Good morning and welcome to PepsiCo's Third Quarter 2014 Earnings Conference Call. (Operator Instructions) Today's call is being recorded and will be archived at www.pepsico.com. It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thank you, operator. With me today are Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's CFO. We will lead off today's call with a review of our third quarter 2014 performance and outlook and then we will move on to Q&A. We have kept our comments brief this morning and intend to conclude the call by 08:45 and we will do our best to get to as many of your questions as we can.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements, including statements regarding 2014 guidance and our long-term targets based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements. Statements made on this conference call should be considered together with cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC.

Unless otherwise indicated, all references to EPS and operating profit growth are on a core basis. In addition, references to organic revenue results in this call exclude the impact of acquisitions and divestitures, structural changes and foreign exchange translation. To find disclosures and reconciliations of non-GAAP measures that we use when discussing PepsiCo's financial results, you should refer to the glossary and other attachments to this morning's earnings release and to the Investors section of PepsiCo's website under the Events & Presentations tab.

As we discuss today's results, please keep in mind that our third quarter comprises the 12 weeks ended September 6, for our North American operations in the months of June, July and August for most of our operations outside North America. As you saw in the release, we are no longer reporting PepsiCo Americas Foods as a business unit. Consistent with our prior practice, we continue to report results for the divisions that had comprised PAF, namely Frito-Lay North America, Quaker Foods North America, and Latin America Foods. This change does not have any impact on the overall results of PepsiCo or these divisions. Also reflected in our Q3 2014 core earnings results are aggregate gains associated with the divestitures of approximately $34 million and a $23 million impairment of a brand in Greece.

Now, it's my pleasure to introduce Indra Nooyi.

Indra Nooyi

Thank you, Jamie and good morning everyone. We are pleased with our results for the quarter and year-to-date, particularly given the continued macro challenges we see across the globe. Specifically in developed markets, the consumer category demand continues to be sluggish and in developing and emerging markets, there is continued macro and political volatility, most notably in Eastern Europe, the Middle East and a number of markets in Latin America. In other key emerging markets, China, India and Brazil even though the political environments are relatively stable, GDP and consumer spending growth remains mixed.

Despite these challenges, our businesses performed well in the third quarter and year-to-date. Global volume grew in both snacks and beverages in the quarter and year-to-date. Organic net revenue grew at a rate ahead of volume in the quarter and year-to-date reflecting execution of effective revenue management strategies and successful introduction of innovative new products.

In the quarter, organic revenue grew 3.1% with developing and emerging markets up high single-digits led by key contributions from the BRIC markets. And notably, our developing and emerging markets business has proven to be resilient with high single-digit organic revenue growth year-to-date, including double-digit growth in Egypt and India, high single-digit growth in China, Brazil and Turkey, and mid single-digit growth in Russia.

In North America, Frito-Lay led performance with 3% organic revenue growth in the quarter and year-to-date. And core gross and operating margins both expanded by 45 basis points in the quarter aided by the benefits of our global productivity initiatives. Year-to-date, core gross margin expanded 50 basis points and core operating margin expanded 35 basis points.

Overall, core constant currency EPS grew 11% in the quarter driven by the solid operating performance supplemented by responsible financial management. Importantly, these results have translated to strong cash generation and consequently strong cash returns to shareholders. Returning capital to shareholders is a top priority and we are pleased to report that year-to-date we have returned $6 billion to shareholders in the form of dividends and share repurchases and we remain on track to return a total of

$8.7 billion to shareholders in 2014, which is a 35% increase over our 2013 shareholder cash returns.

Based on the strength of our year-to-date results and our outlook for the fourth quarter, we raised our full year core constant currency EPS growth target to 9% from 8% previously. We believe our year-to-date performance is a good reflection of the strength of our business. In today's difficult environment, retailers value the benefits of partners with strong brands and high velocity products that drive traffic, build basket size and generate attractive cash flow. And that's exactly why our retail partners like to do business with PepsiCo. And as a company, we continue to strengthen our business to position it for continued successful performance well into the future. And we are encouraged by the progress we are making in three areas, in particular: first, leveraging our complementary product portfolio and global scale; second, product and packaging innovation; and third, productivity.

