Good morning and welcome to PepsiCo's Fourth Quarter 2014 Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session (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, Laurie. With me today are Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's CFO. We'll lead off today's call with a review of our fourth quarter and full year 2014 performance and 2015 outlook and then we will move on to Q&A. We've 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 2015 guidance and our long-term targets based on currently available information. Forward-looking statements inherently involve risks and uncertainty 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 constant currency basis. All references to free cash flow exclude certain items. 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 Web site under the Events & Presentations tab.

As we discuss today's results, please keep in mind that our fourth quarter comprises the 16 weeks ended December 27th for our North American operations and the months of September, October, November and December for most of our operations outside North America.

And now, it's my pleasure to introduce Indra Nooyi.

Indra Nooyi

Thank you, Jamie and good morning everyone. We are very pleased with our results for the quarter and for the full year, especially in light of the significant macroeconomic volatility being experienced in so many markets around the world. We've performed well in this challenging environment, largely in the strength of our brand and product portfolios and diversity of our geographic footprint. So while certain markets were hit with political disruptions, economic downturns or significant currency devaluation, other markets in our portfolio not experiencing these issues were able to offset their impact to deliver overall strong results.

We made a lot of progress in 2014, and I'd like to recap some of those achievements, starting with our financial performance. I am pleased to report that we met or exceeded each of the targets we communicated at the beginning of the year. Organic revenue grew 4% for the full year and 5% in the fourth quarter. Core gross and operating margins expanded for the quarter and the full year. We delivered our productivity target for the year. Free cash flow exceeded $8 billion. Our focus on capital allocation discipline resulted in another year of significant core net ROIC improvements. We increased our annual dividend for the 42nd consecutive year and we returned $8.7 billion in total to shareholders in the form of dividends and share repurchases, which is a 36% increase over 2013.

Just as importantly, we strengthened the foundations of our Company. First, we continue to invest in our portfolio of iconic global brands. In 2014, we sustained our increased A&M investment and focused our spending on our biggest brands. Additionally, we increased the impact of our investment by directing of the spending to consumer facing activity. We launched our largest ever global campaign for our two biggest brands, Pepsi and Lays with coordinated package graphics, use of sports and entertainment properties, point of sale material, ad copy and promotions.

We expanded our engagement in social and digital marketing. For example, Doritos CrashTheSuperBowl received nearly 5,000 consumer submissions from 29 countries around the world. And our Lays Do Us A Flavor campaign garnered more than 14 million submissions. Programs like these drive phenomenal consumer engagement, are highly complementary to our broader marketing efforts and are extremely financially efficient. Our investments are translating to tangible results with solid improvement in brand equity scores and market share performance in our priority markets for our global brands.

Second, we continue to strengthen our innovation engine. We have built a robust and sustainable innovation pipeline, perhaps the strongest in our history. Over the past two years, innovation as a percentage of total net revenue has climbed by 150 basis points and now stands at 9%. And we're innovating across our portfolio. For example, to meet the growing demand for nutritious products we introduced Naked Juice's Kale Blazer and Gatorade's new Whey Protein Bars. We bolstered our food service business with the introduction of Pepsi Spire fountain equipment in over 30 markets, giving our customers a choice of flexible and cost effective equipment and allowing our consumers to create more than 100,000 customized beverages with just the touch of a screen.

In snacks, we leveraged our global scale by lifting and shifting successful new products like Doritos Jacked and Deep Ridged chips from the United States into a number of international markets. And as a testament to the durability of our innovation, a number of our recent product introductions like Tostitos Cantina, Mountain Dew Kickstart and Pure Leaf generated double-digit estimated annual retail sales growth in 2014 after achieving over a $100 million in their launch year. So that's innovation.

Third, we stepped up our marketplace execution. As evidenced, in 2014 we were the largest contributor to U.S. retail sales growth among all food and beverage manufacturers. Based on IRR data in all measured channels, we contributed nearly $1 billion of retail sales growth, more than the combined sales growth of the next 27 largest manufacturers. In food service, we executed customized Better Together programs like the pairing of Doritos Loaded and Mountain Dew Solar Flare, and we secured attractive new businesses, such as a Disney Park in Shanghai leveraging the strength of our combined beverage and snack portfolio.

