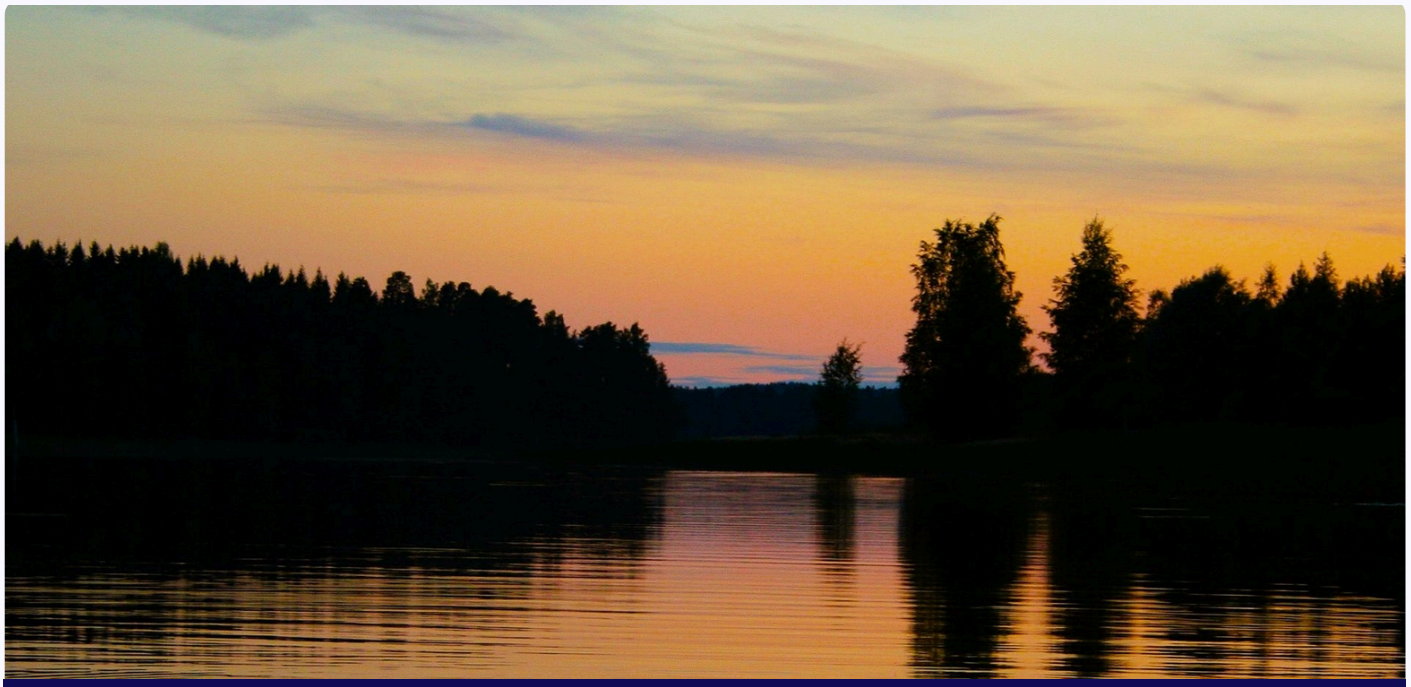
Feil dokument vedlagt – kan ikke lage en presis boligannonse ennå



Elgtjernsveien 593, 3370 VIKERSUND **Prisantydning: KR 3**

Boligtype Enebolig	Eierform Annet	Antall soverom 1 soverom
Bruksareal (BRA) 125 m²	Byggeår 2007	Matrikkelknr 3316, gnr. 31, bnr. 38, fnr. 0, snr. 0

Selger: Austin Moses

Telefonnummer: +380999066909

Praktisk informasjon om salget

Denne boligen selges av en privatperson gjennom Aibo.no – en digital plattform for boligsalg uten megler.
Aibo er en digital plattform som gjør det mulig for privatpersoner å selge boligen sin selv – uten megler. Som kjøper vil du forholde deg direkte til selger gjennom hele prosessen.

Kontaktinformasjonen til selger finner du på forsiden av salgsoppgaven og i Finn-annonsen.

Visning
Visningen(e) gjennomføres av selger.

Som eier har selger god kjennskap til eiendommen og kan svare på spørsmål. Ta gjerne direkte kontakt med selger dersom du ønsker mer informasjon.

Budgivning
Budgivningen skjer digitalt gjennom Aibo sin budmodul og administreres av selger. Bud legges inn via «Gi bud»-funksjonen i Finn-annonsen og må signeres med BankID. Akseptfrist på bud er minimum 30 minutter.

Interessenter og budgivere mottar budvarsler på SMS underveis i budrunden. Budgiveren som får sitt bud akseptert, mottar akseptbrev og budjournal etter avsluttet budrunde. Øvrige budgivere kan få utlevert kopi av budjournalen i anonymisert form.

Overtakelse
Overtakelse skjer etter avtale med selger. Overtakelsesprotokoll sendes ut før overtakelsen skjer.

Før boligen overleveres kjøper, skal fullt oppgjør og omkostninger være mottatt.

Tilstandsrapport
For at selger skal oppfylle sin opplysningsplikt, er det utarbeidet en tilstandsrapport. Tilstandsrapporten er vedlagt salgsoppgaven.

Omkostninger
Omkostningene er beregnet med utgangspunkt i at eiendommen selges til prisantydning, og at det kun tinglyses én låneobligasjon.

Det tas forbehold om endringer i offentlige og private gebyrer/avgifter.

Andel fellesgjeld / andel fellesformue overtas av kjøper.

Selger er ansvarlig for følgende gebyrer:

kr 6 725 (eierskiftegebyr til forretningsfører, estimert)
kr 1 000 (innhenting av kommunale restanser, estimert)
kr 545 (tinglysning av sikringsobligasjon)

Lovanvendelse
Salget av eiendommen reguleres av avhendingsloven.

Salgsoppgaven bygger på opplysninger selger har gitt, tilstandsrapport utarbeidet av bygningssakkyndig, samt informasjon hentet fra kommunen, Kartverket og øvrige tilgjengelige kilder.

Det er viktig at kjøper setter seg godt inn i alle salgsdokumentene, inkludert salgsoppgave, tilstandsrapport og selgers egenerklæring. Kjøper anses å være kjent med forhold som er tydelig beskrevet i

dokumentene, og slike forhold kan ikke senere påberopes som mangler – uavhengig av om dokumentene faktisk er gjennomgått.

Alle interessenter oppfordres til å undersøke eiendommen nøye, gjerne sammen med fagkyndig, før bud inngis. Kjøper som velger å kjøpe eiendommen uten undersøkelse, herunder kjøp usett, kan ikke gjøre gjeldende som mangel ved forhold som burde ha vært avdekket ved en slik gjennomgang.

Dersom det er behov for avklaringer, anbefales det at interessenter rådfører seg med egne rådgivere før bud legges inn.

En bolig som har vært i bruk over tid vil normalt ha slitasje, og det kan forekomme skader. Slike forhold må kjøper forvente, og det kan også oppstå behov for utbedringer etter overtakelse. Normal slitasje og nødvendige utbedringer regnes ikke som mangler.

Kjøpers og selgers rettigheter og plikter reguleres av avtalen mellom partene, samt informasjonen som er gjort tilgjengelig i forbindelse med handelen. Avtalen suppleres av avhendingsloven, og det gjelder ulike vilkår avhengig av om kjøper er forbruker eller ikke. Dette er nærmere beskrevet nedenfor.

På grunn av ulike avtalevilkår kan selger velge å vurdere bud fra ikke-forbrukere annerledes enn bud fra forbrukere. Dersom kjøper ikke er forbruker, kan selger ta forbehold om at eiendommen selges «som den er», noe som begrenser selgers ansvar. Et lavere bud fra en ikke-forbruker kan derfor i enkelte tilfeller være mer attraktivt for selger. Selger står fritt til å akseptere eller avslå ethvert bud, og er ikke forpliktet til å godta det høyeste.

Budgiver skal i budskjema opplyse om vedkommende opptrer som forbruker eller næringsdrivende. Det vil også bli opplyst dersom bud kommer fra en part som ikke er forbruker.

Forbrukerkjøp – definisjon
Med forbrukerkjøp menes kjøp av eiendom der kjøper er en fysisk person som hovedsakelig ikke handler som ledd i næringsvirksomhet.

Forbruker – avtalevilkår
Eiendommen har en mangel dersom den ikke er i samsvar med avtalen, eller dersom vilkårene i avhendingsloven §§ 3-2 til 3-8 er oppfylt. Dersom eiendommen avviker fra det kjøper med rimelighet kan forvente ut fra alder, type og synlig tilstand, kan det foreligge mangel. Det samme gjelder dersom det er gitt uriktige eller mangelfulle opplysninger, forutsatt at dette har hatt betydning for avtalen.

Boligen kan også ha en mangel etter avhendingsloven § 3-3 andre ledd dersom det er avvik mellom oppgitt og faktisk innvendig areal, forutsatt at avviket er minst 2 % og minimum 1 kvm.

Ved krav om prisavslag eller erstatning må kjøper selv dekke kostnader opp til kr 10 000 (egenandel).

Ikke-forbruker – definisjon
Dersom kjøper er en juridisk person, eller en fysisk person som hovedsakelig handler som ledd i næringsvirksomhet, regnes kjøpet ikke som et forbrukerkjøp.

Ikke-forbruker – avtalevilkår
Eiendommen anses å ha en mangel dersom den ikke er i samsvar med avtalen. Eiendommen selges «som den er», og selgers ansvar utover det som er avtalt er begrenset etter avhendingsloven § 3-9 første ledd andre punktum.

Avhendingsloven § 3-3 andre ledd fravikes, og eventuell arealsvikt vurderes i stedet etter § 3-8.

Kjøpers undersøkelsesplikt gjelder også for kjøpere som ikke er forbrukere.

Det forutsettes at hjemmel overføres til kjøper. Dersom kjøper ikke ønsker hjemmelsoverføring, må dette tas forbehold om i budet.

Formuesverdi
Stortinget har vedtatt en ny modell for beregning av formuesverdi for bolig. Den nye modellen tar utgangspunkt i grunnkretser i stedet for kommuner, og skal benyttes fra og med inntektsåret 2026.

Dette kan medføre at beregnet markedsverdi settes høyere eller lavere enn tidligere, og innebærer at selger kan måtte forholde seg til tall som ikke nødvendigvis er oppdaterte på tidspunktet salgsoppgaven utarbeides.

Det tas derfor forbehold om at formuesverdien kan bli justert, og eventuelt øke, ved endelig fastsettelse i skatteåret.

For primærbolig utgjør formuesverdien 25 % av beregnet eller dokumentert markedsverdi opp til kr 10 000 000, og deretter 70 % av den delen som overstiger dette beløpet.

For sekundærbolig utgjør formuesverdien 100 % av beregnet eller dokumentert markedsverdi.

For mer informasjon om formuesverdi, se Skatteetatens nettsider.

Tinglyste servitutter
Tinglyste servitutter er rettigheter og forpliktelser som er registrert på eiendommen i grunnboken. Dette kan blant annet gjelde rett til vei og adkomst, etablering og vedlikehold av vann- og avløpsledninger, samt bestemmelser om bruk av eiendommen eller bebyggelse.

Servituttene følger eiendommen og vil gjelde for ny eier ved et salg. Det anbefales at interessenter setter seg inn i hvilke servitutter som er tinglyst på eiendommen, da disse kan ha betydning for bruken av eiendommen.

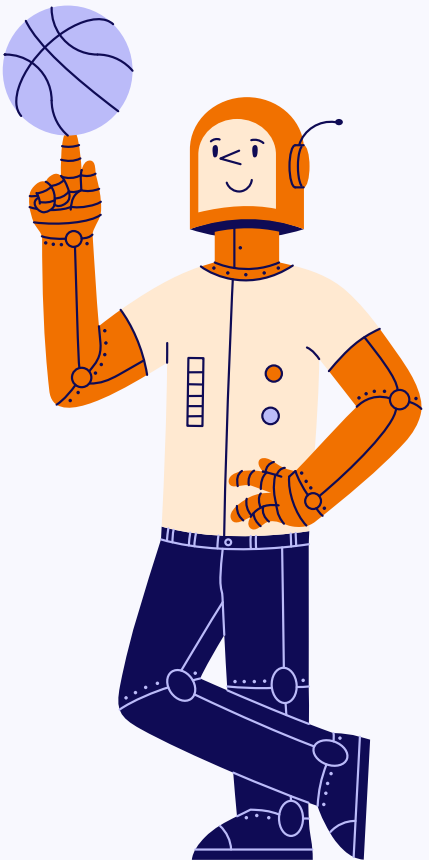
Personopplysningsloven
Personopplysninger behandles i samsvar med personopplysningsloven. Ved å registrere deg som interessent, budgiver eller kjøper, samtykker du til at vi innhenter, behandler og lagrer personopplysninger om deg.



Viktig informasjon om prosessen

Innhold

- Bilder
- Nøkkelinformasjon
- Eiendomsinformasjon
- Vedlegg



Bilder



Det første bildet du velger blir det første bildet i FINN-annonsen, og forsidebi

Beskrivelse

Den vedlagte PDF-en ser ikke ut til å være en tilstandsrapport for en bolig. Den inneholder The Walt Disney Companys årsrapport for regnskapsåret 2023, med informasjon om selskapets virksomhet og økonomi. Her finnes det ingen opplysninger om en konkret bolig, som beliggenhet, romfordeling, standard, oppgraderinger, tekniske forhold eller nærområde. For å skrive en troverdig og attraktiv boligannonse uten å dikte opp detaljer trenger jeg den riktige tilstandsrapporten eller en beskrivelse av eiendommen. Last gjerne opp riktig dokument, så lager jeg en profesjonell annonsetekst på norsk med overskrift, boligbeskrivelse og en kort oversikt over rommene.

Nøkkelinformasjon

Postnummer 3370	Boligtype Enebolig	Eieform Annet
Kommunenummer 3316	Gårdsnummer 31	Bruksnummer 38
Seksjonsnummer 0	Festenummer 0	Antall soverom 1
Byggeår 2007	Bruksareal (BRA) 125 m²	Verditakst KR 40 000
Felleskostnader KR 5	Formuesverdi KR 2	Prisantydning KR 3
Omkostninger KR 1	Andel fellesgjeld KR 2	Totalpris KR 6

Eiendomsinformasjon

Fasiliteter

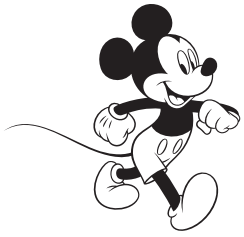
Bredbåndstilknytning Fellesvaskeri

Felleskostnader inkluderer

Felleskostnader inkluderer

Omkostninger inkluderer

Omkostninger inkluderer



The Walt Disney Company

FISCAL YEAR 2023 ANNUAL FINANCIAL REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2023

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 001-38842

The Walt Disney Company

Delaware	**83-0940635**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification

500 South Buena Vista Street
Burbank, California 91521
Address of Principal Executive Offices and Zip Code
(818) 560-1000
Registrant's Telephone Number, Including Area Code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	DIS	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter as reported on the New York Stock Exchange-Composite Transactions) was $182.9 billion. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

There were 1,830,315,921 shares of common stock outstanding as of November 15, 2023.

Documents Incorporated by Reference

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2024 annual meeting of the Company's shareholders.

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THE WALT DISNEY COMPANY AND SUBSIDIARIES

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Cautionary Note on Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally relate to future events or our future financial or operating performance and may include statements concerning, among other things, financial results, business plans (including statements regarding new services and products and future expenditures, costs and investments), future liabilities or other obligations, impairments and amortization, estimates of the financial impact of certain items, accounting treatment, events or circumstances; competition and seasonality. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "would," "should," "expects," "plans," "could," "intends," "target," "projects," "believes," "estimates," "anticipates," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These statements reflect our current views with respect to future events and are based on assumptions as of the date of this report. These statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments, asset acquisitions or dispositions, new or expanded business lines or cessation of certain operations), our execution of our business plans (including the content we create and IP we invest in, our pricing decisions and our cost structure) or other business decisions, as well as from developments beyond the Company's control, including:

- further deterioration in domestic and global economic conditions;
- deterioration in or pressures from competitive conditions, including competition to create or acquire content;
- consumer preferences and acceptance of our content, offerings, pricing model and price increases and the market for advertising sales on our direct-to-consumer services and linear networks;
- health concerns and their impact on our businesses and productions;
- international, regulatory, legal, political, or military developments;
- technological developments;
- labor markets and activities;
- adverse weather conditions or natural disasters; and
- availability of content;

each such risk includes the current and future impacts of, and is amplified by, COVID-19 and related mitigation efforts.

Such developments may further affect entertainment, travel and leisure businesses generally and may, among other things, affect (or further affect, as applicable):

- our operations, business plans or profitability;
- demand for our products and services;
- the performance of the Company's content;
- our ability to create or obtain desirable content at or under the value we assign the content;
- the advertising market for programming;
- income tax expense; and
- performance of some or all Company businesses either directly or through their impact on those who distribute our products.

Additional factors include those described in this Annual Report on Form 10-K, including under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," in our subsequent quarterly reports on Form 10-Q, including under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in our subsequent filings with the Securities and Exchange Commission.

A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances. You should not place undue reliance on the forward-looking statements. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made.

PART I

ITEM 1. Business

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in three segments: Entertainment, Sports and Experiences.

The terms "Company", "we", "our" and "us" are used in this report to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

Human Capital

The Company's key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, the Company's human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future; reward and support employees through competitive pay, benefit and perquisite programs; enhance the Company's culture through efforts aimed at making the workplace more engaging and inclusive; acquire talent and facilitate internal talent mobility to create a high-performing, diverse workforce; engage employees as brand ambassadors of the Company's content, products and experiences; and evolve and invest in technology, tools and resources to enable employees at work.

The Company employed approximately 225,000 people as of September 30, 2023, of which approximately 167,000 were employed in the U.S. and approximately 58,000 were employed outside the U.S. Our global workforce is comprised of approximately 77% full time and 16% part time employees, with another 7% being seasonal employees. A significant number of employees in various parts of our businesses, including employees of our theme parks, and writers, directors, actors and production personnel for our productions are covered by collective bargaining agreements. In addition, some of our employees outside the U.S. are represented by works councils, trade unions or other employee associations.

Some of our key programs and initiatives to attract, develop and retain our diverse workforce include:

- **Health, wellness, family resources and other benefits:** Disney's benefit offerings are designed to meet the varied and evolving needs of a diverse workforce across businesses and geographies while helping our employees care for themselves and their families. We provide:
  - Healthcare options aimed at improving quality of care while limiting out-of-pocket costs
  - Family care resources, such as childcare and senior care programs for employees, including access to onsite/community centers, enhanced back-up care choices to include personal caregivers, childcare referral assistance and center discounts, homework help, college preparation, support for students with special needs, a variety of parenting educational resources, long-term care coverage and a family building benefit supporting fertility treatments, adoptions or surrogacy
  - Free mental health and well-being resources, including onsite and virtual on-demand access to the Employee Assistance Program for employees and their dependents and access to digital applications to manage stress and encourage movement
  - Two Centers for Living Well facilities that offer convenient, on-demand access to board-certified physicians and counselors
  - Global Well-Being Week (introduced in 2022), a dedicated week for employees around the world to celebrate, learn and engage in well-being through in-person and virtual events and activities focused on physical, emotional, financial and social well-being
  - Access to a variety of well-being focused apps and platforms including our newest offering, Thrive Global, which is an innovative app that helps employees create long-term healthy habits and behaviors while improving their overall well-being and productivity
- **Diversity, Equity and Inclusion (DE&I):** Our DE&I objectives are to build teams that reflect the life experiences of our audiences, while employing and supporting a diverse array of voices in our creative and production teams. Our DE&I initiatives and programs include:
  - Reimagine Tomorrow, which is the Company's digital destination for amplifying underrepresented voices and features some of Disney's DE&I commitments and actions
  - Executive Incubator, Creative Talent Development and Inclusion, and the Disney Launchpad: Shorts Incubator, which are designed to create a pipeline of next-generation creative executives from underrepresented backgrounds
  - Employee development programs and fellowships for underrepresented talent
  - Innovative learning opportunities, which spark dialogue among employees, leaders, Disney talent and external experts

- Over 100 employee-led groups, which represent and support the diverse communities that make up our global workforce
- The Disney Look appearance guidelines, which were updated to cultivate a more inclusive environment that encourages and celebrates authentic expressions of belonging among employees

- **Disney Aspire:** We support the long-term career aspirations of our hourly employees and further our commitment to strengthening the communities in which we work through our education investment program, Disney Aspire. We pay 100% of the tuition costs upfront for eligible participating employees at a variety of in-network learning providers and universities and reimburse employees for applicable books and fees. The program helps our employees achieve their goals professionally - whether at Disney or beyond - by equipping them with the skills they need to succeed in the rapidly changing 21st century career landscape. More than 15,000 current employees are enrolled and more than 3,800 current employees have graduated since the program launched in 2018. More than 3,100 current students and graduates have been internally promoted across the Company.
- **Talent Development:** We prioritize and invest in creating opportunities to help employees grow and build their careers through a multitude of training and development programs. These include online, instructor-led and on-the-job learning formats as well as executive talent and succession planning paired with an individualized development approach.
- **Sustainability and Social Impact:** The Company's longstanding commitments to sustainability and social impact helps differentiate the Company as an employer. Our priorities include operating responsibly; investing in our people's development and employee experience; diversity, equity and inclusion; environmental stewardship and conservation; and supporting our communities, with a focus on supporting children and families. Our approach seeks to connect these priorities with the Company's businesses and employees and is reflected in our philanthropic giving. The Company also supports employees who give back to our communities with a generous U.S. matching gifts program, as well as Disney VoluntEARS, which rewards employees for their volunteer hours with the opportunity to direct not-for-profit donations from the Company to qualified non-profits of their choosing.

Environmental Sustainability

The Company has developed measurable environmental sustainability goals for 2030, based on our assessment of where the Company's operations have the most significant environmental impacts and where we can most effectively mitigate those impacts. The Company's goals encompass science-based targets for Scope 1, 2 and 3 emissions, water stewardship, waste reduction, sustainable design in construction and use of more sustainable materials in our products.

ENTERTAINMENT

The Entertainment segment generally encompasses the Company's non-sports focused global film, television and direct-to-consumer (DTC) video streaming content production and distribution activities.

The significant lines of business within Entertainment are as follows:

- Linear Networks
  - Domestic: ABC Television Network (ABC Network); Disney, Freeform, FX and National Geographic (owned 73% by the Company) branded television channels; and eight owned ABC television stations
  - International: Disney, Fox (which will be rebranded in fiscal 2024, primarily to FX or Star), FX, National Geographic (owned 73% by the Company) and Star branded general entertainment television channels outside of the U.S.
  - A 50% equity investment in A+E Television Networks (A+E), which operates cable channels including A&E, HISTORY and Lifetime
- Direct-to-Consumer
  - Disney+: a global DTC service that primarily offers general entertainment and family programming. In certain Latin American countries, we offer Disney+ as well as Star+, a general entertainment service that also has sports programming
  - Disney+ Hotstar: a DTC service primarily in India that offers general entertainment, family and sports programming
  - Hulu (owned 67% by the Company): a U.S. DTC service that offers general entertainment and family programming and a digital over-the-top (OTT) service that includes live linear streams of cable networks and the major broadcast networks

- Content Sales/Licensing
  - Sale/licensing of film and episodic content to third-party television and video-on-demand (TV/VOD) services
  - Theatrical distribution
  - Home entertainment distribution: DVD and Blu-ray discs, electronic home video licenses and video-on-demand (VOD) rentals
  - Staging and licensing of live entertainment events on Broadway and around the world (Stage Plays)
  - Intersegment allocation of revenues from the Experiences segment, which is meant to reflect royalties on consumer products merchandise licensing revenues generated on intellectual property ("IP") created by the Entertainment segment
  - Music distribution
  - Post-production services by Industrial Light & Magic and Skywalker Sound

Entertainment also includes the following activities that are reported with Content Sales/Licensing:

- National Geographic magazine and online business (owned 73% by the Company)
- A 30% ownership interest in Tata Play Limited, which operates a direct-to-home satellite distribution platform in India

The significant revenues of Entertainment are as follows:

- Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. YouTube TV) service providers) (MVPDs) for the right to deliver our programming to their customers. Linear Networks also generates revenues from fees charged to television stations affiliated with ABC Network.
- Subscription fees - Fees charged to customers/subscribers for our DTC streaming services
- Advertising - Sales of advertising time/space
- TV/VOD distribution - Licensing fees for the right to use our film and episodic content
- Theatrical distribution - Rentals from licensing our films to theaters
- Home entertainment distribution - Sales and rentals of our film and episodic content to retailers and through distributors
- Other revenue - Revenues from licensing our music, ticket sales from stage play performances, fees from licensing our IP for use in stage plays, sales of post-production services and the allocation of consumer products merchandise licensing revenues

The significant expenses of Entertainment are as follows:

- Operating expenses, consisting primarily of programming and production costs, technology support costs, operating labor, distribution costs and costs of sales. Programming and production costs include the following:
  - Amortization of capitalized production costs
  - Amortization of the costs of licensed programming rights
  - Subscriber-based fees for programming our Hulu Live service, including fees paid by Hulu to the Sports segment and other Entertainment segment businesses for the right to air their linear networks on Hulu Live
  - Production costs related to live programming (primarily news)
  - Amortization of participations and residual obligations
  - Fees paid to the Sports segment to program ESPN on ABC and certain sports content on Star+
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Linear Networks

The majority of Linear Networks revenue is derived from affiliate fees and advertising. The Company's Linear Networks businesses provide programming under multi-year licensing agreements with MVPDs and/or affiliated television stations that are generally based on contractually specified rates on a per subscriber basis. The amounts that we can charge for our networks are largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand.

Domestic Linear Networks

ABC Network

ABC Network distributes programming to approximately 240 local affiliated television stations and to our eight owned television stations, which collectively reach almost 100% of U.S. television households. ABC Network programming is aired in the primetime, daytime, late night, news and sports "dayparts". ESPN programs the sports daypart on the ABC Network, which is branded ESPN on ABC.

ABC Network produces a variety of primetime specials, news and daytime programming.

Disney Channels

Branded television channels include: Disney Channel; Disney Junior; and Disney XD (collectively Disney Channels).

Disney Channel - the Disney Channel airs original series and movie programming 24 hours a day targeted to kids ages 2 to 14. The channel features live-action comedy series, animated programming and preschool series as well as original movies and theatrical films.

Disney Junior - the Disney Junior channel airs programming 24 hours a day targeted to kids ages 2 to 7 and their parents and caregivers. The channel features animated and live-action programming that blends Disney's storytelling and characters with learning. Disney Junior also airs as a programming block on the Disney Channel.

Disney XD - the Disney XD channel airs programming 24 hours a day targeted to kids ages 6 to 11. The channel features a mix of live-action and animated programming.

Freeform

Freeform is a channel targeted to viewers ages 18 to 34 that airs original, Company owned ("library") and licensed television series, films and holiday programming events.

FX Channels

Branded television channels include: FX; FXM; and FXX (collectively FX Channels), which air a mix of original, library and licensed television series and films.

National Geographic Channels

Branded television channels include: National Geographic; Nat Geo Wild; and Nat Geo Mundo (collectively National Geographic Channels). National Geographic Channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture.

The number of subscribers (in millions) for the significant domestic branded channels are as follows:

	Subscribers[1]
Disney	
Disney Channel	71
Disney Junior[2]	52
Disney XD[2]	51
Freeform[2]	71
FX Channels	
FX	72
FXX[2]	68
FXM[2]	43
National Geographic Channels	
National Geographic	71
National Geographic Wild[2]	42

(1) Based on Nielsen Media Research estimates as of September 2023. Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

(2) The Company renewed its MVPD agreement with an affiliate during September 2023, under which the affiliate will no longer distribute these channels. Nielsen Media Research estimates as of September 2023 do not reflect the impact of this agreement.

Domestic Television Stations

The Company owns eight television stations, six of which are located in the top ten television household markets in the U.S. Our television stations collectively reach approximately 20% of U.S. television households.

The stations we own are as follows:

TV Station	Market	Television Market Ranking[(1)]
WABC	New York, NY	1
KABC	Los Angeles, CA	2
WLS	Chicago, IL	3
WPVI	Philadelphia, PA	4
KTRK	Houston, TX	7
KGO	San Francisco, CA	10
WTVD	Raleigh-Durham, NC	23
KFSN	Fresno, CA	53

(1) Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2023

International Linear Networks

International Linear Networks use content from the Company's various studios, including library titles, as well as content acquired from third parties. The Company operates approximately 285 general entertainment and family channels outside the U.S. in approximately 40 languages and 190 countries/territories.

General Entertainment

General Entertainment channels include Fox (which will be rebranded in fiscal 2024, primarily to FX or Star), FX, National Geographic and Star branded channels, which air a variety of scripted, reality and documentary programming. As of September 2023 and 2022, the estimated number of unique subscribers for our general entertainment channels, based on internal management reports, are 270 million and 315 million, respectively.

Family

Family channels include Disney Channel and Disney Junior, which air a variety of animated and live action original series and movies targeted to kids ages 2 to 14 and their parents and caregivers. As of September 2023 and 2022, the estimated number of unique subscribers for our family channels, based on internal management reports, are 225 million and 220 million, respectively.

Equity Investments

The most significant equity investment at Linear Networks is A+E. The Company's share of A+E's financial results are reported as "Equity in the income (loss) of investees, net" in the Company's Consolidated Statements of Operations.

A+E is owned 50% by the Company and 50% by Hearst. A+E operates a variety of cable channels:

- A&E – which generally offers unscripted entertainment programming
- HISTORY – which offers original unscripted series and event-driven specials
- Lifetime and Lifetime Movie Network (LMN) – which offer female-focused programming
- FYI – which offers contemporary lifestyle programming

A+E programming is available in approximately 200 countries and territories. A+E's networks are distributed internationally under multi-year licensing agreements with MVPDs. A+E programming is also sold to international TV/VOD services.

The number of domestic subscribers (in millions) for A+E channels are as follows:

	Subscribers[1]
A&E	65
HISTORY	65
Lifetime	65
LMN	49
FYI	37

(1) Based on Nielsen Media Research estimates as of September 2023. Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

Direct-to-Consumer

Disney+, Disney+ Hotstar and Hulu are subscription services that provide video streaming of general entertainment and family programming. Disney+ and Disney+ Hotstar also provide video streaming of international sports programming. The services are offered individually or in various bundles, which may include ESPN+ (see Sports segment discussion), to customers directly or through third-party distributors on mobile and internet connected devices. The majority of Direct-to-Consumer revenue is derived from subscription fees and advertising.

Disney+ (including Star+ in Latin America)

Disney+ is a subscription-based DTC service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming, which are all top-level selections or "tiles" within the Disney+ interface. Outside the U.S. and Latin America, Disney+ also includes a Star branded tile, which features general entertainment programming.

Star+ is a standalone DTC service in Latin America with a variety of general entertainment and family content and live sports programming.

Disney+ (including Star+) is also referred to as Disney+ Core.

As of September 30, 2023, the estimated number of paid Disney+ Core subscribers, based on internal management reports, was approximately 113 million.

Disney+ Hotstar

Disney+ Hotstar is a subscription-based DTC service available in India, Indonesia, Malaysia, Philippines and Thailand. Programming includes television shows, movies, sports and original series in approximately ten languages, in addition to gaming and social features. Disney+ Hotstar has exclusive streaming rights to certain cricket programming.

As of September 30, 2023, the estimated number of paid Disney+ Hotstar subscribers, based on internal management reports, was approximately 38 million.

Disney+ Core and Disney+ Hotstar offer content from the Company's various studios, including library titles, as well as content acquired from third parties.

The majority of Disney+ Core and Disney+ Hotstar revenue is derived from subscription fees and, to a lesser extent, Advertising. The Company launched an ad-supported Disney+ service in the U.S. in December 2022 and in select European markets and in Canada in November 2023. The Company plans to launch an ad-supported Disney+ service in additional international markets in calendar 2024.

Hulu

Hulu is a domestic subscription-based DTC service with general entertainment content from the Company's various studios as well as content licensed from third parties. Hulu's revenue is primarily derived from subscription fees and Advertising. Hulu offers subscription VOD (SVOD) services with or without advertising in addition to a digital OTT MVPD (Live TV) service. The Live TV service is available with either of Hulu's SVOD services and includes live linear streams of cable networks and the major broadcast networks. In addition, Hulu offers subscriptions to premium services such as Max, Cinemax, Starz and Showtime, which can be added to the Hulu service. Certain programming from ABC Network, Freeform and FX Channels is also available on the Hulu SVOD service one day after the linear airing on these channels. As of September 30, 2023, the estimated number of paid Hulu subscribers, based on internal management reports, was approximately 49 million.

The Company has 67% ownership and full operational control of Hulu. NBC Universal (NBCU) owns the remaining 33% of Hulu. In November 2023, NBCU exercised its put right to require the Company to purchase NBCU's interest in Hulu (see Note 2 of the Consolidated Financial Statements for additional information).

Content Sales/Licensing and Other

The majority of Content Sales/Licensing revenue is derived from TV/VOD, theatrical and home entertainment distribution. In addition, revenue is generated from music distribution, stage plays and post-production services through Industrial Light & Magic and Skywalker Sound.

The Company also publishes National Geographic magazine, which is reported with Content Sales/Licensing.

TV/VOD Distribution

We license our content to third-party television networks, television stations and other video service providers for distribution to viewers on television or a variety of internet-connected devices, including through other DTC services.

Theatrical Distribution

The Company licenses full-length live-action and animated films to theaters globally. Cumulatively through September 30, 2023, the Company has released approximately 1,100 full-length live-action films and 100 full-length animated films. In the domestic and most major international markets, we generally distribute and market our films directly. In certain international markets our films are distributed by independent companies. In some territories, certain films may be exclusively distributed on our DTC streaming services. During fiscal 2024, we expect to release approximately 15 films, although the ultimate number of releases will depend on when productions resume following the writers/actors' work stoppages.

The Company incurs significant marketing and advertising costs before and throughout the theatrical release of a film in an effort to generate public awareness of the film, to increase the public's intent to view the film and to help generate consumer interest in the subsequent home entertainment and other ancillary markets. These costs are expensed as incurred, which may result in a loss on a film in the theatrical markets, including in periods prior to the theatrical release of the film.

Home Entertainment Distribution

We distribute the Company's film and episodic content in home entertainment markets on DVD and Blu-ray disc, through electronic home video licenses and VOD rentals globally.

Domestically and internationally, we distribute directly to retailers and through independent distribution companies. Electronic formats of our film and episodic content may be purchased through e-tailers such as Apple and Amazon, and MVPDs, such as Comcast and DirecTV, and physical formats are generally sold to retailers, such as Walmart and Target. The Company also operates Disney Movie Club, which sells DVD/Blu-ray discs directly to consumers in the U.S. and Canada.

Distribution of film content in the home entertainment window generally starts within three months after the theatrical release. Electronic formats are typically available approximately four to eight weeks ahead of the physical release. We also license titles to VOD e-tailers concurrent with physical home entertainment distribution.

Distribution of episodic content in the home entertainment window includes electronic sales of season passes that can be purchased prior to, during and after the broadcast season with individual episodes typically available to season pass customers shortly after the initial airing of the show in each territory. Access to individual episodes is also available for electronic purchase shortly after the initial airing in each territory.

Disney Theatrical Group

Disney Theatrical Group develops, produces and licenses live entertainment events on Broadway and around the world. Productions include *The Lion King*, *Frozen*, *Aladdin* and *Beauty and the Beast*.

Disney Theatrical Group also licenses the Company's IP to Feld Entertainment, the producer of *Disney On Ice* and *Marvel Universe Live!*.

Disney Music Group

The Disney Music Group encompasses all aspects of the Company's music commercialization and marketing including: recorded music (Walt Disney Records and Hollywood Records); music publishing; and concerts. Disney Music Group distributes music both physically and digitally and also licenses music throughout the world in various forms of media, including: television; print; gaming; and consumer products.

Equity Investment

The Company has a 30% effective interest in Tata Play Limited, which operates a direct-to-home satellite distribution platform in India.

Content Production and Acquisition

Produced content primarily consists of original films and episodic programs, network news and daytime/nighttime content and licensed content includes acquired episodic programming rights. Original content is generally produced under the following banners: ABC Signature; Disney Branded Television; FX Productions; Lucasfilm; Marvel; National Geographic Studios; Pixar;

Searchlight Pictures; Twentieth Century Studios; 20th Television; and Walt Disney Pictures. Original content is also commissioned and produced by various third-party studios. Program development is carried out in collaboration with writers, producers and creative teams.

Costs to produce content are generally capitalized and allocated across Entertainment's businesses based on the estimated relative value of the distribution windows.

Generally, the Company has full production and distribution rights to its IP. However, prior to the Company's acquisition of Marvel, Sony Pictures Entertainment licensed from Marvel the rights to produce and distribute Spider-Man films in all windows except for the merchandise rights, which the Company retains.

The Company has a significant library of content spanning approximately 100 years of production history as well as acquired libraries. The library of content includes approximately 5,100 live-action film titles and 400 animated film titles, as well as episodic series with four or more seasons (approximately 75 dramas, 55 comedies, 35 non-scripted series, 15 animated series and 10 live-action series). In addition, the library includes approximately 100 series and 65 films that were produced for initial distribution on our DTC platforms.

In fiscal 2024, the Company plans to produce or commission approximately 225 episodic and film titles, although the ultimate number will depend on when productions resume following the writers/actors' work stoppages. The vast majority of our productions will be distributed on our Linear Networks and/or DTC platforms or theatrically. Programming is also produced for third parties, which typically have domestic linear distribution rights while the Company retains domestic VOD and international distribution rights. We also license, acquire or produce local content for use in various countries/territories.

Competition and Seasonality

Linear Networks and Direct-to-Consumer compete for viewers' attention and audience share primarily with other television networks, independent television stations and other media, such as other DTC streaming services, social media and video games. With respect to the sale of advertising time, we compete with other television networks, independent television stations, MVPDs, other DTC streaming services and other advertising media such as digital content, newspapers, magazines, radio and billboards. Our television and radio stations primarily compete for audiences and advertisers in local market areas.

Linear Networks compete with other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry, including subscriber trends, and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various programming services that are as favorable as those currently in place.

Content Sales/Licensing businesses compete with all forms of entertainment and a significant number of companies produce and/or distribute theatrical and episodic content, distribute products in the home entertainment market, provide pay TV/VOD services, and produce music and live theater.

The operating results of Content Sales/Licensing fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

We also compete with other media and entertainment companies, independent production companies and VOD services for creative and performing talent, story properties, show concepts, scripted and other programming, advertiser support, production facilities and exhibition outlets that are essential to the success of our Entertainment businesses.

Advertising revenues at Linear Networks and Direct-to-Consumer are subject to seasonal advertising patterns and changes in viewership levels. In general, domestic advertising revenues are typically somewhat higher during the fall and somewhat lower during the summer months. Affiliate revenues vary with the subscriber trends of MVPDs.

Sports

The Sports segment generally encompasses the Company's sports-focused global television and DTC video streaming content production and distribution activities.

The significant lines of business within Sports are as follows:

- ESPN (generally owned 80% by the Company)
  - Domestic:
    - Eight ESPN-branded television channels
    - ESPN on ABC (sports programmed on the ABC Network by ESPN)
    - ESPN+ DTC video streaming service

- International: ESPN-branded channels outside of the U.S.
- Star: Star-branded sports channels in India

The significant revenues of Sports are as follows:

- Affiliate fees
- Advertising
- Subscription fees
- Other revenue - Fees from the following activities: pay-per-view events on ESPN+, sub-licensing of sports rights, programming ESPN on ABC and licensing the ESPN brand

The significant expenses of Sports are as follows:

- Operating expenses, consisting primarily of programming and production costs, technology support costs, operating labor and distribution costs. Programming and production costs include amortization of licensed sports rights and production costs related to live sports and other sports-related programming.
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Domestic ESPN

Branded television channels include eight 24-hour domestic television sports channels: ESPN and ESPN2 (both of which are dedicated to professional and college sports as well as sports news and original programming); ESPNU (which is dedicated to college sports); ESPNEWS (which re-airs select ESPN studio shows and airs a variety of other programming); SEC Network (which is dedicated to Southeastern Conference college athletics); ACC Network (which is dedicated to Atlantic Coast Conference college athletics); ESPN Deportes (which airs professional and college sports as well as studio shows in Spanish); and Longhorn Network (which is dedicated to The University of Texas athletics). In addition, ESPN programs ESPN on ABC and recognizes the direct revenues and costs for this programming and receives a fee from the ABC Network, which is eliminated in consolidation.

The Company has various sports programming rights, which are used to produce content aired on ESPN television networks and ESPN+, including live events and sports news. Rights include the National Football League (NFL), college football (including bowl games and the College Football Playoff) and basketball, the National Basketball Association (NBA), mixed martial arts, Major League Baseball (MLB), the National Hockey League (NHL), soccer, Top Rank Boxing, US Open Tennis, the Masters golf tournament, the Wimbledon Championships, the Professional Golfers' Association (PGA) Championship and the Women's National Basketball Association (WNBA).

The number of subscribers (in millions) for the significant domestic branded channels are as follows:

	Subscribers
ESPN[(1)]	71
ESPN2[(1)]	71
ESPNU[(1)]	50
ESPNEWS[(2)]	53
SEC Network[(2)]	48
ACC Network[(2)]	46

(1) Based on Nielsen Media Research estimates as of September 2023. Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

(2) Because Nielsen Media Research does not measure this channel, estimated subscribers are according to SNL Kagan as of December 2022.

ESPN+ is a domestic subscription-based DTC service offering thousands of live sporting events, on-demand sports content and other original programming. The service is offered individually or in various bundles with Disney+ and Hulu to customers directly or through third-party distributors on mobile and internet connected devices. ESPN+ revenue is derived from subscription fees, pay-per-view fees and, to a lesser extent, advertising. Live events available through the service include mixed martial arts, soccer, hockey, boxing, baseball, college sports, golf, tennis and cricket. ESPN+ is currently the exclusive distributor for Ultimate Fighting Championship (UFC) pay-per-view events in the U.S. As of September 30, 2023, the estimated number of paid ESPN+ subscribers, based on internal management reports, was approximately 26 million.

International ESPN

The Company operates approximately 40 ESPN branded sports channels outside the U.S. in 4 languages and approximately 105 countries/territories. Channels previously branded Fox are now branded ESPN. In the Netherlands, the ESPN branded channels are operated by Eredivisie Media & Marketing CV (EMM) (owned 51% by the Company), which has the media and sponsorship rights of the Dutch Premier League for soccer. Rights include various soccer leagues (including English Premier League, LaLiga, Bundesliga and multiple UEFA leagues). As of September 2023, the estimated number of subscribers to ESPN branded channels outside the U.S., based on internal management reports, was approximately 59 million.

Star

The Company operates 10 Star branded sports channels in India, in 4 languages. Star has rights to various sports programming, primarily cricket and soccer. As of September 2023, the estimated number of subscribers to Star branded channels, based on internal management reports, was 82 million.