So, let me give you a quick update on each of these areas and share some of the tangible evidence we are seeing as proof of our progress starting with how we are increasingly leveraging the complementary nature of our products and brands. A case in point is Mountain Dew and Doritos. Dew and Doritos have extremely high co-purchase incidence. In the U.S., over 60% of Mountain Dew households buy Doritos. Both brands are deeply rooted in gaming with legacies of high engagement partnerships and activations around Blockbuster video games. In the U.S. this fall, Dew and Doritos are giving consumers access to Call of Duty: Advanced Warfare. They are going to give them exclusive in-game gear, double XP and rapid supply rewards.

And all of this is to dial up their gaming experience. Only Mountain Dew and Doritos consumers will be able to unlock these coveted advantages and customize their gaming experience through the Fuel Up for Battle promotion. A number of our largest customers will run better together programs linked to this promotion and we are concurrently reintroducing on a limited time basis a true gamer favorite, Mountain Dew Game Fuel, in original citrus cherry and a new lemonade flavor.

Across many of our international markets, we are focused on driving greater co-purchase incidence of Lays and Pepsi with joint packaging graphics, sports properties, point-of-sale material, ad copy and promotions. These cross branding activations are now taking place in many of our key markets across the globe. For example, Poland, we created excitement for the Lays brand by hiding coupons for 100,000 free Pepsi's in bags. The promotion was supported by ads and point-of-sale material featuring the soccer great Lionel Messi.

Similarly in Colombia, we ran joint Lays, Pepsi and Tropicana Quaker soccer team promotions offering discounts and prized for joint purchases in the organized way. And across the Middle East, we had great success of our joint Lays Pepsi promotions during the Ramadan season. In addition to the commercial benefits afforded by these cross category promotions, we continued to yield cost synergies through continued integration. For example, integrating our snack and beverage media sourcing in China, fully consolidating and integrating our administrative functions under one roof in Russia and consolidating common carriers for snacks and beverages in the more rural regions of India, so that's the better together story.

The second area is product and package innovation. We continued to make very good progress. As evidenced on a rolling four quarter basis our innovation as a percentage of sales is steadily increasing and is up 90 basis points versus the comparable year ago period. And in our biggest markets, the United States, we were the largest contributor to retail sales food and beverage growth both in the third quarter and year-to-date which really benefited from the strength of our innovation. And we are seeing innovation success across brands and geographies. For example, at Frito-Lay North America we launched our 2014 Lays Do Us a Flavor campaign. And this followed its past success in the U.S. and 12 other markets around the globe. This year's consumer submitted finalists are Cappuccino, Cheddar Bacon Mac & Cheese, Mango Salsa and Wasabi Ginger hot bite. This program helped to drive strong mid-single digit Lays net revenue growth in the third quarter.

At Quaker Foods North America we have launched Quaker Express Cups to capitalize on the ever growing demand for greater on-the-go convenience. And Quaker Warm & Crunchy Granola which delivers both the wholesome goodness of Quaker oatmeal and the satisfying crunch of multigrain Granola. So while center of the store category growth remains challenged the success of these and other new products launched by Quaker have contributed to value share gains in each of Quaker's key categories Hot Cereal, Ready-To-Eat Cereal and Snack Bars both in the quarter and year-to-date.

Our North American beverage business has strong innovation in both product and packaging. Over the past several years we have significantly increased the variety of primary and secondary package configurations. With greater packaging flexibility we now have more tools in our kit to drive price utilization and higher margins through the price back management. The case in point is our 12 ounce glass bottle which sells at more than 100% premium with 12 ounce can. And our innovation has become increasingly more durable. For example, a number of 2012 and 2013 introductions Tostitos Cantina, Mountain Dew Kickstart, Lipton Pure Leaf have all achieved more than $100 million in retail sales in their launch year and have generated double-digit retail sales growth in their second year. Our beverage product and packaging innovation in the U.S. has led to improved sales, improved net price utilization and improved market share performance.