Fourth, we have taken productivity to a new level. We successfully completed our three year $3 billion productivity program launched in 2012 and we're entering our next phase of productivity with a new five-year $5 billion program, and we have a robust pipeline of productivity projects focused on increasing efficiency through automation, optimizing our global manufacturing footprint, advancing the competitiveness of our go-to-market models and utilizing shared services. These programs collectively are geared to deliver our targeted savings of approximately $1 billion per year through 2019.

At the same time, we have significantly evolved our organization structure and operating model to enable us to more fully capitalize on our scale, global presence and deep capabilities. And lastly, we have driven increased capital allocation discipline throughout the organization to drive higher returns of investment and increase cash returns to our shareholders.

So that's a summary at a high level of our accomplishments. So let me comment briefly on the performance highlights by business sector, starting with the Americas. PepsiCo Americas beverages had a terrific fourth quarter, 3% organic revenue growth translated to 11% core constant currency operating profit growth. The profit growth is especially notable given the fact we also increased A&M in the quarter by high single-digits. We have seen the business gain momentum beyond the efforts we've been making in marketing, innovation and execution. And this has resulted in not only improved financial results, but better marketplace performance too, especially in our largest market, the United States.

Clearly our Latin American beverage business has had its challenges with the Mexico tax and deteriorating macros in Venezuela. Despite these challenges, our Latin American beverage business was a positive contributor to PAB's overall organic top-line and core constant currency bottom-line results.

Frito-Lay in North America delivered strong performance. Frito delivered 3% organic revenue growth for the full year and 3.5% in the fourth quarter and 6% core constant currency operating profit growth both for the quarter and the full year. Market share results have shown steady improvement and we gained savory snack value share in the fourth quarter.

Latin America foods performance, both for the quarter and full year was solid. For the full year Latin American food delivered 10% organic revenue growth and 9% core constant currency operating profit growth. Quaker Food North America performed well with some challenge categories. Despite the category challenges core constant currency operating profit was up 8% in the quarter and we gained value share for the full year in the each of our core categories, Hot Cereal, Ready-To-Eat Cereal and Snack Bars.

So very strong performance by our businesses based in the Americas and the U.S. in particular. As I mentioned earlier, our portfolio collectively was a largest contributor to retail food and beverage growth in the United States, both in the quarter and for the full year and this is a distinction we are very proud of.

Moving across to Europe, as you know, the majority of our European business is located in Eastern Europe and Russia in particular. Clearly the currency picture and macros in Russia have made operations more challenging. While the Russian consumer has been quite resilient at least for our business, the currency situations led to significant inflation because of the transaction ForEx on the materials we source from outside of Russia, resulting in significant input cost inflation. Despite these significant headwinds, Europe generated full year gains in volume, organic revenue and core constant currency operating profit. All things considered, solid performance for Europe.

And lastly EMEA, again good results despite some political macro volatility in many parts of the region. For both the quarter and the year, we had solid volume and organic revenue gains while full year operating profit performance was impacted by efficiency investments made in 2014 and by lapping the Vietnam refranchising gain we had in 2013.

Most of the global volatility has been concentrated in the developing and emerging markets. However as a group, even our developing and emerging markets grew organic revenue 10% in the quarter and 9% for the full year. So they continue to be major contributors to our growth. As I mentioned earlier, we have a terrific geographic portfolio and this allows us to balance challenges and opportunities in a way that tends to produce consistently good results overall, and we believe the fourth quarter and full year 2014 result are a reflection of this.

Now Hugh will take you the financial guidance in some detail in just a minute, but I want to highlight just a few key points. As an operating company we absolutely manage the things that are within our control, marketing, innovation, marketplace execution and productivity and we expect to continue to perform well in these areas. However we expect to face continued headwind related to macros, in particular weak currencies in a number of our key market and the impact of lower oil prices in countries whose economies are highly dependent on energy.

Obviously these are outside our control but we adjust the businesses to whether through the challenges as best as we can by controlling costs, adjusting our raw material sourcing and executing balanced pricing actions. As we balance all these factors, we have concluded that our outlook for 2014 will be within our long term financial goals.

With that I’ll turn the call over to Hugh. Hugh?