Equity Investments

The most significant equity investment at Sports is a 30% interest in CTV Specialty Television, Inc. (CTV). The Company's share of CTV's financial results is reported as "Equity in the income (loss) of investees, net" in the Company's Consolidated Statements of Operations. CTV operates television networks in Canada, including The Sports Networks (TSN) 1-5, Le Réseau des Sports (RDS), RDS2, RDS Info, Discovery Canada, Discovery Science and Animal Planet Canada.

Investments

In fiscal 2023, the Company entered into an agreement with PENN Entertainment, Inc. (PENN), under which the Company will earn advertising and licensing revenues from providing promotional services and the ESPN BET trademark to PENN in connection with its operation of a sportsbook. In addition, the Company received warrants to purchase equity in PENN, which vest over the term of the agreement. The warrants are recorded at fair market value and adjustments to fair market value are reported as "Interest expense, net" in the Company's Consolidated Statements of Operations.

Competition and Seasonality

Sports competes for viewers' attention and audience share primarily with other television networks, independent television stations and other media, such as other DTC streaming services, social media and video games. With respect to the sale of advertising time, we compete with other television networks, independent television stations, MVPDs and other advertising media such as digital content, newspapers, magazines, radio and billboards.

The Sports television networks compete with other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various programming services that are as favorable as those currently in place.

We also compete with other media and entertainment companies and VOD services for sports rights, creative and performing talent and other programming, advertiser support and production facilities that are essential to the success of our Sports businesses.

Advertising revenues are subject to changes in viewership levels and the demand for sports programming. Advertising revenues generated from sports programming are also impacted by the timing of sports seasons and events, which timing may vary throughout the year or may take place periodically (e.g. biannually, quadrennially). Affiliate revenues vary with the subscriber trends of MVPDs.

EXPERIENCES

The significant lines of business within Experiences are as follows:

- Parks & Experiences:
  - Domestic:
    - Theme parks and resorts:
      - Walt Disney World Resort in Florida
      - Disneyland Resort in California
    - Experiences:
      - Disney Cruise Line
      - Disney Vacation Club
      - National Geographic Expeditions (owned 73% by the Company) and Adventures by Disney

        - Aulani, a Disney Resort & Spa in Hawaii
    - International:
        - Theme parks and resorts:
            - Disneyland Paris
            - Hong Kong Disneyland Resort (48% ownership interest and consolidated in our financial results)
            - Shanghai Disney Resort (43% ownership interest and consolidated in our financial results)
            - In addition, the Company licenses its IP to a third party to operate Tokyo Disney Resort
- Consumer Products:
    - Licensing of our trade names, characters, visual, literary and other IP to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
    - Sale of branded merchandise through online, retail and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic magazine, which is reported in Entertainment)

The significant revenues of Experiences are as follows:

- Theme park admissions - Sales of tickets for admission to our theme parks and for premium access to certain attractions (e.g. Genie+ and Lightning Lane)
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Merchandise licensing and retail:
    - Merchandise licensing - Royalties from licensing our IP for use on consumer goods
    - Retail - Sales of merchandise through internet shopping sites (generally branded shopDisney) and at The Disney Store, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities, real estate rent and sales and royalties earned on Tokyo Disney Resort revenues

The significant expenses of Experiences are as follows:

- Operating expenses, consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include technology support costs, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Significant capital investments:

- In recent years, the majority of the Company's capital spend has been at our parks and experiences business, which is principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure.

Parks & Experiences

Walt Disney World Resort

The Walt Disney World Resort is located approximately 20 miles southwest of Orlando, Florida, on approximately 25,000 acres of land. The resort includes theme parks (the Magic Kingdom, EPCOT, Disney's Hollywood Studios and Disney's Animal Kingdom); hotels; vacation club properties; a retail, dining and entertainment complex (Disney Springs); a sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities designed to attract visitors for an extended stay.

The Walt Disney World Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of attractions and restaurants in each of the theme parks are sponsored or operated by other companies under multi-year agreements.

Magic Kingdom — The Magic Kingdom consists of six themed areas: Adventureland, Fantasyland, Frontierland, Liberty Square, Main Street USA and Tomorrowland. Each land provides a unique guest experience featuring themed attractions, restaurants, merchandise shops and entertainment experiences.

EPCOT — EPCOT consists of four major themed areas: World Showcase, World Celebration, World Nature and World Discovery. All areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. Countries represented with pavilions include Canada, China, France, Germany, Italy, Japan, Mexico, Morocco, Norway, the United Kingdom and the U.S. The Journey of Water, inspired by Moana, opened in October 2023 as part of a multi-year transformation at EPCOT.

Disney's Hollywood Studios — Disney's Hollywood Studios consists of eight themed areas: Animation Courtyard, Commissary Lane, Echo Lake, Grand Avenue, Hollywood Boulevard, *Star Wars*: Galaxy's Edge, Sunset Boulevard and Toy Story Land. The areas provide behind-the-scenes glimpses of Hollywood-style action through various shows and attractions and offer themed food service, merchandise shops and entertainment experiences.

Disney's Animal Kingdom — Disney's Animal Kingdom consists of a 145-foot tall Tree of Life centerpiece surrounded by five themed areas: Africa, Asia, DinoLand USA, Discovery Island and Pandora - The World of Avatar. Each themed area contains attractions, restaurants, merchandise shops and entertainment experiences. The park features more than 300 species of live mammals, birds, reptiles and amphibians and 3,000 varieties of vegetation.

Hotels, Vacation Club Properties and Other Resort Facilities — As of September 30, 2023, the Company owned and operated 18 resort hotels and vacation club facilities at the Walt Disney World Resort, with approximately 23,000 rooms and 3,600 vacation club units. Resort facilities include 500,000 square feet of conference meeting space and Disney's Fort Wilderness camping and recreational area, which offers approximately 800 campsites.

Disney Springs is an approximately 120-acre retail, dining and entertainment complex and consists of four areas: Marketplace, The Landing, Town Center and West Side. The areas are home to more than 150 venues including the 64,000-square-foot World of Disney retail store. Most of the Disney Springs facilities are operated by third parties that pay rent to the Company.

Ten independently-operated hotels with approximately 7,000 rooms are situated on property leased from the Company.

ESPN Wide World of Sports Complex is a 230-acre center that hosts professional caliber training and competitions, festival and tournament events and interactive sports activities. The complex, which welcomes both amateur and professional athletes, accommodates multiple sporting events, including baseball, basketball, football, soccer, softball, tennis and track and field. It also includes a stadium, as well as two venues designed for cheerleading, dance competitions and other indoor sports.

Other recreational amenities and activities available at the Walt Disney World Resort include three championship golf courses, miniature golf courses, full-service spas, tennis, sailing, swimming, horseback riding and a number of other sports and leisure time activities. The resort also includes two water parks: Disney's Blizzard Beach and Disney's Typhoon Lagoon.

Disneyland Resort

The Company owns 489 acres and has rights under a long-term lease for use of an additional 52 acres of land in Anaheim, California. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three resort hotels and a retail, dining and entertainment complex (Downtown Disney).

The Disneyland Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of the attractions and restaurants in the theme parks are sponsored or operated by other companies under multi-year agreements.

Disneyland — Disneyland consists of nine themed areas: Adventureland, Critter Country, Fantasyland, Frontierland, Main Street USA, Mickey's Toontown, New Orleans Square, *Star Wars*: Galaxy's Edge and Tomorrowland. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences.

Disney California Adventure — Disney California Adventure is adjacent to Disneyland and includes eight themed areas: Avengers Campus, Buena Vista Street, Cars Land, Grizzly Peak, Hollywood Land, Paradise Gardens Park, Pixar Pier and San Fransokyo Square. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

Hotels, Vacation Club Units and Other Resort Facilities — Disneyland Resort includes three Company owned and operated hotels and vacation club facilities with approximately 2,400 rooms, 180 vacation club units and 180,000 square feet of conference meeting space.

Downtown Disney is a themed 15-acre retail, entertainment and dining complex with approximately 30 venues located adjacent to both Disneyland and Disney California Adventure. Most of the Downtown Disney facilities are operated by third parties that pay rent to the Company.

Aulani, a Disney Resort & Spa

Aulani, a Disney Resort & Spa is a family resort on a 21-acre oceanfront property on Oahu, Hawaii featuring approximately 350 hotel rooms, an 18,000-square-foot spa and 12,000 square feet of conference meeting space. The resort also has approximately 480 vacation club units.

Disneyland Paris

Disneyland Paris is located on approximately 5,200-acres in Marne-la-Vallée, approximately 20 miles east of Paris, France. The land is being developed pursuant to a master agreement with French governmental authorities. Disneyland Paris includes two theme parks (Disneyland Park and Walt Disney Studios Park); seven themed resort hotels; two convention centers; a shopping, dining and entertainment complex (Disney Village); and a 27-hole golf facility. Of the 5,200 acres comprising the site, approximately half have been developed to date, including a planned community (Val d'Europe).

Disneyland Park — Disneyland Park consists of five themed areas: Adventureland, Discoveryland, Fantasyland, Frontierland and Main Street USA. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

Walt Disney Studios Park — Walt Disney Studios Park includes five themed areas: Front Lot, Production Courtyard, Toon Studio, Worlds of Pixar and Avengers Campus. These areas each include themed attractions, restaurants, merchandise shops and entertainment experiences. Walt Disney Studios Park is undergoing a multi-year expansion that will include a new themed area based on Frozen.

Hotels and Other Facilities — Disneyland Paris operates seven resort hotels, with approximately 5,750 rooms and 250,000 square feet of conference meeting space. In addition, five on-site hotels that are owned and operated by third parties provide approximately 1,500 rooms.

Disney Village is an approximately 500,000-square-foot retail, dining and entertainment complex located between the theme parks and the hotels. A number of the Disney Village facilities are operated by third parties that pay rent to the Company.

Val d'Europe is a planned community near Disneyland Paris that is being developed in phases. Val d'Europe currently includes a regional train station, hotels and a town center consisting of a shopping center as well as office, commercial and residential space. Third parties operate these developments on land leased or purchased from the Company.

Hong Kong Disneyland Resort

The Company owns a 48% interest in Hong Kong Disneyland Resort and the Government of the Hong Kong Special Administrative Region (HKSAR) owns a 52% interest. The resort is located on 310 acres on Lantau Island and is in close proximity to the Hong Kong International Airport and the Hong Kong-Zhuhai-Macau Bridge. Hong Kong Disneyland Resort includes one theme park and three themed resort hotels. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort. The Company is entitled to receive royalties and management fees based on the operating performance of Hong Kong Disneyland Resort.

Hong Kong Disneyland — Hong Kong Disneyland consists of eight themed areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Mystic Point, Tomorrowland, Toy Story Land and World of Frozen, which opened in November 2023. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences.

Hotels — Hong Kong Disneyland Resort includes three themed hotels with approximately 1,750 rooms and 16,000 square feet of conference meeting space.

Shanghai Disney Resort

The Company owns a 43% interest in Shanghai Disney Resort and Shanghai Shendi (Group) Co., Ltd (Shendi) owns a 57% interest. The resort is located in the Pudong district of Shanghai on approximately 1,000 acres of land, which includes the Shanghai Disneyland theme park; two themed resort hotels; a retail, dining and entertainment complex (Disneytown); and an outdoor recreation area. A management company, in which the Company has a 70% interest and Shendi has a 30% interest, is responsible for operating the resort and receives a management fee based on the operating performance of Shanghai Disney Resort. The Company is also entitled to royalties based on the resort's revenues.

Shanghai Disneyland — Shanghai Disneyland consists of seven themed areas: Adventure Isle, Fantasyland, Gardens of Imagination, Mickey Avenue, Tomorrowland, Toy Story Land and Treasure Cove. These areas feature themed attractions, shows, restaurants, merchandise shops and entertainment experiences. The Company is constructing an eighth themed area based on the animated film *Zootopia*, which is scheduled to open in late calendar 2023.

Hotels and Other Facilities — Shanghai Disneyland Resort includes two themed hotels with approximately 1,200 rooms. Disneytown is an 11-acre outdoor complex of dining, shopping and entertainment venues located adjacent to Shanghai Disneyland. Most Disneytown facilities are operated by third parties that pay rent to Shanghai Disney Resort. The Company is currently constructing a third themed hotel, which will have approximately 400 rooms.

Tokyo Disney Resort

Tokyo Disney Resort is located on 494 acres of land, six miles east of downtown Tokyo, Japan. The Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd. (OLC), a third-party Japanese corporation. The resort includes two theme parks (Tokyo Disneyland and Tokyo DisneySea); five Disney-branded hotels; six other hotels (operated by third parties other than OLC); a retail, dining and entertainment complex (Ikspiari); and Bon Voyage, a Disney-themed merchandise location.

Tokyo Disneyland — Tokyo Disneyland consists of seven themed areas: Adventureland, Critter Country, Fantasyland, Tomorrowland, Toontown, Westernland and World Bazaar.

Tokyo DisneySea — Tokyo DisneySea is divided into seven "ports of call," including American Waterfront, Arabian Coast, Lost River Delta, Mediterranean Harbor, Mermaid Lagoon, Mysterious Island and Port Discovery. OLC is expanding Tokyo DisneySea to include an eighth themed port, Fantasy Springs expected to open in spring 2024.

Hotels and Other Resort Facilities — Tokyo Disney Resort includes five Disney-branded hotels with a total of more than 3,000 rooms and a monorail, which links the theme parks and resort hotels with Ikspiari. OLC is currently constructing a 475-room Disney-branded hotel at Tokyo DisneySea that is expected to open in spring 2024.

Disney Vacation Club (DVC)

DVC offers ownership interests in 16 resort facilities located at the Walt Disney World Resort; Disneyland Resort; Aulani; Vero Beach, Florida; and Hilton Head Island, South Carolina. Available units are offered for sale under a vacation ownership plan and are operated as hotel rooms when not occupied by vacation club members. The Company's vacation club units range from deluxe studios to three-bedroom grand villas. Unit counts in this document are presented in terms of two-bedroom equivalents. DVC had approximately 4,500 vacation club units as of September 30, 2023, including The Villas at Disneyland Hotel, which opened in September 2023. The Company plans to open The Cabins at Disney's Fort Wilderness Resort - A Disney Vacation Club Resort and additional units at Disney's Polynesian Village Resort in 2024.

Storyliving by Disney

The Company is developing its first *Storyliving by Disney* residential community, *Cotino,* in Rancho Mirage, California.

Disney Cruise Line

Disney Cruise Line is a five-ship vacation cruise line, which operates out of ports in North America, Europe and the South Pacific. The *Disney Magic* and the *Disney Wonder* are 85,000-ton 875-stateroom ships; the *Disney Dream* and the *Disney Fantasy* are 130,000-ton 1,250-stateroom ships; and the *Disney Wish* is a 140,000-ton 1,250-stateroom ship. The ships cater to families, children, teenagers and adults, with themed areas and activities for each group. Many cruise vacations include a visit to Disney's Castaway Cay, a 1,000-acre private Bahamian island.

Disney Cruise Line is adding the *Disney Treasure*, the *Disney Adventure* and an eighth ship. The *Disney Treasure* and the *Disney Adventure* are scheduled to be delivered from the shipyard in fiscal 2025 and the eighth ship is scheduled to be delivered in fiscal 2026. The *Disney Treasure* and eighth ship will be approximately 140,000 tons with 1,250 staterooms. The *Disney Adventure* will be approximately 200,000 tons with approximately 2,100 staterooms and will operate in Southeast Asia.

Disney Lookout Cay at Lighthouse Point on the island of Eleuthera is scheduled to open as a Disney Cruise Line destination in the summer of 2024.

Adventures by Disney and National Geographic Expeditions

Adventures by Disney and National Geographic Expeditions offer guided tour packages predominantly at non-Disney sites around the world.

Walt Disney Imagineering

Walt Disney Imagineering provides master planning, real estate development, attraction, entertainment and show design, engineering support, production support, project management and research and development.

Consumer Products

Licensing

The Company's merchandise licensing operations cover a diverse range of product categories, the most significant of which are: toys, apparel, games, home décor and furnishings, accessories, health and beauty, food, books, stationery, footwear, magazines and consumer electronics. The Company licenses characters from its film, television and other properties for use on third-party products in these categories and earns royalties, which are usually based on a fixed percentage of the wholesale or retail selling price of the products. Some of the major properties licensed by the Company include: Mickey and Friends, Star Wars, Spider-Man, Disney Princess, Avengers, Frozen, Toy Story, Winnie the Pooh and Lilo & Stitch.

Retail

The Company sells Disney-, Marvel-, Pixar- and Lucasfilm-branded products through shopDisney branded internet sites and Disney Store branded retail locations. At September 30, 2023, the Company owns and operates approximately 40 stores in Japan, 20 stores in North America, two stores in Europe and one store in China.

The Company creates, distributes and publishes a variety of products in multiple countries and languages based on the Company's branded franchises. The products include children's books and comic books.

Competition and Seasonality

The Company's theme parks and resorts as well as Disney Cruise Line and Disney Vacation Club compete with other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry may be influenced by various factors that are not directly controllable, such as economic conditions including business cycle and exchange rate fluctuations, health concerns, the political environment, travel industry trends, amount of available leisure time, oil and transportation prices, weather patterns and natural disasters. The licensing and retail business competes with other licensors, retailers and publishers of character, brand and celebrity names, as well as other licensors, publishers and developers of game software, online video content, websites, other types of home entertainment and retailers of toys and kids merchandise.

All of the theme parks and the associated resort facilities are operated on a year-round basis. Typically, theme park attendance and resort occupancy fluctuate based on the seasonal nature of vacation travel and leisure activities, the opening of new guest offerings and pricing and promotional offers. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. In addition, theme park and resort revenues may be higher during significant celebrations such as theme park or character anniversaries and lower in the periods following such celebrations. The licensing, retail and wholesale businesses are influenced by seasonal consumer purchasing behavior, which generally results in higher revenues during the Company's first and fourth fiscal quarter, and by the timing and performance of theatrical and game releases and cable programming broadcasts.

INTELLECTUAL PROPERTY PROTECTION

The Company's businesses throughout the world are affected by its ability to exploit and protect against infringement of its IP, including trademarks, trade names, copyrights, patents and trade secrets. Important IP includes rights in the content of motion pictures, television programs, electronic games, sound recordings, character likenesses, theme park attractions, books and magazines and merchandise. Risks related to the protection and exploitation of IP rights and information concerning the expiration of certain of our copyrights are set forth in Item 1A – Risk Factors.

FEDERAL REGULATION — ENTERTAINMENT AND SPORTS

Television broadcasting is subject to extensive regulation by the Federal Communications Commission (FCC) under federal laws and regulations, including the Communications Act of 1934, as amended. Violation of FCC regulations can result in substantial monetary fines, limited renewals of licenses and, in egregious cases, denial of license renewal or revocation of a license. FCC regulations that affect linear channels include the following:

- *Licensing of television stations*. Each of the television stations we own must be licensed by the FCC. These licenses are granted for periods of up to eight years, and we must obtain renewal of licenses as they expire in order to continue operating the stations. We (and the acquiring entity in the case of a divestiture) must also obtain FCC approval whenever we seek to have a license transferred in connection with the acquisition or divestiture of a station. The FCC may decline to renew or approve the transfer of a license in certain circumstances and may delay renewals while permitting a licensee to continue operating. Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed, there can be no assurance that this will be the case in the future.
- *Station ownership limits*. The FCC imposes limitations on the number of television stations and radio stations an entity can own in a specific market, on the combined number of television and radio stations an entity can own in a single market and on the aggregate percentage of the national audience that can be reached by television stations. Currently:
  - FCC regulations may restrict our ability to own more than one television station in a market, depending on the size and nature of the market. We do not own more than one television station in any market.
  - Federal statutes permit our television stations in the aggregate to reach a maximum of 39% of the national audience. Pursuant to the most recent decision by the FCC as to how to calculate compliance with this limit, our eight stations reach approximately 20% of the national audience.
- *Dual networks*. FCC rules currently prohibit any of the four major broadcast television networks — ABC, CBS, Fox and NBC — from being under common ownership or control.

- *Regulation of programming*. The FCC regulates broadcast programming by, among other things, banning "indecent" programming, regulating political advertising and imposing commercial time limits during children's programming. Penalties for broadcasting indecent programming can be over $400,000 per indecent utterance or image per station.

  Federal legislation and FCC rules also limit the amount of commercial matter that may be shown on broadcast or cable channels during programming designed for children 12 years of age and younger. In addition, broadcast stations are generally required to provide an average of three hours per week of programming that has as a "significant purpose" meeting the educational and informational needs of children 16 years of age and younger. FCC rules also give television station owners the right to reject or refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance.
- *Cable and satellite carriage of broadcast television stations.* With respect to MVPDs operating within a television station's Designated Market Area, FCC rules require that every three years each television station elect either "must carry" status, pursuant to which MVPDs generally must carry a local television station in the station's market, or "retransmission consent" status, pursuant to which the MVPDs must negotiate with the television station to obtain the consent of the television station prior to carrying its signal. The ABC owned television stations have historically elected retransmission consent.
- *Cable and satellite carriage of programming.* The Communications Act and FCC rules regulate some aspects of negotiations between programmers and distributors regarding the carriage of networks by cable and satellite distribution companies, and some cable and satellite distribution companies have sought regulation of additional aspects of the carriage of programming on their systems. New legislation, court action or regulation in this area could have an impact on the Company's operations.

The foregoing is a brief summary of certain provisions of the Communications Act, other legislation and specific FCC rules and policies. Reference should be made to the Communications Act, other legislation, FCC rules and public notices and rulings of the FCC for further information concerning the nature and extent of the FCC's regulatory authority.

FCC laws and regulations are subject to change, and the Company generally cannot predict whether new legislation, court action or regulations, or a change in the extent of application or enforcement of current laws and regulations, would have an adverse impact on our operations.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our website, www.disney.com/investors, as soon as reasonably practicable after they are filed electronically with the U.S. Securities and Exchange Commission (SEC). We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

ITEM 1A. Risk Factors

For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in our filings with the SEC, the most significant factors affecting our business include the following:

BUSINESS, ECONOMIC, MARKET and OPERATING CONDITION RISKS

Declines in U.S., global, and regional economic conditions generally adversely affect the profitability of our businesses.

Declines in economic conditions, such as recession, economic downturn, and/or inflationary conditions in the U.S. and other regions of the world in which we do business, or a failure of conditions to improve as anticipated typically adversely affect demand and/or expenses for one or more of our businesses, reducing our revenue and earnings. Past declines in economic conditions reduced guest spending at our parks and resorts, purchases of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected as such conditions recur. Recent inflationary conditions increased certain of our costs. The current economic conditions could also have the effect of reducing attendance at our parks and resorts, prices that MVPDs pay for our cable programming, purchases of and prices for advertising on our DTC products or subscription levels for our cable programming or DTC products, while also continuing to increase the prices we pay for goods, services and labor. Unfavorable economic conditions also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector, could result in a shift in consumer demand away from the entertainment and experiences we offer, which could also adversely affect our revenues and, at the same time, increase our costs. A decline in economic conditions or a failure of conditions to improve as anticipated could impact

implementation or success of our business plans, such as our plans to increase investment in our Experiences segment, the realignment of our cost structure and plans for our DTC ad-supported services, enhancements, pricing structure and price increases. In addition, actions to reduce inflation, including raising interest rates, increase our cost of borrowing, which in turn make it more difficult to obtain financing for our operations or investments on favorable terms. Further, global economic conditions impact foreign currency exchange rates against the U.S. dollar. The current or continued strength in the value of the U.S. dollar has adversely impacted the U.S. dollar value of revenue we receive and expect to receive from other markets and may reduce international demand for our products and services. Although we hedge exposure to certain foreign currency fluctuations, any such hedging activity may not substantially offset the negative financial impact of exchange rate fluctuations and is not expected to offset all such negative financial impact, particularly in periods of sustained U.S. dollar strength relative to multiple foreign currencies. Further, economic or political conditions in countries outside the U.S. also have reduced, and could continue to reduce, our ability to hedge exposure to currency fluctuations in those countries or our ability to repatriate revenue from those countries. Broader or targeted supply chain delays, such as those that have impacted global distribution from time to time, may further exacerbate inflationary pressures and impact our ability to sell and deliver goods or otherwise disrupt our operations. The adverse impact on our businesses of declines in economic conditions or a failure of conditions to improve as anticipated will depend, in part, on the severity and duration of such economic conditions and our ability to mitigate the impacts of economic conditions on our businesses may be limited.

Changes in technology, in consumer consumption patterns and in how entertainment products are created affect demand for our entertainment products, the revenue we can generate from these products and the cost of producing or distributing these products.

The media entertainment and internet businesses in which we participate increasingly depend on our ability to successfully adapt to new technologies including shifting patterns of content consumption and how entertainment products are generated. New technologies affect the demand for our products, the manner in which our products are distributed to consumers, ways we charge for and receive revenue for our entertainment products and the stability of those revenue streams, the sources and nature of competing content offerings, the time and manner in which consumers acquire and view some of our entertainment products and the options available to advertisers for reaching their desired audiences. These developments have impacted the business model for certain traditional forms of distribution, as evidenced by the industry-wide decline in ratings for broadcast and cable television, the reduction in demand for home entertainment sales of theatrical content, the development of alternative distribution channels for broadcast and cable programming and declines in subscriber levels for traditional cable channels. These trends have decreased advertising and affiliate revenue at some of our linear networks. In addition, theater-going to watch movies currently is, and may continue to be, below pre-COVID-19 levels.

Rules governing new technological developments, such as developments in generative artificial intelligence (AI), remain unsettled, and these developments may affect aspects of our existing business model, including revenue streams for the use of our IP and how we create our entertainment products. In order to respond to the impact of new technologies on our businesses, we regularly consider, and from time to time implement changes to our business models, most recently by developing, investing in and acquiring DTC products, reorganizing our media and entertainment businesses to advance our DTC strategies, and developing new media offerings. There can be no assurance that our DTC offerings, new media offerings and other efforts will successfully respond to technological changes. In addition, declines in certain traditional forms of distribution may increase the cost of content allocable to our DTC offerings, negatively impacting the profitability of our DTC offerings. We expect to forgo revenue from traditional sources, particularly as we expand our DTC offerings. To date our DTC streaming services have experienced significant losses. There can be no assurance that the DTC model and other business models we may develop will ultimately be profitable or as profitable as our existing or historic business models.

We face risks relating to misalignment with public and consumer tastes and preferences for entertainment, travel and consumer products, which impact demand for our entertainment offerings and products and the profitability of any of our businesses.

Our businesses create entertainment, travel and consumer products whose success depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of our businesses depends on our ability to consistently create compelling content, which may be distributed, among other ways, through broadcast, cable, theaters, internet or mobile technology, and used in theme park attractions, hotels and other resort facilities and travel experiences and consumer products. Such distribution must meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content. The success of our theme parks, resorts, cruise ships and experiences, as well as our theatrical releases, depends on demand for public or out-of-home entertainment experiences. Demand for certain out-of-home entertainment experiences, such as theater-going to watch movies, has not returned to pre-pandemic levels. In addition, many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside the U.S. The success of our businesses therefore depends on our ability to successfully predict and adapt to changing consumer tastes and preferences outside as well as inside the U.S. Moreover, we must often invest substantial amounts in content production and acquisition, acquisition of sports rights, launch of new sports-related studio programming, theme park attractions, cruise ships or hotels and other facilities or customer facing platforms before we

know the extent to which these products will earn consumer acceptance, and these products may be introduced into a significantly different market or economic or social climate from the one we anticipated at the time of the investment decisions. Generally, our revenues and profitability are adversely impacted when our entertainment offerings and products, as well as our methods to make our offerings and products available to consumers, do not achieve sufficient consumer acceptance. Further, consumers' perceptions of our position on matters of public interest, including our efforts to achieve certain of our environmental and social goals, often differ widely and present risks to our reputation and brands. Consumer tastes and preferences impact, among other items, revenue from advertising sales (which are based in part on ratings for the programs in which advertisements air), affiliate fees, subscription fees, theatrical film receipts, the license of rights to other distributors, theme park admissions, hotel room charges and merchandise, food and beverage sales, sales of licensed consumer products or sales of our other consumer products and services.

The success of our businesses is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.

The value to us of our IP is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our IP may decrease, or the cost of obtaining and maintaining rights may increase. The terms of some copyrights for IP related to some of our products and services have expired and other copyrights will expire in the future. For example, in the United States and countries that look to the United States copyright term when shorter than their own, the copyright term for early works such as the short film Steamboat Willie (1928), and the specific early versions of characters depicted in those works, expires at the end of the 95th calendar year after the date the copyright was originally secured in the United States. As copyrights expire, we expect that revenues generated from such IP will be negatively impacted to some extent.

The unauthorized use of our IP may increase the cost of protecting rights in our IP or reduce our revenues. The convergence of computing, communication and entertainment devices, increased broadband internet speed and penetration, increased availability and speed of mobile data transmission and increasingly sophisticated attempts to obtain unauthorized access to data systems have made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and protection and enforcement of IP rights more challenging. The unauthorized distribution and access to entertainment content generally continues to be a significant challenge for IP rights holders. Inadequate laws or weak enforcement mechanisms to protect entertainment industry IP in one country can adversely affect the results of the Company's operations worldwide, despite the Company's efforts to protect its IP rights. Distribution innovations, including in response to COVID-19, have increased opportunities to access content in unauthorized ways. Additionally, negative economic conditions coupled with a shift in government priorities could lead to less enforcement. These developments require us to devote substantial resources to protecting our IP against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed distribution of our content and other commercial misuses of our IP. The legal landscape for some new technologies, including some generative AI, remains uncertain, and development of the law in this area could impact our ability to protect against infringing uses.

With respect to IP developed by the Company and rights acquired by the Company from others, the Company is subject to the risk of challenges to our copyright, trademark and patent rights by third parties. In addition, the availability of copyright protection and other legal protections for IP generated by certain new technologies, such as generative AI, is uncertain. Successful challenges to our rights in IP may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from or utilize the IP that is the subject of challenged rights. From time to time, the Company has been notified that it may be infringing certain IP rights of third parties. Technological changes in industries in which the Company operates and extensive patent coverage in those areas may increase the risk of such claims being brought and prevailing.

Protection of electronically stored data and other cybersecurity is costly, and if our data or systems are materially compromised in spite of this protection, we may incur additional costs, lost opportunities, damage to our reputation, disruption of service or theft of our assets.

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. We also use computer systems to deliver our products and services and operate our businesses. Data maintained in digital form is subject to the risk of unauthorized access, modification, exfiltration, destruction or denial of access and our computer systems are subject to cyberattacks that may result in disruptions in service. We use many third-party systems and software, which are also subject to supply chain and other cyberattacks. We develop and maintain an information security program to identify and mitigate cyber risks but the development and maintenance of this program is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Accordingly, despite our efforts, the risk of unauthorized access, modification, exfiltration, destruction or denial of access with respect to data or systems and other cybersecurity attacks cannot be eliminated entirely, and the risks associated with a potentially material incident remain. In

addition, we provide confidential, proprietary and personal information to third parties in certain cases, which information is also subject to risk of compromise.

If our information or cyber security systems or data are compromised in a material way, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be damaged resulting in loss of business or morale, and related remediation of harm to our customers and employees or damages arising from litigation and/or fines or other actions we take with respect to judicial or regulatory actions arising out of an incident create additional costs. Insurance we obtain does not cover all potential losses or damages associated with such attacks or events. Our systems and users and those of third parties with whom we engage are continually attacked, sometimes successfully, and there can be no assurance that future incidents will not have material adverse effects on our operations or financial results.

A variety of uncontrollable events may disrupt our businesses, reduce demand for or consumption of our products and services, impair our ability to provide our products and services or increase the cost or reduce the profitability of providing our products and services.

The operation and profitability of our businesses and demand for and consumption of our products and services, particularly our parks and experiences businesses, are highly dependent on the general environment for travel and tourism, including in the specific regions in which our parks and experiences businesses operate. In addition, we have extensive international operations, including our international theme parks and resorts, which are dependent on domestic and international regulations consistent with trade and investment in those regions. The operation of our businesses and the environment for travel and tourism, as well as demand for and consumption of our other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: health concerns (including as it has been by COVID-19 and could be by future health outbreaks and pandemics); adverse weather conditions arising from short-term weather patterns or long-term climate change, including longer and more regular excessive heat conditions, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, droughts, tsunamis and earthquakes); international, political or military developments, including trade and other international disputes and social unrest; macroeconomic conditions, including a decline in economic activity, inflation and foreign exchange rates; and terrorist attacks. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to some of these events. An incident that affected our property directly would have a direct impact on our ability to provide goods and services and could have an extended effect of discouraging consumers from attending our facilities. Moreover, the costs of protecting against such incidents reduces the profitability of our operations.

For example, COVID-19 and measures to prevent its spread impacted our businesses in a number of ways, most significantly at the Experiences segment where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. In addition, we delayed, or in some cases, shortened or canceled theatrical releases and experienced disruptions in the production and availability of content. Collectively, our impacted businesses historically have been the source of the majority of our revenue. In addition, hurricanes have impacted the profitability of Walt Disney World Resort and may do so in the future. The Company has paused certain operations in certain regions, including in response to sanctions, trade restrictions and related developments and the profitability of certain operations has been impacted as a result of events in the corresponding regions.

In addition, we derive affiliate fees and royalties from the distribution of our programming, sales of our licensed goods and services by third parties, and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. The profitability of one or more of our businesses could be adversely impacted by the significant contraction of distribution channels for our products and services, including through third-party licensees or sellers of our licensed goods and services. In addition, third-party suppliers provide products and services essential to the operation of a number of our businesses. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of those third parties or materially impacted a supplier of a significant product or service, the profitability of one or more of our businesses could be adversely affected. In specific geographic markets, we have experienced delayed and/or partial payments from certain third parties due to liquidity issues.

We obtain insurance against the risk of losses relating to some of these events, generally including certain physical damage to our property and resulting business interruption, certain injuries occurring on our property and some liabilities for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles, exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss and we may experience material losses not covered by our insurance.

We face risks related to changes in our business strategy or restructuring of our businesses, which have affected and may continue to affect our cost structure, the profitability of our businesses or the value of our assets.

As changes in our business environment occur we have adjusted, continue to adjust and may further adjust our business strategies to meet these changes and we may otherwise decide to further restructure our operations or particular businesses or assets. For example, in fiscal 2023, we reorganized our media and entertainment operations, which had been previously reported in one segment, into two segments, Entertainment and Sports; in fiscal 2023 we announced that we would review content, primarily on our DTC services, for alignment with a strategic change in our approach to content curation, resulting in removal of certain content from our platforms and related impairment charges; in fiscal 2022, we announced plans to introduce an ad-supported Disney+ service, new pricing model and price increases and cost realignment; in fiscal 2021, we announced the closure of a substantial number of our Disney-branded retail stores; and we have announced exploration of a number of new types of businesses. Changes in strategy, such as was the case with the most recent reorganization of our media and entertainment operations, can lead to workforce disruptions. Our new organization and strategies are, among other things, subject to execution risk and may not produce the anticipated benefits, such as supporting our growth strategies and enhancing shareholder value. For example, notwithstanding our announced plans to rationalize costs, the costs of our DTC strategy, and associated losses, may continue to grow or be reduced more slowly than anticipated, which may impact our distribution strategy across businesses/distribution platforms, the types of content we distribute through various businesses/distribution platforms, and the timing and sequencing of content windows. Our new organization and strategies could be less successful than our previous organizational structure and strategies. In addition, external events including changing technology, changing consumer purchasing patterns, acceptance of content offerings and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we have incurred and may continue to incur costs to change our business strategy and have needed and may in the future need to write-down the value of assets. In addition to the content impairment noted above, among other assets, we have impaired goodwill and intangible assets at our linear networks and impaired the value of certain of our retail store assets. We may write down other assets as our strategy evolves to account for the current business environment.

We also make investments in existing or new businesses, including investments in international expansion of our business and in new business lines. For example, in fiscal 2023, we announced that we are developing plans to accelerate and expand investment in our Experiences segment. In addition, in recent years, other investments have included expansion and renovation of certain of our theme parks, expansion of our fleet of cruise ships, the acquisition of TFCF Corporation (TFCF) and investments related to DTC offerings. Some of these and future investments may ultimately result in returns that are negative or low, the ultimate business prospects of the businesses related to these investments are uncertain, and these investments may impact the resources available to, and the profitability of, our other businesses. In addition, our costs may increase, we may have significant charges associated with the write-down of assets, as occurred in connection with the closure of Star Wars: Galactic Starcruiser or returns on new investments may be negative or lower than prior to the change in strategy or restructuring. Even if our strategies are effective in the long term, our new offerings will generally not be profitable in the short term, growth of our new offerings is unlikely to be even quarter over quarter and we may not expand into new markets as or when anticipated. Our ability to forecast for new businesses may be impacted by our lack of experience operating in those new businesses, speed with which the competitive landscape changes, volatility beyond our control (such as the events beyond our control noted above) and our ability to obtain or develop the content and rights on which our projections are based. Accordingly, we may not achieve our forecasted outcomes.

Increased competitive pressures impact our revenues and increase our costs.

We face substantial competition in each of our businesses from alternative providers of the products and services we offer and from other forms of entertainment, lodging, tourism and recreational activities. This includes, among other types, competition for human resources, content and other resources we require in operating our business. For example:

- Our programming and production operations compete to obtain creative, performing, production and business talent, sports and other programming, story properties, advertiser support, production facilities and market share with traditional and new media platforms, including other studio operators, television networks, VOD providers and other sources of broadband delivered content.
- Our television networks and stations and DTC offerings compete for the sale of advertising time with traditional and new media platforms, including other television and VOD services, as well as with newspapers, magazines, billboards and radio stations, and various forms of internet and mobile delivered content, which offer advertising delivery technologies that are more targeted than can be achieved through traditional means.
- Our television networks compete for carriage of their programming with other programming providers.
- Our theme parks and resorts compete for guests with all other forms of entertainment, lodging, tourism and recreation activities and compete for creative, performing and business talent, including with other theme park and resort operators.
- Our content sales/licensing operations compete for customers with all other forms of entertainment.

- Our consumer products business competes with other licensors and creators of IP.
- Our DTC streaming services compete for customers with an increasing number of competitors' DTC offerings, all other forms of media and all other forms of entertainment, as well as for technology, creative, performing and business talent and for content.

Competition in each of these areas may further increase as a result of technological developments and changes in market structure, including consolidation of suppliers of resources and distribution channels. Increased competition has increased, and may continue to increase, the cost of programming, including sports and other products and diverts consumers from, or delays their consumption of, our creative or other products, or to other products or other forms of entertainment and experiences, which could reduce our revenue or increase our marketing costs.

Competition for the acquisition of resources can further increase the cost of producing our products and services; change the composition of our offerings, including sports; deprive us of talent needed for our entertainment and experiences businesses, including the talent necessary to produce high quality creative material; increase employee turnover and staffing instability; or increase the cost of compensation for our employees. Such competition may also reduce, or limit growth in, prices for our products and services, including advertising rates and subscription fees at our media networks and DTC offerings, parks and resorts admissions and room rates and prices for consumer products from which we derive license revenues.

Our results may be adversely affected if long-term programming or distribution contracts are not renewed on sufficiently favorable terms.

We enter into long-term contracts for both the acquisition and the distribution of media programming and products, including contracts for the acquisition of programming rights for sporting events and other programs, and contracts for the distribution of our programming to content distributors. As these contracts expire, we must renew or renegotiate the contracts, which from time to time has led to service blackouts when distribution contracts expired before renewal terms were agreed, and if we are unable to renew these contracts on acceptable terms, we may lose programming rights or distribution rights. As a result, our portfolio of programming rights we acquire and the distributors of our programming and the portfolio of programming rights our distributors acquire have changed and may continue to change over time. Even if these contracts are renewed, the cost of obtaining certain programming rights has increased and may continue to increase (or increase at faster rates than our historical experience) and programming distributors, facing pressures resulting from increased subscription fees and alternative distribution challenges, have demanded and may continue to demand terms (including with respect to the pricing for, and the nature and amount of, programming distributed) that reduce our revenue from distribution of programs (or increase revenue at slower rates than our historical experience). For example, a recent carriage agreement renewal includes fewer of our linear networks but provides for certain of our DTC streaming services to be made available to the distributor's subscribers. Moreover, our ability to renew these contracts on favorable terms may be affected by a number of factors, such as consolidation in the market for program distribution and the entrance of new participants in the market for distribution of content on digital platforms. With respect to the acquisition of programming rights, particularly sports programming rights, the impact of these long-term contracts on our results over the term of the contracts depends on a number of factors, including the strength of advertising markets, subscription levels and programming rights costs increases, effectiveness of marketing efforts and the size of viewer audiences. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of producing and distributing the programming.

Regulations applicable to our businesses may impair the profitability of our businesses.

Each of our businesses, including our broadcast networks and television stations, is subject to a variety of U.S. and international regulations, which impact the operations and profitability of our businesses. Some of these regulations include:

- U.S. FCC regulation of our television and radio networks, our national programming networks and our owned television stations. See Item 1 — Federal Regulation - Entertainment and Sports.
- Federal, state and foreign privacy and data protection laws and regulations.
- Regulation of the safety and supply chain of consumer products and theme park operations, including regulation regarding the sourcing, importation and the sale of goods.
- Environmental protection regulations.
- U.S. and international anti-corruption laws, sanction programs, trade restrictions and anti-money laundering laws.
- Restrictions on the manner in which content is currently licensed and distributed, ownership restrictions or film or television content requirements, investment obligations or quotas.
- Domestic and international labor laws, tax laws or currency controls.

New laws and regulations, as well as changes in any of these current laws and regulations or regulator activities in any of these areas, or others, may require us to spend additional amounts to comply with the regulations, or may restrict our ability to offer products and services in ways that are profitable, and create an increasingly unpredictable regulatory landscape. In addition, ongoing and future developments in international political, trade and security policy may lead to new regulations

limiting international trade and investment and disrupting our operations outside the U.S., including our international theme parks and resorts operations in France, mainland China and Hong Kong. For example, in 2022 the U.S. and other countries implemented a series of sanctions against Russia in response to events in Russia and Ukraine; U.S. agencies have enhanced trade restrictions, including new prohibitions on the importation of goods from certain regions and other jurisdictions are considering similar measures; U.S. state governments have become more active in passing legislation targeted at specific sectors and companies and applying existing laws in novel ways to new technologies, including streaming and online commerce; and in many countries/regions around the world (including but not limited to the EU) regulators are requiring us to broadcast on our linear (or display on our DTC streaming services) programming produced in specific countries as well as invest specified amounts of our revenues in local content productions. In Florida, steps directed at the Company (including the passage of legislation) have been taken and future actions have been threatened, which collectively could negatively impact (and may have already impacted) our ability to execute on our business strategy, our costs and the profitability of our operations in Florida.

Further, in response to the COVID-19 pandemic, public health and other regional, national, state and local regulations and policies impacted most of our businesses. Government requirements could be reinstated and new government requirements may be imposed to address COVID-19 or future health outbreaks or pandemics.

Our operations outside the U.S. may be adversely affected by the operation of laws in those jurisdictions.