We held LRB value share in measured channels in the third quarter and year-to-date, held CSDs at retail in the third quarter led by trademark Mountain Dew and gained or held value share in a number of important sub-categories including CSDs, sports drinks, ready-to-drink tea and unflavored water. And in our international markets we are both leveraging our global scale and capitalizing on local insights to fuel innovation. For example, within snacks since its initial U.S. introduction in 2012, Doritos Jacked has launched in 10 international markets. We also lifted and shifted a larger and thicker cut chip with deep ridges which originated from our Ruffles brand and lunched it into several key countries such as Russia, Brazil, the Middle East and India under the Lays Max brand. And in the UK, we launched a new range of premium potato, tortilla and pita chips under the Market Deli brand. The Market Deli brand really caters to local taste preferences with flavors such as balsamic vinegar of Modena and Wiltshire cured ham, mature cheddar and farmhouse chutney.

Within beverages, the SPIRE family of digital fountain dispensers continues to build momentum. Currently, SPIRE is in the United States, Canada, France, Turkey, Ireland and Switzerland. The equipment capabilities range from pouring 8 brands and 4 flavor shots to a maximum of 16 brands and 8 flavor shots resulting in over 1,000 flavor combinations. And the global expansion of our highly successful Mountain Dew franchise continues. The brand has expanded to two new markets in 2014 and it is now available in over 40 countries around the world. And we have built terrific brand recognition with the continued expansion of our DEWmocracy and Dew Tour support programs.

And finally, turning to productivity, we achieved our targeted productivity savings for the third quarter and year-to-date and we are on track to achieve a full year target of $1 billion in savings. This year, we expect to successfully complete the 3-year $3 billion productivity program we launched in 2012 and we are now focused on our next generation's 5-year $5 billion productivity program announced earlier this year, which we expect will extend annual savings of $1 billion through 2019.

Our next generation productivity will focus on four areas: first, embedding more automation in our operations to replace labor with capital and at the same time removing bottlenecks from our operations, which will increase capacity utilization; second, expanding shared services, including global financial shared services for the handling of routine back office transaction processing; third, restructuring manufacturing to optimize our global manufacturing footprint; and fourth, restructuring our go-to-market systems to optimize our distribution network. As a result of these initiatives, we expect to see continued improvement in net revenue and core earnings before interest and taxes per employee as well as margin expansions and increase returns in invested capital.

So, to conclude, we feel pretty good about our results for the quarter and year-to-date. We remain focused on generating cash and providing attractive cash returns to our shareholders and we are encouraged by the continued progress we have made to strengthen our business, which we expect will make our performance all the more durable and reliable looking to the future.

With that, let me turn the call over to Hugh Johnston. Hugh?

Hugh Johnston

Great, thank you Indra and good morning, everyone. Let me spend a few minutes discussing the quarter and our upwardly revised core constant currency earnings per share outlook for 2014. For Q3, organic revenue grew 3%. On a reported basis, net revenue was 2% versus year ago, reflecting 1 point of unfavorable foreign exchange translation. Commodity costs had low single-digit inflation. Our core gross margin and core operating margin each rose 45 basis points. Core constant currency operating profit grew 5.5%. Our core effective tax rate was 24.2%. Our diluted share count declined 2% reflecting the benefits of our ongoing share repurchase program and core constant currency EPS grew 11%.

On a rolling four quarter basis, our net capital spending is 4.1% of sales, which is well within our long-term target of less than or equal to 5% of net revenue and our core net return on invested capital improved by approximately 40 basis points and now stands at 16.9%. And we returned $6 billion to shareholders in the first three quarters in the form of dividends and share repurchases, which is almost 30% above year ago levels and reflective of our commitment to return cash to shareholders.