Hugh Johnston

Thanks Indra, and good morning everyone. I'll start with the recap of the financial scorecard for 2014 and then move on to 2015 guidance. We're pleased to report that we met or exceeded each of our financial goals for the year. We targeted mid-single digit organic revenue growth and we delivered 4%. We targeted core operating margin improvement and it increased by 30 basis points. We targeted $1 billion in productivity savings and we delivered it. We targeted 7% core constant currency EPS growth with our initial guidance and delivered 9%, which is right in line with the increased target we communicated to you in October.

We targeted core net ROIC improvement and delivered 110 basis points. Our core net ROIC now stands at 17.5%. We targeted free cash flow of more than $7 billion and delivered $8.3 billion, and we committed to return $8.7 billion of cash to shareholders which is what we did. So overall good performance meeting or exceeding each of the targets we communicated at the beginning of 2014. We're particularly pleased with our cash flow management. Our free cash flow as a percent of our core net income exceeded 100% for the year and over the past three years. So we are converting earnings to free cash flow very efficiently.

Two big contributors to this performance are first the discipline and productivity we have on capital spending where we've successfully held CapEx to less than 5% of net revenue since 2012. And second the improvement we've driven in working capital where we've shortened the cash conversion cycle by 50% over the past four years and have generated cash from working capital of over $2 billion in aggregate over the past three years. And it's this strong cash generation that is enabling us to provide attractive shareholder cash returns.

Let me spend a few minutes discussing our outlook for 2015 which is in line with our long term objectives. We expect another year of mid-single digit organic revenue growth. We expect core operating margin expansion as organic top line growth and productivity should offset negative geographic mix and cost inflation. Below the division operating profit line, we expect cooperate cost to be down and approximately 25% core tax rate and a reduced share account. All in, we expect core constant currency EPS growth of 7%.

Foreign exchange is expected to negatively impact revenue and core earnings per share by approximately 7 percentage points each based on current market consensus rates. As you saw in the release during the fourth quarter of 2014 we adopted the SICAD 1 rate of 12 bolivars per U.S. dollar and we assumed this same exchange rate for 2015. The currency exchange picture in Venezuela continues to be quite volatile. So I wanted to be absolutely transparent about what we have assumed in our 2015 guidance.

Putting it all together, taking our core 2014 EPS of $4.63 and applying our guidance implies 2015 core EPS of approximately $4.63 as well. Our outlook appropriately factors in both tailwinds and headwinds. To the positive, we expect to generate approximately $1 billion of productivity savings in 2015, which will offset operating cost inflation. We feel very good about our innovation agenda, which should enable to sustain our organic revenue growth rate. Our share account will benefit from continued share repurchases, although we won't recognize the full benefit of 2015 repurchases within 2015 as they'll be made throughout the year with some of the impact of the share account reduction falling into 2016. Our core tax rate is estimated to come in for the full year at approximately 25%, even with 2014 and we expect to be able to sustain this rate for the foreseeable future.

In terms of headwinds, we anticipate commodity cost inflation in the low single digits. Keep in mind that because of our forward buying strategies, our commodity cost changes will lag what you see in the spot market. I believe our expected inflation rate is a bit higher than what a number of you have modeled and this is because we are seeing more pronounced inflation in our non-market traded commodities, including certain packaging and agricultural raw materials. In addition, we will see an inflation impact from transaction ForEx in many of the markets whose currencies have weakened against the dollar. And foreign exchange translation will be a significant drag on our U.S. dollar earnings.

Finally, as you model out the quarters for 2015, please note that a number of our international market's currencies significantly weakened in the back half of 2014, so the currency lapse are most difficult in the first two quarters. Our long term goals remain intact, mid-single digit organic revenue growth, core operating margins expanding 30 to 50 basis points per year, high single digit core constant currency EPS growth, free cash flow growing roughly in line with earnings and core net ROIC improving 50 basis points per year.

We intend to responsibly manage the business for top line growth, drive productivity and reinvest appropriately to position PepsiCo for sustainable growth for the long term and we plan to remain highly disciplined toward capital allocation with the vast majority of free cash flow after capital spending being returned to shareholders in the form of dividends and buybacks.

First, we're increasing our dividends per share by 7%, beginning with our June 2015 payment to $2.81 on an annualized basis. This represents the 43rd consecutive year of annual dividend increase, and an approximately 60% payout ratio based on the 2014 core EPS. At yesterday's closing stock price, it represents 2.9% yield and will bring our 10 year annualized dividend per share compound annual growth rate to 10%, and we expect to return an additional $4.5 billion and $5 billion in cash to shareholders through share repurchases. While doing so, we expect to maintain tier one commercial paper access, enabling us to retain low cost highly accessible financing.