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than, or in addition to, U.S. law. Laws in some jurisdictions differ in significant respects from those in the U.S. These differences can affect our ability to react to changes in our business, and our rights or ability to enforce rights may be different than would be expected under U.S. law. Moreover, enforcement of laws in some international jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. In addition, the business and political climate in some jurisdictions may encourage corruption, which could reduce our ability to compete successfully in those jurisdictions while remaining in compliance with local laws or U.S. anti-corruption laws applicable to our businesses. As a result, our ability to generate revenue and our expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law alone governed these operations.

Environmental, social and governance matters and any related reporting obligations may impact our businesses.

U.S. and international regulators, investors and other stakeholders are increasingly focused on environmental, social and governance matters. For example, new domestic and international laws and regulations relating to environmental, social and governance matters, including environmental sustainability and climate change, human capital management and cybersecurity, are under consideration or being adopted, which may include specific, target-driven disclosure requirements or obligations. Our response will require increased costs to comply, the implementation of new reporting processes, entailing additional compliance risk, a skilled workforce and other incremental investments.

In addition, we have undertaken or announced a number of related actions and goals, which will require changes to operations and ongoing investment. There is no assurance that our initiatives will achieve their intended outcomes or that we will achieve any of these goals. Consumer, government and other stakeholder perceptions of our efforts to achieve these objectives often differ widely and present risks to our reputation and brands. In addition, our ability to implement some initiatives or achieve some goals is dependent on external factors. For example, our ability to meet certain environmental sustainability goals or initiatives will depend in part on third-party collaboration, the availability of suppliers that can satisfy new requirements, mitigation innovations and/or the availability of economically feasible solutions at scale.

Damage to our reputation or brands may negatively impact our Company across businesses and regions.

Our reputation and globally recognizable brands are integral to the success of our businesses. Because our brands engage consumers across our businesses, damage to our reputation or brands in one business may have an impact on our other businesses. Because some of our brands are globally recognized, brand damage may not be locally contained. Maintenance of the reputation of our Company and brands depends on many factors including the quality of our offerings, maintenance of trust with our customers and our ability to successfully innovate. In addition, we may pursue brand or product integration combining previously separate brands or products targeting different audiences under one brand or pursue other business initiatives inconsistent with one or more of our brands, and there is no assurance that these initiatives will be accepted by our customers and not adversely impact one or more of our brands. Significant negative claims or publicity regarding the Company or its operations, products, management, employees, practices, business partners, business decisions, social responsibility and culture, which may be amplified by social media, adversely impact our brands or reputation, even if such claims are untrue. Damage to our reputation or brands could impact our sales, business opportunities, profitability, recruiting and valuation of our securities.

Various risks may impact the success of our DTC streaming services.

We may not successfully execute on our DTC strategy. The success of our DTC strategy and profitability of our DTC streaming services will be impacted by the success of the reorganization of our media and entertainment business and our ability to advance our DTC strategies, drive subscriber additions and retention based on the attractiveness of our content,

manage churn in reaction to price increases, achieve the desired financial impact of the Disney+ ad supported service, pricing model and price increases, our ability to execute on cost realignment and the effects of our determinations with regard to distribution for our creative content across windows. The initial costs of marketing campaigns are generally recognized in the business of initial exploitation, and amortization of capitalized production costs and licensed programming rights are generally allocated across businesses based on the estimated relative value of the distribution windows. Accordingly, our distribution determinations impact the costs of each business, including the applicable DTC service. There are a number of competing DTC businesses. Consumers may not be willing to pay for an expanding set of DTC streaming services at increasing prices, potentially exacerbated by an economic downturn. In addition, economic downturns negatively impact the purchase of and price for advertising on our DTC streaming services. We face competition for creative talent and sports and other programming rights and may not be successful in recruiting and retaining talent and obtaining desired programming rights or face increased costs to do so. Acquisition of new subscribers to our DTC streaming services is not linear, and we have experienced net losses of subscribers in some periods. Our content does not always successfully attract and retain subscribers in the quantities that we expect. Our content is subject to cost pressures and may cost more than we expect. We may not successfully manage our costs to meet our profitability goals. Government regulation, including revised foreign content and ownership regulations as well as government-imposed content restrictions, impacts the implementation of our DTC business plans. The highly competitive environment in which we operate puts pricing pressure on our DTC offerings and may require us to lower our prices or not take price increases to attract or retain customers or lead to higher churn rates. These and other risks may impact the profitability and success of our DTC streaming services.

Potential credit ratings actions, increases in interest rates, or volatility in the U.S. and global financial markets could impede access to, or increase the cost of, financing our operations and investments.

Our borrowing costs have been and can be affected by short- and long-term debt ratings assigned by independent ratings agencies that are based, in part, on the Company's performance as measured by credit metrics such as leverage and interest coverage ratios. As a result of the financial impact of COVID-19 on our businesses, Standard and Poor's downgraded our long-term debt ratings by two notches to BBB+ and downgraded our short-term debt ratings by one notch to A-2. Fitch downgraded our long- and short-term credit ratings by one notch to A- and F2, respectively. On June 5, 2023, Standard and Poor's upgraded our long-term debt ratings by one notch to A-. As of September 30, 2023 Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1 (Stable), respectively, Standard and Poor's long- and short-term debt ratings for the Company were A- and A-2 (Positive), respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2 (Stable), respectively. Any future downgrades could increase our cost of borrowing and/or make it more difficult for us to obtain financing on acceptable terms.

In addition, increases in interest rates have increased our cost of borrowing and volatility in U.S. and global financial markets could impact our access to, or further increase the cost of, financing. Past disruptions in the U.S. and global credit and equity markets made it more difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing and if they recur, our cost of borrowing could increase and it may be more difficult to obtain financing for our operations or investments.

Elevated indebtedness or leverage ratios could adversely affect us, including by decreasing our business flexibility.

Elevated indebtedness could have the effect of, among other things, reducing our financial flexibility and our ability to respond to changing business and economic conditions and other uncontrollable events. Debt repayment obligations could also reduce funds available for investments, capital expenditures, share repurchases and dividends, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels. Our leverage ratios increased as the result of COVID-19's impact on financial performance, which caused certain of the credit ratings agencies to downgrade their assessment of our credit ratings. Downgrades to our debt rating may negatively impact our cost of borrowings and/or make it more difficult for us to obtain financing on acceptable terms.

Labor disputes disrupt our operations and may adversely affect the profitability of one or more of our businesses.

A significant number of employees in various parts of our businesses, including employees of our theme parks, and writers, directors, actors and production personnel for our productions are covered by collective bargaining agreements. In addition, some of our employees outside the U.S. are represented by works councils, trade unions or other employee associations. Further, the employees of licensees who manufacture and retailers who sell our licensed consumer products, and employees of providers of programming content (such as sports leagues) may be covered by labor agreements with their employers. From time to time, collective bargaining agreements and other labor agreements expire, requiring renegotiation of their terms. In general, labor disputes and work stoppages involving our employees; persons employed on our productions; athletes or others employed by, or otherwise connected with, sports leagues or organizers; or the employees of our licensees or retailers who sell our licensed consumer products or providers of programming content may disrupt our operations and reduce our revenues. For example, on May 2, 2023, members of the Writers Guild of America (WGA) commenced a work stoppage, which lasted for almost five months. On July 14, 2023, members of SAG-AFTRA, the union representing television and movie actors, also commenced a work stoppage, which lasted for almost four months. These work stoppages have impacted our

productions and the pipeline for programming and theatrical releases, which could result in reduced revenue and have an adverse effect on our profitability. The new collective bargaining agreements with the Directors Guild of America, WGA and SAG-AFTRA will lead to increased costs to create content, including as a result of increases in rates, residuals and benefits. Generally, resolution of disputes or negotiation of new agreements, including rate increases and other changes to employee benefits, has in the past increased our costs and may increase our costs in the future.

The seasonality of certain of our businesses and timing of certain of our product offerings could exacerbate negative impacts on our operations.

Each of our businesses is normally subject to seasonal variations and variations in connection with the timing of our product offerings, including as follows:

- Revenues at the Experiences segment fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarters. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. Revenues at the Experiences segment also may fluctuate with changes in theme park attendance and resort occupancy resulting from special celebrations or events that may increase demand in the applicable periods and decrease demand in prior or later periods as guests time their vacations to occur during such special celebrations or events. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts.
- Revenues from television networks and stations are subject to seasonal advertising patterns and changes in viewership levels, including related to certain sporting events. In general, domestic general entertainment linear networks advertising revenues are typically somewhat higher during the fall and somewhat lower during the summer months, and sports advertising revenues are impacted by the timing of sports seasons and events, which varies throughout the year or may take place periodically.
- Revenues from content sales/licensing fluctuate due to the timing of content releases across various distribution markets. Release dates and methods are determined by a number of factors, including, among others, competition, and the timing of vacation and holiday periods.
- DTC revenues fluctuate based on: changes in the number of subscribers, mix of subscribers to different offerings and subscriber fees; viewership levels; and the demand for sports and film and television content. Each of these may depend on the availability of content, which varies from time to time throughout the year based on, among other things, sports seasons, content production schedules and sports league work stoppages.

Accordingly, negative impacts on our business occurring during a time of typical high seasonal demand such as our park closures due to COVID-19 restrictions or hurricane damage during the summer travel season or other high seasons, could have a disproportionate effect on the results of that business for the year.

Our operations are impacted by our ability to attract and retain employees and costs of employee wages and health, welfare and pension benefits, including postretirement medical benefits for some employees and retirees, may reduce our profitability.

With approximately 225,000 employees, the success of our businesses is substantially affected by our ability to attract and retain a workforce with the necessary skills for our varied businesses, including executing successfully on succession planning for the talent at all levels necessary to advance the Company's key objectives and strategies. Further, our profitability is substantially affected by labor costs, including wages and our health, welfare and pension benefits, including the costs of medical benefits for current employees and the costs of postretirement medical benefits for some current employees and retirees. We may experience significant increases in these costs as a result of macroeconomic, regulatory, competitive and other factors. For example, labor costs in our parks and resorts have increased, and we expect will continue to increase, as a result of collective bargaining agreements and wage laws and regulations where we operate. Future health outbreaks and pandemics may lead to an increase in the cost of medical insurance and expenses. In addition, changes in investment returns and discount rates used to calculate pension and postretirement medical expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs in some years. These macroeconomic factors as well as a decline in the fair value of pension and postretirement medical plan assets may put upward pressure on the cost of providing pension and postretirement medical benefits and may increase future funding requirements. There can be no assurance that we will succeed in attracting and retaining the human resources necessary for the success of our businesses or in limiting cost increases from wages and other employee benefits, which could reduce the profitability of our businesses.

We face risks related to costs and expenses in connection with the acquisition of NBCU's equity interest in Hulu and the TFCF acquisition.

On November 1, 2023, NBCU exercised its right to require the Company to purchase NBCU's equity interest in Hulu under a put/call arrangement between the parties. The purchase price for NBCU's equity interest in Hulu will be determined

based on NBCU's equity ownership percentage of the greater of Hulu's equity fair value as of September 30, 2023, and a guaranteed floor value. Further, the Company will share with NBCU 50% of the Company's tax benefit from the purchase of NBCU's interest in Hulu, which payments are expected to be made primarily over a 15-year period. In addition, we may incur significant costs and expenses in connection with the TFCF acquisition, including costs for which we have established reserves or which may lead to reserves in the future. The cost to purchase NBCU's equity interest in Hulu and related obligations to NBCU and any such other costs could negatively impact the Company's cash position and result in the Company incurring additional indebtedness.

GENERAL RISKS

The price of our common stock has been, and may continue to be, volatile.

The price of our common stock has experienced substantial volatility and may continue to be volatile. Various factors have impacted, and may continue to impact, the price of our common stock, including, among others, changes in management; variations in our operating results; variations between our actual results and expectations of securities analysts; changes in our estimates, guidance or business plans; changes in financial estimates and recommendations by securities analysts; the activities, operating results or stock price of our competitors or other industry participants in the industries in which we operate; the announcement or completion of significant transactions by us or a competitor; events affecting the stock market generally; and the economic and political conditions in the U.S. and internationally, as well as other factors described in this Item 1A. Some of these factors may adversely impact the price of our common stock, regardless of our operating performance. Further, volatility in the price of our common stock may negatively impact one or more of our businesses, including by increasing cash compensation or stock awards for our employees who participate in our stock incentive programs or limiting our financing options for acquisitions and other business expansion.

The Company's amended and restated bylaws provide to the fullest extent permitted by law that the Court of Chancery of the State of Delaware will be the exclusive forum for certain legal actions between the Company and its stockholders, which could increase costs to bring a claim, discourage claims or limit the ability of the Company's stockholders to bring a claim in a judicial forum viewed by the stockholders as more favorable for disputes with the Company or the Company's directors, officers or other employees.

The Company's amended and restated bylaws provide to the fullest extent permitted by law that unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any (i) derivative action or proceeding brought on behalf of the Company, (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or stockholder of the Company to the Company or the Company's stockholders, (iii) any action or proceeding asserting a claim arising pursuant to, or seeking to enforce any right, obligation or remedy under, any provision of the General Corporation Law of the State of Delaware (the "DGCL"), the Certificate of Incorporation or these Bylaws (as each may be amended from time to time), (iv) any action or proceeding as to which the General Corporation Law of the State of Delaware confers jurisdiction on the Court of Chancery of the State of Delaware, (v) or any action or proceeding asserting a claim governed by the internal affairs doctrine. The choice of forum provision may increase costs to bring a claim, discourage claims or limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company or the Company's directors, officers or other employees, which may discourage such lawsuits against the Company or the Company's directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in the Company's amended and restated bylaws to be inapplicable or unenforceable in an action, the Company may incur additional costs associated with resolving such action in other jurisdictions. The exclusive forum provision in the Company's amended and restated bylaws will not preclude or contract the scope of exclusive federal or concurrent jurisdiction for actions brought under the federal securities laws including the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, or the respective rules and regulations promulgated thereunder.

ITEM 1B. Unresolved Staff Comments

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of fiscal 2023 that remain unresolved.

ITEM 2. Properties

Our parks and resorts locations and other properties of the Company and its subsidiaries are described in Item 1 under the caption *Experiences*. Film and television library properties and television stations owned by the Company are described in Item 1 under the caption *Entertainment*.

The Company and its subsidiaries own and lease properties throughout the world. In addition to the properties noted above, the table below provides a brief description of other significant properties and the related business segment.

Location	Property / Approximate Size	Use	Business Segment
Burbank, CA & surrounding cities[1]	Land (201 acres) & Buildings (4,694,000 ft^2)	Owned Office/Production/ Warehouse (includes 240,000 ft^2 leased to third-party tenants)	Corporate/Entertainment/ Experiences
Burbank, CA & surrounding cities[1]	Buildings (1,834,000 ft^2)	Leased Office/Warehouse	Corporate/Entertainment/ Experiences
Los Angeles, CA	Land (22 acres) & Buildings (605,000 ft^2)	Owned Office/Production/Technical Warehouse	Corporate/Entertainment
Los Angeles, CA	Buildings (2,640,000 ft^2)	Leased Office/Production/ Technical/Theater	Corporate/Entertainment/ Experiences
New York, NY	Buildings (51,000 ft^2)	Owned Office	Corporate/Entertainment/ Sports
New York, NY	Buildings (2,190,000 ft^2)	Leased Office/Production/Theater/ Warehouse (includes 679,000 ft^2 leased to third-party tenants)	Corporate/Entertainment/ Sports/Experiences
Bristol, CT	Land (117 acres) & Buildings (1,174,000 ft^2)	Owned Office/Production/Technical	Sports
Bristol, CT	Buildings (273,000 ft^2)	Leased Office/Warehouse/Technical	Sports
Emeryville, CA	Land (20 acres) & Buildings (430,000 ft^2)	Owned Office/Production/Technical	Entertainment
Emeryville, CA	Buildings (97,000 ft^2)	Leased Office/Storage	Entertainment
San Francisco, CA	Buildings (517,000 ft^2)	Leased Office/Production/ Technical/Theater (includes 47,000 ft^2 leased to third-party tenants)	Corporate/Entertainment
USA & Canada	Land and Buildings (Multiple sites and sizes)	Owned and Leased Office/ Production/Transmitter/Theaters/ Warehouse	Corporate/Entertainment/ Experiences
Europe, Asia, Australia & Latin America	Buildings (Multiple sites and sizes)	Leased Office/Warehouse/Retail/ Residential	Entertainment/Experiences

(1) Surrounding cities include Glendale, CA, North Hollywood, CA and Sun Valley, CA

ITEM 3. Legal Proceedings

As disclosed in Note 14 to the Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 14 relating to certain legal matters is incorporated herein by reference.

ITEM 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below.

The executive officers of the Company are:

Name	Age	Title	Executive Officer Since
Robert A. Iger	72	Chief Executive Officer[1]	2022
Kevin A. Lansberry	60	Interim Chief Financial Officer[2]	2023
Horacio E. Gutierrez	58	Senior Executive Vice President, General Counsel and Chief Compliance Officer[3]	2022
Sonia L. Coleman	51	Senior Executive Vice President and Chief Human Resources Officer[4]	2023
Kristina K. Schake	53	Senior Executive Vice President and Chief Communications Officer[5]	2022

(1) Mr. Iger was appointed Chief Executive Officer effective November 20, 2022. He previously served as Executive Chairman of the Company from February 2020 through December 2021 and as Chief Executive Officer of the Company from September 2005 to February 2020.

(2) Mr. Lansberry was appointed Interim Chief Financial Officer effective July 1, 2023. He was previously Executive Vice President and Chief Financial Officer of the Company's Parks, Experiences and Products segment from March 2018 and Executive Vice President and Chief Financial Officer, Walt Disney Parks and Resorts from May 2017. Over his more than 35 years with the Company, Mr. Lansberry has held a wide range of roles in the Company's parks and experiences businesses, including in finance, business development, alliances and operations.

(3) Mr. Gutierrez was appointed Senior Executive Vice President and General Counsel effective February 1, 2022 and appointed Chief Compliance Officer effective March 27, 2023. Prior to joining the Company, he served as Head of Global Affairs and Chief Legal Officer for Spotify Technology S.A. (Spotify) from November 2019 to January 2022, where he led a global, multi-disciplinary team of business, corporate communications and public affairs, government relations, licensing, operations and legal professionals responsible for the company's work in areas including industry relations, content partnerships, public policy, and trust & safety. He was previously Spotify's General Counsel - Vice President, Business & Legal Affairs from April 2016 to November 2019.

(4) Ms. Coleman was appointed Senior Executive Vice President and Chief Human Resources Officer effective April 8, 2023. She was previously Senior Vice President, Human Resources at Disney General Entertainment and ESPN from August 2021. Ms. Coleman served as Senior Vice President, Human Resources for Disney General Entertainment from April 2017, Vice President, Human Resources for the Company from May 2016 and Vice President, Human Resources, Disney Consumer Products from May 2010.

(5) Ms. Schake was appointed Senior Executive Vice President and Chief Communications Officer effective June 29, 2022. Previously, she served as Executive Vice President, Global Communications from April 2022. Prior to joining the Company, she was appointed by the President of the United States as Counselor for Strategic Communications to the Secretary of the U.S. Department of Health and Human Services, leading a nationwide public education campaign from March 2021 to December 2021. Prior to that, she served as Global Communications Director for Instagram, a product of Meta Platforms, Inc., from March 2017 to March 2019, where she oversaw the communications teams in North America, Latin America, Europe and Asia.

On November 2, 2023, the Company appointed Hugh F. Johnston, 62, as Senior Executive Vice President and Chief Financial Officer commencing on December 4, 2023. Mr. Johnston currently serves as Executive Vice President and Chief Financial Officer, from 2010, and Vice Chairman, from 2015, of PepsiCo, Inc. ("PepsiCo"). In addition to providing strategic financial leadership for PepsiCo in these roles, Mr. Johnston's portfolio has included a variety of responsibilities, including leadership of PepsiCo's information technology function from 2015, PepsiCo's global e-commerce business from 2015 to 2019, and the Quaker Foods North America division from 2014 to 2016. He also held a number of other leadership roles during his PepsiCo career, having served as Executive Vice President, Global Operations from 2009 to 2010, President of Pepsi-Cola North America from 2007 to 2009, Executive Vice President, Operations from 2006 to 2007 and Senior Vice President, Transformation from 2005 to 2006. Prior to that, he served as Senior Vice President and Chief Financial Officer of PepsiCo Beverages and Foods from 2002 through 2005, and as PepsiCo's Senior Vice President of Mergers and Acquisitions in 2002. Mr. Johnston joined PepsiCo in 1987 as a Business Planner and held various finance positions until 1999 when he left to join Merck & Co., Inc. as Vice President, Retail, a position which he held until he rejoined PepsiCo in 2002.

PART II

ITEM 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is listed on the New York Stock Exchange under the ticker symbol "DIS".

As of September 30, 2023, the approximate number of common shareholders of record was 768,000.

ITEM 6. [Reserved]

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CONSOLIDATED RESULTS
($ in millions, except per share data)

				% Change Better (Worse)	
	2023	2022	2021	**2023 vs. 2022**	2022 vs. 2021
Revenues:					
Services	**$ 79,562**	$ 74,200	$ 61,768	7 %	20 %
Products	**9,336**	8,522	5,650	10 %	51 %
Total revenues	**88,898**	82,722	67,418	7 %	23 %
Costs and expenses:					
Cost of services (exclusive of depreciation and amortization)	**(53,139)**	(48,962)	(41,129)	(9) %	(19) %
Cost of products (exclusive of depreciation and amortization)	**(6,062)**	(5,439)	(4,002)	(11) %	(36) %
Selling, general, administrative and other	**(15,336)**	(16,388)	(13,517)	6 %	(21) %
Depreciation and amortization	**(5,369)**	(5,163)	(5,111)	(4) %	(1) %
Total costs and expenses	**(79,906)**	(75,952)	(63,759)	(5) %	(19) %
Restructuring and impairment charges	**(3,892)**	(237)	(654)	>(100) %	64 %
Other income (expense), net	**96**	(667)	201	nm	nm
Interest expense, net	**(1,209)**	(1,397)	(1,406)	13 %	1 %
Equity in the income of investees, net	**782**	816	761	(4) %	7 %
Income from continuing operations before income taxes	**4,769**	5,285	2,561	(10) %	>100 %
Income taxes from continuing operations	**(1,379)**	(1,732)	(25)	20 %	>(100) %
Net income from continuing operations	**3,390**	3,553	2,536	(5) %	40 %
Loss from discontinued operations, net of income tax benefit of $0, $14 and $9, respectively	**—**	(48)	(29)	100 %	(66) %
Net income	**3,390**	3,505	2,507	(3) %	40 %
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	**(1,036)**	(360)	(512)	>(100) %	30 %
Net income attributable to Disney	**$ 2,354**	$ 3,145	$ 1,995	(25) %	58 %
Diluted earnings per share attributable to Disney	**$ 1.29**	$ 1.75	$ 1.11	(26) %	58 %

Organization of Information

Management's Discussion and Analysis provides a narrative on the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Consolidated Results and Non-Segment Items
- Business Segment Results
- Corporate and Unallocated Shared Expenses
- Restructuring Activities
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- DTC Product Descriptions, Key Definitions and Supplemental Information
- Supplemental Guarantor Financial Information

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

In fiscal 2023, the Company reorganized into three business segments: Entertainment, Sports and Experiences (renamed from Disney Parks, Experiences and Products). Fiscal 2022 and 2021 segment financial information has been recast for the following:

- The prior Disney Media and Entertainment Distribution segment has been reorganized into the Entertainment and Sports segments
- A portion of Consumer Products revenues is recognized at the Entertainment segment, which is meant to reflect royalties on merchandise licensing revenues generated on IP created by the Entertainment segment

2023 vs. 2022

Revenues for fiscal 2023 increased 7%, or $6.2 billion, to $88.9 billion; net income attributable to Disney decreased $0.8 billion to income of $2.4 billion compared to $3.1 billion in the prior year; and diluted earnings per share (EPS) from continuing operations attributable to Disney decreased to $1.29 compared to $1.75 in the prior year. In the prior year, the Company recorded a reduction in revenue of $1.0 billion for amounts to early terminate certain license agreements with a customer for film and television content, which was delivered in previous years, in order for the Company to use the content primarily at our Entertainment Direct-to-Consumer services (Content License Early Termination). The EPS decrease was due to higher restructuring and impairment charges and lower operating income at Entertainment. These decreases were partially offset by the comparison to the impact of the Content License Early Termination, higher operating income at Experiences in the current year compared to the prior year and investment gains in the current year compared to investment losses in the prior year.

Revenues

Service revenues for fiscal 2023 increased 7%, or $5.4 billion, to $79.6 billion, due to growth at our theme parks and resorts, higher subscription revenue, an increase in theatrical distribution revenue and the comparison to the revenue reduction for the Content License Early Termination in the prior year. These increases were partially offset by decreases in advertising revenue, TV/VOD distribution sales and affiliate revenue. Growth at theme parks and resorts was due to higher volumes and guest spending. The increase in subscription revenue was due to subscriber growth and higher rates. Service revenues reflected an approximate 1 percentage point decrease due to an unfavorable movement of the U.S. dollar against major currencies including the impact of our hedging program (Foreign Exchange Impact).

Product revenues for fiscal 2023 increased 10%, or $0.8 billion, to $9.3 billion, due to higher sales volumes of merchandise, food and beverage at our theme parks and resorts, partially offset by lower home entertainment volumes. Product revenues reflected an approximate 2 percent point decrease due to an unfavorable Foreign Exchange Impact.

Costs and expenses

Cost of services for fiscal 2023 increased 9%, or $4.2 billion, to $53.1 billion, due to higher programming and production costs, inflation and increased volumes at our theme parks and resorts and, to a lesser extent, higher technology and distribution costs at Entertainment Direct-to-Consumer. The increase in programming and production costs was due to higher costs at Entertainment Direct-to-Consumer and increased production cost amortization resulting from higher theatrical revenue, partially offset by a decrease in production cost amortization due to lower TV/VOD distribution sales. Costs of services reflected an approximate 1 percentage point decrease due to a favorable Foreign Exchange Impact.

Cost of products for fiscal 2023 increased 11%, or $0.6 billion, to $6.1 billion, due to higher sales volumes of merchandise, food and beverage and cost inflation at our theme parks and resorts. Cost of products reflected an approximate 1 percent point decrease due to a favorable Foreign Exchange Impact.

Selling, general, administrative and other costs for fiscal 2023 decreased 6%, or $1.1 billion, to $15.3 billion, primarily due to lower marketing costs at Entertainment Direct-to-Consumer. These decreases were partially offset by higher theatrical marketing costs and an increase in marketing costs at theme parks and resorts. Selling, general, administrative and other costs reflected an approximate 1 percentage point decrease due to a favorable Foreign Exchange Impact.

Depreciation and amortization increased 4 %, or $0.2 billion, to $5.4 billion due to higher depreciation at our domestic parks and resorts including accelerated depreciation related to the closure of Star Wars: Galactic Starcruiser and depreciation for the *Disney Wish*, which launched in the fourth quarter of the prior year, partially offset by lower amortization of intangible assets from the acquisition of TFCF and Hulu.

Restructuring and Impairment Charges

Restructuring and impairment charges in fiscal 2023 were $3,892 million comprising:

- $2,577 million for the Content Impairment charge (see Note 18 of the Consolidated Financial Statements)
- $721 million of goodwill impairments (see Note 18 of the Consolidated Financial Statements)

- $357 million for severance
- $141 million for an impairment of an equity investment
- $96 million for exiting our businesses in Russia and other charges

Restructuring and impairment charges in fiscal 2022 were $237 million primarily due to the impairment of an intangible and other assets related to exiting our businesses in Russia.

Other Income (expense), net

($ in millions)	**2023**	2022	% Change Better (Worse)
DraftKings gain (loss)	**$ 169**	$ (663)	nm
Other, net	**(73)**	(4)	>(100) %
Other income (expense), net	**$ 96**	$ (667)	nm

In fiscal 2023, the Company recognized a gain of $169 million on its investment in DraftKings, Inc. (DraftKings), which was sold in the current fiscal year.

In fiscal 2022, the Company recognized a non-cash loss of $663 million from the adjustment of its investment in DraftKings to fair value.

Interest Expense, net

($ in millions)	**2023**	2022	% Change Better (Worse)
Interest expense	**$ (1,973)**	$ (1,549)	(27) %
Interest income, investment income and other	**764**	152	>100 %
Interest expense, net	**$ (1,209)**	$ (1,397)	13 %

The increase in interest expense was due to higher average rates, partially offset by lower average debt balances and higher capitalized interest.

The increase in interest income, investment income and other resulted from higher interest income on cash balances, which reflected an increase in interest rates, and a larger benefit from pension and postretirement benefit costs, other than service cost.

Equity in the Income of Investees

Equity in the income of investees decreased $34 million to $782 million in the current year primarily due to lower income from A+E.

Effective Income Tax Rate

($ in millions)	**2023**	2022
Income from continuing operations before income taxes	**$ 4,769**	$ 5,285
Income tax expense on continuing operations	**1,379**	1,732
Effective income tax rate - continuing operations	**28.9%**	32.8%

The decrease in the effective income tax rate was due to the following:

- A lower effective tax rate on foreign earnings in the current year compared to the prior year;
- A favorable comparison from adjustments related to previous year's tax matters, which was a benefit in the current year and a detriment in the prior year; partially offset by
- New tax regulations issued in the prior year that limited our ability to use certain accumulated foreign tax credits;
- An unfavorable impact in the current year from goodwill impairments, which were not tax deductible; and
- An unfavorable impact in the current year compared to a favorable impact in the prior year for the tax effect of employee share-based awards.

Noncontrolling Interests

($ in millions)	2023	2022	% Change Better (Worse)
Net income from continuing operations attributable to noncontrolling interests	**$ (1,036)**	$ (360)	>(100) %

The increase in net income from continuing operations attributable to noncontrolling interests was due to improved results at our Asia Theme Parks and higher accretion of NBC Universal's interest in Hulu.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

Certain Items Impacting Results in the Year

Results for fiscal 2023 were impacted by the following:

- TFCF and Hulu acquisition amortization of $1,998 million
- Other income of $96 million due to the DraftKings gain of $169 million
- Restructuring and impairment charges of $3,892 million

Results for fiscal 2022 were impacted by the following:

- TFCF and Hulu acquisition amortization of $2,353 million
- A $1.0 billion reduction in revenue for the Content License Early Termination
- Other expense of $667 million due to the DraftKings loss of $663 million
- Restructuring and impairment charges of $237 million

A summary of the impact of these items on EPS is as follows:

($ in millions, except per share data)	Pre-Tax Income (Loss)	Tax Benefit (Expense)[1]	After-Tax Income (Loss)	EPS Favorable (Adverse)[2]
Year Ended September 30, 2023:				
Restructuring and impairment charges[3]	$ (3,836)	$ 717	$ (3,119)	$ (1.69)
TFCF and Hulu acquisition amortization[4]	(1,998)	465	(1,533)	(0.82)
Other income (expense), net	96	(13)	83	0.05
Total	$ (5,738)	$ 1,169	$ (4,569)	$ (2.46)
Year Ended October 1, 2022:				
TFCF and Hulu acquisition amortization[4]	$ (2,353)	$ 549	$ (1,804)	$ (0.97)
Contract License Early Termination	(1,023)	238	(785)	(0.43)
Other income (expense), net	(667)	156	(511)	(0.28)
Restructuring and impairment charges	(237)	55	(182)	(0.10)
Total	$ (4,280)	$ 998	$ (3,282)	$ (1.78)

(1) Tax benefit (expense) is determined using the tax rate applicable to the individual item.

(2) EPS is net of noncontrolling interest, where applicable. Total may not equal the sum of the column due to rounding.

(3) Restructuring and impairment charges include the impact of a content license agreement termination with A+E, which generated a gain at A+E. The Company's 50% interest in this gain was $56 million (A+E gain) and is included in Restructuring and impairment charges in this table.

(4) Includes amortization of intangibles related to TFCF equity investees.

2022 vs. 2021

Revenues for fiscal 2022 increased 23%, or $15.3 billion, to $82.7 billion; net income attributable to Disney increased $1.2 billion, to income of $3.1 billion compared to $2.0 billion in fiscal 2021; and EPS from continuing operations attributable to Disney increased to $1.75 compared to $1.11 in fiscal 2021. The EPS increase was due to growth at Experiences, partially offset by lower operating results at Entertainment, higher income tax expense and the Content License Early Termination.

Revenues

Service revenues for fiscal 2022 increased 20%, or $12.4 billion, to $74.2 billion, due to increased revenues at our theme parks and resorts, subscription revenue growth and, to a lesser extent, higher theatrical distribution and advertising revenue. These increases were partially offset by the Content License Early Termination. The increase at theme parks and resorts was due to higher volumes, which generally reflected the impact of operating with capacity restrictions in fiscal 2021 as a result of COVID-19, and higher average per capita ticket revenue. The increase in subscription revenue was due to subscriber growth and higher average rates. Service revenues reflected an approximate 1 percent point decrease due to an unfavorable Foreign Exchange Impact.

Product revenues for fiscal 2022 increased 51%, or $2.9 billion, to $8.5 billion, due to higher sales volumes of merchandise, food and beverage at our theme parks and resorts.

Costs and expenses

Cost of services for fiscal 2022 increased 19%, or $7.8 billion, to $49.0 billion, due to higher programming and production costs, increased volumes at our theme parks and resorts and higher technology and distribution costs at Entertainment Direct-to-Consumer. The increase in programming and production costs was due to higher costs at Entertainment Direct-to-Consumer, an increase in sports right costs and higher production cost amortization due to theatrical revenue growth. These increases were partially offset by lower programming and production costs as a result of international channel closures.

Cost of products for fiscal 2022 increased 36%, or $1.4 billion, to $5.4 billion, due to higher merchandise, food and beverage sales at our theme parks and resorts.

Selling, general, administrative and other costs for fiscal 2022 increased 21%, or $2.9 billion, to $16.4 billion, primarily due to higher marketing costs at Entertainment Direct-to-Consumer and, to a lesser extent, our theatrical distribution and parks and experiences businesses.

Restructuring and Impairment Charges

Restructuring and impairment charges in fiscal 2022 were $0.2 billion primarily due to the impairment of an intangible and other assets related to exiting our businesses in Russia.

Restructuring and impairment charges in fiscal 2021 were $0.7 billion comprising:

- $0.4 billion of asset impairments and severance costs related to the shut-down of an animation studio and the closure of a substantial number of Disney-branded retail stores in North America and Europe
- $0.3 billion of severance and other costs in connection with the integration of TFCF and workforce reductions at Experiences

Other Income (expense), net

($ in millions)	2022	2021	% Change Better (Worse)
fuboTV gain	$ —	$ 186	(100) %
German FTA gain	—	126	(100) %
DraftKings loss	(663)	(111)	>(100) %
Other, net	(4)	—	nm
Other income (expense), net	$ (667)	$ 201	nm

In fiscal 2022, the Company recognized a non-cash loss of $663 million from the adjustment of our investment in DraftKings to fair value.

In fiscal 2021, the Company recognized a $186 million gain from the sale of our investment in fuboTV Inc. (fuboTV gain), a $126 million gain on the sale of our 50% interest in a German free-to-air (FTA) television network (German FTA gain) and a non-cash loss of $111 million from the adjustment of our investment in DraftKings to fair value.

Interest Expense, net

($ in millions)	2022	2021	% Change Better (Worse)
Interest expense	$ (1,549)	$ (1,546)	— %
Interest income, investment income and other	152	140	9 %
Interest expense, net	$ (1,397)	$ (1,406)	1 %

Interest expense in fiscal 2022 was comparable to fiscal 2021 as the impact of higher average interest rates was offset by the impact of lower average debt balances.

The increase in interest income, investment income and other was due to a favorable comparison of pension and postretirement benefit costs, other than service cost, which was a net benefit in fiscal 2022 and an expense in fiscal 2021. This increase was partially offset by investment losses in fiscal 2022 compared to investment gains in fiscal 2021.

Equity in the Income of Investees

Equity in the income of investees increased $55 million to $816 million in fiscal 2022 due to higher income from A+E and the comparison to investment impairments in fiscal 2021.

Effective Income Tax Rate

($ in millions)	2022	2021
Income from continuing operations before income taxes	$ 5,285	$ 2,561
Income tax expense on continuing operations	1,732	25
Effective income tax rate - continuing operations	32.8%	1.0%

The effective income tax rate in fiscal 2022 was higher than the U.S. statutory rate primarily due to higher effective tax rates on foreign earnings. The effective income tax rate in fiscal 2021 was lower than the U.S. statutory rate due to favorable adjustments related to prior years and excess tax benefits on employee share-based awards, partially offset by higher effective tax rates on foreign earnings. Higher effective tax rates on foreign earnings in both fiscal 2022 and 2021 reflected the impact of foreign losses and, to a lesser extent, foreign tax credits for which we are unable to recognize a tax benefit.

Noncontrolling Interests

($ in millions)	2022	2021	% Change Better (Worse)
Net income from continuing operations attributable to noncontrolling interests	$ (360)	$ (512)	30 %

The decrease in net income from continuing operations attributable to noncontrolling interests was primarily due to higher losses at Shanghai Disney Resort and at our DTC sports business, partially offset by higher results for ESPN.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

Certain Items Impacting Results in the Year

Results for fiscal 2022 were impacted by the following:

- TFCF and Hulu acquisition amortization of $2,353 million
- A $1.0 billion reduction in revenue for the Content License Early Termination
- Other expense of $667 million due to the DraftKings loss of $663 million
- Restructuring and impairment charges of $237 million

Results for fiscal 2021 were impacted by the following:

- TFCF and Hulu acquisition amortization of $2,418 million
- Restructuring and impairment charges of $654 million
- Other income of $201 million due to the fuboTV gain of $186 million and the German FTA gain of $126 million, partially offset by the DraftKings loss of $111 million

A summary of the impact of these items on EPS is as follows:

($ in millions, except per share data)	Pre-Tax Income (Loss)	Tax Benefit (Expense)[1]	After-Tax Income (Loss)	EPS Favorable (Adverse)[2]
Year Ended October 1, 2022:				
TFCF and Hulu acquisition amortization[3]	$ (2,353)	$ 549	$ (1,804)	$ (0.97)
Contract License Early Termination	(1,023)	238	(785)	(0.43)
Other income (expense), net	(667)	156	(511)	(0.28)
Restructuring and impairment charges	(237)	55	(182)	(0.10)
Total	$ (4,280)	$ 998	$ (3,282)	$ (1.78)
Year Ended October 2, 2021:				
TFCF and Hulu acquisition amortization[3]	$ (2,418)	$ 562	$ (1,856)	$ (1.00)
Restructuring and impairment charges	(654)	152	(502)	(0.27)
Other income (expense), net	201	(46)	155	0.08
Total	$ (2,871)	$ 668	$ (2,203)	$ (1.18)

(1) Tax benefit (expense) is determined using the tax rate applicable to the individual item.

(2) EPS is net of noncontrolling interest, where applicable. Total may not equal the sum of the column due to rounding.

(3) Includes amortization of intangibles related to TFCF equity investees.

BUSINESS SEGMENT RESULTS

The Company evaluates the performance of its operating segments based on segment revenue and segment operating income.

Below is a discussion of the major revenue and expense categories for our business segments. Costs and expenses for each segment consist of operating expenses, selling, general, administrative and other costs, and depreciation and amortization. Selling, general, administrative and other costs include third-party and internal marketing expenses.

The Entertainment segment comprises three significant lines of business:

- Linear Networks, which primarily generates revenue from affiliate fees and advertising. In recent years, revenues from affiliate fees have declined due to fewer subscribers to MVPD services that carry our linear networks. We anticipate this trend to continue, although the extent and duration is uncertain. In addition, these revenues will be impacted and may be further impacted in the future from the lapse of carriage agreements to certain networks.
- Direct-to-Consumer, which primarily generates revenue from subscription fees and advertising
- Content Sales/Licensing, which primarily generates revenue from the sale of film and episodic content in the TV/VOD and home entertainment markets, distribution of films in the theatrical market, licensing of our music rights, sales of tickets to stage play performances and licensing of our IP for use in stage plays. Revenues also include an intersegment allocation of revenues from the Experiences segment, which is meant to reflect royalties on consumer products merchandise licensing revenues generated on IP created by the Entertainment segment.

Operating expenses at the Entertainment segment primarily consist of programming and production costs, technology support costs, operating labor, distribution costs and cost of sales. Programming and production costs include the following:

- Amortization of capitalized production costs and licensed programming rights
- Subscriber-based fees for programming the Hulu Live service, including fees paid by Hulu to the Sports segment and other Entertainment segment businesses for the right to air their linear networks on Hulu Live
- Production costs related to live programming (primarily news)
- Amortization of participations and residual obligations
- Fees paid to the Sports segment to program ESPN on ABC and certain sports content on Star+

Amortization of capitalized production costs and licensed programming rights is generally allocated across Entertainment's businesses based on the estimated relative value of the distribution windows. The initial costs of marketing campaigns are generally recognized in the business of initial exploitation.

The Sports segment primarily generates revenue from affiliate fees, advertising, subscription fees, pay-per-view fees and sub-licensing of sports rights. Linear sports channels are experiencing declines in subscribers that are directionally consistent with those at the linear networks in the Entertainment segment. Operating expenses consist primarily of programming and

production costs, technology support costs, operating labor and distribution costs. Programming and production costs include amortization of licensed sports rights and production costs related to live sports and other programming.

The Experiences segment primarily generates revenue from the sale of admissions to theme parks, the sale of food, beverage and merchandise at our theme parks and resorts, charges for room nights at hotels, sales of cruise vacations, sales and rentals of vacation club properties, royalties from licensing our IP for use on consumer goods and the sale of branded merchandise. Revenues are also generated from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort. Significant expenses include operating labor, costs of goods sold, infrastructure costs, depreciation and other operating expenses. Infrastructure costs include technology support costs, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation. Other operating expenses include costs for such items as supplies, commissions and entertainment offerings.

The following transactions are recognized in segment revenues and eliminated in total Company revenue:

- Fees paid by Hulu to the Sports segment and other Entertainment segment businesses for the right to air their linear networks on Hulu Live
- Fees paid by the Entertainment segment to the Sports segment to program ESPN on ABC and certain sports content on Star+

BUSINESS SEGMENT RESULTS - 2023 vs. 2022

The following table presents revenues from our operating segments and other components of revenues:

($ in millions)	**2023**	2022	% Change Better (Worse)
Entertainment	**$ 40,635**	$ 39,569	3 %
Sports	**17,111**	17,270	(1) %
Experiences	**32,549**	28,085	16 %
Eliminations	**(1,397)**	(1,179)	(18) %
Content License Early Termination	**—**	(1,023)	100 %
Revenues	**$ 88,898**	$ 82,722	7 %

The following table presents income from our operating segments and other components of income from continuing operations before income taxes:

($ in millions)	**2023**	2022	% Change Better (Worse)
Entertainment operating income	**$ 1,444**	$ 2,126	(32) %
Sports operating income	**2,465**	2,710	(9) %
Experiences operating income	**8,954**	7,285	23 %
Content License Early Termination	**—**	(1,023)	100 %
Corporate and unallocated shared expenses	**(1,147)**	(1,159)	1 %
Restructuring and impairment charges[(1)]	**(3,836)**	(237)	>(100) %
Other income (expense), net	**96**	(667)	nm
Interest expense, net	**(1,209)**	(1,397)	13 %
TFCF and Hulu acquisition amortization	**(1,998)**	(2,353)	15 %
Income from continuing operations before income taxes	**$ 4,769**	$ 5,285	(10) %

(1) Includes the A+E gain.

