of product choices and increase non-carbonated beverage offerings and alternatives to traditional carbonated beverage offerings;

Table of Contents

our ability to develop sweetener innovation; our ability to improve the production and packaging of our products; and our ability to respond to competitive product and pricing pressures. For example, our growth rate may be adversely affected if we are unable to maintain or grow our current share of the liquid refreshment beverage market in North America, or our current share of the snacks market globally, or if demand for our products does not grow in developing and emerging markets.

In general, changes in product category consumption or consumer demographics could result in reduced demand for our products. Consumer preferences may evolve due to a variety of factors, including: the aging of the general population; consumer concerns or perceptions regarding the nutrition profile of certain of our products, including their caloric content, or perceptions (whether or not valid) regarding the health effects of ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, artificial sweeteners, caffeine, high-fructose corn syrup, saturated fat, sodium, sugar, trans fats or other product ingredients, substances or attributes, including genetically modified ingredients; packaging materials; changes in package or portion size; changes in in-home consumption patterns; changes in social trends that impact travel, vacation or leisure activity patterns; changes in weather patterns or seasonal consumption cycles; negative publicity (whether or not valid) resulting from regulatory action, litigation against us or other companies in our industry or negative or inaccurate posts or comments in the media, including social media, about us, our products or advertising campaigns and marketing programs; consumer perception of social media posts or other information disseminated by us or our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties; consumer perception of our employees, agents, customers, suppliers, bottlers, distributors, joint venture partners or other third parties or the business practices of such parties; a downturn in economic conditions; or taxes or other restrictions imposed on our products.

Any of these changes may reduce consumers' willingness to purchase our products. See also "Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.", "Imposition of new taxes, disagreements with tax authorities or additional tax liabilities could adversely affect our business, financial condition or results of operations.", "Our business, financial condition or results of operations could suffer if we are unable to compete effectively.", "Unfavorable economic conditions may have an adverse impact on our business, financial condition or results of operations." and "Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations."

Our continued success is also dependent on our product and marketing innovation, including: maintaining a robust pipeline of new products; improving the quality of existing products; and the effectiveness of our product packaging, advertising campaigns and marketing programs, including our ability to successfully adapt to a rapidly changing media environment, including through use of social media and online advertising campaigns and marketing programs. Although we devote significant resources to the actions mentioned above, there can be no assurance as to our continued ability to develop, launch and maintain successful new products or variants of existing products, our ability to introduce new products or variants of existing products in a timely manner or our ability to correctly anticipate or effectively react to changes in consumer preference or develop and effectively execute advertising and marketing campaigns that appeal to consumers. Our failure to make the right strategic investments to drive innovation or successfully launch new products or variants of existing products could decrease demand for our existing products by negatively affecting consumer perception of existing brands and may result in inventory write-offs and other costs that could adversely affect our business, financial condition or results of operations. See also "Any damage to our reputation or brand image could adversely affect our business, financial condition or results of operations."

Table of Contents

Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.

The conduct of our businesses, including the production, storage, distribution, sale, display, advertising, marketing, labeling, transportation and use of many of our products, as well as our health and safety practices, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to laws and regulations administered by government entities and agencies outside the United States in markets in which our products are made, manufactured, distributed or sold. Many of these laws and regulations may have differing or conflicting legal standards across the various markets where our products are made, manufactured, distributed or sold and, in certain markets, such as developing and emerging markets, may be less developed or certain. In addition, these laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of a variety of factors, including political, economic or social events. Such changes may include changes in: food and drug laws; laws related to product labeling, advertising and marketing practices; laws regarding the import or export of our products or ingredients used in our products; laws and programs restricting the sale and advertising of certain of our products; laws and programs aimed at reducing, restricting or eliminating ingredients or substances in, or attributes of, certain of our products; laws and programs aimed at discouraging the consumption or altering the package or portion size of certain of our products, including laws imposing restrictions on the use of government programs, such as the Supplemental Nutrition Assistance Program, to purchase certain of our products; increased regulatory scrutiny of, and increased litigation involving product claims and concerns regarding the effects on health of ingredients or substances in, or attributes of, certain of our products, including without limitation those found in energy drinks; state consumer protection laws; taxation requirements, including the imposition or proposed imposition of new or increased taxes or other limitations on the sale of our products; competition laws; anti-corruption laws; employment laws; privacy laws; laws regulating the price we may charge for our products; laws regulating access to and use of water or utilities; and environmental laws, including laws relating to the regulation of water rights, treatment and discharge of wastewater and air emissions.

New laws, regulations or governmental policy and their related interpretations, or changes in any of the foregoing, including taxes or other limitations on the sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products, may alter the environment in which we do business and, therefore, may increase our costs or liabilities or reduce demand for our products, which could adversely affect our business, financial condition or results of operations.

Governmental entities or agencies in jurisdictions where our products are made, manufactured, distributed or sold may also impose new labeling, product or production requirements, or other restrictions. If one jurisdiction imposes or proposes to impose new requirements or restrictions, other jurisdictions may follow and the requirements or restrictions, or proposed requirements or restrictions, may result in adverse publicity (whether or not valid). For example, if one jurisdiction imposes a specific labeling requirement or requires a specific warning on any product that contains certain ingredients or substances, other jurisdictions may react and impose restrictions on products containing the same ingredients or substances, which may result in adverse publicity or increased concerns about the health implications of consumption of such ingredients or substances in our products (whether or not valid). In addition, studies are underway by third parties to assess the health implications of consumption of certain ingredients or substances present in certain of our products, such as 4-MeI, acrylamide, caffeine and sugar. If consumer concerns, whether or not