So combined, these actions will result in cash returns to shareholders of $8.5 billion to $9 billion and will bring our cumulative 10 year cash returns to shareholders to $65 billion. As many of you know, we have stated disciplined capital allocation as a top priority for our management and our Board, and we trust these actions will again be seen by our shareholders as tangible evidence of this commitment.

Indra Nooyi

Thank you, Hugh. Before we open it up to questions, I want to take this opportunity to share with you how excited we are to be entering 2015 despite the challenges that we face, because this year marks the 50th anniversary of the coming together of PepsiCo and Frito-Lay in 1965. We set the foundation for what is today one of the world's most iconic and successful companies. This year we celebrate five decades of growing our business and creating substantial value for our shareholders, customers, consumers and communities.

It was a phenomenal vision of Don Kendall and Herman Lay, the architects of this combination, which set the stage to grow from $510 million in revenue in 1965 to almost $67 billion today. Of the companies in the Fortune 500 in 1965 just 79 remain today, and over this time frame, we've generated extraordinary shareholder returns. In fact, $100 investment in PepsiCo in 1965 with dividends reinvested would be worth over $42,000 today. But PepsiCo's success over the past 50 years has not happened by chance. It happened because throughout our history PepsiCo has repeatedly adapted and retooled all with an eye to the future. More importantly we kept integrity at the heart of all we do, running the Company responsibly to generate sustainable long term value, and this is a formula for success that our current team will continue to apply.

With that let's open it up for questions.

Question-and-Answer Session

Operator

Our first question is coming from the line of Bryan Spillane of Bank of America Merrill Lynch.

Bryan Spillane

I've got a question I guess about reinvestment rates. If you look at 2014, you really balanced a pretty good [indiscernible] you generate a 4% organic sales growth rate in this environment is a pretty big achievement. And my sense is at least partially related to just your choice; choices you are making in terms of reinvestment dropping the bottom line. When you look at 2015, is there anything you're thinking differently about how much you want to reinvest especially in sales growth in '15, just given some of the volatility you have in developing and emerging markets. And I guess related to that, given kind of the wide range of outcomes that could happen just because of the macros, are you looking for any more flexibility as you're planning in ’15 in terms of reinvestment rate? So just trying to get your sense for the choices between top line and bottom line in ’15 as you’re looking into it.

Indra Nooyi

Bryan, 2014 was a tough year too. The market was quite volatile and as the year went on, we got to the second half of the year, we started to look -- really experience all the volatility. So I think between geopolitical issues, the oil price impact, other macroeconomic factors, we have actually had a volatility and I think we now have a playbook where we appropriately balance top-line growth, share and profit performance, because the challenge in these sorts of volatile environment is not to over invest and not to get the return or to under invest and lose too much share. So we are constantly balancing top-line growth, market-share and profit performance and I think over the year, we have developed a fairly good playbook which we’re really going to put into action through 2015. Hugh, did you want to add something on this issue?

Hugh Johnston

Yes, I completely agree, Indra. And Bryan I guess I'd approach it from two perspectives. From a P&L perspective, we do feel like we’ve found the right balance now between the productivity that we’re driving and the investments that we’re making in R&D, the investments we’re making in innovation, the investments we’re making in providing growth capacity through the P&L into the business. Then from a capital perspective, each of the last couple of years we’ve started with a budget of somewhere between 4% and 5% and each of those years we’ve landed at a little bit over 4%. The reason for that is we really do apply quite a bit of rigor to the investments that we’re making. We’re not afraid to invest in long-term growth, quite the opposite. I would argue both in R&D and in capital we have been investing in long-term growth. The focus here is sustainable value creation, and I think with the reinvestment rates we have right now, we will be able to deliver that sustainably.

Indra Nooyi

And Bryan if I can add to what Hugh said, in things like R&D spending, we cannot cut, because that’s real spending on innovation and it doesn’t matter what the volatility in the market is, these are long-term projects and we have to make sure we keep investing to get this innovation engine moving. In terms of A&M again, we want to make sure we put the appropriate A&M in the market, but we also watch to make sure that we’re getting a return on investment on A&M in volatile environments. But our goal is to hold those relatively sacred and then work the other levels in the P&L.