Turning to guidance, as Indra mentioned, we have increased our full year core constant currency EPS growth target to 9%, up from 8% previously. In addition for the full year, we expect mid single-digit organic revenue growth, low single-digit commodity inflation and productivity savings of approximately $1 billion. Below the division operating profit line, we expect corporate cost efficiencies driven by productivity initiatives, a core effective tax rate of approximately 25% and a reduced share count from our share repurchase program. Foreign exchange is expected to negatively impact net revenue by 3 percentage points and core earnings per share by 4 percentage points for the full year 2014 based on current market consensus rates.

Taking our 2013 core EPS of $4.37 and applying our guidance implies a 2014 core EPS of approximately $4.57.

As you model out the fourth quarter, I would ask you to consider the following. We expect advertising and marketing expense to grow at a rate ahead of net revenue growth. And below the operating profit line, net interest expense is expected to increase in the fourth quarter, primarily reflecting higher debt balances and higher rates. From a cash flow perspective, we continue to expect full year free cash flow excluding certain items of more than $7 billion. We will continue to drive cash flow through efficient working capital management and continued tight controls over capital spending. Net capital spending is expected to be approximately $3 billion, which is well within our long-term target of less than or equal to 5% of net revenue. And we expect to return approximately $8.7 billion to shareholders in 2014, a 35% increase over 2013 through $3.7 billion in dividends and $5 billion in share repurchases.

So, to summarize, we have increased our core constant currency EPS growth outlook for the full year 2014 to 9% from 8% previously. We expect to drive improved full year margins and net ROIC and disciplined capital allocation and returning cash to shareholders remain top priorities for the company.

With that, operator, we will take the first question.

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Bryan Spillane with Bank of America/Merrill Lynch.

Bryan Spillane - Bank of America/Merrill Lynch

Hi, good morning.

Indra Nooyi

Good morning, Bryan.

Bryan Spillane - Bank of America/Merrill Lynch

A question just about the balance between reinvestment in the business and the focus on productivity and dropping it to the bottom line, if you look at this quarter's results, the results over the course of the year and really beginning last year, it's been a pretty good balance of maintaining a good relative organic sales growth relative to lot of your competitors and peers with also driving some margin improvement? And I guess as you move into this next productivity program and also just some of the challenges you are facing I guess in some key markets, developing markets at least in the next year, macro challenges. Can you just sort of give us a sense for how you feel about that current balance of investment in A&M, in R&D, in selling effectiveness or selling systems versus dropping some of that to the bottom line? Do you feel like you have the right balance and especially as things maybe get a little bit more challenging in some of these markets, do you feel like you might have to tweak that balance into next year?

Indra Nooyi

Bryan, it's a great question. And at this point, I'd say we feel good about the balance. We increased A&M spending. We are running at about 5.9% of sales. We increased R&D spending significantly over the past 3 to 4 years, because we really believe that investing in R&D in particular is critical to the future success of the company and we invested in that. We invested in foodservice equipment. That's why the SPIRE equipments come out and is very successful today. So, at this point, we feel good about the investments we are making in product line transformation, media spending, advertising spending against our brands, and most importantly, long-term investment in R&D platforms. I agree with you that there is volatility in the world. And as we sort of model out 2015 and beyond, we will come back and talk about what the outlook is for the financials, but at this point, we feel comfortable with what we have articulated in terms of the long-term algorithm for the company and we feel comfortable about our productivity programs. So, I think we have to watch and wait.

Operator

Our next question comes from the line of John Faucher with JPMorgan.

John Faucher - JPMorgan

Thanks. I wanted to follow-up on – good morning Indra. I want to follow-up on some of the comments about raw materials, but also sort of start off with pricing in that context which is getting a lot of pricing in Latin America which is helping the organic revenue number. And I guess can you talk a little bit about what you have seen from a real pricing standpoint in Latin America not just related to the FX. And then as you look out over the next sort of 12 to 18 months on raw materials, have you – we have seen some favorable movements in things like corn or are you guys still sort of continuing that process of trying to capture some of that benefits through the hedging, can you talk about how we should look at that going forward? Thanks.