Entertainment

Revenue and operating results for Entertainment are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Revenues:			
Linear Networks	**$ 11,701**	$ 12,828	(9) %
Direct-to-Consumer	**19,886**	17,975	11 %
Content Sales/Licensing and Other	**9,048**	8,766	3 %
	$ 40,635	$ 39,569	3 %
Segment operating income (loss):			
Linear Networks	**$ 4,119**	$ 5,198	(21) %
Direct-to-Consumer	**(2,496)**	(3,424)	27 %
Content Sales/Licensing and Other	**(179)**	352	nm
	$ 1,444	$ 2,126	(32) %

Linear Networks

Operating results for Linear Networks are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Revenues			
Affiliate fees	**$ 7,369**	$ 7,739	(5) %
Advertising	**4,159**	4,877	(15) %
Other	**173**	212	(18) %
Total revenues	**11,701**	12,828	(9) %
Operating expenses	**(5,577)**	(5,777)	3 %
Selling, general, administrative and other	**(2,641)**	(2,571)	(3) %
Depreciation and amortization	**(54)**	(65)	17 %
Equity in the income of investees	**690**	783	(12) %
Operating Income	**$ 4,119**	$ 5,198	(21) %

Revenues

Affiliate fees are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Domestic	**$ 6,136**	$ 6,257	(2) %
International	**1,233**	1,482	(17) %
	$ 7,369	$ 7,739	(5) %

The decrease in domestic affiliate fees reflected a decrease of 5% from fewer subscribers, partially offset by an increase of 4% from higher contractual rates.

Lower international affiliate fees were attributable to decreases of 8% from fewer subscribers driven by channel closures, 4% from lower contractual rates and 4% from an unfavorable Foreign Exchange Impact.

Advertising revenue is as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Domestic	**$ 3,178**	$ 3,716	(14) %
International	**981**	1,161	(16) %
	$ 4,159	$ 4,877	(15) %

The decrease in domestic advertising revenue was due to decreases of 12% from fewer impressions and 2% from lower rates. The decrease in impressions was due to lower average viewership.

Lower international advertising revenue was due to decreases of 9% from an unfavorable Foreign Exchange Impact, 6% from fewer impressions and 1% from a decrease in rates. Lower impressions reflected a decrease in average viewership, which included the impact of channel closures.

Other revenue decreased $39 million, to $173 million from $212 million, driven by an unfavorable Foreign Exchange Impact.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	**2023**	2022	% Change Better (Worse)
Programming and production costs			
Domestic	**$ (3,858)**	$ (3,894)	1 %
International	**(712)**	(796)	11 %
Total programming and production costs	**(4,570)**	(4,690)	3 %
Other operating expenses	**(1,007)**	(1,087)	7 %
	$ (5,577)	$ (5,777)	3 %

The decrease in domestic programming and production costs was due to a lower average cost mix of programming, partially offset by an increase in programming fees for ESPN on ABC and higher program write-offs.

International programming and production costs decreased primarily due to a favorable Foreign Exchange Impact and the impact of channel closures.

The decrease in other operating expenses was due to the realignment of certain costs primarily to selling, general and administrative costs, lower technology and distribution costs and a favorable Foreign Exchange Impact.

Selling, general administrative and other costs increased $70 million, to $2,641 million from $2,571 million. The increase includes the realignment of certain costs previously primarily reported in other operating expenses and higher labor-related costs, partially offset by lower marketing costs.

Equity in the Income of Investees

Income from equity investees decreased $93 million, to $690 million from $783 million, due to lower income from A+E attributable to decreases in advertising and affiliate revenue, partially offset by higher program sales income.

Operating Income from Linear Networks

Operating income decreased 21%, to $4,119 million from $5,198 million due to lower results both domestically and internationally.

The following table provides supplemental revenue and operating income detail for Linear Networks:

($ in millions)	**2023**	2022	% Change Better (Worse)
Supplemental revenue detail			
Domestic	**$ 9,406**	$ 10,073	(7) %
International	**2,295**	2,755	(17) %
	$ 11,701	$ 12,828	(9) %
Supplemental operating income detail			
Domestic	**$ 2,735**	$ 3,358	(19) %
International	**694**	1,057	(34) %
Equity in the income of investees	**690**	783	(12) %
	$ 4,119	$ 5,198	(21) %

Direct-to-Consumer

Operating results for Direct-to-Consumer are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Revenues			
Subscription fees	**$ 16,420**	$ 14,178	16 %
Advertising	**3,260**	3,614	(10) %
Other	**206**	183	13 %
Total revenues	**19,886**	17,975	11 %
Operating expenses	**(17,859)**	(15,641)	(14) %
Selling, general, administrative and other	**(4,168)**	(5,395)	23 %
Depreciation and amortization	**(355)**	(363)	2 %
Operating Loss	**$ (2,496)**	$ (3,424)	27 %

Revenues

The increase in subscription fees reflected increases of 11% from more subscribers, due to growth at Disney+ Core and, to a lesser extent, Hulu, and 7% from higher average rates due to increases in retail pricing, partially offset by a decrease of 2% from an unfavorable Foreign Exchange Impact.

Lower advertising revenue reflected a decrease of 9% from fewer impressions due to declines at Hulu and, to a lesser extent, at Disney+, partially offset by growth of 2% from higher rates at Hulu. The decrease in impressions at Disney+ was due to the comparison to Indian Premier League (IPL) cricket programming on Disney+ Hotstar in the prior year, as we did not renew the digital rights beginning with the 2023 season. The decrease was partially offset by the U.S. launch of ad-supported Disney+ in the first quarter of the current fiscal year.

The following table presents additional information about Disney+ and Hulu[(1)].

Paid subscribers[(1)] as of:

(in millions)	September 30, 2023	October 1, 2022	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	**46.5**	46.4	— %
International (excluding Disney+ Hotstar)[(1)]	**66.1**	56.5	17 %
Disney+ Core[(2)]	**112.6**	102.9	9 %
Disney+ Hotstar	**37.6**	61.3	(39) %
Hulu			
SVOD Only	**43.9**	42.8	3 %
Live TV + SVOD	**4.6**	4.4	5 %
Total Hulu[(2)]	**48.5**	47.2	3 %

Average Monthly Revenue Per Paid Subscriber[(1)] for the fiscal year ended:

	2023	2022	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	**$ 6.97**	$ 6.34	10 %
International (excluding Disney+ Hotstar)[(1)]	**5.93**	6.10	(3) %
Disney+ Core	**6.39**	6.22	3 %
Disney+ Hotstar	**0.66**	0.88	(25) %
Hulu			
SVOD Only	**12.17**	12.72	(4) %
Live TV + SVOD	**90.52**	87.62	3 %

(1) See discussion on page 66—DTC Product Descriptions, Key Definitions and Supplemental Information

(2) Total may not equal the sum of the column due to rounding.

Domestic Disney+ average monthly revenue per paid subscriber increased from $6.34 to $6.97 due to an increase in average retail pricing and higher advertising revenue, partially offset by a higher mix of subscribers to multi-product offerings.

International Disney+ (excluding Disney+ Hotstar) average monthly revenue per paid subscriber decreased from $6.10 to $5.93 due to a higher mix of subscribers from lower-priced markets and an unfavorable Foreign Exchange Impact, partially offset by an increase in average retail pricing, a lower mix of wholesale subscribers and an increase in wholesale pricing.

Disney+ Hotstar average monthly revenue per paid subscriber decreased from $0.88 to $0.66 due to lower advertising revenue, partially offset by a lower mix of wholesale subscribers.

Hulu SVOD Only average monthly revenue per paid subscriber decreased from $12.72 to $12.17 due to lower advertising revenue, a higher mix of subscribers to multi-product offerings and lower per-subscriber premium and feature add-on revenue, partially offset by an increase in average retail pricing.

Hulu Live TV + SVOD average monthly revenue per paid subscriber increased from $87.62 to $90.52 due to an increase in average retail pricing, partially offset by lower advertising revenue, a higher mix of subscribers to multi-product offerings and lower per-subscriber premium and feature add-on revenue.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Programming and production costs			
Disney+	**$ (5,674)**	$ (4,466)	(27) %
Hulu	**(8,265)**	(7,564)	(9) %
Other	**(20)**	(25)	20 %
Total programming and production costs	**(13,959)**	(12,055)	(16) %
Other operating expense	**(3,900)**	(3,586)	(9) %
	$ (17,859)	$ (15,641)	(14) %

The increase in programming and production costs at Disney+ was attributable to more content provided on the service and higher costs per hour of non-sports content available on the service, partially offset by a decrease in sports programming costs reflecting the comparison to IPL cricket programming in the prior year.

The increase in programming and production costs at Hulu was due to higher subscriber-based fees for programming the Live TV service and higher costs per hour of content available on the service. Higher subscriber-based fees for programming the Live TV service resulted from rate increases and an increase in the number of subscribers.

Other operating expenses increased primarily due to higher technology and distribution costs at Disney+.

Selling, general, administrative and other costs decreased $1,227 million, to $4,168 million from $5,395 million, primarily attributable to lower marketing costs at Disney+ and, to a lesser extent, Hulu.

Operating Loss from Direct-to-Consumer

Operating loss from Direct-to-Consumer decreased $928 million, to $2,496 million from $3,424 million due to a lower loss at Disney+ and, to a lesser extent, higher operating income at Hulu.

Content Sales/Licensing and Other

Operating results for Content Sales/Licensing and Other are as follows:

($ in millions)	**2023**	2022	% Change Better (Worse)
Revenues			
TV/VOD distribution	**$ 2,618**	$ 3,520	(26) %
Theatrical distribution	**3,174**	1,875	69 %
Home entertainment distribution	**931**	1,083	(14) %
Other	**2,325**	2,288	2 %
Total revenues	**9,048**	8,766	3 %
Operating expenses	**(6,280)**	(5,508)	(14) %
Selling, general, administrative and other	**(2,595)**	(2,610)	1 %
Depreciation and amortization	**(347)**	(296)	(17) %
Equity in the income (loss) of investees	**(5)**	—	nm
Operating Income (Loss)	**$ (179)**	$ 352	nm

Revenues

The decrease in TV/VOD distribution revenue was due to lower sales volumes of both episodic and film content, in part driven by the impact of the shift from licensing our content to third parties to distributing it on our Entertainment Direct-to-Consumer streaming services.

The increase in theatrical distribution revenue was due to the performance of *Avatar: The Way of Water* in the current year. The current year also included the Marvel titles: *Black Panther: Wakanda Forever; Guardians of the Galaxy Vol. 3;* and *Ant-Man and the Wasp: Quantumania*, the Disney live action title: *The Little Mermaid,* the Lucasfilm title: *Indiana Jones and the Dial of Destiny* and two animation titles. The prior year included the Marvel titles: *Doctor Strange in the Multiverse of Madness; Thor: Love and Thunder; Eternals;* and the co-produced title *Spider-Man: No Way Home*, along with two animation titles.

The decrease in home entertainment distribution revenue was due to lower sales volumes.

The increase in other revenue was due to higher revenue from stage plays, resulting from improved performance, partially offset by an unfavorable Foreign Exchange Impact.

Operating expenses are as follows:

($ in millions)	**2023**	2022	% Change Better (Worse)
Programming and production costs	**$ (5,383)**	$ (4,688)	(15) %
Distribution costs and cost of goods sold	**(897)**	(820)	(9) %
	$ (6,280)	$ (5,508)	(14) %

The increase in programming and production costs was due to higher production cost amortization attributable to the increase in theatrical revenue, partially offset by a decrease as a result of lower TV/VOD distribution revenues.

Higher distribution costs and cost of goods sold were due to the realignment of certain costs previously reported in general and administrative costs and increased theatrical distribution costs.

Selling, general, administrative and other costs decreased $15 million, to $2,595 million from $2,610 million, due to the realignment of certain costs to distribution costs and cost of goods sold, a favorable Foreign Exchange Impact and lower home entertainment overhead and marketing costs, largely offset by higher theatrical marketing costs.

Depreciation and amortization increased $51 million, to $347 million from $296 million, primarily due to increased investment in technology assets.

Operating Income (Loss) from Content Sales/Licensing and Other

Operating results from Content Sales/Licensing and Other decreased $531 million, to a loss of $179 million from income of $352 million, primarily due to lower TV/VOD distribution results.

Items Excluded from Segment Operating Income Related to Entertainment

The following table presents supplemental information for items related to Entertainment that are excluded from segment operating income:

($ in millions)	2023	2022	% Change Better (Worse)
Restructuring and impairment charges[1]	**$ (3,431)**	$ (228)	>(100) %
TFCF and Hulu acquisition amortization[2]	**(1,602)**	(1,946)	18 %
Content License Early Termination	**—**	(1,023)	100 %
Gain on sale of a business	**28**	—	nm

(1) Fiscal 2023 includes $2,521 million for the Content Impairment Charge (net of the A+E gain), $425 million for a goodwill impairment, $248 million of severance, a $141 million impairment of an equity investment and $96 million primarily related to exiting our businesses in Russia. Fiscal 2022 includes impairments of assets related to exiting our businesses in Russia.

(2) In fiscal 2023, amortization of step-up on film and television costs was $439 million and amortization of intangible assets was $1,151 million. In fiscal 2022, amortization of step-up on film and television costs was $634 million and amortization of intangible assets was $1,300 million.

Sports

Operating results for Sports are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Revenues			
Affiliate fees	**$ 10,590**	$ 10,796	(2) %
Advertising	**3,920**	4,370	(10) %
Subscription fees	**1,517**	1,113	36 %
Other	**1,084**	991	9 %
Total revenues	**17,111**	17,270	(1) %
Operating expenses	**(13,314)**	(13,084)	(2) %
Selling, general, administrative and other	**(1,314)**	(1,441)	9 %
Depreciation and amortization	**(73)**	(90)	19 %
Equity in the income of investees	**55**	55	— %
Operating Income	**$ 2,465**	$ 2,710	(9) %

Revenues

Affiliate fees are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
ESPN			
Domestic	**$ 9,267**	$ 9,437	(2) %
International	**1,051**	1,084	(3) %
	10,318	10,521	(2) %
Star (India)	**272**	275	(1) %
	$ 10,590	$ 10,796	(2) %

The decrease in domestic ESPN affiliate fees was due to decreases of 7% from fewer subscribers and 1% from the temporary suspension of carriage with an affiliate, partially offset by an increase of 5% from higher contractual rates.

Lower international ESPN affiliate fees were attributable to decreases of 14% from an unfavorable Foreign Exchange Impact and 3% from fewer subscribers, partially offset by an increase of 14% from higher contractual rates.

Advertising revenue is as follows:

($ in millions)	2023	2022	% Change Better (Worse)
ESPN			
Domestic	**$ 3,413**	$ 3,424	— %
International	**189**	173	9 %
	3,602	3,597	— %
Star (India)	**318**	773	(59) %
	$ 3,920	$ 4,370	(10) %

Domestic ESPN advertising revenue was comparable to the prior year reflecting a modest decrease in rates, largely offset by a slight increase in impressions.

The increase in international ESPN advertising revenue was due to an increase of 16% from higher impressions, partially offset by a decrease of 6% from an unfavorable Foreign Exchange Impact. The increase in impressions was attributable to higher average viewership.

Lower Star advertising revenue was due to decreases of 38% from fewer impressions, 14% from lower rates and 7% from an unfavorable Foreign Exchange Impact. Fewer impressions reflected a decrease in average units delivered and, to a lesser extent, fewer IPL matches aired in the current year compared to the prior year as matches from the 2021 season shifted into fiscal 2022 due to COVID-19.

Growth in subscription fees reflected increases of 19% from higher rates and 18% from more subscribers.

The increase in other revenue was primarily due to higher fees received for programming ESPN on ABC.

The following table presents additional information about ESPN+:

	September 30, 2023	October 1, 2022	% Change Better (Worse)
Paid subscribers at fiscal year end (in millions)	**26.0**	24.3	7 %
Average Monthly Revenue per Paid Subscriber for the fiscal year	**$ 5.49**	$ 4.80	14 %

ESPN+ average monthly revenue per paid subscriber increased from $4.80 to $5.49 due to an increase in retail pricing, partially offset by a higher mix of subscribers to multi-product offerings.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Programming and production costs			
ESPN			
Domestic	**$ (10,221)**	$ (10,003)	(2) %
International	**(1,127)**	(998)	(13) %
	(11,348)	(11,001)	(3) %
Star (India)	**(1,025)**	(1,284)	20 %
	(12,373)	(12,285)	(1) %
Other operating expenses	**(941)**	(799)	(18) %
	$ (13,314)	$ (13,084)	(2) %

The increase in domestic ESPN programming and production costs was due to contractual rate increases for NBA and College Football Playoffs (CFP) programming, new motor sports programming and higher costs for NFL and Ultimate Fighting Championship (UFC) programming. These increases were partially offset by lower costs for college football programming (excluding CFP) due to the non-renewal of certain contracts. NFL programming costs increased as a result of airing one additional regular season game on our linear networks in the current year compared to the prior year, partially offset by lower

costs per game. The increase in UFC programming costs was due to airing two more events in the current year compared to the prior year and higher contractual rates.

Higher international ESPN programming and production costs were driven by the impact of inflation on soccer rights costs and production costs, partially offset by a favorable Foreign Exchange Impact.

The decrease in Star programming and production costs was due to lower costs for cricket programming and a favorable Foreign Exchange Impact. The decrease in cricket programming costs was attributable to fewer IPL matches in the current year compared to prior year and lower average costs per match for IPL and International Cricket Council (ICC) T20 World Cup matches.

Other operating expenses increased $142 million, to $941 million from $799 million, driven by higher technology and distribution costs and the realignment of certain costs previously reported in selling, general and administrative costs.

Selling, general, administrative and other costs decreased $127 million, to $1,314 million from $1,441 million, due to lower marketing spend and a realignment of certain costs to other operating expenses.

Operating Income

Operating income decreased 9%, to $2,465 million from $2,710 million due to decreases at Star and international ESPN, partially offset by an increase at domestic ESPN.

The following table provides supplemental revenue and operating income detail for Sports:

($ in millions)	**2023**	2022	% Change Better (Worse)
Supplemental revenue detail			
ESPN			
Domestic	**$ 14,945**	$ 14,636	2 %
International	**1,437**	1,434	— %
	16,382	16,070	2 %
Star (India)	**729**	1,200	(39) %
	$ 17,111	$ 17,270	(1) %
Supplemental operating income (loss) detail			
ESPN			
Domestic	**$ 2,881**	$ 2,814	2 %
International	**(39)**	78	nm
	2,842	2,892	(2) %
Star (India)	**(432)**	(237)	(82) %
Equity in the income of investees	**55**	55	— %
	$ 2,465	$ 2,710	(9) %

Items Excluded from Segment Operating Income Related to Sports

The following table presents supplemental information for items related to Sports that are excluded from segment operating income:

($ in millions)	**2023**	2022	% Change Better (Worse)
TFCF acquisition amortization[(1)]	**$ (388)**	$ (399)	3 %
Restructuring and impairment charges[(2)]	**(346)**	(1)	>(100) %

(1) Represents amortization of intangible assets.

(2) Fiscal 2023 includes $296 million for a goodwill impairment and $50 million for severance.

Experiences

Operating results for Experiences are as follows:

($ in millions)	2023	2022	% Change Better (Worse)
Revenues			
Theme park admissions	**$ 10,423**	$ 8,602	21 %
Resorts and vacations	**7,949**	6,410	24 %
Parks & Experiences merchandise, food and beverage	**7,712**	6,579	17 %
Merchandise licensing and retail	**4,358**	4,609	(5) %
Parks licensing and other	**2,107**	1,885	12 %
Total revenues	**32,549**	28,085	16 %
Operating expenses	**(17,129)**	(14,936)	(15) %
Selling, general, administrative and other	**(3,675)**	(3,403)	(8) %
Depreciation and amortization	**(2,789)**	(2,451)	(14) %
Equity in the loss of investees	**(2)**	(10)	80 %
Operating Income	**$ 8,954**	$ 7,285	23 %

Revenues

The increase in theme park admissions revenue was due to increases of 12% from attendance growth and 10% from higher average per capita ticket revenue.

Growth in resorts and vacations revenue was due to increases of 14% from additional passenger cruise days, 4% from higher occupied hotel room nights and 3% growth from guided tours.

Parks & Experiences merchandise, food and beverage revenue growth was attributable to increases of 12% from higher volumes and 3% from higher average guest spending.

Lower merchandise licensing and retail revenue was due to decreases of 2% from licensing, 2% from retail and 1% from an unfavorable Foreign Exchange Impact. The decrease in licensing revenue was due to lower sales of merchandise based on Star Wars, Frozen, Toy Story and Mickey and Friends, partially offset by higher minimum guarantee shortfall recognition. Lower retail revenue was primarily due to a decrease in online sales.

The increase in parks licensing and other revenue was attributable to an increase in royalties from Tokyo Disney Resort and higher co-branding and sponsorship revenues, partially offset by lower real estate sales.

In addition to revenue, costs and operating income, management uses the following key metrics to analyze trends and evaluate the overall performance of our theme parks and resorts, and we believe these metrics are useful to investors in analyzing the business:

	Domestic		International[1]		Total	
	2023	2022	**2023**	2022	**2023**	2022
Parks						
Increase (decrease)						
Attendance[2]	**6 %**	>100 %	**55 %**	54 %	**17 %**	87 %
Per Capita Guest Spending[3]	**3 %**	13 %	**21 %**	24 %	**2 %**	18 %
Hotels						
Occupancy[4]	**85 %**	82 %	**74 %**	56 %	**83 %**	76 %
Available Room Nights (in thousands)[5]	**10,096**	10,073	**3,178**	3,179	**13,274**	13,252
Change in Per Room Guest Spending[6]	**— %**	19 %	**14 %**	(7) %	**1 %**	15 %

(1) Per capita guest spending growth rate and per room guest spending growth rate exclude the impact of changes in foreign currency exchange rates.

(2) Attendance is used to analyze volume trends at our theme parks and is based on the number of unique daily entries, i.e. a person visiting multiple theme parks in a single day is counted only once. Our attendance count includes

complimentary entries but excludes entries by children under the age of three.

(3) Per capita guest spending is used to analyze guest spending trends and is defined as total revenue from ticket sales and sales of food, beverage and merchandise in our theme parks, divided by total theme park attendance.

(4) Occupancy is used to analyze the usage of available capacity at hotels and is defined as the number of room nights occupied by guests as a percentage of available hotel room nights.

(5) Available hotel room nights are defined as the total number of room nights that are available at our hotels and at DVC properties located at our theme parks and resorts that are not utilized by DVC members. Available hotel room nights include rooms temporarily taken out of service.

(6) Per room guest spending is used to analyze guest spending at our hotels and is defined as total revenue from room rentals and sales of food, beverage and merchandise at our hotels, divided by total occupied hotel room nights. In the current year, the Company revised its method of allocating revenue on the sales of Disneyland Paris vacation packages between hotel room revenue and admissions revenue. The new method resulted in a decrease in the percentage of revenue allocated to hotel rooms. If we had applied the new method in the prior year, the impact would have been a decrease of approximately $50 million in the prior year.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	**2023**	2022	% Change Better (Worse)
Operating labor	**$ (7,550)**	$ (6,577)	(15) %
Infrastructure costs	**(3,127)**	(2,766)	(13) %
Cost of goods sold and distribution costs	**(3,357)**	(2,938)	(14) %
Other operating expenses	**(3,095)**	(2,655)	(17) %
	$ (17,129)	$ (14,936)	(15) %

The increase in operating labor was due to inflation, higher volumes and increased costs for new guest offerings. Higher cost of goods sold and distribution costs were due to increased volumes, while the increase in infrastructure costs was due to higher operations support costs, increased costs for new guest offerings and higher technology spending. Other operating expenses increased due to higher volumes and inflation.

Selling, general, administrative and other costs increased $272 million from $3,403 million to $3,675 million, driven by higher marketing spend and a loss on the disposal of our ownership interest in Villages Nature.

Depreciation and amortization increased $338 million from $2,451 million to $2,789 million, due to accelerated depreciation related to the closure of Star Wars: Galactic Starcruiser and depreciation for the *Disney Wish*, which launched in the fourth quarter of the prior year.

Segment Operating Income

Segment operating income increased $1,669 million, to $8,954 million due to growth at our international and domestic parks and experiences, partially offset by a decrease at our consumer products business.

The following table presents supplemental revenue and operating income detail for the Experiences segment:

($ in millions)	**2023**	2022	% Change Better (Worse)
Supplemental revenue detail			
Parks & Experiences			
Domestic	**$ 22,677**	$ 20,131	13 %
International	**5,475**	3,297	66 %
Consumer Products	**4,397**	4,657	(6) %
	$ 32,549	$ 28,085	16 %
Supplemental operating income (loss) detail			
Parks & Experiences			
Domestic	**$ 5,876**	$ 5,332	10 %
International	**1,104**	(237)	nm
Consumer Products	**1,974**	2,190	(10) %
	$ 8,954	$ 7,285	23 %

Items Excluded from Segment Operating Income Related to Experiences

The following table presents supplemental information for items related to Experiences that are excluded from segment operating income:

($ in millions)	**2023**	2022	% Change Better (Worse)
Charge related to a legal ruling	**$ (101)**	$ —	nm
Restructuring and impairment charges[(1)]	**(25)**	—	nm
TFCF acquisition amortization	**(8)**	(8)	— %

(1) Charges for the current year were due to severance.

BUSINESS SEGMENT RESULTS - 2022 vs. 2021

The following table presents revenues from our operating segments and other components of revenues:

($ in millions)	2022	2021	% Change Better (Worse)
Entertainment	$ 39,569	$ 36,489	8 %
Sports	17,270	15,960	8 %
Experiences	28,085	15,961	76 %
Eliminations	(1,179)	(992)	(19) %
Content License Early Termination	(1,023)	—	nm
Revenues	$ 82,722	$ 67,418	23 %

The following table presents income (loss) from our operating segments and other components of income from continuing operations before income taxes:

($ in millions)	2022	2021	% Change Better (Worse)
Entertainment operating income	$ 2,126	$ 5,196	(59) %
Sports operating income	2,710	2,690	1 %
Experiences operating income (loss)	7,285	(120)	nm
Content License Early Termination	(1,023)	—	nm
Corporate and unallocated shared expenses	(1,159)	(928)	(25) %
Restructuring and impairment charges	(237)	(654)	64 %
Other income (expense), net	(667)	201	nm
Interest expense, net	(1,397)	(1,406)	1 %
TFCF and Hulu acquisition amortization	(2,353)	(2,418)	3 %
Income from continuing operations before income taxes	$ 5,285	$ 2,561	>100 %

Entertainment

Revenue and operating results for Entertainment are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Revenues:			
Linear Networks	$ 12,828	$ 13,516	(5) %
Direct-to-Consumer	17,975	15,036	20 %
Content Sales/Licensing and Other	8,766	7,937	10 %
	$ 39,569	$ 36,489	8 %
Operating income (loss):			
Linear Networks	$ 5,198	$ 5,271	(1) %
Direct-to-Consumer	(3,424)	(1,252)	>(100) %
Content Sales/Licensing and Other	352	1,177	(70) %
	$ 2,126	$ 5,196	(59) %

Linear Networks

Operating results for Linear Networks are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Revenues			
Affiliate fees	$ 7,739	$ 8,043	(4) %
Advertising	4,877	5,215	(6) %
Other	212	258	(18) %
Total revenues	12,828	13,516	(5) %
Operating expenses	(5,777)	(6,250)	8 %
Selling, general, administrative and other	(2,571)	(2,647)	3 %
Depreciation and amortization	(65)	(78)	17 %
Equity in the income of investees	783	730	7 %
Operating Income	$ 5,198	$ 5,271	(1) %

Revenues

Affiliate fees are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Domestic	$ 6,257	$ 6,045	4 %
International	1,482	1,998	(26) %
	$ 7,739	$ 8,043	(4) %

Growth in domestic affiliate fees was due to an increase of 7% from higher contractual rates, partially offset by a decrease of 3% from fewer subscribers.

The decline in international affiliate fees was due to decreases of 17% from fewer subscribers driven by channel closures, 5% from an unfavorable Foreign Exchange Impact and 2% from lower contractual rates.

Advertising revenue is as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Domestic	$ 3,716	$ 4,021	(8) %
International	1,161	1,194	(3) %
	$ 4,877	$ 5,215	(6) %

The decline in domestic advertising revenue was due to a decrease of 14% from fewer impressions, reflecting lower average viewership, partially offset by an increase of 7% from higher rates.

Lower international advertising revenue reflected decreases of 8% from an unfavorable Foreign Exchange Impact and 6% from fewer impressions driven by channel closures, partially offset by an increase of 12% from higher rates.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Programming and production costs			
Domestic	$ (3,894)	$ (3,940)	1 %
International	(796)	(1,165)	32 %
	(4,690)	(5,105)	8 %
Other operating expenses	(1,087)	(1,145)	5 %
	$ (5,777)	$ (6,250)	8 %

The decrease in domestic programming and production costs was due to a lower cost mix of programming at FX Channels, partially offset by an increase in programming and production costs at the ABC Network. The increase at the ABC Network was due to higher costs for non-primetime news programming and an increase in programming fees for ESPN on ABC, partially offset by a lower cost mix of primetime programming.

Lower international programming and production costs were due to the impact of channel closures and, to a lesser extent, a favorable Foreign Exchange Impact.

Selling, general administrative and other costs decreased $76 million, to $2,571 million from $2,647 million, due to lower marketing costs.

Equity in the Income of Investees

Income from equity investees increased $53 million, to $783 million from $730 million, due to higher income from A+E and the comparison to impairments in fiscal 2021. The increase at A+E resulted from lower programming costs, partially offset by decreases in affiliate and advertising revenue and higher marketing costs.

Operating Income from Linear Networks

Operating income decreased 1%, to $5,198 million from $5,271 million due to lower domestic results, partially offset by higher income from our equity investees and an increase in international results.

The following table provides supplemental revenue and operating income detail for Linear Networks:

($ in millions)	2022	2021	% Change Better (Worse)
Supplemental revenue detail			
Domestic	$ 10,073	$ 10,223	(1) %
International	2,755	3,293	(16) %
	$ 12,828	$ 13,516	(5) %
Supplemental operating income detail			
Domestic	$ 3,358	$ 3,537	(5) %
International	1,057	1,004	5 %
Equity in the income of investees	783	730	7 %
	$ 5,198	$ 5,271	(1) %

Direct-to-Consumer

Operating results for Direct-to-Consumer are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Revenues			
Subscription fees	$ 14,178	$ 11,295	26 %
Advertising	3,614	3,284	10 %
Other	183	457	(60) %
Total revenues	17,975	15,036	20 %
Operating expenses	(15,641)	(11,906)	(31) %
Selling, general, administrative and other	(5,395)	(4,067)	(33) %
Depreciation and amortization	(363)	(315)	(15) %
Operating Loss	$ (3,424)	$ (1,252)	>(100) %

Revenues

Higher subscription fees reflected increases of 18% from subscriber growth and 9% from higher average rates due to increases in retail pricing, partially offset by a decrease of 2% from an unfavorable Foreign Exchange Impact.

Advertising revenue growth reflected increases of 7% from higher rates due to increases at Hulu, and to a lesser extent, at Disney+, and 3% from higher impressions primarily attributable to Disney+ Hotstar. The increase in impressions at Disney+ Hotstar was primarily due to airing the ICC T20 World Cup and Asia Cricket Council (ACC) Asia Cup in fiscal 2022, neither of which were aired in fiscal 2021. The ICC T20 World Cup generally occurs every two years and was not held in fiscal 2021 due to COVID-19. The ACC Asia Cup was rescheduled from fiscal 2020 to fiscal 2022 as a result of COVID-19.

The decrease in other revenue was due to Disney+ Premier Access revenue in fiscal 2021 compared to none in fiscal 2022, partially offset by a favorable Foreign Exchange Impact. Disney+ Premier Access titles in fiscal 2021 included *Black Widow*, *Raya and the Last Dragon, Jungle Cruise* and *Cruella*.

The following table presents additional information about our Disney+ and Hulu product offerings.

Paid subscribers as of:

(in millions)	October 1, 2022	October 2, 2021	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	46.4	38.8	20 %
International (excluding Disney+ Hotstar)	56.5	36.0	57 %
Disney+ Core[(1)]	102.9	74.8	38 %
Disney+ Hotstar	61.3	43.3	42 %
Hulu			
SVOD Only	42.8	39.7	8 %
Live TV + SVOD	4.4	4.0	10 %
Total Hulu[(1)]	47.2	43.7	8 %

Average Monthly Revenue Per Paid Subscriber for the fiscal year ended:

	2022	2021	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	$ 6.34	$ 6.33	— %
International (excluding Disney+ Hotstar)	6.10	5.31	15 %
Disney+ Core	6.22	5.87	6 %
Disney+ Hotstar	0.88	0.68	29 %
Hulu			
SVOD Only	12.72	12.86	(1) %
Live TV + SVOD	87.62	81.35	8 %

[(1)] Total may not equal the sum of the column due to rounding

Domestic Disney+ average monthly revenue per paid subscriber was comparable to fiscal 2021, as an increase in retail pricing and a lower mix of wholesale subscribers was essentially offset by a higher mix of subscribers to multi-product offerings.

International Disney+ (excluding Disney+ Hotstar) average monthly revenue per paid subscriber increased from $5.31 to $6.10 due to an increase in average retail pricing, partially offset by an unfavorable Foreign Exchange Impact.

Disney+ Hotstar average monthly revenue per paid subscriber increased from $0.68 to $0.88 driven by higher advertising revenue and increases in retail pricing, partially offset by a higher mix of wholesale subscribers.

Hulu SVOD Only average monthly revenue per paid subscriber decreased from $12.86 to $12.72 driven by lower per-subscriber advertising revenue, a higher mix of subscribers to multi-product offerings and, to a lesser extent, to promotional offerings, partially offset by an increase in average retail pricing.

Hulu Live TV + SVOD average monthly revenue per paid subscriber increased from $81.35 to $87.62 driven by an increase in average retail pricing and higher advertising revenue, partially offset by a higher mix of subscribers to multi-product offerings.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Programming and production costs			
Disney+	$ (4,466)	$ (2,536)	(76) %
Hulu	(7,564)	(6,680)	(13) %
Other	(25)	(31)	19 %
Total programming and production costs	(12,055)	(9,247)	(30) %
Other operating expense	(3,586)	(2,659)	(35) %
	$ (15,641)	$ (11,906)	(31) %

The increase in programming and production costs at Disney+ was attributable to more content provided on the service and, to a lesser extent, higher average cost programming, which reflected an increased mix of original content.

The increase in programming and production costs at Hulu was due to more content provided on the service and higher subscriber-based fees for programming the Live TV service, which reflected rate increases and an increase in the number of subscribers.

Other operating expenses increased due to higher technology and distribution costs at Disney+ reflecting growth in existing markets and, to a lesser extent, expansion to new markets.

Selling, general, administrative and other costs increased $1,328 million, to $5,395 million from $4,067 million, attributable to higher marketing costs.

Depreciation and amortization increased $48 million, to $363 million from $315 million, primarily due to increased investment in technology assets at Disney+.

Operating Loss from Direct-to-Consumer

Operating loss from Direct-to-Consumer increased $2,172 million, to $3,424 million from $1,252 million due to a higher loss at Disney+ and, to a lesser extent, lower operating income at Hulu.

Content Sales/Licensing and Other

Operating results for Content Sales/Licensing and Other are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Revenues			
TV/VOD distribution	$ 3,520	$ 3,925	(10) %
Theatrical distribution	1,875	920	>100 %
Home entertainment distribution	1,083	1,297	(16) %
Other	2,288	1,795	27 %
Total revenues	8,766	7,937	10 %
Operating expenses	(5,508)	(4,536)	(21) %
Selling, general, administrative and other	(2,610)	(1,944)	(34) %
Depreciation and amortization	(296)	(294)	(1) %
Equity in the income of investees	—	14	(100) %
Operating Income	$ 352	$ 1,177	(70) %

Revenues

The decrease in TV/VOD distribution revenue reflected lower sales volumes, which included the impact of the shift from licensing our content to third parties to distributing it on our Entertainment Direct-to-Consumer streaming services.

The increase in theatrical distribution revenue was due to more titles released in fiscal 2022 compared to fiscal 2021 and revenue in fiscal 2022 from the co-production of Marvel's *Spider-Man: No Way Home*. Although COVID-19 continued to impact our theatrical distribution business in certain markets in fiscal 2022, the impact in fiscal 2021 was more significant. Titles released in fiscal 2022 included *Doctor Strange in The Multiverse of Madness*, *Thor: Love and Thunder*, *Eternals*,

Encanto and *Lightyear*. Titles released in fiscal 2021 included *Shang-Chi and the Legend of the Ten Rings*, *Black Widow* and *Free Guy*.

The decrease in home entertainment distribution revenue was attributable to lower unit sales despite the benefit of more new release titles in fiscal 2022. Net effective pricing was comparable to fiscal 2021 as lower unit pricing was offset by a higher mix of new release titles, which have a higher sales price than catalog titles.

The increase in other revenue was due to more stage play performances in fiscal 2022 as productions were generally shut down in fiscal 2021 due to COVID-19.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Programming and production costs	$ (4,688)	$ (3,770)	(24) %
Distribution costs and cost of goods sold	(820)	(766)	(7) %
	$ (5,508)	$ (4,536)	(21) %

The increase in programming and production costs was due to higher production cost amortization driven by more theatrical releases, the increased number of stage play performances in fiscal 2022 and higher film cost impairments.

The increase in distribution costs and cost of goods sold was primarily due to increased theatrical distribution costs.

Selling, general, administrative and other costs increased $666 million, to $2,610 million from $1,944 million, due to higher theatrical marketing costs as more titles were released in fiscal 2022 compared to fiscal 2021.

Operating Income from Content Sales/Licensing and Other

Operating income from Content Sales/Licensing and Other decreased 70% to $352 million from $1,177 million, due to lower TV/VOD and home entertainment distribution results, higher film cost impairments and lower theatrical distribution results, partially offset by higher stage play results.

Items Excluded from Segment Operating Income Related to Entertainment

The following table presents supplemental information for items related to Entertainment that are excluded from segment operating income:

($ in millions)	2022	2021	% Change Better (Worse)
TFCF and Hulu acquisition amortization[(1)]	$ (1,946)	$ (2,006)	3 %
Content License Early Termination	(1,023)	—	nm
Restructuring and impairment charges[(2)]	(228)	(300)	24 %
German FTA gain	—	126	(100) %

(1) In fiscal 2022, amortization of step-up on film and episodic costs was $634 million and amortization of intangible assets was $1,300 million. In fiscal 2021, amortization of step-up on film and episodic costs was $646 million and amortization of intangible assets was $1,345 million.

(2) Fiscal 2022 includes impairments of assets related to exiting our businesses in Russia. Fiscal 2021 includes impairments and severance costs related to the closure of an animation studio and severance costs and contract termination charges in connection with the integration of TFCF.

Sports

Operating results for Sports are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Revenues			
Affiliate fees	$ 10,796	$ 10,609	2 %
Advertising	4,370	3,720	17 %
Subscription fees	1,113	725	54 %
Other	991	906	9 %
Total revenues	17,270	15,960	8 %
Operating expenses	(13,084)	(11,986)	(9) %
Selling, general, administrative and other	(1,441)	(1,231)	(17) %
Depreciation and amortization	(90)	(104)	13 %
Equity in the income of investees	55	51	8 %
Operating Income	$ 2,710	$ 2,690	1 %

Revenues

Affiliate fees are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
ESPN			
Domestic	$ 9,437	$ 9,199	3 %
International	1,084	1,114	(3) %
	10,521	10,313	2 %
Star (India)	275	296	(7) %
	$ 10,796	$ 10,609	2 %

The increase in domestic ESPN affiliate fees was primarily due to an increase of 5% from higher contractual rates, partially offset by a decrease of 4% from fewer subscribers.

The decrease in international ESPN affiliate fees was attributable to decreases of 8% from fewer subscribers driven by channel closures, and 7% from an unfavorable Foreign Exchange Impact, partially offset by an increase of 11% from higher contractual rates.

The decrease in Star affiliate fees was due to decreases of 5% from an unfavorable Foreign Exchange Impact and 1% from fewer subscribers.

Advertising revenue is as follows:

($ in millions)	2022	2021	% Change Better (Worse)
ESPN			
Domestic	$ 3,424	$ 2,981	15 %
International	173	150	15 %
	3,597	3,131	15 %
Star (India)	773	589	31 %
	$ 4,370	$ 3,720	17 %

The increase in domestic ESPN advertising revenue was due to increases of 11% from higher impressions and 5% from higher rates. The increase in impressions reflected higher average viewership and, to a lesser extent, an increase in units delivered.

Higher international ESPN advertising revenue was primarily due to increases of 11% from higher average viewership and 7% from higher rates, partially offset by a decrease of 6% from an unfavorable Foreign Exchange Impact.

Growth in Star advertising revenue was due to an increase of 37% from higher average viewership, partially offset by decreases of 3% from an unfavorable Foreign Exchange Impact and 3% from lower rates. The increase in average viewership reflected the airing of more cricket matches in fiscal 2022. Fiscal 2022 included the ICC T20 World Cup, more Board of Control for Cricket in India (BCCI) matches and the ACC Asia Cup, partially offset by fewer IPL matches compared to fiscal 2021. The ICC T20 World Cup and the ACC Asia Cup were not held in fiscal 2021. The increase in BCCI matches in fiscal 2022 was driven by COVID-19-related cancellations in fiscal 2021.

The increase in subscription fees was due to ESPN+ subscriber growth.

The increase in other revenue was due to higher sub-licensing fees and higher fees received for programming ESPN on ABC, partially offset by lower UFC pay-per-view fees due to lower average buys per event. The increase in sub-licensing fees was due to fees from ICC T20 World Cup matches in fiscal 2022 and higher fees from BCCI cricket matches.

The following table presents additional information about ESPN+.