Operator

Your next question comes from the line of Amit Sharma of BMO Capital Markets.

Amit Sharma

Indra, just given the recent resolution of really a very public disagreement with a shareholder, should we expect that the Company will probably focus a little bit more on some of the strategic other initiatives which might have been, not neglected, but probably not in front focus? So in terms of perhaps M&A into market or looking at your emerging market portfolio, where some of the things can be realigned?

Indra Nooyi

Amit, I'll tell you something. There was never a time that we did not focus on running the Company for all shareholders. I think between the senior management and the Board, we have constructive conversations with all our shareholders as we did with certain particularly outspoken shareholders. But there was never a time I'd say over the last few years that we've ever taken our eye off long-term investments to make our portfolio stronger. And if we see an opportunity that creates tremendous shareholder value, we'll certainly look at it. We've looked at lot of things, but given the price expectations and given our assessment of what kind of value we can derive from these properties, we haven't seen the need to make any major investments in new M&A activities. But if something comes up that creates spectacular value, we'll be back to talk with you.

Operator

Your next question comes from the line of Caroline Levy of CLSA.

Caroline Levy

Just a couple of questions. I noticed there is news out of Venezuela and how do you assess the risk of having to go to the 52 exchange rate? That would be the first one. And the second one is in Europe you had spectacular volume growth in both snack and beverage in the fourth quarter, considering the environment. I am trying to understand if that is sustainable, if you think that the underlying business is healthy enough that that's a real number we can look forward to going into'15?

Indra Nooyi

I'll talk to Europe and then Hugh, you've lived in Venezuela. So you talk about this. The Europe team is executing well. There is good innovation. Our portfolio is a bit more skewed towards products that the consumers want. For example a lot of what we sell in beverages in Europe is lower zero calorie beverages. We have a lot of baked product offerings in Europe, and even the Tropicana line-up we sell in France and the UK is a very different line-up than we sell here in the U.S. because the juice business evolved very, very differently there. On top of that, in a country like Russia, because our categories are in juice and dairy, stuff that the Russian consumer really needs, the businesses have been quite resilient. Now we have to wait and see how 2015 shapes up, but I'd say for our categories and the nature of the products that we offer them the portfolio has remained quite resilient even going into 2015. But let's watch and see what happens.

The other thing too is in Western Europe the countries that we're in -- I think we have a slightly better skew to countries that are not in deep, deep troubles and I think that's helped us too in Europe. So -- and the team is very good, lot of depth of talent there and Europe is a good performer for us, especially given the incredibly difficult environment they're all operating under. Hugh, what about Venezuela?

Hugh Johnston

Yes. Regarding Venezuela Caroline, just a couple of comments. First, as you know, we spend the better part of the year at 6.3 last year and then moved to 12 in November. So the average for the year was 6.84. Our planning assumption right now is to be at SICAD 1, which is 12. Obviously there was news based on yesterday press conference out of Venezuela from the government talking about exchange rates. There was a lot of information mentioned there. It still isn't really clear because the details haven't been published as to what it all means yet. In general the fact that they seem to be going to a more market based supply and demand currency environment, those suggest I think long term positives for us.

In terms of the implications in the short term, we did hear that SICAD 1 would continue to exist. We will wait till we see more details on that and then we'll come back to investors with details as they emerge. But in the long run it seems to me it is probably encouraging based on what we heard yesterday in terms of being able to move currency and cash around more freely.

Operator

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

Judy Hong

I guess maybe just a little bit of color, just in terms of how you're thinking about your ability to price, particularly in markets like Russia or Latin America, where it is hyper inflationary. Indra, you've talked about Russia being resilient. But as you think about 2015 how much pricing have you taken already? Hugh, you've talked about some other commodity headwinds. Can you just talk about how you're looking for sort of the profit impact as the inflation comes up in those markets in the context of your ability and your flexibility to take price?

Indra Nooyi

Both Russia and Venezuela, oil dependent countries. Russia has its own set of additional issues. I think what the local teams do, they look to take as much pricing as they can to cover inflation, really assess the consumer demand and then they judiciously balance pricing and demand to make sure that we have a business that’s in balance and we're not losing too much share or trying to gain too much share and destroy the P&L.