Indra Nooyi

Go ahead Hugh.

Hugh Johnston

Yes, happy to. Hey John, it's Hugh. In terms of the Latin America numbers, we are obviously as is everyone else in this space benefiting from the relatively high overall inflationary environment there, what I can tell you is we are getting positive real pricing there and it is in line with what you would see the commodities basket cost growing in those markets. So if you look at it more from a global perspective and think about commodities inflation from a global perspective, we are getting pricing in line with that on a more real basis. Regarding your broader question on commodities without a doubt the commodities numbers overall are coming down. The couple of facts I would remind you on that. Number one, we have a very, very broad basket not one commodity accounts for even 10% of our overall commodities basket. Number two we do continue to follow the forward buying strategy that we have had in the past, so we tend to be about six to nine months out. So as those prices come down we will tend to see them reflected in our basket over time. We do that again because we want to give the businesses and our customers pricing predictability, I mean it's been an effective strategy for us over the last few years.

And number three, people tend to focus on a few market traded commodities, those market traded commodities represents somewhere between 30% or 40% of our overall basket. So I am not sure often times that the market focused commodities give a full picture of it. In terms of 2015 as it's been our practice in the past we will comment on that in February timeframe because we think that's the right time to give guidance to investors overall and we won't try to parse out the pieces right now because it tends to create more confusion than benefit.

Operator

Our next question comes from the line of Ali Dibadj with Bernstein.

Ali Dibadj - Bernstein

Hey guys.

Indra Nooyi

Good morning Ali.

Ali Dibadj - Bernstein

So your organic sales growth was about 3% which translated to the core constant currency operating profit of about 5.5% and an EPS growth of about 11% and if you look at the gaps between top line operating profit and EPS growth rates seems to be widening more and more as the quarters progress here. So can you please give us a quantification of first how much of the operating profit to sales gap was negative commodities and negative mix versus cost cutting positive and acquisition divesture is positive which for some reason you guys keep considering core. And second how sustainable is the operating profit to EPS growth gap driven by lower net interest expense even though there is a little bit of higher debt it looks like the lower net interest expense and buyback and the spirit of the question to understand sustainability of these gaps? Thanks.

Indra Nooyi

Thanks Ali. I am going to have Hugh walk you through the details and I presume the first thing you are saying is it's good that PepsiCo is delivering good results. So with that let me turn it to you Hugh.

Hugh Johnston

Yes, absolutely Indra. So if you look over the last three quarters we have seen operating profit growth on a core constant currency basis of 7%, 3% and 5.5%. We have seen EPS growth of 10%, 3% and 11%. So I think that gap has been actually relatively constant over the course of the timeframe. What are the drivers between operating profit growth and EPS you really have three things going on? Interest cost without a doubt we are getting some leverage on that. The only thing that I would want to share on that front is we are operating right now in a zero net floating debt environment. We do have some floating debt but that is offset by floating cash held outside the U.S.

So, I think from the standpoint of rising interest rates, we are relatively well protected compared to most of our peer companies in that regard. Obviously like everyone else, we would have some refinancing over time, but I think we have adopted a relatively conservative posture on the way that we are managing fixed float within the balance sheet. Number two, taxes are really coming in for the year right as we expected and that's been a bit of a benefit for this year. And then number three, our share repurchase is obviously lowering the share count and that's driving some of the gap from operating profit to EPS. We won't talk about 2015 right now, but obviously as a company we have a long history of share repurchase and I would certainly expect we would continue that going forward.

Indra Nooyi

In terms of sustainability, Hugh, I mean our long-term guidance has been mid single-digit operating profit and high single-digit EPS. And that's really the envelope in which we are operating.

Hugh Johnston

Absolutely.

Operator

Our next question comes from the line of Dara Mohsenian with Morgan Stanley.

Indra Nooyi

Good morning, Dara.