(in millions)	October 1, 2022	October 2, 2021	% Change Better (Worse)
Paid subscribers at fiscal year end (in millions)	24.3	17.1	42 %
Average Monthly Revenue per Paid Subscriber for the fiscal year	$ 4.80	$ 4.57	5 %

ESPN+ average monthly revenue per paid subscriber increased from $4.57 to $4.80 primarily due to an increase in retail pricing, a lower mix of annual subscribers and higher advertising revenue, partially offset by a higher mix of subscribers to multi-product offerings.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Programming and production costs			
ESPN			
Domestic	$ (10,003)	$ (9,370)	(7) %
International	(998)	(1,094)	9 %
	(11,001)	(10,464)	(5) %
Star (India)	(1,284)	(766)	(68) %
	(12,285)	(11,230)	(9) %
Other operating expenses	(799)	(756)	(6) %
	$ (13,084)	$ (11,986)	(9) %

The increase in domestic ESPN programming and production costs was due to new NHL programming, higher rights costs for NFL and CFP and an increase in production costs reflecting the return of ESPN-hosted events, which were canceled in fiscal 2021 due to COVID-19, and more ESPN films in fiscal 2022. These increases were partially offset by lower rights costs for MLB and NBA programming. Higher NFL programming costs were due to airing four additional regular season games in fiscal 2022 compared to fiscal 2021 and contractual rate increases. The increase in CFP rights costs was due to higher contractual rates. Lower MLB programming costs were due to airing 29 games of the 2022 regular season under our new contract and one 2021 season playoff game in fiscal 2022 compared to 92 games of the 2021 regular season in fiscal 2021. The decrease in NBA programming costs was due to the comparison to airing four games of the 2020 NBA Finals in the first quarter of fiscal 2021 due to COVID-19, partially offset by contractual rate increases. Fiscal 2021 also included the 2021 NBA Finals and fiscal 2022 included the 2022 NBA finals.

The decrease in international programming and production costs was due to channel closures in fiscal 2021, the impact of shifting exclusive soccer matches from Sports to Star+ in fiscal 2022 and a favorable Foreign Exchange Impact, partially offset by higher production costs.

The increase in Star programming and production costs was due to more cricket matches in fiscal 2022 and higher average costs per match for BCCI and IPL cricket matches.

Selling, general, administrative and other costs increased $210 million, to $1,441 million from $1,231 million, driven by higher marketing costs.

Operating Income

Operating income increased 1%, to $2,710 million from $2,690 million due to an increase at ESPN, partially offset by a decrease at Star.

The following table provides supplemental revenue and operating income (loss) detail for Sports:

($ in millions)	2022	2021	% Change Better (Worse)
Supplemental revenue detail			
ESPN			
Domestic	$ 14,636	$ 13,623	7 %
International	1,434	1,390	3 %
	16,070	15,013	7 %
Star (India)	1,200	947	27 %
	$ 17,270	$ 15,960	8 %
Supplemental operating income (loss) detail			
ESPN			
Domestic	$ 2,814	$ 2,610	8 %
International	78	(14)	nm
	2,892	2,596	11 %
Star (India)	(237)	43	nm
Equity in the income of investees	55	51	8 %
	$ 2,710	$ 2,690	1 %

Items Excluded from Segment Operating Income Related to Sports

The following table presents supplemental information for items related to Sports that are excluded from segment operating income:

(in millions)	2022	2021	% Change Better (Worse)
TFCF acquisition amortization[(1)]	**$ (399)**	$ (404)	1 %
Restructuring and impairment charges	**(1)**	(15)	93 %

(1) Represents amortization of intangible assets.

Experiences

Operating results for Experiences are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Revenues			
Theme park admissions	$ 8,602	$ 3,848	>100 %
Resorts and vacations	6,410	2,701	>100 %
Parks & Experiences merchandise, food and beverage	6,579	3,299	99 %
Merchandise licensing and retail	4,609	4,650	(1) %
Parks licensing and other	1,885	1,463	29 %
Total revenues	28,085	15,961	76 %
Operating expenses	(14,936)	(10,799)	(38) %
Selling, general, administrative and other	(3,403)	(2,886)	(18) %
Depreciation and amortization	(2,451)	(2,377)	(3) %
Equity in the loss of investees	(10)	(19)	47 %
Operating Income (loss)	$ 7,285	$ (120)	nm

COVID-19

Revenues at Experiences benefited from fewer closures and operating capacity restrictions in fiscal 2022 compared to fiscal 2021 as a result of COVID-19. The following table summarizes the approximate number of weeks of operations in fiscal 2022 and fiscal 2021:

	Weeks of Operation	
	2022	2021
Walt Disney World Resort	52	52
Disneyland Resort	52	22
Disneyland Paris	52	19
Hong Kong Disneyland Resort	37	40
Shanghai Disney Resort	37	52

Revenues

The increase in theme park admissions revenue was due to attendance growth and higher average per capita ticket revenue. Higher attendance reflected increases at Disneyland Resort, Walt Disney World Resort and, to a lesser extent, Disneyland Paris, partially offset by a decrease at Shanghai Disney Resort. Growth in average per capita ticket revenue was due to the introduction of Genie+ and Lightning Lane at our domestic parks in the first quarter of fiscal 2022 and higher average ticket prices at Walt Disney World Resort and Disneyland Paris, partially offset by lower average ticket prices at Disneyland Resort and Shanghai Disney Resort.

Growth in resorts and vacations revenue was primarily due to increases of 51% from higher occupied hotel room nights, 32% from an increase in passenger cruise days and 17% from higher average daily hotel room rates.

Parks & Experiences merchandise, food and beverage revenue growth was due to increases of 82% from higher volumes and 9% from higher average guest spending.

Merchandise licensing and retail revenue was comparable to the prior year, as a decrease of 8% from retail was offset by an increase of 8% from licensing. The decrease in retail revenues was due to the closure of a substantial number of Disney-branded retail stores in North America and Europe in the second half of fiscal 2021. The revenue growth at licensing was primarily due to higher sales of merchandise based on Mickey and Friends, Star Wars, *Encanto*, Spider-Man and Disney Princesses, partially offset by a decrease in revenues from merchandise based on Frozen.

The increase in parks licensing and other revenue was primarily due to higher sponsorship revenues and an increase in royalties from Tokyo Disney Resort.

In addition to revenue, costs and operating income, management uses the following key metrics to analyze trends and evaluate the overall performance of our theme parks and resorts, and we believe these metrics are useful to investors in analyzing the business:

	Domestic		International[(1)]		Total	
	2022	2021	2022	2021	2022	2021
Parks						
Increase (decrease)						
Attendance	>100 %	(17) %	54 %	(4) %	87 %	(14) %
Per Capita Guest Spending	13 %	17 %	24 %	(3) %	18 %	11 %
Hotels						
Occupancy	82 %	42 %	56 %	21 %	76 %	37 %
Available Room Nights (in thousands)	10,073	10,451	3,179	3,179	13,252	13,630
Change in Per Room Guest Spending[(1)]	19 %	1 %	(7) %	22 %	15 %	4 %

(1) In fiscal 2023, the Company revised its method of allocating revenue on the sales of Disneyland Paris vacation packages between hotel room revenue and admissions revenue. The new method resulted in a decrease in the percentage of revenue allocated to hotel rooms. If we had applied the new method in fiscal 2022, the impact would have been a decrease of approximately $50 million. There is no impact to fiscal 2021 due to this change.

Costs and Expenses

Operating expenses are as follows:

($ in millions)	2022	2021	% Change Better (Worse)
Operating labor	$ (6,577)	$ (4,711)	(40) %
Infrastructure costs	(2,766)	(2,308)	(20) %
Cost of goods sold and distribution costs	(2,938)	(2,086)	(41) %
Other operating expenses	(2,655)	(1,694)	(57) %
	$ (14,936)	$ (10,799)	(38) %

The increases in operating labor, cost of goods sold and distribution costs and other operating expenses were due to higher volumes, while the increase in infrastructure costs was due to higher volumes and increased technology spending.

Selling, general, administrative and other costs increased $517 million from $2,886 million to $3,403 million due to higher marketing spend and inflation.

Depreciation and amortization increased $74 million from $2,377 million to $2,451 million, primarily due to new attractions at our domestic parks and resorts.

Segment Operating Income (loss)

Segment operating results increased $7,405 million, to income of $7,285 million from a loss of $120 million due to growth at our domestic parks and experiences and, to a lesser extent, at our international parks and experiences and consumer products business.

The following table presents supplemental revenue and operating income (loss) detail for the Experiences segment:

($ in millions)	2022	2021	% Change Better (Worse)
Supplemental revenue detail			
Parks & Experiences			
Domestic	$ 20,131	$ 9,353	>100 %
International	3,297	1,859	77 %
Consumer Products	4,657	4,749	(2) %
	$ 28,085	$ 15,961	76 %
Supplemental operating income (loss) detail			
Parks & Experiences			
Domestic	$ 5,332	$ (1,139)	nm
International	(237)	(1,074)	78 %
Consumer Products	2,190	2,093	5 %
	$ 7,285	$ (120)	nm

Items Excluded from Segment Operating Income Related to Experiences

The following table presents supplemental information for items related to Experiences that are excluded from segment operating income:

($ in millions)	2022	2021	% Change Better (Worse)
Restructuring and impairment charges[(1)]	$ —	$ (327)	100 %
TFCF acquisition amortization	(8)	(8)	— %

(1) Fiscal 2021 included asset impairments and severance costs related to the closure of a substantial number of our Disney-branded retail stores in North America and Europe and severance costs related to other workforce reductions.

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses are as follows:

($ in millions)	2023	2022	2021	% Change Better (Worse) 2023 vs. 2022	% Change Better (Worse) 2022 vs. 2021
Corporate and unallocated shared expenses	**$ (1,147)**	$ (1,159)	$ (928)	1 %	(25) %

From fiscal 2022 to fiscal 2023, the decrease in corporate and unallocated shared expenses was driven by lower compensation and human resource-related costs, partially offset by increases in rent expense and technology costs. From fiscal 2021 to fiscal 2022, the increase in corporate and unallocated shared expenses was driven by higher compensation and human resource-related costs.

RESTRUCTURING ACTIVITIES

See Note 18 to the Consolidated Financial Statements for information regarding the Company's restructuring activities.

LIQUIDITY AND CAPITAL RESOURCES

The change in cash, cash equivalents and restricted cash is as follows:

($ in millions)	2023	2022	2021
Cash provided by operations - continuing operations	**$ 9,866**	$ 6,002	$ 5,566
Cash used in investing activities - continuing operations	**(4,641)**	(5,008)	(3,171)
Cash used in financing activities - continuing operations	**(2,724)**	(4,729)	(4,385)
Cash (used in) provided by discontinued operations	**—**	(4)	9
Impact of exchange rates on cash, cash equivalents and restricted cash	**73**	(603)	30
Change in cash, cash equivalents and restricted cash	**$ 2,574**	$ (4,342)	$ (1,951)

Operating Activities

Cash provided by operating activities of $9.9 billion for fiscal 2023 increased 64% or $3.9 billion compared to $6.0 billion in fiscal 2022 due to lower spending on film and episodic content at Entertainment and higher operating cash flow at Experiences, partially offset by higher spending on sports content. The decrease in spending on film and episodic content at Entertainment included the impact of the WGA and SAG-AFTRA work stoppages. The increase in operating cash flow at Experiences was due to higher operating cash receipts driven by higher revenue, partially offset by an increase in operating cash disbursements due to higher operating expenses. The decrease in operating cash flow at Sports was due to the timing of payments for sports content.

Cash provided by operating activities of $6.0 billion for fiscal 2022 increased 8% or $436 million compared to $5.6 billion in fiscal 2021 due to higher operating cash flow at Experiences and, to a lesser extent, lower income tax payments and pension contributions, partially offset by lower operating cash flow at Entertainment and, to a lesser extent, a partial payment for the Content License Early Termination. The increase in operating cash flow at Experiences was due to higher operating cash receipts driven by higher revenue, partially offset by an increase in operating cash disbursements due to higher operating expenses. The decrease in operating cash flow at Entertainment was due to higher operating cash disbursements and higher spending on film and episodic content, partially offset by higher operating cash receipts. Higher operating cash disbursements were driven by increased operating expenses while higher operating cash receipts were due to revenue growth.

Depreciation expense is as follows:

($ in millions)	**2023**	2022	2021
Entertainment	**$ 669**	$ 560	$ 513
Sports	**73**	90	100
Experiences			
Domestic	**2,011**	1,680	1,551
International	**669**	662	718
Total Experiences	**2,680**	2,342	2,269
Corporate	**204**	191	186
Total depreciation expense	**$ 3,626**	$ 3,183	$ 3,068

Amortization of intangible assets is as follows:

($ in millions)	**2023**	2022	2021
Entertainment	**$ 87**	$ 164	$ 174
Sports	**—**	—	4
Experiences	**109**	109	108
TFCF and Hulu	**1,547**	1,707	1,757
Total amortization of intangible assets	**$ 1,743**	$ 1,980	$ 2,043

Produced and licensed content costs

The Entertainment and Sports segments incur costs to produce and license film, episodic, sports and other content. Production costs include spend on content internally produced at our studios such as live-action and animated films, episodic series, specials, shorts and theatrical stage plays. Production costs also include original content commissioned from third-party studios. Programming costs include content rights licensed from third parties for use on the Company's sports and general entertainment networks and DTC streaming services. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities.

The Company's production and programming activity for fiscal 2023, 2022 and 2021 are as follows:

($ in millions)	**2023**	2022	2021
Beginning balances:			
Production and programming assets	**$ 37,667**	$ 31,732	$ 27,193
Programming liabilities	**(3,940)**	(4,113)	(4,099)
	33,727	27,619	23,094
Spending:			
Licensed programming and rights	**14,851**	13,316	12,412
Produced content	**12,323**	16,611	12,848
	27,174	29,927	25,260
Amortization:			
Licensed programming and rights	**(13,405)**	(13,432)	(12,784)
Produced content	**(11,861)**	(10,224)	(8,175)
	(25,266)	(23,656)	(20,959)
Change in production and programming costs	**1,908**	6,271	4,301
Content Impairment	**(2,266)**	—	—
Other non-cash activity	**(568)**	(163)	224
Ending balances:			
Production and programming assets	**36,593**	37,667	31,732
Programming liabilities	**(3,792)**	(3,940)	(4,113)
	$ 32,801	$ 33,727	$ 27,619

The Company currently expects its fiscal 2024 spend on produced and licensed content to be approximately $25 billion, with sports rights expected to account for over 40% of spend. See Note 14 to the Consolidated Financial Statements for information regarding the Company's contractual commitments to acquire sports and broadcast programming.

Commitments and guarantees

The Company has various commitments and guarantees, such as long-term leases, purchase commitments and other executory contracts, that are disclosed in the footnotes to the financial statements. See Notes 14 and 15 to the Consolidated Financial Statements for further information regarding these commitments.

Legal and Tax Matters

As disclosed in Notes 9 and 14 to the Consolidated Financial Statements, the Company has exposure for certain tax and legal matters.

Investing Activities

Continuing operations

Investing activities consist principally of investments in parks, resorts and other property and acquisition and divestiture activity. The Company's investments in parks, resorts and other property for fiscal 2023, 2022 and 2021 are as follows:

($ in millions)	**2023**	2022	2021
Entertainment	**$ 1,032**	$ 802	$ 838
Sports	**15**	8	24
Experiences			
Domestic	**2,203**	2,680	1,597
International	**822**	767	675
Total Experiences	**3,025**	3,447	2,272
Corporate	**897**	686	444
	$ 4,969	$ 4,943	$ 3,578

Capital expenditures at Entertainment primarily reflect investments in technology and in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities. The increase in fiscal 2023 compared to fiscal 2022 was driven by higher technology spending to support our streaming services.

Capital expenditures at Experiences are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The decrease in capital expenditures in fiscal 2023 compared to fiscal 2022 was due to lower spending on cruise ship fleet expansion. The increase in capital expenditures in fiscal 2022 compared to fiscal 2021 was due to cruise ship fleet expansion.

Capital expenditures at Corporate primarily reflect investments in facilities, information technology infrastructure and equipment. The increases in fiscal 2023 compared to fiscal 2022 and in fiscal 2022 compared to fiscal 2021 were both due to higher spending on facilities.

The Company currently expects its fiscal 2024 capital expenditures to total approximately $6 billion compared to fiscal 2023 capital expenditures of $5 billion. The increase in capital expenditures is primarily due to higher spending at Experiences, in part due to continued investment in our Disney Cruise Line business.

Financing Activities

Financing activities for fiscal 2023, 2022 and 2021 are as follows:

($ in millions)	**2023**	2022	2021
Change in borrowings	**$ (1,783)**	$ (4,017)	$ (3,699)
Activities related to noncontrolling and redeemable noncontrolling interests	**(707)**	(507)	(874)
Cash used in other financing activities, net[(1)]	**(234)**	(205)	188
Cash used in financing activities - continuing operations	**$ (2,724)**	$ (4,729)	$ (4,385)

(1) Primarily consists of equity award activity.

Borrowings activities and other

During the year ended September 30, 2023, the Company's borrowing activity was as follows:

($ in millions)	October 1, 2022	Borrowings	Payments	Other Activity	September 30, 2023
Commercial paper with original maturities less than three months[1]	$ 50	$ 238	$ —	$ 1	**$ 289**
Commercial paper with original maturities greater than three months	1,612	3,603	(4,032)	4	**1,187**
U.S. dollar denominated notes[2]	45,091	—	(1,450)	(137)	**43,504**
Asia Theme Parks borrowings[3]	1,425	83	(225)	25	**1,308**
Foreign currency denominated debt and other[4]	191	—	—	(48)	**143**
	$ 48,369	$ 3,924	$ (5,707)	$ (155)	**$ 46,431**

(1) Borrowings and reductions of borrowings are reported net.

(2) The other activity is primarily due to the amortization of purchase accounting adjustments and debt issuance fees.

(3) See Note 6 to the Consolidated Financial Statements for information regarding commitments to fund the Asia Theme Parks.

(4) The other activity is due to market value adjustments for debt with qualifying hedges.

See Note 8 to the Consolidated Financial Statements for information regarding the Company's bank facilities and debt maturities. The Company may use operating cash flows, commercial paper borrowings up to the amount of its unused $12.25 billion bank facilities and incremental term debt issuances to retire or refinance other borrowings before or as they come due.

In November 2023, NBCU exercised its put right to require the Company to purchase NBCU's interest in Hulu for the greater of approximately $9 billion or NBCU's share of fair value (see Note 2 of the Consolidated Financial Statements for additional information).

The Company did not declare or pay a dividend or repurchase any of its shares in fiscal 2023, 2022 and 2021.

The Company's operating cash flow and access to the capital markets can be impacted by factors outside of its control. We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity under current bank facilities, taken together, provide adequate resources to fund ongoing operating requirements, contractual obligations, upcoming debt maturities as well as future capital expenditures related to the expansion of existing businesses and development of new projects. In addition, the Company could undertake other measures to ensure sufficient liquidity, such as continuing to not declare dividends; raising financing; reducing capital spending; reducing film and episodic content investments; or implementing furloughs or reductions in force.

The Company's borrowing costs can also be impacted by short- and long-term debt ratings assigned by nationally recognized rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as leverage and interest coverage ratios. As of September 30, 2023, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1 (Stable), respectively, Standard and Poor's long- and short-term debt ratings for the Company were A- and A-2 (Positive), respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2 (Stable), respectively. The Company's bank facilities contain only one financial covenant, relating to interest coverage of three times earnings before interest, taxes, depreciation and amortization, including both intangible amortization and amortization of our film and television production and programming costs. On September 30, 2023, the Company met this covenant by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements.

Produced and Acquired/Licensed Content Costs

We amortize and test for impairment capitalized film and television production costs based on whether the content is predominantly monetized individually or as a group. See Note 2 to the Consolidated Financial Statements for further discussion.

Production costs that are classified as individual are amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues).

With respect to produced films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues is theatrical performance. Revenues derived from other markets subsequent to the theatrical release are generally highly correlated with theatrical performance. Theatrical performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film's release and determination of the theatrical performance, the Company's estimates of revenues from succeeding windows and markets, which may include imputed license fees for content that is used on our DTC streaming services, are revised based on historical relationships and an analysis of current market trends.

With respect to capitalized television production costs that are classified as individual, the most sensitive factor affecting estimates of Ultimate Revenues is program ratings of the content on our licensees' platforms. Program ratings, which are an indication of market acceptance, directly affect the program's ability to generate advertising and subscriber revenues and are correlated with the license fees we can charge for the content in subsequent windows and for subsequent seasons.

Ultimate Revenues are reassessed each reporting period and the impact of any changes on amortization of production cost is accounted for as if the change occurred at the beginning of the current fiscal year. If our estimate of Ultimate Revenues decreases, amortization of costs may be accelerated or result in an impairment. Conversely, if our estimate of Ultimate Revenues increases, cost amortization may be slowed.

Production costs classified as individual are tested for impairment at the individual title level by comparing that title's unamortized costs to the present value of discounted cash flows directly attributable to the title. To the extent the title's unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess.

Produced content costs that are part of a group and acquired/licensed content costs are amortized based on projected usage, typically resulting in an accelerated or straight-line amortization pattern. The determination of projected usage requires judgment and is reviewed on a regular basis for changes. Adjustments to projected usage are applied prospectively in the period of the change. Historical viewing patterns are the most significant input into determining the projected usage, and significant judgment is required in using historical viewing patterns to derive projected usage. If projected usage changes we may need to accelerate or slow the recognition of amortization expense.

Cost of content that is predominantly monetized as a group is tested for impairment by comparing the present value of the discounted cash flows of the group to the aggregate unamortized costs of the group. The group is established by identifying the lowest level for which cash flows are independent of the cash flows of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual titles based on the relative carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written down to its estimated fair value. Licensed content is included as part of the group within which it is monetized for purposes of impairment testing.

The amortization of multi-year sports rights is based on projections of revenues for each season relative to projections of total revenues over the contract period (estimated relative value). Projected revenues include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season. If estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. Refer to Note 2 to the Consolidated Financial Statements for our revenue recognition policies.

Pension and Postretirement Medical Plan Actuarial Assumptions

The Company's pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement, which we evaluate annually. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. A lower discount rate increases the present value of benefit obligations and increases pension and postretirement medical expense. The guideline for setting this rate is a high-quality long-term corporate bond rate. We increased our discount rate to 5.94% at the end of fiscal 2023 from 5.44% at the end of fiscal 2022 to reflect market interest rate conditions at our fiscal 2023 year-end measurement date. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total benefit expense for fiscal 2024 by approximately $200 million and would increase the projected benefit obligation at September 30, 2023 by approximately $2.0 billion. A one

percentage point increase in the assumed discount rate would decrease total benefit expense and the projected benefit obligation by approximately $45 million and $1.8 billion, respectively.

To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. Our expected return on plan assets is 7.00%. A lower expected rate of return on plan assets will increase pension and postretirement medical expense. A one percentage point change in the long-term asset return assumption would impact fiscal 2024 annual expense by approximately $170 million.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. The Company performs its annual test of goodwill and indefinite-lived intangible assets for impairment in its fiscal fourth quarter.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2023, the Company bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment, under both the previous segment reporting structure and the new segment reporting structure. There were no goodwill impairments under the previous reporting structure. The change in reporting structure requires judgment to identify new reporting units, allocate goodwill to these reporting units (based on relative fair values) and assign other recorded assets and liabilities to these reporting units.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. The discounted cash flow analyses are sensitive to our estimated projected future cash flows as well as the discount rates used to calculate their present value. Our future cash flows are based on internal forecasts for each reporting unit, which consider projected inflation and other economic indicators, as well as industry growth projections. Discount rates for each reporting unit are determined based on the inherent risks of each reporting unit's underlying operations. We believe our estimates are consistent with how a marketplace participant would value our reporting units.

Since our prior annual impairment assessment performed in the fourth quarter of fiscal 2022, the fair values of our media and entertainment businesses have generally declined as a result of higher discount rates and lower projections for certain revenue streams.

Based on our projections, the carrying amounts of our entertainment and international sports linear networks reporting units exceeded their fair values and we recorded non-cash goodwill impairment charges of approximately $0.7 billion. The entertainment linear networks reporting unit goodwill after impairment is approximately $8 billion and the international sports linear networks reporting unit goodwill is fully impaired.

In addition, the fair value of our entertainment DTC services reporting unit exceeded its carrying amount by less than 10%. Goodwill of the entertainment DTC services reporting unit is approximately $45 billion.

Significant judgments and assumptions in the discounted cash flow model relate to future revenues and certain operating expenses, terminal growth rates and discount rates. Changes to these significant assumptions, market trends, or macroeconomic events could produce test results in the future that differ, and we could be required to record additional impairment charges.

For our entertainment linear networks reporting unit, a 25 basis point increase in the discount rate or a 1% reduction in projected cash flows used to determine fair value would result in an incremental impairment charge of approximately $0.3 billion.

For our entertainment DTC services reporting unit, a 25 basis point increase in the discount rate used to determine fair value would result in an impairment of $0.5 billion, and a 1% reduction in projected cash flows would result in a decrease in the excess fair value over carrying amount by approximately $0.9 billion.

To test other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair

value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of the estimated undiscounted future cash flows expected to be generated over the useful life of the significant assets of an asset group to the carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the asset group and the carrying amount of the asset group. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of asset groups, estimates of future cash flows and the discount rate used to determine fair values.

The Company has investments in equity securities. For equity securities that do not have a readily determinable fair value, we consider forecasted financial performance of the investee companies, as well as volatility inherent in the external markets for these investments. If these forecasts are not met, impairment charges may be recorded.

The Company tested its indefinite-lived intangible assets, long-lived assets and investments for impairment and recorded non-cash impairment charges of $2.3 billion, $0.2 billion and $0.3 billion in fiscal 2023, 2022 and 2021, respectively. The fiscal 2023 charges primarily related to content impairments resulting from a strategic change in our approach to content curation. See Note 18 to the Consolidated Financial Statements for additional information. The fiscal 2022 charges primarily related to exiting our businesses in Russia. The fiscal 2021 charges primarily related to the closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of accounts receivable based on historical bad debt experience, our assessment of the financial condition of individual companies with which we do business, current market conditions, and reasonable and supportable forecasts of future economic conditions. In times of economic turmoil, including COVID-19, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, costs and expenses may decrease in future periods. See Note 2 to the Consolidated Financial Statements for additional discussion.

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these proceedings. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and have been developed in consultation with outside counsel as appropriate. From time to time, we are also involved in other contingent matters for which we accrue estimates for a probable and estimable loss. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to legal proceedings or our assumptions regarding other contingent matters. See Note 14 to the Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our future financial statements based on a number of factors, including the Company's decision to

settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities. See Note 9 to the Consolidated Financial Statements for additional discussion.

New Accounting Pronouncements

See Note 19 to the Consolidated Financial Statements for information regarding new accounting pronouncements.

DTC PRODUCT DESCRIPTIONS, KEY DEFINITIONS AND SUPPLEMENTAL INFORMATION

Product Offerings

In the U.S., Disney+, ESPN+ and Hulu SVOD Only are each offered as a standalone service or together as part of various multi-product offerings. Hulu Live TV + SVOD includes Disney+ and ESPN+. Disney+ is available in more than 150 countries and territories outside the U.S. and Canada. In India and certain other Southeast Asian countries, the service is branded Disney+ Hotstar. In certain Latin American countries, we offer Disney+ as well as Star+, a general entertainment SVOD service, which is available on a standalone basis or together with Disney+ (Combo+). Depending on the market, our services can be purchased on our websites or through third-party platforms/apps or are available via wholesale arrangements.

Paid Subscribers

Paid subscribers reflect subscribers for which we recognized subscription revenue. Subscribers cease to be a paid subscriber as of their effective cancellation date or as a result of a failed payment method. Subscribers to multi-product offerings in the U.S. are counted as a paid subscriber for each service included in the multi-product offering and subscribers to Hulu Live TV + SVOD are counted as one paid subscriber for each of the Hulu Live TV + SVOD, Disney+ and ESPN+ services. In Latin America, if a subscriber has either the standalone Disney+ or Star+ service or subscribes to Combo+, the subscriber is counted as one Disney+ paid subscriber. Subscribers include those who receive a service through wholesale arrangements including those for which the service is distributed to each subscriber of an existing content distribution tier. When we aggregate the total number of paid subscribers across our DTC streaming services, we refer to them as paid subscriptions.

International Disney+ (excluding Disney+ Hotstar)

International Disney+ (excluding Disney+ Hotstar) includes the Disney+ service outside the U.S. and Canada and the Star+ service in Latin America.

Average Monthly Revenue Per Paid Subscriber

Hulu and ESPN+ average monthly revenue per paid subscriber is calculated based on the average of the monthly average paid subscribers for each month in the period. The monthly average paid subscribers is calculated as the sum of the beginning of the month and end of the month paid subscriber count, divided by two. Disney+ average monthly revenue per paid subscriber is calculated using a daily average of paid subscribers for the period. Revenue includes subscription fees, advertising (excluding revenue earned from selling advertising spots to other Company businesses) and premium and feature add-on revenue but excludes Premier Access and Pay-Per-View revenue. The average revenue per paid subscriber is net of discounts on offerings that carry more than one service. Revenue is allocated to each service based on the relative retail or wholesale price of each service on a standalone basis. Hulu Live TV + SVOD revenue is allocated to the SVOD services based on the wholesale price of the Hulu SVOD Only, Disney+ and ESPN+ multi-product offering. In general, wholesale arrangements have a lower average monthly revenue per paid subscriber than subscribers that we acquire directly or through third-party platforms.

Supplemental information about paid subscribers[(1)]:

(in millions)	**September 30, 2023**	October 1, 2022	October 2, 2021
Domestic (U.S. and Canada) standalone	**55.5**	60.4	65.4
Domestic (U.S. and Canada) multi-product[(1)]	**22.6**	19.4	11.4
	78.1	79.7	76.9
International standalone (excluding Disney+ Hotstar)[(2)]	**55.3**	49.2	34.8
International multi-product[(3)]	**10.8**	7.2	1.2
	66.1	56.5	36.0
Total[(4)]	**144.2**	136.2	112.9

(1) At September 30, 2023, there were 20.3 million and 2.3 million subscribers to three-service and two-service multi-product offerings, respectively. At October 1, 2022, there were 18.7 million and 0.7 million subscribers to three-

service and two-service multi-product offerings, respectively. At October 2, 2021, there were 11.4 million subscribers to three-service offerings and no subscribers to two-service offerings.

(2) Disney+ Hotstar is not included in any of the Company's multi-product offerings.

(3) Consists of subscribers to Combo+.

(4) Total may not equal the sum of the column due to rounding.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

On March 20, 2019, as part of the acquisition of TFCF, The Walt Disney Company ("TWDC") became the ultimate parent of TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company) ("Legacy Disney"). Legacy Disney and TWDC are collectively referred to as "Obligor Group", and individually, as a "Guarantor". Concurrent with the close of the TFCF acquisition, $16.8 billion of TFCF's assumed public debt (which then constituted 96% of such debt) was exchanged for senior notes of TWDC (the "exchange notes") issued pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to an Indenture, dated as of March 20, 2019, between TWDC, Legacy Disney, as guarantor, and Citibank, N.A., as trustee (the "TWDC Indenture") and guaranteed by Legacy Disney. On November 26, 2019, $14.0 billion of the outstanding exchange notes were exchanged for new senior notes of TWDC registered under the Securities Act, issued pursuant to the TWDC Indenture and guaranteed by Legacy Disney. In addition, contemporaneously with the closing of the March 20, 2019 exchange offer, TWDC entered into a guarantee of the registered debt securities issued by Legacy Disney under the Indenture dated as of September 24, 2001 between Legacy Disney and Wells Fargo Bank, National Association, as trustee (the "2001 Trustee") (as amended by the first supplemental indenture among Legacy Disney, as issuer, TWDC, as guarantor, and the 2001 Trustee, as trustee).

Other subsidiaries of the Company do not guarantee the registered debt securities of either TWDC or Legacy Disney (such subsidiaries are referred to as the "non-Guarantors"). The par value and carrying value of total outstanding and guaranteed registered debt securities of the Obligor Group at September 30, 2023 was as follows:

	TWDC		Legacy Disney	
($ in millions)	Par Value	Carrying Value	Par Value	Carrying Value
Registered debt with unconditional guarantee	$ 35,163	$ 35,393	$ 8,121	$ 7,880

The guarantees by TWDC and Legacy Disney are full and unconditional and cover all payment obligations arising under the guaranteed registered debt securities. The guarantees may be released and discharged upon (i) as a general matter, the indebtedness for borrowed money of the consolidated subsidiaries of TWDC in aggregate constituting no more than 10% of all consolidated indebtedness for borrowed money of TWDC and its subsidiaries (subject to certain exclusions), (ii) upon the sale, transfer or disposition of all or substantially all of the equity interests or all or substantially all, or substantially as an entirety, the assets of Legacy Disney to a third party, and (iii) other customary events constituting a discharge of a guarantor's obligations. In addition, in the case of Legacy Disney's guarantee of registered debt securities issued by TWDC, Legacy Disney may be released and discharged from its guarantee at any time Legacy Disney is not a borrower, issuer or guarantor under certain material bank facilities or any debt securities.

Operations are conducted almost entirely through the Company's subsidiaries. Accordingly, the Obligor Group's cash flow and ability to service its debt, including the public debt, are dependent upon the earnings of the Company's subsidiaries and the distribution of those earnings to the Obligor Group, whether by dividends, loans or otherwise. Holders of the guaranteed registered debt securities have a direct claim only against the Obligor Group.

Set forth below are summarized financial information for the Obligor Group on a combined basis after elimination of (i) intercompany transactions and balances between TWDC and Legacy Disney and (ii) equity in the earnings from and investments in any subsidiary that is a non-Guarantor. This summarized financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X Rule 13-01, "Financial Disclosures about Guarantors and Issuers of Guaranteed Securities" and is not intended to present the financial position or results of operations of the Obligor Group in accordance with U.S. GAAP.

Results of operations ($ in millions)	2023
Revenues	$ —
Costs and expenses	—
Net income (loss) from continuing operations	(2,160)
Net income (loss)	(2,160)
Net income (loss) attributable to TWDC shareholders	(2,160)

Balance Sheet ($ in millions)	September 30, 2023	October 1, 2022
Current assets	$ 8,544	$ 5,665
Noncurrent assets	2,927	1,948
Current liabilities	5,746	3,741
Noncurrent liabilities (excluding intercompany to non-Guarantors)	43,307	46,218
Intercompany payables to non-Guarantors	154,018	148,958

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations, commodity fluctuations and changes in the market values of its investments.

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and commodities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts are intended to offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in certain countries have reduced and in the future could further reduce our ability to hedge exposure to currency fluctuations in, or repatriate cash from, those countries.

Our objectives in managing exposure to commodity fluctuations are to use commodity derivatives to reduce volatility of earnings and cash flows arising from commodity price changes. The amounts hedged using commodity swap contracts are based on forecasted levels of consumption of certain commodities, such as fuel, oil and gasoline.

Our objectives in managing exposures to market-based fluctuations in certain retirement liabilities are to use total return swap contracts to reduce the volatility of earnings arising from changes in these retirement liabilities. The amounts hedged using total return swap contracts are based on estimated liability balances.

It is the Company's policy to enter into foreign currency and interest rate derivative transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

See Note 17 of the Consolidated Financial Statements for additional information.

Value at Risk (VAR)

The Company utilizes a VAR model to estimate the maximum potential one-day loss in the fair value of its interest rate, foreign exchange, commodities and market sensitive equity financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company's computations are based on the interrelationships between movements in various interest rates, currencies, commodities and equity prices (a variance/co-variance technique). These interrelationships were determined by observing interest rate, foreign currency, commodity and equity market changes over the preceding quarter for the calculation of VAR amounts at each fiscal quarter end. The model includes all of the Company's debt as well as all interest rate and foreign exchange derivative contracts, commodities and market sensitive equity investments. Forecasted transactions, firm commitments and accounts receivable and payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors.

VAR on a combined basis decreased to $284 million at September 30, 2023 from $395 million at October 1, 2022 due to reduced interest rate volatility and lower sensitivity of our debt portfolio to movement of interest rates.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, is as follows (unaudited, in millions):

Fiscal 2023	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Commodity Sensitive Financial Instruments	Combined Portfolio
Year end fiscal 2023 VAR	$ 258	$ 45	$ 4	$ 4	$ 284
Average VAR	336	58	13	4	360
Highest VAR	403	76	23	5	425
Lowest VAR	258	45	4	4	284
Year end fiscal 2022 VAR	376	71	20	4	395

The VAR for Hong Kong Disneyland Resort and Shanghai Disney Resort is immaterial as of September 30, 2023 and has been excluded from the above table.

ITEM 8. Financial Statements and Supplementary Data

See Index to Financial Statements and Supplemental Data on page 77.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of September 30, 2023, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting

Management's report set forth on page 78 is incorporated herein by reference.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None of our directors or officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarterly period covered by this report.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding Section 16(a) compliance, the Audit Committee, the Company's code of ethics, background of the directors and director nominations appearing under the captions "Delinquent Section 16(a) Reports," "The Board of Directors," "Committees" and "Corporate Governance Documents" in the Company's Proxy Statement for the 2024 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions "Director Compensation," and "Executive Compensation" (other than the "Compensation Committee Report," which is deemed furnished herein by reference, and the "Letter from the Compensation Committee") in the 2024 Proxy Statement is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" and information appearing under the caption "Equity Compensation Plans" in the 2024 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain related transactions appearing under the captions "Certain Relationships and Related Person Transactions" and information regarding director independence appearing under the caption "Director Independence" in the 2024 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accounting Fees and Services

Information appearing under the captions "Auditor Fees and Services" and "Policy for Approval of Audit and Permitted Non-Audit Services" in the 2024 Proxy Statement is hereby incorporated by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(1) Financial Statements and Schedules

See Index to Financial Statements and Supplemental Data on page 77.

(2) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

	Exhibit	Location
3.1	Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 19, 2019	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.3	Amended and Restated Bylaws of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.3 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.4	Amended and Restated Certificate of Incorporation of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.5	Amended and Restated Bylaws of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.6	Certificate of Elimination of Series B Convertible Preferred Stock of The Walt Disney Company, as filed with the Secretary of State of the State of Delaware on November 28, 2018	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed November 30, 2018
4.1	Senior Debt Securities Indenture, dated as of September 24, 2001, between TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed September 24, 2001
4.2	First Supplemental Indenture, dated as of March 20, 2019, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
4.3	Indenture, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, and TWDC Enterprises 18 Corp., as guarantor, and Citibank, N.A., as trustee	Exhibit 4.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
4.4	Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request	
4.5	Description of Registrant's Securities	Exhibit 4.6 to the Form 10-K of the Company for the fiscal year ended September 28, 2019
10.1	Employment Agreement dated as of February 24, 2020 between the Company and Robert Chapek †	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.2	Amendment dated July 15, 2022 to the Employment Agreement dated February 24, 2020, between the Company and Robert Chapek †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.3	Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Form 10-K of Legacy Disney for the fiscal year ended October 1, 2011
10.4	Amendment dated July 1, 2013 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed July 1, 2013
10.5	Amendment dated October 2, 2014 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 3, 2014
10.6	Amendment dated March 22, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 23, 2017

	Exhibit	Location
10.7	Amendment dated December 13, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 14, 2017
10.8	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated November 30, 2018 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.9	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated March 4, 2019 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 4, 2019
10.10	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011 and as previously amended, between the Company and Robert A. Iger, dated February 24, 2020 †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.11	Employment Agreement Dated as of November 20, 2022, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed November 21, 2022
10.12	Amendment dated July 12, 2023 to Employment Agreement dated as of November 20, 2022, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed July 12. 2023
10.13	Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed June 30, 2015
10.14	Amendment dated August 15, 2017 to the Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.4 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.15	Amendment dated December 2, 2020 to Amended Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 7, 2020
10.16	Amendment dated December 21, 2021 to Amended Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 21, 2021
10.17	Assignment of Employment Agreement dated January 19, 2022 between the Company and Christine M. McCarthy †	Exhibit 10.3 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.18	Amendment dated June 15, 2023 to Amended Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy, as previously assigned †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed June 15, 2023
10.19	Employment Agreement, dated as of December 21, 2021 between the Company and Horacio E. Gutierrez †	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.20	Assignment of Employment Agreement dated January 31, 2022 between the Company and Horacio E. Gutierrez †	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.21	Amendment dated July 21, 2022 to the Employment Agreement dated December 21, 2021, between Disney Corporate Services Co., LLC and Horacio E. Gutierrez and to the Indemnification Agreement dated December 21, 2021, between the Company and Horacio E. Gutierrez †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.22	Amendment dated April 21, 2023 to the Employment Agreement dated December 21, 2021, between Disney Corporate Services Co., LLC and Horacio E. Gutierrez and to the Indemnification Agreement dated December 21, 2021, between the Company and Horacio E. Gutierrez †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended April 1, 2023
10.23	Employment Agreement, dated June 29, 2022, between the Company and Kristina K. Schake †	Exhibit 10.3 to the Form 10-Q of the Company for the quarter ended July 2, 2022

	Exhibit	Location
10.24	Amendment dated April 18, 2023 to Employment Agreement, dated June 29, 2022 between the Company and Kristina K. Schake †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed April 20, 2023
10.25	Employment Agreement dated as of March 10, 2023, by and between the Company and Sonia L. Coleman †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended April 1, 2023
10.26	Voluntary Non-Qualified Deferred Compensation Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 23, 2014
10.27	Description of Directors Compensation	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.28	Form of Indemnification Agreement for certain officers and directors †	Exhibit 10.26 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.29	Form of Assignment and Assumption of Indemnification Agreement for certain officers and directors †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended June 29, 2019
10.30	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEI, dated Feb. 23, 1995
10.31	Amended and Restated 2002 Executive Performance Plan †	Annex A to the Proxy Statement for the 2013 Annual Meeting of Legacy Disney
10.32	Management Incentive Bonus Program †	The portions of the tables labeled "Performance-based Bonus" in the sections of the Proxy Statement for the 2022 annual meeting titled "Executive Compensation Program Structure - Objectives and Methods - Objectives and Key Features" and "Compensation Process" and the section of the Proxy Statement titled "Performance Goals"
10.33	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of Legacy Disney
10.34	Amended and Restated The Walt Disney Company/ Pixar 2004 Equity Incentive Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 1, 2006
10.35	Amended and Restated 2011 Stock Incentive Plan †	Annex B to Proxy Statement of registrant filed January 17, 2020
10.36	Disney Key Employees Retirement Savings Plan †	Exhibit 10.1 to the Form 10-Q of Legacy Disney for the quarter ended July 2, 2011
10.37	Amendments dated April 30, 2015 to the Amended and Restated The Walt Disney Productions and Associated Companies Key Employees Deferred Compensation and Retirement Plan, Amended and Restated Benefit Equalization Plan of ABC, Inc. and Disney Key Employees Retirement Savings Plan †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.38	Second Amendment to the Disney Key Employees Retirement Savings Plan †	Exhibit 10.33 to the Form 10-K of the Company for the fiscal year ended October 2, 2021
10.39	Third Amendment to the Disney Key Employees Retirement Savings Plan †	Exhibit 10.9 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.40	Group Personal Excess Liability Insurance Plan †	Exhibit 10.8 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.41	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.42	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.43	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) †	Exhibit 10.7 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.44	Form of Performance-Based Stock Unit Award Agreement (Section 162(m) Vesting Requirement) †	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.45	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended January 2, 2021

	Exhibit	Location
10.46	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.44 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.47	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests/Section 162(m) Vesting Requirements) †	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.48	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) †	Exhibit 10.8 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.49	Form of Performance-Based Stock Unit Award Agreement (Section 162(m) Vesting Requirement) †	Exhibit 10.9 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.50	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.12 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.51	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended December 31, 2022
10.52	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) †	Exhibit 10.3 to the Form 10-Q of the Company for the quarter ended December 31, 2022
10.53	Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC tests) for Robert A. Iger dated as of December 14, 2021 †	Exhibit 10.11 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.54	Non-Qualified Stock Option Award Agreement for Robert A. Iger dated as of December 14, 2021 †	Exhibit 10.12 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.55	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended December 28, 2019
10.56	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.57 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.57	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year/Two-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended December 31, 2022
10.58	Form of Stock Option Awards Agreement †	Exhibit 10.58 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.59	Form of Stock Option Awards Agreement †	Exhibit 10.59 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.60	Form of Stock Option Awards Agreement †	Exhibit 10.60 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.61	Form of Stock Option Awards Agreement †	Exhibit 10.61 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.62	Form of Stock Option Awards Agreement †	Exhibit 10.62 to the Form 10-K of the Company for the fiscal year ended October 1, 2022
10.63	Twenty-First Century Fox, Inc. 2013 Long-Term Incentive Plan †	Exhibit 10.1 to the Form 8-K of TFCF filed October 18, 2013
10.64	Five-Year Credit Agreement dated as of March 6, 2020	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 11, 2020
10.65	First Amendment dated as of March 4, 2022 to the Five-Year Credit Agreement dated as of March 6, 2020	Exhibit 10.3 to the Current Report on Form 8-K of the Company filed March 9, 2022
10.66	Five-Year Credit Agreement dated as of March 4, 2022	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 9, 2022
10.67	364-Day Credit Agreement dated as of March 3, 2023	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 7, 2023
10.68	Support Agreement, dated as of September 30, 2022, by and among Third Point LLC and certain of its affiliates and The Walt Disney Company	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed September 30, 2022

	Exhibit	Location
21	Subsidiaries of the Company	Filed herewith
22	List of Guarantor Subsidiaries	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Interim Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
32(b)	Section 1350 Certification of Interim Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
97	The Walt Disney Company Clawback Policy	Filed herewith
101	The following materials from the Company's Annual Report on Form 10-K for the year ended September 30, 2023 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity and (vi) related notes	Filed herewith
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	Filed herewith

* Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

** A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

† Management contract or compensatory plan or arrangement.