On top of that Judy, we don’t stop there. The Russian team is restructuring its business to make sure they tighten the belt, restructure our footprint there so that we can become more productive in the middle of the P&L so that we can actually deliver profit in this difficult environment. And the Venezuela team has been doing this now for five or six years. And in a way you can take the playbook from Venezuela. In fact the playbook moved from Mexico from a few years ago to Venezuela today or Brazil from a few years ago to Venezuela, now to Russia. So this playbook is now becoming quite important as we navigate through currency volatility and economic volatility. So each country, it's the team that has to balance pricing, the elasticity in that marketplace, and how much cost controls they can put in place so that taken together you deliver whatever we have agreed with them is the right financial profile for that market. Anything else you wanted to add, Hugh?

Hugh Johnston

Yes. I think that’s exactly right. The only thing I would add as a rule of thumb is in most markets when we run into these issues, we've sort of been able to price through somewhere between two thirds and three quarters of the inflation impact, and as Indra said, the rest of it we tend to handle through restructuring and productivity initiatives and things like that. Russia's obviously a more profound example of that but I think the rules of thumb will generally apply in that regard. But what it leads you to more broadly is the power of the PepsiCo integrated food and beverage portfolio and the size of geographic portfolio. As a few developing and emerging markets run into challenges, such as Russia, such as Venezuela, we also have markets like India, markets like Turkey that are performing very well. And as a result, the PepsiCo portfolio and the scale that food and beverage brings in each of those countries actually works quite well.

Operator

Your next question comes from the line of John Faucher of JPMorgan.

John Faucher

Sort of a follow up question on that, we've seen a lot of Latin American pricing across the consumer stable complex over the past couple of quarters. It's mostly FX driven. So as you look out to 2015, the mid-single digit organic revenue growth targets, can you talk about sort of what you built in there for Latin American pricing and in sort of kind of talked about this to Caroline's question, but that sort of what's your view of the efficacy of that as sort of true organic revenue growth. And then a second question would be on the COGS guidance. Can you talk a little bit about sort of including transactional -- ex-transactional in terms of what you're seeing on a general raw material basis? Thanks.

Indra Nooyi

Hugh will take this.

Hugh Johnston

Yes, sure. John, in terms of both of those questions, regarding Latin America, you'll see us take a fairly significant pricing again. Inflation is obviously running in the high single to low double digits down there. And as I mentioned earlier we'll probably wind up pricing through somewhere in the neighborhood of three quarters of that. The rest we'll drive through restructuring and productivity. Regarding the transaction impact on commodities inflation, we talked about the fact that we're at low single digits for commodities inflation. About 40% to 50% of that is driven by transaction FX.

Indra Nooyi

I think the other thing that helps too, if I may add, across Latin America many of our businesses have a wide range of the portfolio from value to premium products. So you can actually price the portfolio differently. And that helps too because sometimes in the premium products you can take more pricing and it can stick while the value products you want to make sure that you don't get that pricing equation too much out of whack. So the teams have gotten pretty good at playing this revenue management game in a very careful way as they navigate through Brazil or Argentina or Venezuela or Mexico.

Operator

Your next question comes from the line of Ali Dibadj of Bernstein.

Ali Dibadj

A couple of questions. One is around marketing spend and where you are on that. I only seen the quarter it listed up for LAF and PAB. So I just wanted to get a sense of where you are overall as a percentage for the year and how do we think about that going forward. As well as how we should think about the shift you mentioned from kind of pure marketing spend to gross to net I guess to consumer facing? So that's one entity of a question. The other one is….

Indra Nooyi

Ali just one second, may I stop you. What is the first question again, what's the word you used?

Ali Dibadj

The marketing spend.

Indra Nooyi

No, the previous one, you said on LAF and PAB. What did you ask me specifically?

Ali Dibadj

So LAF and PAB are the only places in the report in the release where we see marketing spend as mentioned as going higher. So overall wanted to get a sense of marketing spend on the quarter and for the year. And then the other question is actually around currencies. You guys have always had a very much more aligned impact of currencies on your top line and your bottom line. So sort of no multiplier for you guys. And I want to better understand the mechanics there. A lot of your peers have a bigger impact on the bottom line and the top line. And trying to understand where there are hedges? Are there natural hedges? How that flows through? So thanks very much on both of those, if that's clear.