Dara Mohsenian - Morgan Stanley

Hey, good morning guys. So, Frito-Lay organic revenue growth improved a bit sequentially in the quarter, but the 3% result is still below the 4% to 5% levels we were seeing over the prior year and a half before Q2's result. Is – do you think this level is kind of more like a new normal here in your mind given the difficult consumer environment or do you think you can accelerate that business going forward? And can you discuss Frito-Lay market share performance in North America, it looks like you are still losing slight share in track channels and your expectations going forward from a market share standpoint?

Indra Nooyi

Yes. Dara, I think overall in Q3, food industry sales in retail was challenging. And within that, Frito-Lay performed well, in fact, was the best performer in that group. And sequentially from the first quarter of the year to the third quarter, the share loss has narrowed. Now, let me be clear, the share loss is really to premium players who don't last for long time in the market people come in and out of the market. And Frito has been very careful not to react to players who are not long-term players in the marketplace. So, Frito has been playing a very, very responsible game. What we have been trying to do at Frito is to say, let's make the core very solid, deliver on the core and start expanding the shoulders of the business in a profitable way.

And I think Frito in this very difficult environment has done a very good job balancing pound growth, revenue growth and profit growth and that's why you have seen relatively steady performance from Frito in what I would consider is a very challenging overall retail environment for all kinds of food.

I mean, center of the store is particularly challenged, but I would say overall, food industry sales are challenged, but Frito has been a shining star. So, I think overall whether this is a new normal or not I don't know, it really depends on the overall environment, but within this environment, Frito has been performing quite well and the share losses have been coming down. And we don't like any share losses, I will be honest with you, but we have to make sure the business behaves very responsibly and that's what they have been doing.

Hugh Johnston

And in terms of addressing those premium innovation opportunities, we have been building more capability. You see products like Stacy's Pretzel Crisps, you see products like Smartfood Selects, all of which are entering that premium space and to-date we have been quite successful with them. So, we would certainly expect to see that aspect improving over time.

Operator

Our next question comes from the line of Bill Schmitz with Deutsche Bank.

Bill Schmitz - Deutsche Bank

Hi, good morning.

Indra Nooyi

Good morning, Bill.

Bill Schmitz - Deutsche Bank

Hey, the first one is just sort of like a curiosity question, because currencies obviously moved a ton over the last couple of months, but you kept your currency outlook on the EPS line. So, I am just trying to figure out if it was conservative before and now it's more realistic or how you kept that currency item? And then the second question is just – and maybe it's a tough one to answer, but do you guys have a view on some of these contemplated consumption taxes in California? I mean, they sound pretty significant, some of them are couple of cents an ounce and it looks like there is a decent probability they are going to go through, so how do you kind of operate the business in that kind of environment?

Indra Nooyi

I will speak to the second point and then Hugh will speak to the first one. I believe discriminatory taxes on certain categories are just wrong. I think we have to understand what the issue is we are trying to address and address it in a holistic way. We will make our case and hope that the voters are sensible enough to look at the right answer to address whatever issue they are addressing. With that, let me turn it over to Hugh.

Hugh Johnston

Yes. Bill, happy to answer the currency question, we take a basket of market currency rates and we follow the same methodology every quarter. And we have been consistent in taking that approach for quite a number of years. So I don’t think we will change that approach. You are right, in the last couple of quarters it’s come in a little bit lighter than the original forecast but it’s the best way I know of to do it. In addition to that as you all likely know we do hedge some transactional effects of foreign exchange, we do not hedge translation. We don’t think that’s a good use of investors’ money, so we don’t hedge accounting at all, we just take the market consensus rates. And then as the currencies flow we report them to you.

Operator

Our next question comes from the line of Mark Swartzberg with Stifel Nicolaus.

Mark Swartzberg - Stifel Nicolaus

Yes. Thanks. Good morning Indra. Good morning Hugh. A question on the – it’s also a curiosity question but with the core earnings you are including gains and they are not large this quarter but can you just speak to the principle behind including these gains on asset sales?