ITEM 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WALT DISNEY COMPANY
(Registrant)

Date: November 21, 2023

By: /s/ ROBERT A. IGER
(Robert A. Iger
Chief Executive Officer and Director)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer		
/s/ ROBERT A. IGER (Robert A. Iger)	Chief Executive Officer and Director	November 21, 2023
Principal Financial and Accounting Officers		
/s/ KEVIN A. LANSBERRY (Kevin A. Lansberry)	Interim Chief Financial Officer (Principal Financial Officer)	November 21, 2023
/s/ BRENT A. WOODFORD (Brent A. Woodford)	Executive Vice President-Controllership, Financial Planning and Tax	November 21, 2023
Directors		
/s/ MARY T. BARRA (Mary T. Barra)	Director	November 21, 2023
/s/ SAFRA A. CATZ (Safra A. Catz)	Director	November 21, 2023
/s/ AMY L. CHANG (Amy L. Chang)	Director	November 21, 2023
/s/ FRANCIS A. DESOUZA (Francis A. deSouza)	Director	November 21, 2023
/s/ CAROLYN N. EVERSON (Carolyn N. Everson)	Director	November 21, 2023
/s/ MICHAEL B.G. FROMAN (Michael B.G. Froman)	Director	November 21, 2023
/s/ MARIA ELENA LAGOMASINO (Maria Elena Lagomasino)	Director	November 21, 2023
/s/ CALVIN R. MCDONALD (Calvin R. McDonald)	Director	November 21, 2023
/s/ MARK G. PARKER (Mark G. Parker)	Chairman of the Board and Director	November 21, 2023
/s/ DERICA W. RICE (Derica W. Rice)	Director	November 21, 2023

THE WALT DISNEY COMPANY AND SUBSIDIARIES
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All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework,* management concluded that our internal control over financial reporting was effective as of September 30, 2023.

The effectiveness of our internal control over financial reporting as of September 30, 2023 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The Walt Disney Company

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Walt Disney Company and its subsidiaries (the "Company") as of September 30, 2023 and October 1, 2022, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended September 30, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of September 30, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and October 1, 2022, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging,

subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Annual Goodwill Impairment Assessment – Entertainment Linear Networks and Direct-to-Consumer (DTC) Services Reporting Units

As described in Notes 2 and 18 to the consolidated financial statements, the Company's consolidated goodwill balance was $77.1 billion as of September 30, 2023, of which a significant portion relates to the entertainment linear networks and DTC services reporting units. Management performs the annual test of goodwill for impairment in the fiscal fourth quarter, and if current events or circumstances require, on an interim basis. Management bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment. The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit. To determine the fair value of the Company's reporting units, management generally uses a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. Significant judgments and assumptions in the discounted cash flow model relate to future revenues and certain operating expenses, terminal growth rates, and discount rates. Based on management's projections, the carrying amounts of the entertainment and international sports linear networks reporting units exceeded their fair values, and management recorded non-cash goodwill impairment charges of approximately $0.7 billion, of which a significant portion relates to the entertainment linear networks reporting unit.

The principal considerations for our determination that performing procedures relating to the annual goodwill impairment assessment of the entertainment linear networks and DTC services reporting units is a critical audit matter are (i) the significant judgment by management when developing the fair value estimate of the entertainment linear networks and DTC services reporting units; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to future revenues and certain operating expenses, terminal growth rates, and discount rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Company's entertainment linear networks and DTC services reporting units. These procedures also included, among others, for the entertainment linear networks and DTC services reporting units (i) testing management's process for developing the fair value estimates; (ii) testing the completeness and accuracy of underlying data used in the discounted cash flow models; and (iii) evaluating the reasonableness of the significant assumptions used by management related to future revenues and certain operating expenses, terminal growth rates, and discount rates. Evaluating management's assumptions related to future revenues and certain operating expenses, and terminal growth rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the entertainment linear networks and DTC services reporting units; (ii) the consistency with external market and industry data; and (iii) whether the assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in evaluating the reasonableness of the discount rate assumptions.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
November 21, 2023

We have served as the Company's auditor since 1938.

CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)

	2023	2022	2021
Revenues:			
Services	**$ 79,562**	$ 74,200	$ 61,768
Products	**9,336**	8,522	5,650
Total revenues	**88,898**	82,722	67,418
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	**(53,139)**	(48,962)	(41,129)
Cost of products (exclusive of depreciation and amortization)	**(6,062)**	(5,439)	(4,002)
Selling, general, administrative and other	**(15,336)**	(16,388)	(13,517)
Depreciation and amortization	**(5,369)**	(5,163)	(5,111)
Total costs and expenses	**(79,906)**	(75,952)	(63,759)
Restructuring and impairment charges	**(3,892)**	(237)	(654)
Other income (expense), net	**96**	(667)	201
Interest expense, net	**(1,209)**	(1,397)	(1,406)
Equity in the income of investees	**782**	816	761
Income from continuing operations before income taxes	**4,769**	5,285	2,561
Income taxes on continuing operations	**(1,379)**	(1,732)	(25)
Net income from continuing operations	**3,390**	3,553	2,536
Loss from discontinued operations, net of income tax benefit of $0, $14 and $9, respectively	**—**	(48)	(29)
Net income	**3,390**	3,505	2,507
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	**(1,036)**	(360)	(512)
Net income attributable to The Walt Disney Company (Disney)	**$ 2,354**	$ 3,145	$ 1,995
Earnings (loss) per share attributable to Disney[(1)]:			
Diluted			
Continuing operations	**$ 1.29**	$ 1.75	$ 1.11
Discontinued operations	**—**	(0.03)	(0.02)
	$ 1.29	$ 1.72	$ 1.09
Basic			
Continuing operations	**$ 1.29**	$ 1.75	$ 1.11
Discontinued operations	**—**	(0.03)	(0.02)
	$ 1.29	$ 1.73	$ 1.10
Weighted average number of common and common equivalent shares outstanding:			
Diluted	**1,830**	1,827	1,828
Basic	**1,828**	1,822	1,816

(1) Total may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	2023	2022	2021
Net income	**$ 3,390**	$ 3,505	$ 2,507
Other comprehensive income (loss), net of tax:			
Market value adjustments, primarily for hedges	**(430)**	735	41
Pension and postretirement medical plan adjustments	**1,214**	2,503	1,850
Foreign currency translation and other	**10**	(1,060)	77
Other comprehensive income	**794**	2,178	1,968
Comprehensive income	**4,184**	5,683	4,475
Net income from continuing operations attributable to noncontrolling interests	**(1,036)**	(360)	(512)
Other comprehensive income (loss) attributable to noncontrolling interests	**33**	143	(86)
Comprehensive income attributable to Disney	**$ 3,181**	$ 5,466	$ 3,877

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	September 30, 2023	October 1, 2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 14,182**	$ 11,615
Receivables, net	**12,330**	12,652
Inventories	**1,963**	1,742
Content advances	**3,002**	1,890
Other current assets	**1,286**	1,199
Total current assets	**32,763**	29,098
Produced and licensed content costs	**33,591**	35,777
Investments	**3,080**	3,218
Parks, resorts and other property		
Attractions, buildings and equipment	**70,090**	66,998
Accumulated depreciation	**(42,610)**	(39,356)
	27,480	27,642
Projects in progress	**6,285**	4,814
Land	**1,176**	1,140
	34,941	33,596
Intangible assets, net	**13,061**	14,837
Goodwill	**77,067**	77,897
Other assets	**11,076**	9,208
Total assets	**$ 205,579**	$ 203,631
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 20,671**	$ 20,213
Current portion of borrowings	**4,330**	3,070
Deferred revenue and other	**6,138**	5,790
Total current liabilities	**31,139**	29,073
Borrowings	**42,101**	45,299
Deferred income taxes	**7,258**	8,363
Other long-term liabilities	**12,069**	12,518
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests	**9,055**	9,499
Equity		
Preferred stock	**—**	—
Common stock, $0.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares	**57,383**	56,398
Retained earnings	**46,093**	43,636
Accumulated other comprehensive loss	**(3,292)**	(4,119)
Treasury stock, at cost, 19 million shares	**(907)**	(907)
Total Disney Shareholders' equity	**99,277**	95,008
Noncontrolling interests	**4,680**	3,871
Total equity	**103,957**	98,879
Total liabilities and equity	**$ 205,579**	$ 203,631

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2023	2022	2021
OPERATING ACTIVITIES			
Net income from continuing operations	**$ 3,390**	$ 3,553	$ 2,536
Depreciation and amortization	**5,369**	5,163	5,111
Impairments of produced and licensed content costs and goodwill	**2,987**	—	—
Net (gain)/loss on investments	**(166)**	714	(332)
Deferred income taxes	**(1,346)**	200	(1,241)
Equity in the income of investees	**(782)**	(816)	(761)
Cash distributions received from equity investees	**720**	779	754
Net change in produced and licensed content costs and advances	**(1,908)**	(6,271)	(4,301)
Equity-based compensation	**1,143**	977	600
Pension and postretirement medical cost amortization	**4**	620	816
Other, net	**278**	595	190
Changes in operating assets and liabilities			
Receivables	**358**	605	(357)
Inventories	**(183)**	(420)	252
Other assets	**(201)**	(707)	171
Accounts payable and other liabilities	**(1,142)**	964	2,410
Income taxes	**1,345**	46	(282)
Cash provided by operations - continuing operations	**9,866**	6,002	5,566
INVESTING ACTIVITIES			
Investments in parks, resorts and other property	**(4,969)**	(4,943)	(3,578)
Proceeds from sales of investments	**458**	52	337
Other, net	**(130)**	(117)	70
Cash used in investing activities - continuing operations	**(4,641)**	(5,008)	(3,171)
FINANCING ACTIVITIES			
Commercial paper payments, net	**(191)**	(334)	(26)
Borrowings	**83**	333	64
Reduction of borrowings	**(1,675)**	(4,016)	(3,737)
Proceeds from exercise of stock options	**52**	127	435
Contributions from / sales of noncontrolling interests	**735**	74	91
Acquisition of redeemable noncontrolling interests	**(900)**	—	(350)
Other, net	**(828)**	(913)	(862)
Cash used in financing activities - continuing operations	**(2,724)**	(4,729)	(4,385)
CASH FLOWS FROM DISCONTINUED OPERATIONS			
Cash provided by operations - discontinued operations	**—**	8	1
Cash provided by investing activities - discontinued operations	**—**	—	8
Cash used in financing activities - discontinued operations	**—**	(12)	—
Cash (used in) provided by discontinued operations	**—**	(4)	9
Impact of exchange rates on cash, cash equivalents and restricted cash	**73**	(603)	30
Change in cash, cash equivalents and restricted cash	**2,574**	(4,342)	(1,951)
Cash, cash equivalents and restricted cash, beginning of year	**11,661**	16,003	17,954
Cash, cash equivalents and restricted cash, end of year	**$ 14,235**	$ 11,661	$ 16,003
Supplemental disclosure of cash flow information:			
Interest paid	**$ 2,110**	$ 1,685	$ 1,892
Income taxes paid	**$ 1,193**	$ 1,097	$ 1,638

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Equity Attributable to Disney							
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests[1]	Total Equity
Balance at October 3, 2020	1,810	$ 54,497	$ 38,315	$ (8,322)	$ (907)	$ 83,583	$ 4,680	$ 88,263
Comprehensive income	—	—	1,995	1,882	—	3,877	284	4,161
Equity compensation activity	8	904	—	—	—	904	—	904
Contributions	—	—	—	—	—	—	89	89
Cumulative effect of accounting change	—	—	109	—	—	109	—	109
Distributions and other	—	70	10	—	—	80	(595)	(515)
Balance at October 2, 2021	1,818	$ 55,471	$ 40,429	$ (6,440)	$ (907)	$ 88,553	$ 4,458	$ 93,011
Comprehensive income (loss)	—	—	3,145	2,321	—	5,466	(68)	5,398
Equity compensation activity	6	925	—	—	—	925	—	925
Contributions	—	—	—	—	—	—	74	74
Distributions and other	—	2	62	—	—	64	(593)	(529)
Balance at October 1, 2022	1,824	$ 56,398	$ 43,636	$ (4,119)	$ (907)	$ 95,008	$ 3,871	$ 98,879
Comprehensive income	—	—	2,354	827	—	3,181	549	3,730
Equity compensation activity	6	1,056	—	—	—	1,056	—	1,056
Contributions	—	—	—	—	—	—	806	806
Distributions and other	—	(71)	103	—	—	32	(546)	(514)
Balance at September 30, 2023	**1,830**	**$ 57,383**	**$ 46,093**	**$ (3,292)**	**$ (907)**	**$ 99,277**	**$ 4,680**	**$ 103,957**

[1] Excludes redeemable noncontrolling interest.

See Notes to Consolidated Financial Statements

1 *Description of the Business and Segment Information*

The Walt Disney Company, together with the subsidiaries through which businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in three segments: Entertainment, Sports and Experiences.

The terms "Company", "we", "our" and "us" are used in this report to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

Segment Restructuring

In fiscal 2023, the Company reorganized into three business segments: Entertainment, Sports and Experiences (renamed from Disney Parks, Experiences and Products). Fiscal 2022 and 2021 segment financial information has been recast for the following:

- The prior Disney Media and Entertainment Distribution (DMED) segment has been reorganized into the Entertainment and Sports segments
- A portion of Consumer Products (a business within the Experiences segment) revenues is recognized at the Entertainment segment, which is meant to reflect royalties on merchandise licensing revenues generated on IP created by the Entertainment segment

DESCRIPTION OF THE BUSINESS

Entertainment

The Entertainment segment generally encompasses the Company's non-sports focused global film, television and direct-to-consumer (DTC) video streaming content production and distribution activities.

The significant lines of business within Entertainment are as follows:

- Linear Networks
  - Domestic: ABC Television Network; Disney, Freeform, FX and National Geographic (owned 73% by the Company) branded television channels; and eight owned ABC television stations
  - International: Disney, Fox (which will be rebranded in fiscal 2024 primarily to FX or Star), FX, National Geographic (owned 73% by the Company) and Star branded general entertainment television networks outside of the U.S.
  - A 50% equity investment in A+E Television Networks (A+E), which operates cable channels including A&E, HISTORY and Lifetime
- Direct-to-Consumer
  - Disney+: a global DTC service that primarily offers general entertainment and family programming. In certain Latin American countries, we offer Disney+ as well as Star+, a general entertainment service that also has sports programming
  - Disney+ Hotstar: a DTC service primarily in India that offers general entertainment, family and sports programming
  - Hulu (owned 67% by the Company): a U.S. DTC service that offers general entertainment and family programming and a digital over-the-top service that includes live linear streams of cable networks and the major broadcast networks
- Content Sales/Licensing
  - Sale/licensing of film and episodic content to third-party television and video-on-demand (TV/VOD) services
  - Theatrical distribution
  - Home entertainment distribution: DVD and Blu-ray discs, electronic home video licenses and video-on-demand (VOD) rentals
  - Staging and licensing of live entertainment events on Broadway and around the world (Stage Plays)
  - Intersegment allocation of revenues from the Experiences segment, which is meant to reflect royalties on consumer products merchandise licensing revenues generated on intellectual property ("IP") created by the Entertainment segment
  - Music distribution
  - Post-production services by Industrial Light & Magic and Skywalker Sound

Entertainment also includes the following activities that are reported with Content Sales/Licensing:

- National Geographic magazine and online business (owned 73% by the Company)
- A 30% ownership interest in Tata Play Limited, which operates a direct-to-home satellite distribution platform in India

The significant revenues of Entertainment are as follows:

- Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. YouTube TV) service providers) (MVPDs) for the right to deliver our programming to their customers. Linear Networks also generates revenues from fees charged to television stations affiliated with ABC Network.
- Subscription fees - Fees charged to customers/subscribers for our DTC streaming services
- Advertising - Sales of advertising time/space
- TV/VOD distribution - Licensing fees for the right to use our film and episodic content
- Theatrical distribution - Rentals from licensing our films to theaters
- Home entertainment distribution - Sales and rentals of our film and episodic content to retailers and through distributors
- Other revenue - Revenues from licensing our music, ticket sales from stage play performances, fees from licensing our IP for use in stage plays, sales of post-production services and the allocation of consumer products merchandise licensing revenues

The significant expenses of Entertainment are as follows:

- Operating expenses, consisting primarily of programming and production costs, technology support costs, operating labor, distribution costs and costs of sales. Programming and production costs include the following:
  - Amortization of capitalized production costs
  - Amortization of the costs of licensed programming rights
  - Subscriber-based fees for programming our Hulu Live service, including fees paid by Hulu to the Sports segment and other Entertainment segment businesses for the right to air their linear networks on Hulu Live
  - Production costs related to live programming (primarily news)
  - Amortization of participations and residual obligations
  - Fees paid to the Sports segment to program ESPN on ABC and certain sports content on Star+
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Sports

The Sports segment generally encompasses the Company's sports-focused global television and DTC video streaming content production and distribution activities.

The significant lines of business within Sports are as follows:

- ESPN (generally owned 80% by the Company)
  - Domestic:
    - Eight ESPN branded television channels
    - ESPN on ABC (sports programmed on the ABC Network by ESPN)
    - ESPN+ DTC video streaming service
  - International: ESPN-branded channels outside of the U.S.
- Star: Star-branded sports channels in India

The significant revenues of Sports are as follows:

- Affiliate fees
- Advertising
- Subscription fees
- Other revenue - Fees from the following activities: pay-per-view events on ESPN+, sub-licensing of sports rights, programming ESPN on ABC and licensing the ESPN brand

The significant expenses of Sports are as follows:

- Operating expenses, consisting primarily of programming and production costs, technology support costs, operating labor and distribution costs. Programming and production costs include amortization of licensed sports rights and production costs related to live sports and other sports-related programming.
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Experiences

The significant lines of business within Experiences are as follows:

- Parks & Experiences:
  - Domestic:
    - Theme parks and resorts:
      - Walt Disney World Resort in Florida
      - Disneyland Resort in California
    - Experiences
      - Disney Cruise Line
      - Disney Vacation Club
      - National Geographic Expeditions (owned 73% by the Company) and Adventures by Disney
      - Aulani, a Disney Resort & Spa in Hawaii
  - International:
    - Theme parks and resorts:
      - Disneyland Paris
      - Hong Kong Disneyland Resort (48% ownership interest and consolidated in our financial results)
      - Shanghai Disney Resort (43% ownership interest and consolidated in our financial results)
      - In addition, the Company licenses its IP to a third party to operate Tokyo Disney Resort
- Consumer Products:
  - Licensing of our trade names, characters, visual, literary and other IP to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
  - Sale of branded merchandise through online, retail and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic magazine, which is reported in Entertainment)

The significant revenues of Experiences are as follows:

- Theme park admissions - Sales of tickets for admission to our theme parks and for premium access to certain attractions (e.g. Genie+ and Lightning Lane)
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Merchandise licensing and retail:
  - Merchandise licensing - Royalties from licensing our IP for use on consumer goods
  - Retail - Sales of merchandise through internet shopping sites (generally branded shopDisney) and at The Disney Store, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities, real estate rent and sales and royalties earned on Tokyo Disney Resort revenues

The significant expenses of Experiences are as follows:

- Operating expenses, consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include technology support costs, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

SEGMENT INFORMATION

Our operating segments report separate financial information, which is evaluated regularly by the Chief Executive Officer in order to decide how to allocate resources and to assess performance.

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, net other income, net interest expense, income taxes and noncontrolling interests. Segment operating income generally includes equity in the income of investees and excludes impairments of certain equity investments and acquisition accounting amortization of TFCF Corporation (TFCF) and Hulu assets (i.e. intangible assets and the fair value step-up for film and episodic costs) recognized in connection with the TFCF acquisition in fiscal 2019 (TFCF and Hulu acquisition amortization). Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Segment operating results include allocations of certain costs, including information technology, pension, legal and other shared services costs, which are allocated based on metrics designed to correlate with consumption.

Segment revenues and segment operating income are as follows:

	2023	2022	2021
Revenues			
Entertainment			
Third parties	**$ 40,258**	$ 39,231	$ 36,155
Intersegment	**377**	338	334
	40,635	39,569	36,489
Sports			
Third parties	**16,091**	16,429	15,302
Intersegment	**1,020**	841	658
	17,111	17,270	15,960
Experiences	**32,549**	28,085	15,961
Eliminations	**(1,397)**	(1,179)	(992)
Total segment revenues	**$ 88,898**	$ 83,745	$ 67,418
Segment operating income (loss)			
Entertainment	**$ 1,444**	$ 2,126	$ 5,196
Sports	**2,465**	2,710	2,690
Experiences	**8,954**	7,285	(120)
Total segment operating income[1]	**$ 12,863**	$ 12,121	$ 7,766

(1) Equity in the income of investees is included in segment operating income as follows:

	2023	2022	2021
Entertainment	**$ 685**	$ 783	$ 744
Sports	**55**	55	51
Experiences	**(2)**	(10)	(19)
Equity in the income of investees included in segment operating income	**738**	828	776
A+E Gain[1]	**56**	—	—
Amortization of TFCF intangible assets related to equity investees	**(12)**	(12)	(15)
Equity in the income of investees	**$ 782**	$ 816	$ 761

(1) Restructuring and impairment charges include the impact of a content license agreement termination with A+E, which generated a gain at A+E. The Company's 50% interest of this gain was $56 million (A+E gain).

A reconciliation of segment revenues to total revenues is as follows:

	2023	2022	2021
Segment revenues	**$ 88,898**	$ 83,745	$ 67,418
Content License Early Termination[1]	**—**	(1,023)	—
Total revenues	**$ 88,898**	$ 82,722	$ 67,418

(1) In fiscal 2022, the Company early terminated certain license agreements with a customer for film and episodic content, which was delivered in previous years, in order for the Company to use the content primarily on our Entertainment Direct-to-Consumer services (Content License Early Termination). Because the content is functional IP, we had recognized substantially all of the consideration to be paid by the customer under the licenses as revenue in prior years when the content was delivered. Consequently, we have recorded the amounts to terminate the license agreements, net of remaining amounts of deferred revenue, as a reduction of revenue.

A reconciliation of segment operating income to income from continuing operations before income taxes is as follows:

	2023	2022	2021
Segment operating income	**$ 12,863**	$ 12,121	$ 7,766
Content License Early Termination	**—**	(1,023)	—
Corporate and unallocated shared expenses	**(1,147)**	(1,159)	(928)
Restructuring and impairment charges[1]	**(3,836)**	(237)	(654)
Other income (expense), net	**96**	(667)	201
Interest expense, net	**(1,209)**	(1,397)	(1,406)
TFCF and Hulu acquisition amortization[2]	**(1,998)**	(2,353)	(2,418)
Income from continuing operations before income taxes	**$ 4,769**	$ 5,285	$ 2,561

(1) Net of the A+E Gain.

(2) TFCF and Hulu acquisition amortization is as follows:

	2023	2022	2021
Amortization of intangible assets	**$ 1,547**	$ 1,707	$ 1,757
Step-up of film and episodic costs	**439**	634	646
Intangibles related to TFCF equity investees	**12**	12	15
	$ 1,998	$ 2,353	$ 2,418

Capital expenditures, depreciation expense and amortization expense are as follows:

Capital expenditures	**2023**	2022	2021
Entertainment	**$ 1,032**	$ 802	$ 838
Sports	**15**	8	24
Experiences			
Domestic	**2,203**	2,680	1,597
International	**822**	767	675
Corporate	**897**	686	444
Total capital expenditures	$ 4,969	$ 4,943	$ 3,578
Depreciation expense			
Entertainment	**$ 669**	$ 560	$ 513
Sports	**73**	90	100
Experiences			
Domestic	**2,011**	1,680	1,551
International	**669**	662	718
Amounts included in segment operating income	**2,680**	2,342	2,269
Corporate	**204**	191	186
Total depreciation expense	**$ 3,626**	$ 3,183	$ 3,068
Amortization of intangible assets			
Entertainment	**$ 87**	$ 164	$ 174
Sports	**—**	—	4
Experiences	**109**	109	108
Amounts included in segment operating income	**196**	273	286
TFCF and Hulu	**1,547**	1,707	1,757
Total amortization of intangible assets	**$ 1,743**	$ 1,980	$ 2,043

Identifiable assets, including equity method investments[(1)] and intangible assets,[(2)] are as follows:

	September 30, 2023	October 1, 2022
Entertainment	**$ 113,307**	$ 117,184
Sports	**25,402**	24,988
Experiences	**42,808**	41,969
Corporate (primarily fixed asset and cash and cash equivalents)	**24,062**	19,490
Total consolidated assets	**$ 205,579**	203,631

(1) Equity method investments included in identifiable assets by segment are as follows:

	September 30, 2023	October 1, 2022
Entertainment	**$ 2,433**	$ 2,449
Sports	**213**	184
Experiences	**—**	2
Corporate	**42**	43
	$ 2,688	$ 2,678

(2) Intangible assets, which include character/franchise intangibles, copyrights, trademarks, MVPD agreements and FCC licenses (see Note 13), included in identifiable assets by segment are as follows:

	September 30, 2023	October 1, 2022
Entertainment	**$ 8,556**	$ 9,829
Sports	**1,767**	2,152
Experiences	**2,718**	2,836
Corporate	**20**	20
	$ 13,061	$ 14,837

The following table presents our revenues and segment operating income by geographical markets:

	2023	2022	2021
Revenues			
Americas	**$ 71,205**	$ 68,218	$ 54,157
Europe	**9,533**	8,680	6,690
Asia Pacific	**8,160**	6,847	6,571
	$ 88,898	$ 83,745	$ 67,418
Content License Early Termination		(1,023)	
		$ 82,722	
Segment operating income			
Americas	**$ 10,779**	$ 11,099	$ 6,314
Europe	**856**	586	800
Asia Pacific	**1,228**	436	652
	$ 12,863	$ 12,121	$ 7,766

Long-lived assets(1) by geographical markets are as follows:

	September 30, 2023	October 1, 2022
Americas	**$ 148,567**	$ 150,786
Europe	**9,895**	8,739
Asia Pacific	**10,244**	10,976
	$ 168,706	$ 170,501

(1) Long-lived assets are total assets less: current assets, long-term receivables, deferred taxes, financial investments and the fair value of derivative instruments.

The changes in the carrying amount of goodwill are as follows:

	DMED	Experiences	Entertainment	Sports	Total
Balance at Oct. 2, 2021	$ 72,521	$ 5,550	$ —	$ —	$ 78,071
Currency translation adjustments and other, net	(174)	—	—	—	(174)
Balance at Oct. 1, 2022	72,347	5,550	—	—	77,897
Segment recast(1)	(72,347)	—	55,488	16,859	—
Goodwill impairment(2)	—	—	(425)	(296)	(721)
Currency translation adjustments and other, net	—	—	(32)	(77)	(109)
Balance at Sep. 30, 2023	**$ —**	**$ 5,550**	**$ 55,031**	**$ 16,486**	**$ 77,067**

(1) Reflects the reallocation of goodwill as a result of the Company recasting its segments from the strategic reorganization during fiscal 2023.

(2) Reflects goodwill impairments at entertainment and international sports linear networks (See Note 18).

2 *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its majority-owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company enters into relationships with or makes investments in other entities that may be variable interest entities (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE. Hong Kong Disneyland Resort and Shanghai Disney Resort (together, the Asia Theme Parks) are VIEs in which the Company has less than 50% equity ownership. Company subsidiaries (the Management Companies) have management agreements with the Asia Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the Asia Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the Asia Theme Parks. Therefore, the Company has consolidated the Asia Theme Parks in its financial statements.

Reporting Period

The Company's fiscal year ends on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. When a fifty-three week year occurs, the Company reports the additional week in the fourth quarter. Fiscal 2023, 2022 and 2021 were fifty-two week years.

Reclassifications

Certain reclassifications have been made in the fiscal 2022 and fiscal 2021 financial statements and notes to conform to the fiscal 2023 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Revenues and Costs from Services and Products

The Company generates revenue from the sale of both services and tangible products and revenues and operating costs are classified under these two categories in the Consolidated Statements of Income. Certain costs related to both the sale of services and tangible products are not specifically allocated between the service or tangible product revenue streams but are instead attributed to the principal revenue stream. The cost of services and tangible products exclude depreciation and amortization.

Significant service revenues include:

- Affiliate fees
- Subscription fees to our DTC streaming services
- Advertising revenues
- Admissions to our theme parks, charges for room nights at hotels and sales of cruise vacation packages
- Revenue from the licensing and distribution of film and television properties
- Royalties from licensing our IP for use on consumer goods, published materials and in multi-platform games

Significant operating costs related to the sale of services include:

- Programming and production costs
- Distribution costs
- Operating labor
- Facilities and infrastructure costs

Significant tangible product revenues include:

- The sale of food, beverage and merchandise at our retail locations
- The sale of DVDs and Blu-ray discs
- The sale of books, comic books and magazines

Significant operating costs related to the sale of tangible products include:

- Costs of goods sold

- Operating labor
- Programming and production costs
- Distribution costs
- Retail occupancy costs

Revenue Recognition

The Company's revenue recognition policies are as follows:

- Affiliate fees are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming. For affiliate contracts with fixed license fees, the fees are recognized ratably over the contract term. If an affiliate contract includes a minimum guaranteed license fee, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded. Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.
- Subscription fees are recognized ratably over the term of the subscription.
- Advertising sales are recognized as revenue, net of agency commissions, when commercials are aired. For contracts that contain a guaranteed number of impressions, revenues are recognized based on impressions delivered. When the guaranteed number of impressions is not met ("ratings shortfall"), revenues are not recognized for the ratings shortfall until the additional impressions are delivered.
- Theme park admissions are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- Resorts and vacations sales are recognized as revenue as the services are provided to the guest. Sales of vacation club properties are recognized as revenue upon the later of when title transfers to the customer or when construction activity is deemed complete.
- Merchandise, food and beverage sales are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.
- Merchandise licensing fees are recognized as revenue as earned based on the contractual royalty rate applied to the licensee's underlying product sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual royalties earned ("shortfall") is recognized straight-line over the remaining license period once an expected shortfall is probable.
- TV/VOD distribution fixed license fees are recognized as revenue when the content is available for use by the licensee. License fees based on the underlying sales of the licensee are recognized as revenue based on the contractual royalty rate applied to the licensee sales.

  For TV/VOD licenses that include multiple titles with a fixed license fee across all titles, each title is considered a separate performance obligation. The fixed license fee is allocated to each title at contract inception and the allocated license fee is recognized as revenue when the title is available for use by the licensee.

  When the license contains a minimum guaranteed license fee across all titles, the license fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee is exceeded, revenue is recognized as earned based on the licensee's underlying sales.

  TV/VOD distribution contracts may limit the licensee's use of a title to certain defined periods of time during the contract term. In these instances, each period of availability is generally considered a separate performance obligation. For these contracts, the fixed license fee is allocated to each period of availability at contract inception based on relative standalone selling price using management's best estimate. Revenue is recognized at the start of each availability period when the content is made available for use by the licensee.

  When the term of an existing agreement is renewed or extended, revenues are recognized when the licensed content becomes available under the renewal or extension.
- Theatrical distribution licensing fees are recognized as revenue based on the contractual royalty rate applied to the distributor's underlying sales from exhibition of the film.
- Home entertainment sales in physical formats are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our films in electronic formats are recognized as revenue when the product is available for use by the consumer.

- Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling fees collected from customers are recorded as revenue and the related shipping expenses are recorded in cost of products upon delivery of the product to the consumer.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of current and non-current accounts receivable based on historical bad debt experience, our assessment of the financial condition of individual companies with which we do business, current market conditions and reasonable supportable forecasts of future economic conditions.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense for fiscal 2023, 2022 and 2021 was $6.4 billion, $7.2 billion and $5.5 billion, respectively. The decrease in advertising expense for fiscal 2023 compared to fiscal 2022 was due to lower spend for our DTC streaming services. The increase in advertising expense for fiscal 2022 compared to fiscal 2021 was due to higher spend for our DTC streaming services and an increase in theatrical marketing costs.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less. Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statements of Cash Flows.

	September 30, 2023	October 1, 2022	October 2, 2021
Cash and cash equivalents	**$ 14,182**	$ 11,615	$ 15,959
Restricted cash included in:			
Other current assets	**—**	3	3
Other assets	**53**	43	41
Total cash, cash equivalents and restricted cash in the statement of cash flows	**$ 14,235**	$ 11,661	$ 16,003

Investments

Investments in equity securities with a readily determinable fair value, not accounted for under the equity method, are recorded at that value with unrealized gains and losses included in earnings. For equity securities without a readily determinable fair value, the investment is recorded at cost, less any impairment, plus or minus adjustments related to observable transactions for the same or similar securities, with unrealized gains and losses included in earnings.

For equity method investments, the Company regularly reviews its investments to determine whether there is a decline in fair value below book value. If there is a decline that is other-than-temporary, the investment is written down to fair value.

Translation Policy

Generally, the U.S. dollar is the functional currency for our international film and episodic content distribution and licensing businesses and the branded international channels and DTC streaming services. Generally, the local currency is the functional currency for the Asia Theme Parks, Disneyland Paris, the Star branded channels in India, international sports channels and international locations of The Disney Store.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) (AOCI).

Inventories

Inventory primarily includes vacation timeshare units, merchandise, food, materials and supplies. Carrying amounts of vacation ownership units are recorded at the lower of cost or net realizable value. Carrying amounts of merchandise, food, materials and supplies inventories are generally determined on a moving average cost basis and are recorded at the lower of cost or net realizable value.

Film and Television Content Costs

The Company classifies its capitalized produced and acquired/licensed content costs as long-term assets ("Produced and licensed content costs" in the Consolidated Balance Sheet) and classifies advances for live programming rights made prior to the live event as short-term assets ("Content advances" in the Consolidated Balance Sheet). For produced content, we capitalize all direct costs incurred in the physical production of a film, as well as allocations of production overhead and capitalized interest. For licensed and acquired content, we capitalize the license fee or acquisition cost, respectively. For purposes of amortization and impairment, the capitalized content costs are classified based on their predominant monetization strategy as follows:

- Individual - lifetime value is predominantly derived from third-party revenues that are directly attributable to the specific title (e.g. theatrical revenues or sales to third-party television programmers)
- Group - lifetime value is predominantly derived from third-party revenues that are attributable only to a bundle of titles (e.g. subscription revenue for a DTC service or affiliate fees for a cable television network)

The determination of the predominant monetization strategy is made at commencement of production on a consolidated basis and is based on the means by which we derive third-party revenues from use of the content. Imputed title by title license fees that may be necessary for other purposes are established as required for those purposes.

We generally classify content that is initially intended for use on our DTC streaming services or Linear Networks as group assets. We generally classify content initially intended for theatrical release or for sale to third-party licensees as individual assets. The classification of content as individual or group only changes if there is a significant change to the title's monetization strategy relative to its initial assessment (e.g. content that was initially intended for license to a third party is instead used on an owned DTC service). When there is a significant change in monetization strategy, the title's capitalized content costs are tested for impairment.

Production costs for content that is predominantly monetized individually are amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For film productions, Ultimate Revenues include revenues from all sources, which may include imputed license fees for content that is used on our DTC streaming services, that will be earned within ten years from the date of the initial release for theatrical films. For episodic series that are classified as individual, Ultimate Revenues include revenues that will be earned within ten years, including imputed license fees for content that is used on our DTC streaming services, from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. Participations and residuals are expensed over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues for each production.

Production costs that are predominantly monetized as a group are amortized based on projected usage, generally resulting in an accelerated or straight-line amortization pattern. Adjustments to projected usage are applied prospectively in the period of the change. Participations and residuals are generally expensed in line with the pattern of usage.

Licensed rights to film and television content and other programs for broadcast on our Linear Networks, domestic ESPN television network, International Sports Channels or DTC streaming services are expensed on an accelerated or straight-line basis over their useful life or over the number of times the program is expected to be aired, as appropriate. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. If annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season.

Acquired film and television libraries are generally amortized on a straight-line basis over 20 years from the date of acquisition. Acquired film and television libraries include content that was initially released three years prior to its acquisition, except it excludes the prior seasons of episodic programming still in production at the date of its acquisition.

Amortization of capitalized costs for produced and acquired content begins in the month the content is first released, while amortization of capitalized costs for licensed content commences when the license period begins and the content is first aired or available for use on our DTC services. Amortization of content assets is primarily included in "Cost of services" in the Consolidated Statements of Income.

The costs of produced and licensed film and television content are subject to regular recoverability assessments. Production costs for content that is predominantly monetized individually are tested for impairment at the individual title level by comparing that title's unamortized costs to the estimated present value of discounted cash flows directly attributable to the title. To the extent the title's unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess. Cost of content that is predominantly monetized as a group is tested for impairment by comparing the present value of the discounted cash flows of the group to the aggregate unamortized costs of the group. The group is established by identifying the lowest level for which cash flows are independent of the cash flows of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded

for the excess and allocated to individual titles based on the relative carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written down to its estimated fair value. Licensed content is included as part of the group within which it is monetized for purposes of impairment testing.

Content Production Incentives

The Company receives tax incentives from U.S. (state and local) and foreign government agencies to encourage the production of film, episodic and streaming content. The incentives are largely received as tax credits, which are recognized as a reduction to produced and licensed content costs when there is reasonable assurance of collection (presented as "Produced and licensed content costs" in the Consolidated Balance Sheets), resulting in a reduction to programming and production costs (presented as "Costs of services" in the Consolidated Statements of Income) over the asset's amortization period.

Internal-Use Software Costs

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project and it is probable that the project will be completed and the software will be used for the function intended. As of September 30, 2023 and October 1, 2022, capitalized software costs, net of accumulated amortization, totaled $1.2 billion and $1.1 billion, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, generally up to 5 years.

Parks, Resorts and Other Property

Parks, resorts and other property are carried at historical cost. Depreciation is computed on the straight-line method, generally over estimated useful lives as follows:

Attractions, buildings and improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years
Land improvements	20 – 40 years
Leasehold improvements	Life of lease or asset life if less

Leases

The Company determines whether a contract is a lease at contract inception or for a modified contract at the modification date. At inception or modification, the Company calculates the present value of operating lease payments using the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. Our leases may require us to make fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use asset and lease liability. Fixed non-lease costs, for example common-area maintenance costs, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

Goodwill, Other Intangible Assets and Long-Lived Assets

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. The Company performs its annual test of goodwill and indefinite-lived intangible assets for impairment in its fiscal fourth quarter.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2023, the Company bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment (see Note 18).

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. The discounted cash flow analyses are sensitive to our estimated projected future cash flows as well as the discount rates used to calculate their present value. Our future cash flows are based on internal forecasts for each reporting unit, which consider projected inflation and other economic indicators, as well as industry growth projections. Discount rates for each reporting unit are determined based on the inherent risks of each reporting unit's underlying operations. We believe our estimates are consistent with how a marketplace participant would value our reporting units. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ.

To test other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks, which are our most significant indefinite-lived intangible assets.

Finite-lived intangible assets are generally amortized on a straight-line basis over periods of 5 to 40 years. The costs to periodically renew our intangible assets are expensed as incurred.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of the estimated undiscounted future cash flows expected to be generated over the useful life of the significant assets of an asset group to the carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the asset group and the carrying amount of the asset group. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference.

The Company recorded non-cash impairment charges of $3.0 billion, $0.2 billion and $0.3 billion in fiscal 2023, 2022 and 2021, respectively. The charges are recorded in "Restructuring and impairment charges" in the Consolidated Statements of Income.

The fiscal 2023 charges primarily related to content impairments resulting from a strategic change in our approach to content curation ($2.2 billion) and goodwill ($0.7 billion) at our entertainment and international sports linear networks reporting units (see Note 18).

The fiscal 2022 charges primarily related to exiting our businesses in Russia.

The fiscal 2021 charges primarily related to the closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe.

The Company expects its aggregate annual amortization expense for finite-lived intangible assets for fiscal 2024 through 2028 to be as follows:

2024	$ 1,627
2025	1,535
2026	1,042
2027	965
2028	898

Financial Risk Management Contracts

In the normal course of business, the Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

The Company formally documents all relationships between hedges and hedged items as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company primarily enters into two types of derivatives: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating-rate debt).

The Company designates and assigns the derivatives as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged impact earnings or are no longer expected to occur, the Company recognizes the gain or loss on the designated derivatives.

The Company's hedge positions are measured at fair value on the balance sheet. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The Company accrues the differential for interest rate swaps to be paid or received under the agreements as interest rates change as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

The Company enters into derivatives that are not designated as hedges and do not qualify for hedge accounting. These derivatives are intended to offset certain economic exposures of the Company and are carried at fair value with changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 8 and 17).

Income Taxes

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than zero percent likely of being realized upon ultimate settlement.