Indra Nooyi

Thank you, Ali. I'll let Hugh answer the currencies. I think on the marketing spend, overall if you look at our A&M as a percentage of sales, we said we're going to hold it at 5.9% of sales and we're staying with that number. What happens is that in certain regions of the world, we shift the A&M depending on what kind of return we're getting for A&M spending. But more importantly we've been focused a lot Ali on working versus non-working spending. We're shifting a lot more to consumer facing programs and that's really what we were talking about because we believe that the more we focus on shifting the spending to working A&M away from sort of G&A type A&M, the more bang for the buck we get. So in every part of the world we're trying to put in place playbooks and best practices to increase the A&M that's consumer facing. So overall for the Company again, as we have said many times, we are holding to the A&M as a percentage of sales. But where we see an opportunity to increase it, we look for ways to reallocate it and at every moment we measure the return on investment on our marketing spend. With that, let me turn to Hugh to talk about the currencies in the top and the bottom line.

Hugh Johnston

Absolutely and Indra, just to add one more point around marketing spend to Ali's question. For the year we had marketing spend equal to the rate of sales growth. So we held as committed to at the beginning of the year. For the quarter A&M grew faster than sales. So A&M as a percent of sales went up in the quarter and obviously that was a bit of a margin drag in the quarter. Regarding your question comparing us to other companies in terms of our ability to equalize revenue and -- revenue and earnings FX impacts, I can't speak to what other companies are or aren't doing. What I can tell you is, number one, we do hedge transaction out several months. It varies from country to country based on what's economic. As you know in developing and emerging markets the hedges tend to get expensive when you go out more than a couple of months. So make good economic decisions in that regard.

Number two, I suspect the difference between us and most of our peer set is more of our costs are likely localized, because we do produce in so many countries. Our products don't ship as well as in particular HPC type companies. So I suspect that maybe the difference. But I don't know that for a fact because I haven't studied their cost structures that closely.

Indra Nooyi

I think it is also where we have our revenues and our margins. Latin America higher margins and Russia for example a lower margin. So the revenues gets hit more. So overall I think we have an aligned top and bottom line impact.

Operator

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

Bill Schmitz

I'm going to try to pull a fast one, sneak two or three questions in here if I could. Could you say what Russia was up in the quarter and I was wondering if there was any sort of pre-buy ahead of like big looming price increases which are probably coming this year or early this year? And then just on the Frito front I think it was an outcome this quarter. This is the first quarter in the last 12 where you've actually seen share gain. So do you think this is an inflection for Frito in terms of market share? And then maybe are you surprised that the category isn't accelerating faster given what's going on with gas prices at the pump and obviously a much better employment outlook and maybe even some nascent wage growth in the U.S.?

Indra Nooyi

Hugh, on pre-buys.

Hugh Johnston

Yes, pre-buys. Yes, we don't see a lot of evidence of that. Two things obviously work in our favor in that regard. One is just the fact that our products don't tend to last as long as perhaps other packaged goods companies products. The stale off factor matters. So it's difficult for people to pre-buy very far in advance for a lot of our products. That combined with the DSP system enables us to manage that. So we didn't see, we don't think a big impact from that perspective.

Frito-Lay, obviously we did see good performance in the quarter. We expect continued momentum out of Frito-Lay. In terms of the impact of gas prices, I think what we see happening is consistent with what we've seen in the past which is -- it takes a number of months before the consumer fully spends back the so called benefit from lower gas prices. I think you're going to see that over the course of six months to eight months rather than an immediate change in consumer behavior. It just sort of assimilates over time. I am optimistic from the perspective that consumers right now, their personal balance sheets are pretty healthy. Most consumers have de-levered pretty well. So as a result of that I do think that money will make its way back into the marketplace, and as a Company that sells of more than a small amount of product through G stores and C stores, I think we'll benefit from it.

Indra Nooyi

And if the category keeps growing at this current rate, it's pretty good for us. Let me close by reiterating that we are pleased with our results for the quarter and for the full year. We are confident that our plans are working and as a result our outlook for 2015 is within our long-term financial goals. We want to thank you all for your time and questions this morning, and more importantly for the confidence you've placed in us with your investments. Have a wonderful day.