Hugh Johnston

Yes, why don’t I handle that one Mark? You are right, in the overall scheme of things there are three items. There is a small gain in the Quaker business related to the sale of a small cereal brand. There is a small gain from a bottling perspective in EMEA. And then there is the write-down of a small brand in Greece from an asset impairment perspective. If you net all of those three factors the grand total was a benefit to earnings of $11 million, so basically less than a penny of impact overall. More broadly, we do have a consistent set of principles we apply in terms of what is core versus non-core in the overall scheme of things it really is not a substantive impact to earnings.

Mark Swartzberg - Stifel Nicolaus

But what’s the principle behind having them in there, because again it’s not large in the quarter but it could become something we are all talking about if it – because of the principle being there, if there is a large gain at some point in the future or for that matter a large loss?

Hugh Johnston

Yes.

Indra Nooyi

Mark, most importantly we publicly disclosed exactly what the gains are and if there are any charges against it so you can model out the impact on earnings from our disclosures.

Hugh Johnston

Yes. So and Mark to your point that there is obviously in a company the size of PepsiCo with $66 billion in revenue, 275,000 employees and operating in almost 200 countries there are lots of things that you would consider to be perhaps one-time in nature. The approach that we have taken on this is we have said in terms of a test of core versus non-core is a transaction one-time and then is it of a certain size. If we called everything above $1 million one-time we would be excluding an enormous number of items. So we have drawn a line in terms of the specific number that it equates to core versus non-core that number has been the same for years and we applied consistently in all of these transactions to your point are small but we do disclose them to allow investors to model them anyway they choose.

Operator

Our next question comes from the line of Judy Hong with Goldman Sachs.

Judy Hong - Goldman Sachs

Thank you. Good morning.

Indra Nooyi

Good morning Judy.

Judy Hong - Goldman Sachs

So, I guess a lot of just volatility around Europe in terms of the macro and political standpoint, so wanted to just get a little bit more color from your perspective what you are seeing in terms of underlying consumer demand in your various categories in markets like Russia and Eastern Europe. And it looks like your market share in markets like UK despite tough competitive environments actually doing pretty well, so maybe just talk about Russia and

Eastern Europe and then separately in the UK in the context of the competitive and tough retail environments?

Indra Nooyi

Let me talk overall about Western Europe and then talk about Russia and Ukraine. I would say when you have poor weather or when you have some macro factor we have to worry about how we perform in that environment. So for example Western Europe volumes in beverage decelerated a bit in Q3 because the weather was poor, but otherwise I would say the overall Western European markets are doing quite well. Yes, we have a retail situation that's quite interesting in the UK, but our brands are strong and we are powering through that.

When it comes to Russia and Ukraine, again, we sell dairy products, juice as well as snacks and soft drinks. Dairy and juice tend to be much more stable kind of products for Russian consumers. So, even though the Russian market is going through its challenges in terms of the devaluation of the ruble and the hryvnia in Ukraine and also inflation in raw materials for dairy in particular, our top line growth is still mid single-digit. So, we are holding on the top line growth. The real challenge is what's the impact to the bottom line? A lot of the products we sell in Russia are made in Russia. We sourced a lot of our raw materials from local suppliers. So that part is okay, but anything that's imported clearly is impacted by the devaluation of the ruble and then any translation of Russian profit is impacted by the devaluation of the ruble. So, at this point, we are watching and waiting and to see how the Russian market evolves, but our growth is still in the mid single-digits and we are doing okay.

Operator

Our next question comes from the line of Nik Modi with RBC Capital Markets.

Nik Modi - RBC Capital Markets

Yes, good morning everyone.

Indra Nooyi

Good morning, Nik.

Nik Modi - RBC Capital Markets

Good morning. So, couple of questions from my end. I was just curious if maybe you can provide some context on PAB in terms of how the up and down the street channel did versus kind of the larger format? And if you could provide any perspective on foodservice since you have been investing there so heavily? And then the second question is Indra just curious on your view on execution at the company on bottling operations and if you think that, that is an area of improvement for PepsiCo going forward within the U.S.?