Redeemable Noncontrolling Interests and Contributions from Noncontrolling Interest Holders

Hulu LLC

The Company consolidates the results of Hulu LLC (Hulu), a DTC streaming service provider, which is owned 67% by the Company and 33% by NBC Universal (NBCU). In May 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. Under the agreement, NBCU has the option to require the Company to purchase NBCU's interest in Hulu (put right) and the Company has the option to require NBCU to sell its interest in Hulu to the Company (call right) at a redemption value based on NBCU's equity ownership percentage of the greater of Hulu's equity fair value or a guaranteed floor value of $27.5 billion. In August 2023, certain provisions under the put/call agreement were amended, including the addition of a November 2023 exercise window for the put/call, which would require assessment of Hulu's equity fair value as of September 30, 2023. In November 2023, NBCU exercised its put right and the Company is obligated to pay NBCU the minimum value (approximately $9.2 billion based on the guaranteed floor value, less the unpaid capital call contributions payable by NBCU to the Company of $0.6 billion) within 30 days of exercise of the put. In accordance with the valuation procedures, Hulu's equity fair value is not expected to be determined until sometime in calendar 2024. If Hulu's equity fair value is determined to be higher than the guaranteed floor value, the Company would be required to pay NBCU's share of the difference between the equity fair value and the guaranteed floor value at that time.

Determining the estimated redemption value requires management to make significant judgments. To the extent the fair value is deemed to exceed the guaranteed floor value, we would recognize NBCU's share of the additional amount as a charge to "Net income from continuing operations attributable to noncontrolling interests" and thus reduce "Net income attributable to Disney" in the Consolidated Statements of Income.

In addition, the Company will share 50% of its tax benefit from the purchase of NBCU's interest in Hulu with NBCU, which payments are expected to be made primarily over a 15-year period.

At September 30, 2023, NBCU's interest in Hulu is recorded in the Company's financial statements at $9.1 billion, which is reported as "Redeemable noncontrolling interest" in the Consolidated Balance Sheet.

BAMTech LLC

In November 2022, the Company purchased MLB's 15% redeemable noncontrolling interest in BAMTech LLC (BAMTech), which holds the Company's domestic DTC sports business, for $900 million (MLB buy-out). MLB's interest was recorded in the Company's financial statements at $828 million prior to the MLB buy-out. The $72 million difference was recorded as an increase in "Net income from continuing operations attributable to noncontrolling interests" in the Consolidated Statements of Income.

During the fiscal year ended 2023, Hearst Corporation (Hearst) contributed $710 million to the domestic DTC sports business, in part to fund its 20% share of the MLB buy-out and in part to fund its share of the domestic DTC sports business's operating cash requirements, which had been funded by the Company through intercompany loans.

Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Disney by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year, which is calculated using the treasury-stock method for equity-based awards (Awards). Common equivalent shares are excluded from the computation in periods for which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	2023	2022	2021
Weighted average number of common and common equivalent shares outstanding (basic)	**1,828**	1,822	1,816
Weighted average dilutive impact of Awards	**2**	5	12
Weighted average number of common and common equivalent shares outstanding (diluted)	**1,830**	1,827	1,828
Awards excluded from diluted earnings per share	**24**	15	4

3 *Revenues*

The following table presents our revenues by segment and major source:

	2023				
	Entertainment	Sports	Experiences	Eliminations	Total
Affiliate fees	$ 7,369	$ 10,590	$ —	$ (1,084)	**$ 16,875**
Subscription fees	16,420	1,517	—	—	**17,937**
Advertising	7,594	3,920	4	—	**11,518**
Theme park admissions	—	—	10,423	—	**10,423**
Resort and vacations	—	—	7,949	—	**7,949**
Retail and wholesale sales of merchandise, food and beverage	—	—	8,921	—	**8,921**
Merchandise licensing	619	—	2,509	—	**3,128**
TV/VOD distribution licensing	2,645	347	—	—	**2,992**
Theatrical distribution licensing	3,174	—	—	—	**3,174**
Home entertainment	931	—	—	—	**931**
Other	1,883	737	2,743	(313)	**5,050**
	$ 40,635	$ 17,111	$ 32,549	$ (1,397)	**$ 88,898**

	2022				
	Entertainment	Sports	Experiences	Eliminations and Other	Total
Affiliate fees	$ 7,739	$ 10,796	$ —	$ (1,010)	$ 17,525
Subscription fees	14,178	1,113	—	—	15,291
Advertising	8,674	4,370	4	—	13,048
Theme park admissions	—	—	8,602	—	8,602
Resort and vacations	—	—	6,410	—	6,410
Retail and wholesale sales of merchandise, food and beverage	—	—	7,838	—	7,838
Merchandise licensing	620	—	3,349	—	3,969
TV/VOD distribution licensing	3,551	351	—	(1,023)	2,879
Theatrical distribution licensing	1,875	—	—	—	1,875
Home entertainment	1,083	—	—	—	1,083
Other	1,849	640	1,882	(169)	4,202
	$ 39,569	$ 17,270	$ 28,085	$ (2,202)	$ 82,722

	2021				
	Entertainment	Sports	Experiences	Eliminations	Total
Affiliate fees	$ 8,043	$ 10,609	$ —	$ (892)	$ 17,760
Subscription fees	11,295	725	—	—	12,020
Advertising	8,705	3,720	4	—	12,429
Theme park admissions	—	—	3,848	—	3,848
Resort and vacations	—	—	2,701	—	2,701
Retail and wholesale sales of merchandise, food and beverage	—	—	4,957	—	4,957
Merchandise licensing	603	—	2,995	—	3,598
TV/VOD distribution licensing	4,366	429	—	—	4,795
Theatrical distribution licensing	920	—	—	—	920
Home entertainment	1,297	—	—	—	1,297
Other	1,260	477	1,456	(100)	3,093
	$ 36,489	$ 15,960	$ 15,961	$ (992)	$ 67,418

The following table presents our revenues by segment and primary geographical markets:

	2023				
	Entertainment	Sports	Experiences	Eliminations	Total
Americas	$ 31,414	$ 16,000	$ 25,188	$ (1,397)	$ 71,205
Europe	5,475	370	3,688	—	9,533
Asia Pacific	3,746	741	3,673	—	8,160
	$ 40,635	$ 17,111	$ 32,549	$ (1,397)	$ 88,898

	2022				
	Entertainment	Sports	Experiences	Eliminations	Total
Americas	$ 30,841	$ 15,666	$ 22,890	$ (1,179)	$ 68,218
Europe	5,098	396	3,186	—	8,680
Asia Pacific	3,630	1,208	2,009	—	6,847
	$ 39,569	$ 17,270	$ 28,085	$ (1,179)	83,745
Content License Early Termination					(1,023)
					$ 82,722

	2021				
	Entertainment	Sports	Experiences	Eliminations	Total
Americas	28,469	$ 14,533	$ 12,147	$ (992)	$ 54,157
Europe	4,836	346	1,508	—	6,690
Asia Pacific	3,184	1,081	2,306	—	6,571
	$ 36,489	$ 15,960	$ 15,961	$ (992)	$ 67,418

Revenues recognized in the current and prior year from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on TV/VOD licenses for titles made available to the licensee in previous reporting periods. For fiscal 2023, $0.9 billion was recognized related to performance obligations satisfied prior to October 1, 2022. For fiscal 2022, $1.1 billion was recognized related to performance obligations satisfied prior to October 2, 2021. For fiscal 2021, $1.3 billion was recognized related to performance obligations satisfied prior to October 3, 2020.

As of September 30, 2023, revenue for unsatisfied performance obligations expected to be recognized in the future is $15 billion, which primarily relates to content and other IP to be delivered in the future under existing agreements with merchandise and co-branding licensees and sponsors, television station affiliates, DTC wholesalers, sports sublicensees and advertisers. Of this amount, we expect to recognize approximately $6 billion in fiscal 2024, $4 billion in fiscal 2025, $2 billion in fiscal 2026 and $3 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

When the timing of the Company's revenue recognition is different from the timing of customer payments, the Company recognizes either a contract asset (customer payment is subsequent to revenue recognition and subject to the Company satisfying additional performance obligations) or deferred revenue (customer payment precedes the Company satisfying the performance obligations). Consideration due under contracts with payment in arrears is recognized as accounts receivable. Deferred revenues are recognized as (or when) the Company performs under the contract. The Company's contract assets and activity for the current and prior-year periods were not material. Accounts receivable and deferred revenues from contracts with customers are as follows:

	September 30, 2023	October 1, 2022
Accounts Receivable		
Current	**$ 10,279**	$ 10,886
Non-current	**1,212**	1,226
Allowance for credit losses	**(154)**	(179)
Deferred revenues		
Current	**5,568**	5,531
Non-current	**977**	927

For fiscal 2023, 2022 and 2021, the Company recognized revenues of $5.1 billion, $3.6 billion and $2.9 billion, respectively, that was included in the deferred revenue balance at October 1, 2022, October 2, 2021 and October 3, 2020, respectively. Amounts deferred generally relate to theme park admissions and vacation packages, DTC subscriptions and advances related to merchandise and TV/VOD licenses.

The Company has accounts receivable with original maturities greater than one year related to TV/VOD sales and vacation club properties. These receivables are discounted to present value at contract inception and the related revenues are recognized at the discounted amount. The balance of TV/VOD licensing receivables recorded in other non-current assets was $0.6 billion at both September 30, 2023 and October 1, 2022. The balance of vacation club receivables recorded in other non-current assets was $0.7 billion and $0.6 billion at September 30, 2023 and October 1, 2022, respectively. The allowance for credit losses and activity for fiscal 2023 and 2022 was not material.

4 *Other Income (Expense), Net*

Other income (expense), net is as follows:

	2023	2022	2021
DraftKings gain (loss)	**$ 169**	$ (663)	$ (111)
fuboTV gain	**—**	—	186
German FTA gain	**—**	—	126
Other, net	**(73)**	(4)	—
Other income (expense), net	**$ 96**	$ (667)	$ 201

In fiscal 2023, the Company recognized a gain of $169 million on its investment in DraftKings, Inc. (DraftKings), which was sold in the current fiscal year. In fiscal 2022 and 2021, respectively, the Company recognized non-cash losses of $663 million and $111 million to adjust its investment in DraftKings to fair value.

In fiscal 2021, the Company recognized a $186 million gain from the sale of our investment in fuboTV Inc. (fuboTV gain) and a $126 million gain on the sale of its 50% interest in a German free-to-air (FTA) television network (German FTA gain).

5 *Investments*

Investments consist of the following:

	September 30, 2023	October 1, 2022
Investments, equity basis	**$ 2,688**	$ 2,678
Investments, other	**392**	540
	$ 3,080	$ 3,218

Investments, Equity Basis

The Company's significant equity investments include A+E (50% ownership), Tata Play Limited (30% ownership) and CTV Specialty Television, Inc. (30% ownership). As of September 30, 2023, the book value of the Company's equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately $0.7 billion, which represents amortizable intangible assets and goodwill arising from acquisitions.

Investments, Other

As of September 30, 2023 and October 1, 2022, the Company had securities in publicly and non-publicly traded investments, which were not material.

Gains, losses and impairments on securities are generally recorded in "Interest expense, net" in the Consolidated Statements of Income; these amounts were not material for fiscal 2023, 2022 and 2021. See Note 4 for realized and unrealized gains and losses on securities recorded in "Other income (expense), net" in the Consolidated Statements of Income.

6 *International Theme Parks*

The Company has a 48% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (together, the Asia Theme Parks), which are both VIEs consolidated in the Company's financial statements. See Note 2 for the Company's policy on consolidating VIEs. In addition, the Company has 100% ownership of Disneyland Paris. The Asia Theme Parks together with Disneyland Paris are collectively referred to as the International Theme Parks.

The following table summarizes the carrying amounts of the Asia Theme Parks' assets and liabilities included in the Company's Consolidated Balance Sheet:

	September 30, 2023	October 1, 2022
Cash and cash equivalents	**$ 504**	$ 280
Other current assets	**159**	137
Total current assets	**663**	417
Parks, resorts and other property	**6,150**	6,356
Other assets	**234**	161
Total assets	**$ 7,047**	$ 6,934
Current liabilities	**$ 720**	$ 468
Long-term borrowings	**1,308**	1,426
Other long-term liabilities	**392**	395
Total liabilities	**$ 2,420**	$ 2,289

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Consolidated Statements of Income for fiscal 2023:

Revenues	**$**	**5,095**
Costs and expenses		**(4,265)**
Equity in the loss of investees		**(2)**

Asia Theme Parks' royalty and management fees of $235 million for fiscal 2023 are eliminated in consolidation, but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's fiscal 2023 Consolidated Statements of Cash Flows were $1,753 million provided by operating activities, $898 million used in investing activities and $114 million used in financing activities.

Hong Kong Disneyland Resort

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Company have a 52% and a 48% equity interest in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have provided loans to Hong Kong Disneyland Resort with outstanding balances of $163 million and $109 million, respectively. The interest rate on both loans is three month HIBOR plus 2%, and the scheduled maturity date is September 2025. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK $2.7 billion ($345 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2028. The outstanding balance under the line of credit at September 30, 2023 was $80 million. The Company's line of credit is eliminated in consolidation.

Hong Kong Disneyland Resort is undergoing a multi-year expansion estimated to cost HK $10.9 billion ($1.4 billion). The Company and HKSAR have agreed to fund the expansion on an equal basis through equity contributions, which totaled $57 million and $148 million in fiscal 2023 and 2022, respectively. To date, the Company and HKSAR have funded a total of $773 million.

HKSAR has the right to receive additional shares over time to the extent Hong Kong Disneyland Resort exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped on an annual basis and could decrease the Company's equity interest by up to 6 percentage points over a period no shorter than 10 years.

Shanghai Disney Resort

Shanghai Shendi (Group) Co., Ltd (Shendi) and the Company have 57% and 43% equity interests in Shanghai Disney Resort, respectively. A management company, in which the Company has a 70% interest and Shendi a 30% interest, operates Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling $967 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. The Company has also provided Shanghai Disney Resort with a 1.9 billion yuan (approximately $0.3 billion) line of credit bearing interest at 8%. As of September 30, 2023, the total amount outstanding under the line of credit was 0.1 billion yuan (approximately $9 million). These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 8.7 billion yuan (approximately $1.2 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 2.6 billion yuan (approximately $0.4 billion) line of credit bearing interest at 8%. As of September 30, 2023, the total amount outstanding under the line of credit was 0.1 billion yuan (approximately $13 million).

7 *Produced and Acquired/Licensed Content Costs and Advances*

Total capitalized produced and licensed content by predominant monetization strategy is as follows:

	As of September 30, 2023			As of October 1, 2022		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content						
Released, less amortization	$ 4,968	$ 13,555	$ 18,523	$ 4,639	$ 12,688	$ 17,327
Completed, not released	70	1,786	1,856	214	2,019	2,233
In-process	3,331	6,120	9,451	5,041	6,793	11,834
In development or pre-production	279	133	412	372	254	626
	$ 8,648	$ 21,594	30,242	$ 10,266	$ 21,754	32,020
Licensed content - Television Programming rights and advances			6,351			5,647
Total produced and licensed content			$ 36,593			$ 37,667
Current portion			$ 3,002			$ 1,890
Non-current portion			$ 33,591			$ 35,777

Amortization of produced and licensed content is as follows:

	2023	2022	2021
Produced content			
Predominantly monetized individually	**$ 3,999**	$ 3,448	$ 2,947
Predominantly monetized as a group	**7,862**	6,776	5,228
	11,861	10,224	8,175
Licensed programming rights and advances	**13,405**	13,432	12,784
Total produced and licensed content costs[(1)]	**$ 25,266**	$ 23,656	$ 20,959

(1) Primarily included in "Costs of services" in the Consolidated Statements of Income. Fiscal 2023 amounts exclude impairment charges of $2.0 billion for produced content and $257 million for licensed programming rights recorded in "Restructuring and impairment charges" in the Consolidated Statements of Income (see Note 18).

Total expected amortization by fiscal year of completed (released and not released) produced, licensed and acquired film and television library content on the balance sheet as of September 30, 2023 is as follows:

	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content			
Released			
2024	$ 1,069	$ 3,257	$ 4,326
2025	600	2,055	2,655
2026	506	1,632	2,138
Completed, not released			
2024	36	794	830
Licensed content - Programming rights and advances			
2024			$ 4,202
2025			785
2026			495

Approximately $2.4 billion of accrued participations and residual liabilities will be paid in fiscal 2024.

At September 30, 2023, acquired film and television library content has remaining unamortized costs of $3.1 billion, which are generally being amortized straight-line over a weighted-average remaining period of approximately 15 years.

Content Production Incentives

Programming and production costs were reduced by $0.8 billion for fiscal 2023 related to the amortization of production tax incentives. We have production tax credit receivables of $1.6 billion as of September 30, 2023, which, based on the expected timing of collection, are reflected in "Receivables, net" or "Other Assets" in our Consolidated Balance Sheet.

8 *Borrowings*

The Company's borrowings, including the impact of interest rate and cross-currency swaps, are summarized as follows:

			September 30, 2023			
	Sep. 30, 2023	Oct. 1, 2022	Stated Interest Rate[1]	Pay Floating Interest rate and Cross-Currency Swaps[2]	Effective Interest Rate[3]	Swap Maturities
Commercial paper	**$ 1,476**	$ 1,662	—	$ —	5.62%	
U.S. dollar denominated notes[4]	**43,504**	45,091	4.03%	11,625	4.90%	2024-2031
Foreign currency denominated debt	**1,872**	1,844	2.92%	1,878	4.99%	2025-2027
Other[5]	**(1,729)**	(1,653)		—		
	45,123	46,944	3.85%	13,503	4.92%	
Asia Theme Parks borrowings	**1,308**	1,425	1.86%	—	5.90%	
Total borrowings	**46,431**	48,369	3.94%	13,503	4.95%	
Less current portion	**4,330**	3,070	2.35%	—	5.12%	
Total long-term borrowings	**$ 42,101**	$ 45,299		$ 13,503		

(1) The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating-rate borrowings, interest rates are the rates in effect at September 30, 2023; these rates are not necessarily an indication of future interest rates.

(2) Amounts represent notional values of interest rate and cross-currency swaps outstanding as of September 30, 2023.

(3) The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps, purchase accounting adjustments and debt issuance premiums, discounts and costs.

(4) Includes net debt issuance discounts, costs and purchase accounting adjustments totaling a net premium of $1.8 billion and $1.9 billion at September 30, 2023 and October 1, 2022, respectively.

(5) Includes market value adjustments for debt with qualifying hedges, which reduces borrowings by $1.8 billion and $1.7 billion at September 30, 2023 and October 1, 2022, respectively.

Commercial Paper

At September 30, 2023, the Company's bank facilities, which are with a syndicate of lenders and support our commercial paper borrowings, were as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2024	$ 5,250	$ —	$ 5,250
Facility expiring March 2025	3,000	—	3,000
Facility expiring March 2027	4,000	—	4,000
Total	$ 12,250	$ —	$ 12,250

These facilities allow for borrowings at rates based on the Secured Overnight Financing Rate (SOFR), and at other variable rates for non-U.S. dollar denominated borrowings plus a fixed spread that varies with the Company's debt ratings assigned by Moody's Investors Service and Standard & Poor's ranging from 0.655% to 1.225%. The bank facilities contain only one financial covenant, relating to interest coverage of three times earnings before interest, taxes, depreciation and amortization, including both intangible amortization and amortization of our film and television production and programming costs. On September 30, 2023, the Company met this covenant by a significant margin. The bank facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default. The Company also has the ability to issue up to $500 million of letters of credit under the facility expiring in March 2027, which if utilized, reduces available borrowings under this facility. As of September 30, 2023, the Company has $1.7 billion of outstanding letters of credit, of which none were issued under this facility.

Commercial paper activity is as follows:

	Commercial paper with original maturities less than three months, net[1]	Commercial paper with original maturities greater than three months	Total
Balance at Oct. 2, 2021	$ —	$ 1,992	$ 1,992
Additions	50	2,417	2,467
Payments	—	(2,801)	(2,801)
Other Activity	—	4	4
Balance at Oct. 1, 2022	$ 50	$ 1,612	$ 1,662
Additions	238	3,603	3,841
Payments	—	(4,032)	(4,032)
Other Activity	1	4	5
Balance at Sep. 30, 2023	**$ 289**	**$ 1,187**	**$ 1,476**

[1] Borrowings and reductions of borrowings are reported net.

U.S. Dollar Denominated Notes

At September 30, 2023, the Company had $43.5 billion of fixed rate U.S. dollar denominated notes with maturities ranging from 1 to 73 years and stated interest rates that range from 1.75% to 9.50%.

Foreign Currency Denominated Debt

At September 30, 2023, the Company had fixed rate senior notes of Canadian $1.3 billion ($0.9 billion) and Canadian $1.3 billion ($1.0 billion) with maturities of October 2024 and March 2027, respectively, and stated interest rates of 2.76% and 3.057%, respectively. The Company has entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowings to a variable-rate U.S. dollar denominated borrowings indexed to SOFR.

Cruise Ship Credit Facilities

The Company has credit facilities to finance a significant portion of the contract price of two new cruise ships, which are scheduled to be delivered in fiscal 2025 and fiscal 2026. Under the facilities, $1.1 billion became available beginning in August 2023 and $1.1 billion is available beginning in August 2024. Each tranche of financing may be utilized for a period of 18 months from the initial availability date. If utilized, the interest rates will be fixed at 3.80% and 3.74%, respectively, and the loan and interest will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

Asia Theme Parks Borrowings

HKSAR provided Hong Kong Disneyland Resort with loans totaling HK $0.9 billion ($109 million). The interest rate is three month HIBOR plus 2% and the maturity date is September 2025.

Shendi has provided Shanghai Disney Resort with loans totaling 8.7 billion yuan (approximately $1.2 billion) bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 2.6 billion yuan (approximately $0.4 billion) line of credit bearing interest at 8%. As of September 30, 2023 the total amount outstanding under the line of credit was 0.1 billion yuan (approximately $13 million).

Maturities

The following table provides total borrowings, excluding market value adjustments and debt issuance premiums, discounts and costs, by scheduled maturity date as of September 30, 2023. The table also provides the estimated interest payments on these borrowings as of September 30, 2023 although actual future payments will differ for floating-rate borrowings:

	Borrowings				
Fiscal Year:	Before Asia Theme Parks Consolidation	Asia Theme Parks	Total Borrowings	Interest	Total Borrowings and Interest
2024	$ 4,369	$ 13	$ 4,382	$ 1,733	$ 6,115
2025	3,619	109	3,728	1,626	5,354
2026	4,578	—	4,578	1,616	6,194
2027	2,921	—	2,921	1,506	4,427
2028	1,599	—	1,599	1,502	3,101
Thereafter	28,018	1,186	29,204	16,935	46,139
	$ 45,104	$ 1,308	$ 46,412	$ 24,918	$ 71,330

Interest

The Company capitalizes interest on assets constructed for its parks and resorts and on certain film and television productions. In fiscal 2023, 2022 and 2021, total interest capitalized was $365 million, $261 million and $187 million, respectively.

Interest expense (net of amounts capitalized), interest and investment income, and net periodic pension and postretirement benefit costs (other than service costs) (see Note 10) are reported net in the Consolidated Statements of Income and consist of the following:

	2023	2022	2021
Interest expense	**$ (1,973)**	$ (1,549)	$ (1,546)
Interest and investment income	**424**	90	307
Net periodic pension and postretirement benefit costs (other than service costs)	**340**	62	(167)
Interest expense, net	**$ (1,209)**	$ (1,397)	$ (1,406)

9 *Income Taxes*

Income (Loss) Before Income Taxes by Domestic and Foreign Subsidiaries

Income Before Income Taxes	**2023**	2022	2021
Domestic subsidiaries (including U.S. exports)	**$ 3,086**	$ 5,955	$ 5,241
Foreign subsidiaries	**1,683**	(670)	(2,680)
Total income from continuing operations	**4,769**	5,285	2,561
Loss from discontinued operations	**—**	(62)	(38)
	$ 4,769	$ 5,223	$ 2,523

Provision for Income Taxes: Current and Deferred

Income Tax Expense (Benefit)			
Current	**2023**	2022	2021
Federal	**$ 1,475**	$ 436	$ 594
State	**402**	282	129
Foreign[1]	**867**	846	554
	2,744	1,564	1,277
Deferred			
Federal	**(1,180)**	407	(526)
State	**4**	26	(220)
Foreign	**(189)**	(265)	(506)
	(1,365)	168	(1,252)
Income tax expense on income from continuing operations	**1,379**	1,732	25
Income tax expense on loss from discontinued operations	**—**	(14)	(9)
	$ 1,379	$ 1,718	$ 16

[1] Includes foreign withholding taxes.

Deferred Tax Assets and Liabilities

Components of Deferred Tax (Assets) and Liabilities	**September 30, 2023**	October 1, 2022
Deferred tax assets		
Net operating losses and tax credit carryforwards[1]	**$ (3,841)**	$ (3,527)
Accrued liabilities	**(1,335)**	(1,570)
Lease liabilities	**(852)**	(748)
Licensing revenues	**(115)**	(124)
Other	**(623)**	(819)
Total deferred tax assets	**(6,766)**	(6,788)
Deferred tax liabilities		
Depreciable, amortizable and other property	**7,581**	8,575
Investment in U.S. entities	**1,271**	1,798
Right-of-use lease assets	**751**	676
Investment in foreign entities	**482**	543
Other	**81**	64
Total deferred tax liabilities	**10,166**	11,656
Net deferred tax liability before valuation allowance	**3,400**	4,868
Valuation allowance	**3,187**	2,859
Net deferred tax liability	**$ 6,587**	$ 7,727

[1] Balances at September 30, 2023 and October 1, 2022 include approximately $1.6 billion and $1.5 billion, respectively, of International Theme Park net operating losses and approximately $1.0 billion at both September 30, 2023 and October 1, 2022 of foreign tax credits in the U.S. The International Theme Park net operating losses are primarily in France and, to a lesser extent, Hong Kong and China. Losses in France and Hong Kong have an indefinite carryforward period and losses in China have a five-year carryforward period. China theme park net operating losses of $0.2 billion, if not used, expire between fiscal 2024 and fiscal 2028. Foreign tax credits in the U.S. have a ten-year carryforward period. Foreign tax credits of $1.0 billion, if not used, expire beginning in fiscal 2028.

The following table details the change in valuation allowance for fiscal 2023, 2022 and 2021 (in billions):

	Balance at Beginning of Period	Charges to Tax Expense	Other Changes	Balance at End of Period
Year ended September 30, 2023	$ 2.9	$ 0.2	$ 0.1	$ 3.2
Year ended October 1, 2022	2.8	0.4	(0.3)	2.9
Year ended October 2, 2021	2.4	0.4	—	2.8

Reconciliation of the effective income tax rate for continuing operations to the federal rate

	2023	2022	2021
Federal income tax rate	**21.0 %**	21.0 %	21.0 %
State taxes, net of federal benefit[(1)]	**5.8**	3.1	1.9
Tax rate differential on foreign income	**0.1**	4.3	12.0
Foreign derived intangible income	**(4.3)**	(3.4)	(6.4)
Tax impact of equity awards	**2.1**	—	(5.3)
Legislative changes	**—**	1.7	(12.2)
Income tax audits and reserves	**1.3**	2.7	(4.8)
Goodwill impairment	**3.5**	—	—
Valuation allowance	**(1.8)**	4.5	2.6
Other	**1.2**	(1.1)	(7.8)
	28.9 %	32.8 %	1.0 %

(1) Fiscal 2023 includes an adjustment related to certain deferred state taxes

Unrecognized tax benefits

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest and penalties, is as follows:

	2023	2022	2021
Balance at the beginning of the year	**$ 2,449**	$ 2,641	$ 2,740
Increases for current year tax positions	**98**	48	51
Increases for prior year tax positions	**273**	103	556
Decreases in prior year tax positions	**(150)**	(108)	(174)
Settlements with taxing authorities	**(153)**	(235)	(532)
Balance at the end of the year	**$ 2,517**	$ 2,449	$ 2,641

Balances at September 30, 2023, October 1, 2022 and October 2, 2021 include $1.8 billion, $1.9 billion and $2.0 billion, respectively, that if recognized, would reduce our income tax expense and effective tax rate. These amounts are net of the offsetting benefits from other tax jurisdictions.

At September 30, 2023, October 1, 2022 and October 2, 2021 accrued interest and penalties related to unrecognized tax benefits were $1.0 billion in each period. During fiscal 2023, 2022 and 2021, the Company recorded additional interest and penalties of $210 million, $157 million and $191 million, respectively, and recorded reductions in accrued interest and penalties of $241 million, $119 million and $256 million, respectively. The Company's policy is to report interest and penalties as a component of income tax expense.

The Company is generally no longer subject to U.S. federal examination for years prior to 2018. The Company is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2008.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the resolution of open tax matters, which would reduce our unrecognized tax benefits by $0.3 billion.

Other

In fiscal 2023, the Company recognized income tax expense of $93 million for the shortfall between equity-based compensation deductions and amounts recorded based on the grant date fair value. In fiscal 2022 and 2021, the Company recognized income tax benefits of $2 million and $135 million, respectively, for the excess of equity-based compensation deductions over amounts recorded based on the grant date fair value.

10 *Pension and Other Benefit Programs*

The Company maintains pension and postretirement medical benefit plans covering certain of its employees not covered by union or industry-wide plans. The Company has defined benefit pension plans that cover employees hired prior to January 1, 2012. For employees hired after this date, the Company has a defined contribution plan. Benefits under these pension plans are generally based on years of service and/or compensation and generally require 3 years of vesting service. Employees generally hired after January 1, 1987 for certain of our media businesses and other employees generally hired after January 1, 1994 are not eligible for postretirement medical benefits. In addition, the Company has a defined benefit plan for TFCF employees for which benefits stopped accruing in June 2017.

Defined Benefit Plans

The Company measures the actuarial value of its benefit obligations and plan assets for its defined benefit pension and postretirement medical benefit plans at September 30 and adjusts for any plan contributions or significant events between September 30 and our fiscal year end.

The following chart summarizes the benefit obligations, assets, funded status and balance sheet impacts associated with the defined benefit pension and postretirement medical benefit plans:

	Pension Plans		Postretirement Medical Plans	
	September 30, 2023	October 1, 2022	**September 30, 2023**	October 1, 2022
Projected benefit obligations				
Beginning obligations	**$ (15,028)**	$ (20,955)	**$ (1,539)**	$ (2,121)
Service cost	**(282)**	(400)	**(5)**	(9)
Interest cost	**(784)**	(500)	**(81)**	(51)
Actuarial gain[(1)]	**757**	6,159	**59**	595
Plan amendments and other[(2)]	**14**	39	**539**	(16)
Benefits paid	**633**	629	**66**	63
Ending obligations	**$ (14,690)**	$ (15,028)	**$ (961)**	$ (1,539)
Fair value of plans' assets				
Beginning fair value	**$ 14,721**	$ 18,076	**$ 749**	$ 889
Actual return on plan assets	**1,324**	(2,715)	**71**	(134)
Contributions	**73**	96	**29**	61
Benefits paid	**(633)**	(629)	**(66)**	(63)
Expenses and other	**(43)**	(107)	**(2)**	(4)
Ending fair value	**$ 15,442**	$ 14,721	**$ 781**	$ 749
Overfunded (Underfunded) status of the plans	**$ 752**	$ (307)	**$ (180)**	$ (790)
Amounts recognized in the balance sheet				
Non-current assets	**$ 1,971**	$ 913	**$ 209**	$ —
Current liabilities	**(72)**	(66)	**(2)**	(4)
Non-current liabilities	**(1,147)**	(1,154)	**(387)**	(786)
	$ 752	$ (307)	**$ (180)**	$ (790)

(1) The actuarial gain for fiscal 2022 was due to an increase in the discount rate used to determine the fiscal year-end benefit obligation from the rate that was used in the preceding fiscal year.

(2) The decrease in fiscal 2023 was due to a change in postretirement medical benefit options.

The components of net periodic benefit cost (benefit) are as follows:

	Pension Plans			Postretirement Medical Plans		
	2023	2022	2021	**2023**	2022	2021
Service cost	**$ 282**	$ 400	$ 434	**$ 5**	$ 9	$ 10
Other costs (benefits):						
Interest cost	**784**	500	457	**81**	51	47
Expected return on plan assets	**(1,149)**	(1,174)	(1,100)	**(61)**	(59)	(55)
Amortization of prior-year service costs	**8**	7	11	**—**	—	—
Recognized net actuarial loss/(gain)	**19**	585	777	**(22)**	28	30
Total other costs (benefit)	**(338)**	(82)	145	**(2)**	20	22
Net periodic benefit cost (benefit)	**$ (56)**	$ 318	$ 579	**$ 3**	$ 29	$ 32

In fiscal 2024, we expect pension and postretirement medical costs to be a net benefit of $155 million compared to a net benefit of $53 million in fiscal 2023.

Key assumptions are as follows:

	Pension Plans			Postretirement Medical Plans		
	2023	2022	2021	**2023**	2022	2021
Discount rate used to determine the fiscal year-end benefit obligation	**5.94%**	5.44%	2.88%	**5.94%**	5.47%	2.89%
Discount rate used to determine the interest cost component of net periodic benefit cost	**5.37%**	2.45%	2.28%	**5.38%**	2.47%	2.28%
Rate of return on plan assets	**7.00%**	7.00%	7.00%	**7.00%**	7.00%	7.00%
Weighted average rate of compensation increase to determine the fiscal year-end benefit obligation	**3.10%**	3.10%	3.10%	n/a	n/a	n/a
Year 1 increase in cost of benefits	n/a	n/a	n/a	**7.00%**	7.00%	7.00%
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	**4.00%**	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	**2042**	2041	2040

AOCI, before tax, as of September 30, 2023 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Prior service costs (benefits)	$ 15	$ (556)	$ (541)
Net actuarial loss (gain)	2,929	(137)	2,792
Total amounts included in AOCI	2,944	(693)	2,251
Prepaid (accrued) pension cost	(3,696)	873	(2,823)
Net balance sheet liability (asset)	$ (752)	$ 180	$ (572)

Plan Funded Status

As of September 30, 2023, the projected benefit obligation and accumulated benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets were $1.2 billion and $1.1 billion, respectively, and the aggregate fair value of plan assets was not material. As of October 1, 2022, the projected benefit obligation and accumulated benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets were $1.2 billion and $1.1 billion, respectively, and the aggregate fair value of plan assets was not material.

As of September 30, 2023, the projected benefit obligation for pension plans with projected benefit obligations in excess of plan assets was $1.2 billion and the aggregate fair value of plan assets was not material. As of October 1, 2022, the projected benefit obligation for pension plans with projected benefit obligations in excess of plan assets was $1.2 billion and the aggregate fair value of plan assets was not material.

The Company's total accumulated pension benefit obligations at September 30, 2023 and October 1, 2022 were $13.8 billion and $14.1 billion, respectively. Approximately 98% was vested as of both September 30, 2023 and October 1, 2022.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were $1.0 billion and $0.8 billion, respectively, at September 30, 2023 and $1.5 billion and $0.7 billion, respectively, at October 1, 2022.

Plan Assets

A significant portion of the assets of the Company's defined benefit plans are managed in a third-party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company's Investment and Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity investments	30%	60%
Fixed income investments	20%	40%
Alternative investments	10%	30%
Cash & money market funds	—%	10%

The primary investment objective for the assets within the master trust is the prudent and cost effective management of assets to satisfy benefit obligations to plan participants. Financial risks are managed through diversification of plan assets, selection of investment managers and through the investment guidelines incorporated in investment management agreements. Investments are monitored to assess whether returns are commensurate with risks taken.

The long-term asset allocation policy for the master trust was established taking into consideration a variety of factors that include, but are not limited to, the average age of participants, the number of retirees, the duration of liabilities and the expected payout ratio. Liquidity needs of the master trust are generally managed using cash generated by investments or by liquidating securities.

Assets are generally managed by external investment managers pursuant to investment management agreements that establish permitted securities and risk controls commensurate with the account's investment strategy. Some agreements permit the use of derivative securities (futures, options, interest rate swaps, credit default swaps) that enable investment managers to enhance returns and manage exposures within their accounts.

Fair Value Measurements of Plan Assets

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is generally classified in one of the following categories of the fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Investments that are valued using the net asset value (NAV) (or its equivalent) practical expedient are excluded from the fair value hierarchy disclosure. NAV per share is determined based on the fair value using the underlying assets divided by the number of units outstanding.

The following is a description of the valuation methodologies used for assets reported at fair value. The methodologies used at September 30, 2023 and October 1, 2022 are the same.

Level 1 investments are valued based on reported market prices on the last trading day of the fiscal year. Investments in common and preferred stocks and mutual funds are valued based on the securities' exchange-listed price or a broker's quote in an active market. Investments in U.S. Treasury securities are valued based on a broker's quote in an active market.

Level 2 investments in government and federal agency bonds and notes (excluding U.S. Treasury securities), corporate bonds, mortgage-backed securities (MBS) and asset-backed securities are valued using a broker's quote in a non-active market or an evaluated price based on a compilation of reported market information, such as benchmark yield curves, credit spreads and estimated default rates. Derivative financial instruments are valued based on models that incorporate observable inputs for the underlying securities, such as interest rates or foreign currency exchange rates.

The Company's defined benefit plan assets are summarized by level in the following tables:

Description	As of September 30, 2023			
	Level 1	Level 2	Total	Plan Asset Mix
Cash	$ 68	$ —	$ 68	—%
Common and preferred stocks[1]	3,517	—	3,517	22%
Mutual funds	1,139	—	1,139	7%
Government and federal agency bonds, notes and MBS	2,025	442	2,467	15%
Corporate bonds	—	750	750	4%
Other mortgage- and asset-backed securities	—	120	120	1%
Derivatives and other, net	—	12	12	—%
Total investments in the fair value hierarchy	$ 6,749	$ 1,324	8,073	
Assets valued at NAV as a practical expedient:				
Common collective funds			3,517	22%
Alternative investments			4,352	27%
Money market funds and other			281	2%
Total investments at fair value			$ 16,223	100%

Description	As of October 1, 2022			
	Level 1	Level 2	Total	Plan Asset Mix
Cash	$ 177	$ —	$ 177	1%
Common and preferred stocks[1]	3,118	—	3,118	20%
Mutual funds	1,044	—	1,044	7%
Government and federal agency bonds, notes and MBS	2,061	293	2,354	15%
Corporate bonds	—	751	751	5%
Other mortgage- and asset-backed securities	—	84	84	1%
Derivatives and other, net	2	13	15	—%
Total investments in the fair value hierarchy	$ 6,402	$ 1,141	7,543	
Assets valued at NAV as a practical expedient:				
Common collective funds			3,479	22%
Alternative investments			4,208	27%
Money market funds and other			240	2%
Total investments at fair value			$ 15,470	100%

[1] Includes 2.9 million shares of Company common stock valued at $235 million (1% of total plan assets) and 2.9 million shares valued at $273 million (2% of total plan assets) at September 30, 2023 and October 1, 2022, respectively.

Uncalled Capital Commitments

Alternative investments held by the master trust include interests in funds that have rights to make capital calls to the investors. In such cases, the master trust would be contractually obligated to make a cash contribution at the time of the capital call. At September 30, 2023, the total committed capital still uncalled and unpaid was $1.3 billion.

Plan Contributions

During fiscal 2023, the Company made $102 million of contributions to its pension and postretirement medical plans. The Company currently does not expect to make material pension and postretirement medical plan contributions in fiscal 2024. Final minimum funding requirements for fiscal 2024 will be determined based on a January 1, 2024 funding actuarial valuation, which is expected to be received during the fourth quarter of fiscal 2024.

Estimated Future Benefit Payments

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Postretirement Medical Plans[(1)]
2024	$ 768	$ 56
2025	776	55
2026	822	59
2027	866	62
2028	911	64
2029 – 2033	5,132	356

[(1)] Estimated future benefit payments are net of expected Medicare subsidy receipts of $39 million.

Assumptions

Assumptions, such as discount rates, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligations.

Discount Rate — The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. The Company measures service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows.

Long-term rate of return on plan assets — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	6%	to	10%
Debt Securities	3%	to	5%
Alternative Investments	6%	to	11%

Healthcare cost trend rate — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. The 2023 actuarial valuation assumed a 7.00% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over nineteen years until reaching 4.00%.

Sensitivity — A one percentage point change in the discount rate and expected long-term rate of return on plan assets would have the following effects on the projected benefit obligations for pension and postretirement medical plans as of September 30, 2023 and on cost for fiscal 2024:

	Discount Rate		Expected Long-Term Rate of Return On Assets
Increase (decrease)	Benefit Expense	Projected Benefit Obligations	Benefit Expense
1 percentage point decrease	$ 201	$ 2,038	$ 170
1 percentage point increase	(45)	(1,798)	(170)

Multiemployer Benefit Plans

The Company participates in a number of multiemployer pension plans under union and industry-wide collective bargaining agreements that cover our union-represented employees and expenses its contributions to these plans as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers.

- If a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan.

The Company also participates in several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

The following table sets forth our contributions to multiemployer pension and health and welfare benefit plans:

	2023	2022	2021
Pension plans	**$ 316**	$ 402	$ 289
Health & welfare plans	**299**	401	272
Total contributions	**$ 615**	$ 803	$ 561

Defined Contribution Plans

The Company has defined contribution retirement plans for domestic employees who began service after December 31, 2011 and are not eligible to participate in the defined benefit pension plans. In general, the Company contributes from 4% to 10% of an employee's compensation depending on the employee's age and years of service with the Company up to plan limits. The Company has savings and investment plans that allow eligible employees to contribute up to 50% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's contribution up to plan limits. The Company also has defined contribution retirement plans for employees in our international operations. In fiscal 2023, 2022 and 2021, the costs of our domestic and international defined contribution plans were $378 million, $325 million and $254 million, respectively.