Indra Nooyi

Yes. When it comes to the performance in convenience stores, the overall – we are holding share in LRB in Q3 and whether it's in CSDs or isotonics, as I mentioned in my prepared remarks, what we feel good about in Q3 is that we held LRB share in this highly competitive marketplace. I think since we bought back the bottlers, we have actually been able to do a few things. One, we have invested in foodservice, because we have put routes back into local foodservice. We are able to go after national accounts without any discussion of bottlers versus the parent company. And as a consequence, we have been winning big accounts and we are beginning to actually increase our shares in colleges and universities and local foodservice accounts. So, I think our foodservice performance is improving. Again, as you know in foodservice, you don't see big improvements in a short timeframe. You have got to build this business very, very steadily, so that you balance growth with profitable growth. And so I think over the next few years, you start beginning to see meaningful contributions from our foodservice business, one because we are fixing the core beverage foodservice business, which is a critical driver of foodservice and then we are able to leverage that beverage foodservice to sell more snacks. So, the better together really works with foodservice.

And overall execution, we have – since we have bought back the bottlers we have invested so much in terms of improving our manufacturing lines to have more packaging flexibility. We have put more routes back in the marketplace. We have put in more tools – given more tools to the frontlines, so that they can actually sell better at the point of sale. I think overall our execution has improved substantially. And that's why you are seeing several quarters now, where we are holding share in the LRB category and we are doing it in a very responsible way, because we are also able to get pricing. We are getting low single-digit pricing in the marketplace in North America and we are able to push through all our innovation. I mean, the market is fragmenting quite a bit and we have got to have a distribution system that's completely aligned with the brand company, so that you can get all this innovation into the marketplace. And by removing any friction that exists in the system, we are actually able to get all of our products to the marketplace. So, overall, we feel pretty good about the progress we are making in North American beverages and how well North American beverages and Frito-Lay are working together to really service both retail customers and foodservice customers to help us improve the performance of North American beverages substantially. And in terms of convenience store performance, it's ahead of overall performance by about 50 basis points.

Operator

Ladies and gentlemen, we have time for one additional question. Your final question comes from the line of Steve Powers with UBS.

Steve Powers - UBS

Thanks. Good morning. I guess two more questions related to PAB if I could. First, we saw a noticeable operating margin expansion in that division this quarter building on some initial progress made last quarter. And I guess just want to get your sense for whether or not you feel this is the beginning of a trend that can continue to gain momentum and assuming so what the biggest drivers will be is kind of question number one. Question two, related to that is as you said Indra we saw again kind of 1% net realized pricing in the quarter which is in line with the year-to-date trend and I guess positive relative to muted commodities, but I was wondering whether you see further upsides of that number over time maybe if the individual categories are actually better than and we are seeing some negative category or geographic mix across the division I am not sure, but just further details there will be helpful as well? Thanks.

Indra Nooyi

Yes. I mean I think what the beverage business is doing is focusing on revenue management and productivity in addition to innovation. Innovation is driving top line growth nicely and getting good price realization. And all of our revenue management initiatives backed up by more packing flexibility is actually helping this business. And remember all of our productivity initiatives touch the North American beverage business too. So taken together the business is beginning to hit its stride and our net realized pricing in the quarter in North American beverages was in the low-single digits. We actually feel very good about the pricing that we have been able to get. Now you asked about the sustainability of this. We will continue to do the revenue management work, the productivity work, the innovation. We will continue to do everything that's in our control. And we will continue to play a very responsible game in this marketplace. And then we will just see how the marketplace evolves. But at this point we are cautiously optimistic about the outlook for North American beverages.

So let me just close by reiterating that we are pleased with our results to-date. We are confident that our plans are working and we are on track to deliver our financial targets for 2014. I thank you for your time and questions this morning and for the confidence you have placed in us with your investment. Have a wonderful day.