11 *Equity*

The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts:

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
AOCI, before tax				
Balance at October 3, 2020	$ (191)	$ (9,423)	$ (1,088)	$ (10,702)
Unrealized gains (losses) arising during the period	70	1,582	41	1,693
Reclassifications of net (gains) losses to net income	(31)	816	—	785
Balance at October 2, 2021	$ (152)	$ (7,025)	$ (1,047)	$ (8,224)
Unrealized gains (losses) arising during the period	1,098	2,635	(967)	2,766
Reclassifications of net (gains) losses to net income	(142)	620	—	478
Balance at October 1, 2022	$ 804	$ (3,770)	$ (2,014)	$ (4,980)
Unrealized gains (losses) arising during the period	(101)	1,594	(2)	1,491
Reclassifications of net (gains) losses to net income	(444)	4	42	(398)
Balance at September 30, 2023	**$ 259**	**$ (2,172)**	**$ (1,974)**	**$ (3,887)**

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
Tax on AOCI				
Balance at October 3, 2020	$ 40	$ 2,201	$ 139	$ 2,380
Unrealized gains (losses) arising during the period	(8)	(358)	(50)	(416)
Reclassifications of net (gains) losses to net income	10	(190)	—	(180)
Balance at October 2, 2021	$ 42	$ 1,653	$ 89	$ 1,784
Unrealized gains (losses) arising during the period	(254)	(608)	50	(812)
Reclassifications of net (gains) losses to net income	33	(144)	—	(111)
Balance at October 1, 2022	$ (179)	$ 901	$ 139	$ 861
Unrealized gains (losses) arising during the period	12	(384)	17	(355)
Reclassifications of net (gains) losses to net income	103	—	(14)	89
Balance at September 30, 2023	**$ (64)**	**$ 517**	**$ 142**	**$ 595**

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
AOCI, after tax				
Balance at October 3, 2020	$ (151)	$ (7,222)	$ (949)	$ (8,322)
Unrealized gains (losses) arising during the period	62	1,224	(9)	1,277
Reclassifications of net (gains) losses to net income	(21)	626	—	605
Balance at October 2, 2021	$ (110)	$ (5,372)	$ (958)	$ (6,440)
Unrealized gains (losses) arising during the period	844	2,027	(917)	1,954
Reclassifications of net (gains) losses to net income	(109)	476	—	367
Balance at October 1, 2022	$ 625	$ (2,869)	$ (1,875)	$ (4,119)
Unrealized gains (losses) arising during the period	(89)	1,210	15	1,136
Reclassifications of net (gains) losses to net income	(341)	4	28	(309)
Balance at September 30, 2023	**$ 195**	**$ (1,655)**	**$ (1,832)**	**$ (3,292)**

Details about AOCI components reclassified to net income are as follows:

Gains (losses) in net income:	Affected line item in the Consolidated Statements of Operations:	**2023**	2022	2021
Market value adjustments, primarily cash flow hedges	Primarily revenue	**$ 444**	$ 142	$ 31
Estimated tax	Income taxes	**(103)**	(33)	(10)
		341	109	21
Pension and postretirement medical expense	Interest expense, net	**(4)**	(620)	(816)
Estimated tax	Income taxes	**—**	144	190
		(4)	(476)	(626)
Foreign currency translation and other	Other income (expense), net	**(42)**	—	—
Estimated tax	Income taxes	**14**	—	—
		(28)	—	—
Total reclassifications for the period		**$ 309**	$ (367)	$ (605)

12 *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management, technology and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs). Certain RSUs awarded to senior executives vest based upon the achievement of market or performance conditions (Performance RSUs).

Stock options are generally granted with a 10 year term at exercise prices equal to or exceeding the market price at the date of grant and become exercisable ratably over a three-year period from the grant date (exercisable ratably over a four-year period from the grant date for awards granted prior to fiscal 2021). At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant. RSUs generally vest ratably over three years (four years for grants awarded prior to fiscal 2021) and Performance RSUs generally fully vest after three years, subject to achieving market or performance conditions. Equity-based award grants generally provide continued vesting, in the event of termination, for employees that reach age 60 or greater, have at least ten years of service and have held the award for at least one year.

Each share granted subject to a stock option award reduces the number of shares available under the Company's stock incentive plans by one share while each share granted subject to a RSU award reduces the number of shares available by two shares. As of September 30, 2023, the maximum number of shares available for issuance under the Company's stock incentive plans (assuming all the awards are in the form of stock options) was approximately 93 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 44 million shares. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares. Stock options and RSUs are generally forfeited by employees who terminate prior to vesting.

Each year, generally during the first half of the year, the Company awards stock options and restricted stock units to a broad-based group of management, technology and creative personnel. The fair value of options is estimated based on the binomial valuation model. The binomial valuation model takes into account variables such as volatility, dividend yield and the risk-free interest rate. The binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being canceled due to the termination of the option holder) in computing the value of the option.

The weighted average assumptions used in the option-valuation model were as follows:

	2023	2022	2021
Risk-free interest rate	3.6%	1.6%	1.2%
Expected volatility	31%	28%	30%
Dividend yield	—%	—%	0.03%
Termination rate	5.9%	5.8%	5.8%
Exercise multiple	1.98	1.98	1.83

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the expected volatility and expected exercise multiple. Increases or decreases in either the expected volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively. The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the service period of the award. Compensation expense for RSUs is based on the market price of the shares underlying the awards on the grant date. Compensation expense for Performance RSUs reflects the estimated probability that the market or performance conditions will be met.

Compensation expense related to stock options and RSUs is as follows:

	2023	2022	2021
Stock option	**$ 76**	$ 88	$ 95
RSUs	**1,067**	889	505
Total equity-based compensation expense[1]	**1,143**	977	600
Tax impact	**(260)**	(221)	(136)
Reduction in net income	**$ 883**	$ 756	$ 464
Equity-based compensation expense capitalized during the period	**$ 145**	$ 148	$ 112

(1) Equity-based compensation expense is net of capitalized equity-based compensation and estimated forfeitures and excludes amortization of previously capitalized equity-based compensation costs.

The following table summarizes information about stock option transactions in fiscal 2023 (shares in millions):

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**18**	**$ 121.28**
Awards granted	**2**	**89.85**
Awards exercised	**(1)**	**60.46**
Awards expired/canceled	**(1)**	**111.62**
Outstanding at end of year	**18**	**$ 120.20**
Exercisable at end of year	**14**	**$ 119.78**

The following tables summarize information about stock options vested and expected to vest at September 30, 2023 (shares in millions):

	Vested		
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
$ 40 — $ 80	1	$ 72.59	0.2
$ 81 — $ 120	9	107.13	3.7
$ 121 — $ 160	3	148.09	6.7
$ 161 — $ 200	1	177.72	7.4
	14		

	Expected to Vest		
Range of Exercise Prices	Number of Options[1]	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
$ 50 — $ 100	2	$ 89.89	9.4
$ 101 — $ 150	1	146.64	6.3
$ 151 — $ 200	1	161.36	7.8
	4		

(1) Number of options expected to vest is total unvested options less estimated forfeitures.

The following table summarizes information about RSU transactions in fiscal 2023 (shares in millions):

	Units[3]	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	**18**	**$ 144.00**
Granted[1]	**18**	**89.66**
Vested	**(9)**	**136.15**
Forfeited	**(3)**	**118.86**
Unvested at end of year[2]	**24**	**$ 109.04**

(1) Includes 0.4 million Performance RSUs

(2) Includes 0.8 million Performance RSUs

(3) Excludes Performance RSUs for which vesting is subject to service conditions and the number of units vesting is subject to the discretion of the CEO. At September 30, 2023, the maximum number of these Performance RSUs that could be issued upon vesting is not material.

The weighted average grant-date fair values of options granted during fiscal 2023, 2022 and 2021 were $33.18, $46.76 and $57.05, respectively, and for RSUs were $89.66, $136.36 and $178.70, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during fiscal 2023, 2022 and 2021 totaled $829 million, $982 million and $1,175 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at September 30, 2023 were $4.8 million and $0 million, respectively.

As of September 30, 2023, unrecognized compensation cost related to unvested stock options and RSUs was $77 million and $1,774 million, respectively. That cost is expected to be recognized over a weighted-average period of 1.1 years for stock options and 1.2 years for RSUs.

Cash received from option exercises for fiscal 2023, 2022 and 2021 was $52 million, $127 million and $435 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU vestings for fiscal 2023, 2022 and 2021 were approximately $190 million, $219 million and $256 million, respectively.

13 *Detail of Certain Balance Sheet Accounts*

	September 30, 2023	October 1, 2022
Current receivables		
Accounts receivable	**$ 10,179**	$ 10,811
Other	**2,266**	1,999
Allowance for credit losses	**(115)**	(158)
	$ 12,330	$ 12,652
Parks, resorts and other property		
Attractions, buildings and improvements	**$ 35,255**	$ 33,795
Furniture, fixtures and equipment	**26,358**	24,409
Land improvements	**7,419**	7,757
Leasehold improvements	**1,058**	1,037
	70,090	66,998
Accumulated depreciation	**(42,610)**	(39,356)
Projects in progress	**6,285**	4,814
Land	**1,176**	1,140
	$ 34,941	$ 33,596

	September 30, 2023	October 1, 2022
Intangible assets		
Character/franchise intangibles, copyrights and trademarks	**$ 10,572**	$ 10,572
MVPD agreements	**8,056**	8,058
Other amortizable intangible assets	**4,016**	4,045
Accumulated amortization	**(11,375)**	(9,630)
Net amortizable intangible assets	**11,269**	13,045
Indefinite lived intangible assets[1]	**1,792**	1,792
	$ 13,061	$ 14,837

(1) Indefinite lived intangible assets consist of ESPN, Pixar and Marvel trademarks and television FCC licenses.

Accounts payable and other accrued liabilities		
Accounts and accrued payables	**$ 15,125**	$ 16,205
Payroll and employee benefits	**3,061**	3,447
Income taxes payable	**2,276**	378
Other	**209**	183
	$ 20,671	$ 20,213

14 *Commitments and Contingencies*

Commitments

The Company has various contractual commitments for rights to sports, films and other programming, totaling approximately $66.8 billion, including approximately $3.0 billion for available programming as of September 30, 2023. The Company also has contractual commitments for the construction of cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives. Contractual commitments for sports programming rights, other programming rights and other commitments including cruise ships and creative talent are as follows:

Fiscal Year:	Sports Programming[1]	Other Programming	Other	Total
2024	$ 10,331	$ 3,286	$ 4,055	$ 17,672
2025	10,631	1,591	2,803	15,025
2026	7,876	941	760	9,577
2027	6,687	671	388	7,746
2028	4,713	565	146	5,424
Thereafter	19,121	376	2,181	21,678
	$ 59,359	$ 7,430	$ 10,333	$ 77,122

(1) Primarily relates to rights for NFL, college football (including bowl games and the College Football Playoff) and basketball, cricket, NBA, NHL, soccer, MLB, UFC, tennis, golf and Top Rank Boxing. Certain sports programming rights have payments that are variable based primarily on revenues and are not included in the table above.

Legal Matters

On May 12, 2023, a private securities class action lawsuit was filed in the U.S. District Court for the Central District of California against the Company, its former Chief Executive Officer, Robert Chapek, its former Chief Financial Officer, Christine M. McCarthy, and the former Chairman of the Disney Media and Entertainment Distribution segment, Kareem Daniel on behalf of certain purchasers of securities of the Company (the "Securities Class Action"). On November 6, 2023, a consolidated complaint was filed in the same action, adding Robert Iger, the Company's Chief Executive Officer, as a defendant. Claims in the Securities Class Action include (i) violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder against all defendants, (ii) violations of Section 20A of the Exchange Act against Iger and McCarthy, and (iii) violations of Section 20(a) of the Exchange Act against all defendants. Plaintiffs in the Securities Class Action allege purported misstatements and omissions concerning, and a scheme to conceal, accurate costs and subscriber growth of the

Disney+ platform. The Company intends to defend against the lawsuit vigorously. The lawsuit is in the early stages and at this time we cannot reasonably estimate the amount of any potential loss.

Two shareholder derivative complaints have been filed. The first, in which Hugues Gervat is the plaintiff, was filed on August 4, 2023, in the U.S. District Court for the Central District of California. The second, in which Stourbridge Investments LLC is the plaintiff, was filed on August 23, 2023 in the U.S. District Court for the District of Delaware. Each named The Walt Disney Company as a nominal defendant and alleged claims on its behalf against the Company's Chief Executive Officer, Robert Iger; its former Chief Executive Officer, Robert Chapek; its former Chief Financial Officer, Christine M. McCarthy; the former Chairman of the Disney Media and Entertainment Distribution segment, Kareem Daniel, and ten current and former members of the Disney Board (Susan E. Arnold; Mary T. Barra; Safra A. Catz; Amy L. Chang; Francis A. deSouza; Michael B.G. Froman; Maria Elena Lagomasino; Calvin R. McDonald; Mark G. Parker; and Derica W. Rice). Along with alleged violations of Sections 10(b), 14(a), 20(a), and Rule 10b-5 of the Securities Exchange Act, premised on the same allegations as the Securities Class Action, plaintiffs in both actions sought to recover for alleged breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and waste. On October 24, 2023, the Stourbridge action was voluntarily dismissed and, on November 16, 2023, was refiled in Delaware state court alleging equivalent theories of liability based on state law. On October 30, 2023, the Gervat action was stayed pending a ruling on an expected motion to dismiss to be filed in the Securities Class Action. The Company intends to defend against these lawsuits vigorously. The lawsuits are in the early stages, and at this time we cannot reasonably estimate the amount of any potential loss.

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

15 *Leases*

The Company's operating leases primarily consist of real estate and equipment, including office space for general and administrative purposes, production facilities, land, cruise terminals, retail outlets and distribution centers for consumer products. The Company also has finance leases, primarily for broadcast equipment and land.

Some of our leases include renewal and/or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the option is considered in calculating the term of the lease. As of September 30, 2023, our operating leases have a weighted-average remaining lease term of approximately 10 years, and our finance leases have a weighted-average remaining lease term of approximately 29 years. The weighted-average incremental borrowing rate is 3.6% and 6.5%, for our operating leases and finance leases, respectively. At September 30, 2023 total estimated future lease payments for non-cancelable lease agreements that have not commenced of approximately $0.5 billion are excluded from the measurement of the right-of-use asset and lease liability.

The Company's operating and finance right-of-use assets and lease liabilities are as follows:

	September 30, 2023	October 1, 2022
Right-of-use assets[1]		
Operating leases	**$ 4,211**	$ 3,966
Finance leases	**291**	303
Total right-of-use assets	**4,502**	4,269
Short-term lease liabilities[2]		
Operating leases	**740**	614
Finance leases	**37**	37
	777	651
Long-term lease liabilities[3]		
Operating leases	**3,258**	3,020
Finance leases	**206**	219
	3,464	3,239
Total lease liabilities	**$ 4,241**	$ 3,890

(1) Included in "Other assets" in the Consolidated Balance Sheet.

(2) Included in "Accounts payable and other accrued liabilities" in the Consolidated Balance Sheet.

(3) Included in "Other long-term liabilities" in the Consolidated Balance Sheet.

The components of lease costs are as follows:

	2023	2022	2021
Finance lease cost			
Amortization of right-of-use assets	**$ 39**	$ 39	$ 42
Interest on lease liabilities	**15**	15	20
Operating lease cost	**820**	796	853
Variable fees and other[1]	**444**	363	414
Total lease cost	**$ 1,318**	$ 1,213	$ 1,329

(1) Includes variable lease payments related to our operating and finance leases and costs of leases with initial terms of less than one year.

Cash paid during the year for amounts included in the measurement of lease liabilities is as follows:

	2023	2022	2021
Operating cash flows for operating leases	**$ 714**	$ 736	$ 925
Operating cash flows for finance leases	**15**	15	20
Financing cash flows for finance leases	**41**	48	25
Total	**$ 770**	$ 799	$ 970

Future minimum lease payments, as of September 30, 2023, are as follows:

	Operating	Financing
Fiscal Year:		
2024	$ 824	$ 47
2025	792	44
2026	504	38
2027	384	33
2028	318	29
Thereafter	2,265	350
Total undiscounted future lease payments	5,087	541
Less: Imputed interest	(1,089)	(298)
Total reported lease liability	$ 3,998	$ 243

16 *Fair Value Measurement*

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level. See Note 10 for definitions of fair value measures and the Levels within the fair value hierarchy.

	Fair Value Measurement at September 30, 2023			
Description	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 46	$ 128	$ —	$ 174
Derivatives				
Foreign exchange	—	1,336	—	1,336
Other	—	18	—	18
Liabilities				
Derivatives				
Interest rate	—	(1,791)	—	(1,791)
Foreign exchange	—	(815)	—	(815)
Other	—	(13)	—	(13)
Other	—	(465)	—	(465)
Total recorded at fair value	$ 46	$ (1,602)	$ —	$ (1,556)
Fair value of borrowings	$ —	$ 40,123	$ 1,333	$ 41,456

Description	Fair Value Measurement at October 1, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 308	$ —	$ —	$ 308
Derivatives				
Interest rate	—	1	—	1
Foreign exchange	—	2,223	—	2,223
Other	—	10	—	10
Liabilities				
Derivatives				
Interest rate	—	(1,783)	—	(1,783)
Foreign exchange	—	(1,239)	—	(1,239)
Other	—	(31)	—	(31)
Other	—	(354)	—	(354)
Total recorded at fair value	$ 308	$ (1,173)	$ —	$ (865)
Fair value of borrowings	$ —	$ 42,509	$ 1,510	$ 44,019

The fair value of Level 2 investments are primarily determined based on an internal valuation model that uses observable inputs such as stock trading price, volatility and risk free rate.

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, had an impact on derivative fair value estimates that was not material.

Level 2 other liabilities are primarily arrangements that are valued based on the fair value of underlying investments, which are generally measured using Level 1 and Level 2 fair value techniques.

Level 2 borrowings, which include commercial paper, U.S. dollar denominated notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

The Company also has assets that are required to be recorded at fair value on a non-recurring basis. These assets are evaluated when certain triggering events occur (including a decrease in estimated future cash flows) that indicate the asset should be evaluated for impairment. In the fourth quarter of fiscal 2023, the Company recorded impairment charges for goodwill as disclosed in Note 18. The fair value of these assets was determined using estimated discounted future cash flows, which is a Level 3 valuation technique (see Note 18 for a discussion of the more significant inputs used in our discounted cash flow analysis).

Credit Concentrations

The Company monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments on an ongoing basis and does not currently anticipate nonperformance by the counterparties.

The Company does not expect that it would realize a material loss, based on the fair value of its derivative financial instruments as of September 30, 2023, in the event of nonperformance by any single derivative counterparty. The Company generally enters into derivative transactions only with counterparties that have a credit rating of A- or better and requires collateral in the event credit ratings fall below A- or aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company does not have material cash and cash equivalent balances with financial institutions that have below investment grade credit ratings and maintains short-term liquidity balances in high quality money market funds. At September 30, 2023, the Company did not have balances (excluding money market funds) with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents.

The Company's trade receivables and financial investments do not represent a significant concentration of credit risk at September 30, 2023 due to the wide variety of customers and markets in which the Company's products are sold, the dispersion of our customers across geographic areas and the diversification of the Company's portfolio among financial institutions.

17 *Derivative Instruments*

The Company manages its exposure to various financial risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

The Company's derivative positions measured at fair value are summarized in the following tables:

	As of September 30, 2023			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$ 595	$ 338	$ (123)	$ (93)
Interest rate	—	—	(1,791)	—
Other	12	6	—	—
Derivatives not designated as hedges[(1)]				
Foreign exchange	384	19	(520)	(79)
Other	—	—	(13)	—
Gross fair value of derivatives	991	363	(2,447)	(172)
Counterparty netting	(770)	(262)	900	132
Cash collateral (received) paid	(123)	(7)	1,257	—
Net derivative positions	$ 98	$ 94	$ (290)	$ (40)

(1) In fiscal 2023, the Company entered into a licensing and promotional arrangement and received warrants to purchase equity that are accounted for as a derivative asset. The warrants are recorded in investments at their fair market value of $128 million at September 30, 2023.

	As of October 1, 2022			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	$ 864	$ 786	$ (228)	$ (350)
Interest rate	—	1	(1,783)	—
Other	10	—	(4)	—
Derivatives not designated as hedges				
Foreign exchange	336	247	(374)	(287)
Other	—	—	(27)	—
Gross fair value of derivatives	1,210	1,034	(2,416)	(637)
Counterparty netting	(831)	(715)	1,070	476
Cash collateral (received) paid	(341)	(151)	1,282	96
Net derivative positions	$ 38	$ 168	$ (64)	$ (65)

Reference Rate Reform

In fiscal 2023, the Company amended its interest rate and cross-currency swap agreements to implement modifications related to changing the reference rates from LIBOR to SOFR and from the Canadian Dollar Offered Rate to the Canadian Overnight Repo Rate Average. In connection with these amendments, the Company applied the hedge accounting relief provided by the Financial Accounting Standards Board (FASB) in ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* to preserve the fair value hedge designation of the interest rate and cross-currency swaps.

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company primarily uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable-rate borrowings. The total notional amount of the Company's pay-floating interest rate swaps as of September 30, 2023 and October 1, 2022, was $13.5 billion and $14.5 billion, respectively.

The following table summarizes fair value hedge adjustments to hedged borrowings:

	Carrying Amount of Hedged Borrowings		Fair Value Adjustments Included in Hedged Borrowings	
	September 30, 2023	October 1, 2022	**September 30, 2023**	October 1, 2022
Borrowings:				
Current	**$ 1,439**	$ 997	**$ (59)**	$ (3)
Long-term	**10,748**	12,358	**(1,694)**	(1,733)
	$ 12,187	$ 13,355	**$ (1,753)**	$ (1,736)

The following amounts are included in "Interest expense, net" in the Consolidated Statements of Income:

	2023	2022	2021
Gain (loss) on:			
Pay-floating swaps	**$ (14)**	$ (1,635)	$ (603)
Borrowings hedged with pay-floating swaps	**14**	1,635	603
Benefit (expense) associated with interest accruals on pay-floating swaps	**(510)**	31	143

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed interest rate swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at September 30, 2023 or at October 1, 2022, and gains and losses related to pay-fixed swaps recognized in earnings for fiscal 2023, 2022 and 2021 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with foreign currency exchange rates. The Company's objective is to reduce earnings and cash flow fluctuations associated with changes in foreign currency exchange rates, enabling management to focus on core business operations.

The Company enters into option and forward contracts to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of September 30, 2023 and October 1, 2022, the notional amounts of the Company's net foreign exchange cash flow hedges were $8.3 billion and $7.4 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Net deferred gains recorded in AOCI for contracts that will mature in

the next twelve months total $488 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI:

	2023	2022	2021
Gain (loss) recognized in Other Comprehensive Income	**$ (136)**	$ 1,093	$ 61
Gain (loss) reclassified from AOCI into the Statement of Operations[(1)]	**446**	116	24

(1) Primarily recorded in revenue.

The Company designates cross currency swaps as fair value hedges of foreign currency denominated borrowings. The impact from the change in foreign currency on both the cross currency swap and borrowing is recorded to "Interest expense, net". The impact from interest rate changes is recorded in AOCI and is amortized over the life of the cross currency swap. As of both September 30, 2023 and October 1, 2022, the total notional amounts of the Company's designated cross currency swaps were Canadian $1.3 billion ($1.0 billion), respectively. The related gains or losses recognized in earnings were not material for the fiscal years ended 2023, 2022 and 2021.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at September 30, 2023 and October 1, 2022 were $3.1 billion and $3.8 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities by the corresponding line item in which they are recorded in the Consolidated Statements of Income:

	Costs and Expenses			Interest expense, net			Income Tax Expense		
	2023	2022	2021	**2023**	2022	2021	**2023**	2022	2021
Net gains (losses) on foreign currency denominated assets and liabilities	**$ (37)**	$ (685)	$ (30)	**$ (15)**	$ 82	$ (47)	**$ (91)**	$ 212	$ (7)
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	**(159)**	547	(83)	**10**	(82)	47	**64**	(208)	2
Net gains (losses)	**$ (196)**	$ (138)	$ (113)	**$ (5)**	$ —	$ —	**$ (27)**	$ 4	$ (5)

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices, and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at September 30, 2023 and October 1, 2022 and related gains or losses recognized in earnings were not material for fiscal 2023, 2022 and 2021.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain total return swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. The notional amount of these contracts at both September 30, 2023 and October 1, 2022 was $0.4 billion, respectively. The related gains or losses recognized in earnings were not material for fiscal 2023, 2022 and 2021.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company's credit rating. In addition, these contracts may require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty's credit rating. If the Company's or the counterparty's credit ratings were to fall below investment grade, such counterparties or the Company would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were $1,587 million and $1,507 million at September 30, 2023 and October 1, 2022, respectively.

18 *Restructuring and Impairment Charges*

Content Impairment

As a result of our strategic change in approach to content curation, we removed content from our Entertainment Direct-to-Consumer services and terminated certain third-party license agreements for the right to use content primarily on our Entertainment Direct-to-Consumer platforms. We recorded charges of $2.6 billion in fiscal 2023, including a $2.0 billion write-off of produced content costs and $0.6 billion to terminate license agreements. We paid approximately $0.4 billion of cash to terminate these license agreements. The charges are recorded in "Restructuring and impairment charges" in the Consolidated Statements of Income.

Goodwill Impairment

In the fourth quarter of fiscal 2023, the Company performed a quantitative goodwill impairment test under both the previous segment reporting structure and the new segment reporting structure. There were no goodwill impairments under the previous reporting structure. The change in reporting structure requires judgment to identify new reporting units, allocate goodwill to these reporting units (based on relative fair values) and assign other recorded assets and liabilities to these reporting units. See Note 2 for additional information regarding the quantitative goodwill impairment assessment.

Our future cash flows are based on internal forecasts for each reporting unit, which consider projected inflation and other economic indicators, as well as industry growth projections. Significant judgments and assumptions in the discounted cash flow model relate to future revenues and certain operating expenses, terminal growth rates and discount rates. Discount rates for each reporting unit are determined based on the inherent risks of each reporting unit's underlying operations. We believe our estimates are consistent with how a marketplace participant would value our reporting units. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results would differ.

Based on our projections, the carrying amounts of our entertainment and international sports linear networks reporting units exceeded their fair values, and we recorded non-cash goodwill impairment charges of approximately $0.7 billion in "Restructuring and impairment charges" in the Consolidated Statement of Income. Goodwill, net of impairments recorded was $77.1 billion as of September 30, 2023

Other

In fiscal 2023, the Company recorded charges of $0.4 billion of severance, $0.1 billion for an impairment of an investment and $0.1 billion for exiting our businesses in Russia. In fiscal 2022, the Company recorded charges of $0.2 billion, primarily due to asset impairments related to exiting our businesses in Russia. In fiscal 2021, the Company recorded restructuring and impairment charges of $0.7 billion, primarily related to the planned closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe as well as severance at our parks and experiences businesses. These charges are reported in "Restructuring and impairment charges" in the Consolidated Statements of Income.

19 *New Accounting Pronouncements*

Accounting Pronouncements Adopted in Fiscal 2023

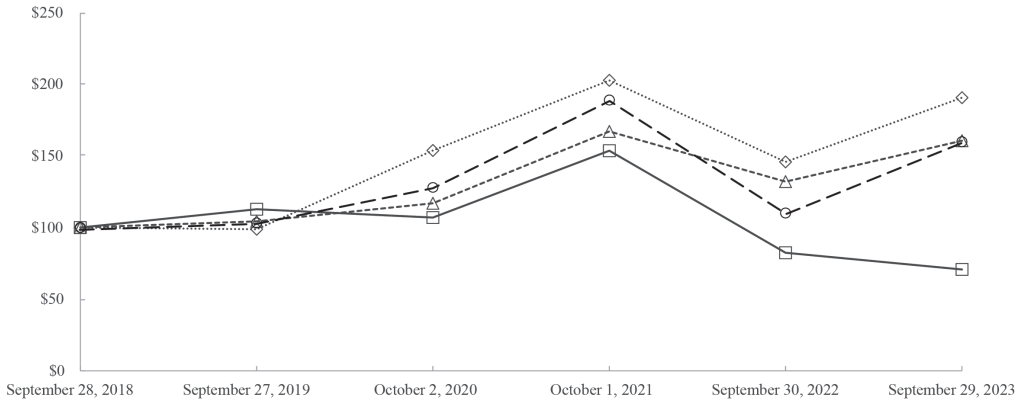
Disclosures by Business Entities about Government Assistance

In November 2021, the FASB issued guidance requiring annual disclosures about transactions with a government that are accounted for by analogizing to a grant or contribution accounting model, including: the nature of the transactions, the accounting for the transactions and the effect of the transactions on the financial statements. The Company adopted the new guidance prospectively in the fourth quarter of fiscal 2023. The adoption did not have a material impact on our financial statements other than additional disclosures related to content production incentives. See Notes 2 and 7 for additional information.

Comparison of five-year cumulative total return

For purposes of this comparison of five-year cumulative total return, we are no longer using our Media Industry Peers custom index and will instead include the S&P 500 Media & Entertainment Industry Group index as we believe it would be more meaningful to our shareholders to provide a comparison with a published industry or line-of-business index. Given that change, for this graph we have also included a comparison of our cumulative total return to both the S&P 500 Media & Entertainment Industry Group index and our Media Industry Peers custom index.

The following graph compares the performance of the Company's common stock with the performance of the S&P 500, the S&P 500 Media & Entertainment Industry Group and the Media Industry Peers, assuming $100 was invested on September 28, 2018 (the last trading day of the 2018 fiscal year) in the Company's common stock, the S&P 500, the S&P 500 Media & Entertainment Industry Group and the Media Industry Peers.



$100	$113	$107	$154	$82	$71	The Walt Disney Company
$100	$104	$117	$167	$132	$160	S&P 500
$100	$103	$129	$189	$110	$160	S&P Media & Entertainment Industry Group
$100	$99	$154	$203	$146	$191	Media Industry Peers

The Media Industry Peers is a custom index consisting of, in addition to The Walt Disney Company, media enterprises Alphabet, Amazon, Apple, AT&T, Comcast, Meta Platforms, Netflix, Paramount and Warner Bros. Discovery.

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BOARD OF DIRECTORS*

Mary T. Barra
Chair and Chief Executive Officer
General Motors Company

Safra A. Catz
Chief Executive Officer
Oracle Corporation

Amy L. Chang
Former Executive Vice President
Cisco Systems, Inc.

Francis A. deSouza
Former President and Chief Executive Officer
Illumina, Inc.

Carolyn N. Everson
Former President
Instacart

Michael B. G. Froman
President
Council on Foreign Relations

D. Jeremy Darroch
Director
Former Executive Chairman and
Group Chief Executive Officer, Sky
Effective 1/9/2024

James P. Gorman
Director
Executive Chairman, Morgan Stanley
Effective 2/5/2024

Robert A. Iger
Chief Executive Officer
The Walt Disney Company

Maria Elena Lagomasino
Chief Executive Officer and Managing Partner
WE Family Offices

Calvin R. McDonald
Chief Executive Officer
lululemon athletica inc.

Mark G. Parker
Chairman of the Board
The Walt Disney Company
Executive Chairman
NIKE, Inc.

Derica W. Rice
Former Executive Vice President
CVS Health Corporation

Hugh F. Johnston
Senior Executive Vice President and
Chief Financial Officer
Effective 12/4/2023

*Titles are as of the end of fiscal 2023.

**On December 21, 2023, Horacio Gutierrez's title was changed to Senior Executive Vice President, Chief Legal and Compliance Officer.

EXECUTIVE OFFICERS*

Robert A. Iger
Chief Executive Officer

Kevin A. Lansberry
Interim Chief Financial Officer

Horacio E. Gutierrez**
Senior Executive Vice President,
General Counsel and
Chief Compliance Officer

Kristina K. Schake
Senior Executive Vice President and
Chief Communications Officer

Sonia L. Coleman
Senior Executive Vice President and
Chief Human Resources Officer

STOCK EXCHANGE

Disney common stock is listed for trading on the New York Stock Exchange under the ticker symbol DIS.

REGISTRAR AND TRANSFER AGENT

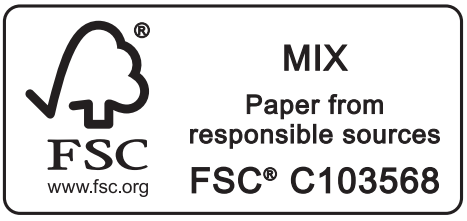
Computershare
Attention: Disney Shareholder Services
P.O. Box 43013
Providence, RI 02940-3013
Phone: 1-855-553-4763

E-Mail:
disneyshareholder@computershare.com
Internet:
www.disneyshareholder.com

A copy of the Company's annual report filed with the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any shareholder upon written request to the name and address listed above.


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PEPSICO

Annual Report 2023









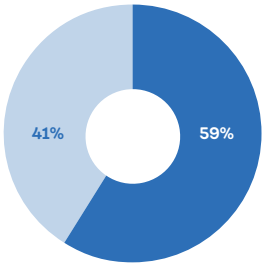




winning with pep+
pepsico positive

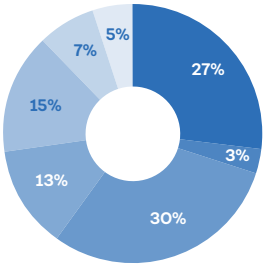
2023 FINANCIAL HIGHLIGHTS

Mix of Net Revenue

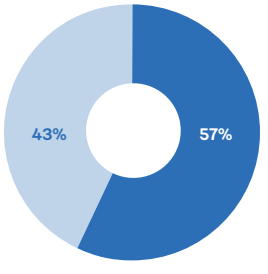


- Food **59%**
- Beverage **41%**

Net Revenue

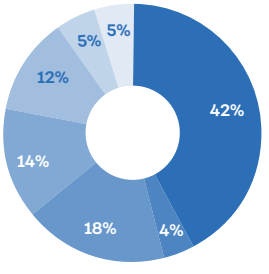


- Frito-Lay North America **27%**
- Quaker Foods North America **3%**
- PepsiCo Beverages North America **30%**
- Latin America **13%**
- Europe **15%**
- Africa, Middle East and South Asia **7%**
- Asia Pacific, Australia and New Zealand and China Region **5%**



- U.S. **57%**
- Outside U.S. **43%**

Core Division Operating Profit[1]



- Frito-Lay North America **42%**
- Quaker Foods North America **4%**
- PepsiCo Beverages North America **18%**
- Latin America **14%**
- Europe **12%**
- Africa, Middle East and South Asia **5%**
- Asia Pacific, Australia and New Zealand and China Region **5%**

PepsiCo, Inc. & Consolidated Subsidiaries

(in millions, except per share data; all per share amounts assume dilution)

Summary of Operations	2023	2022	% Change[2]
Net revenue	**$91,471**	$86,392	6%
Core operating profit[1]	**$13,875**	$12,325	13%
Reported earnings per share	**$6.56**	$6.42	2%
Core earnings per share[3]	**$7.62**	$6.79	12%
Free cash flow[4]	**$8,122**	$5,855	39%
Capital spending	**$5,518**	$5,207	6%
Common share repurchases	**$1,000**	$1,500	-33%
Dividends paid	**$6,682**	$6,172	8%

1. Excludes the mark-to-market net impact of our commodity derivatives, restructuring and impairment charges, acquisition and divestiture-related charges, as well as impairment and other charges. In 2023, also excludes product returns, inventory write-offs and customer and consumer-related costs associated with the voluntary recall of certain bars and cereals in our Quaker Foods North America division (Quaker Recall). In 2022, also excludes the gain associated with the sale of Tropicana, Naked and other select juice brands (Juice Transaction). See page 133 "Reconciliation of GAAP and Non-GAAP Information" for a reconciliation to the most directly comparable financial measure in accordance with U.S. Generally Accepted Accounting Principles (GAAP). On a reported basis, the division operating profit percentages in 2023 were: Frito-Lay North America 47%, Quaker Foods North America 3%, PepsiCo Beverages North America 18%, Latin America 16%, Europe 5%, Africa, Middle East and South Asia 6% and Asia Pacific, Australia and New Zealand and China Region 5%. 2023 and 2022 reported operating profit was $11,986 and $11,512, respectively, reflecting an increase of 4% in 2023.

2. Percentage changes are based on unrounded amounts.

3. Excludes the mark-to-market net impact of our commodity derivatives, restructuring and impairment charges, acquisition and divestiture-related charges, impairment and other charges, as well as pension and retiree medical-related impact. In 2023, also excludes product returns, inventory write-offs and customer and consumer-related costs associated with the Quaker Recall. In 2022, also excludes the gain associated with the Juice Transaction, tax benefit related to the Internal Revenue Service (IRS) audit and tax expense related to the Tax Cuts and Jobs Act (TCJ Act). See page 133 "Reconciliation of GAAP and Non-GAAP Information" for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

4. Includes the impact of net capital spending. See page 133 "Reconciliation of GAAP and Non-GAAP Information" for a reconciliation to the most directly comparable financial measure in accordance with GAAP. 2023 and 2022 net cash provided by operating activities was $13,442 and $10,811, respectively, reflecting an increase of 24% in 2023.

pep+ highlights

pep+ (PepsiCo Positive) is our roadmap for how we operate within planetary boundaries and promote positive change for the planet and people.

Guided by pep+, we're transforming how we grow our ingredients, how we make, move, and sell our iconic portfolio of products, and how we inspire people through our brands. By becoming better, we can help transform the global food system and build a stronger, more sustainable future for all.

POSITIVE AGRICULTURE

We are working to source our crops and ingredients in ways that help restore the earth and strengthen farming communities.

Sustainably Sourced Ingredients

100% of our grower-sourced crops (potatoes, whole corn, and oats) are sustainably sourced in 27 countries, and more than **90% of these crops are sustainably sourced globally** as of 2023.[1]

Regenerative Agriculture

PepsiCo and Walmart announced a 7-year collaboration to pursue up to **$120 million worth of investments to help improve soil and water health** across U.S. and Canadian farmland – helping to lower carbon emissions while supporting the pep+ goal of spreading the adoption of regenerative agriculture practices across 7 million acres by 2030.

POSITIVE CHOICES

We are inspiring people through our brands to make choices that create more smiles for them and the planet.

Expanded Portfolio Offerings

We are more than **83% of the way toward our 2025 targets** in reducing added sugars, sodium, and saturated fat across our beverage and convenient foods portfolio.[2]

In 2023, we introduced two new nutrition goals:

- By 2030, we aim for at least 75% of our global convenient foods portfolio volume to meet or be below recommended category sodium targets.[3]
- By 2030, we aim to deliver 145 billion portions of diverse ingredients annually in our global convenient foods portfolio. Each portion will provide approximately 10% of the suggested daily amount of the relevant ingredient.

POSITIVE VALUE CHAIN

We are helping to build a circular and inclusive value chain.

Climate

In 2023, we continued to work toward our goal of **100% renewable electricity in our direct operations**, and approximately 80% of the electricity we used globally was from renewable sources.[4]

Water

In 2023, we achieved our goal of **25% improvement in operational water-use efficiency** in high water-risk areas vs. 2015 baseline, two years ahead of schedule.[5]

Packaging

In 2023, **31 markets had at least one PepsiCo product with 100% recycled PET (rPET) in its packaging**, including India, where Pepsi Black was the first carbonated beverage to market with a 100% rPET bottle after the country's decision to permit its use in food and beverage applications.

People

As of 2023, **women hold 45% of our global manager roles** and continue to be paid within 1% of men.[6]

We also increased our Black and Hispanic managerial populations in the U.S. to **9.2% and 10.3%, respectively**.[7]

Please see our website (www.pepsico.com) under 'Our Impact' and the following notes for additional information regarding our pep+ goals and progress highlights in this Annual Report. Unless otherwise noted, goals and progress reflect the impact of our acquisitions of Hangzhou Haomusi Food Co., Ltd. (Be & Cheery), BFY Brands, Inc., Pioneer Food Group Ltd. (Pioneer Foods), and SodaStream International Ltd. and our divestiture of Tropicana, Naked and other select juice brands. Organizational changes (e.g., acquisitions, mergers, and divestitures) are evaluated to determine if they have a significant impact on our sustainability performance and, as data becomes available, all reported years for metrics impacted by an organizational change are recast to consistently reflect the impact of the organizational change.

1. For grower-sourced crops, sustainable sourcing refers to meeting the independently verified environmental, social, and economic principles of PepsiCo's Sustainable Farming Program (SFP). For more information on PepsiCo's SFP and the applicable standards, please see https://www.pepsico.com/esg-topics-a-z/agriculture.
2. Based on 2022 data in our Top 26 Beverage markets, which represent 78% of our global beverages volume, and our Top 23 Convenient Foods markets, which represent 86% of our global convenient foods volume. Results reflect exclusion of Be & Cheery portfolio.
3. These targets have been set across 30 product categories ranging from hot cereals to potato and vegetable chips to tortilla chips and are approximately 15 – 30% lower than our current target of 1.3mg/kcal.
4. The goal is being accomplished using a diversified portfolio of solutions, including renewable energy certificates.
5. High water-risk locations defined by World Resources Institute's Aqueduct tool. Results reflect the exclusion of third-party facilities. Between 2006 – 2015, water-use efficiency improved by 26% in global legacy operations at the date of target setting.
6. Based on pay equity program implemented in 71 countries that collectively make up more than 99% of our salaried employee population, after controlling for legitimate drivers of pay such as job level, geographic location, and performance ratings; based on base compensation.
7. To reflect workforce availability of the communities where we operate.

TO OUR SHAREHOLDERS,



I am pleased to inform you that 2023 was another good year for PepsiCo. We exceeded many of our performance goals, innovated across our portfolio, and continued to transform the business and build new capabilities. We did this while continuing to invest in communities where we live and work, create industry-leading partnerships, and nurture our talent and workplace culture. More than ever, we put PepsiCo Positive (pep+) at the center of all that we do, transforming the business from end-to-end to drive sustainable performance and value that positively impacts the planet and our communities.

Our 2023 results show that our Winning with pep+ strategy is working, and it is the key to building an even Faster, Stronger, and Better PepsiCo.

Becoming Even Faster, Stronger, and Better

Our financial performance in 2023 was highlighted by robust 9.5% organic revenue growth, bringing our three-year compound annual organic revenue growth rate to 11%, and 14% growth in core constant currency earnings per share (EPS). We showed very good progress across geographies, with organic revenue up 8% in North America, 12% in our International business, 10% in our Global Convenient Foods business, and 8% in our Global Beverages business.[1]

Our results reflect more than $1 billion in productivity savings, while minimizing waste across our value chain.

From a marketplace perspective, in 2023 we held or gained share in more than half our key global beverage and convenient foods markets. We also received the top spot for manufacturing in the Kantar PoweRanking survey for the eighth consecutive year, a testament to the collaborative relationships we maintain with our customers and partners.

This strong performance enabled us to increase our annualized dividend by 7%, effective with the dividend expected to be paid in June 2024. This will represent PepsiCo's 52nd consecutive annualized dividend per share increase.

Our success in 2023 was powered by the critical investments we're making to accelerate growth and build a company that thrives in the future, such as:

- Advancing major transformation initiatives to increase our productivity, elevate our focus on cost control, and speed up the implementation of our digital strategy;
- Showing progress with the automation of our data and digital infrastructure and expanding critical digital programs in more markets to enable faster decision making;
- Launching our Powering Positive Growth marketing transformation, leveraging the scale and influence of our global brands;
- Driving scope and presence in key consumer channels, like Away from Home and e-commerce; and

1. 2023 reported net revenue increased 5.9%. Three-year compound annual reported net revenue growth was 9%. 2023 reported EPS increased 2%. 2023 North America, International, Global Convenient Foods and Global Beverages reported net revenue increased 6%, 6%, 7% and 4%, respectively. Organic revenue growth and core constant currency EPS growth are non-GAAP financial measures. See page 133 "Reconciliation of GAAP and Non-GAAP Information" for definitions and more information about these results, including a reconciliation to the most directly comparable financial measure in accordance with GAAP.

- Laying the groundwork for the future of the business and our industry, becoming the first consumer packaged goods company to collaborate with the Stanford Institute for Human-Centered Artificial Intelligence to shape responsible and ethical AI standards around consumer goods and retail.

We're also continuing to transform our portfolio with new innovations and more positive choices for consumers. These include:

- Launching Starry, our new lemon-lime soda, as well as mini-snacks canisters and new Beyond the Bottle solutions with Gatorade;
- Introducing our new Pepsi visual identity;
- Refreshing and extending our lineup of bold flavor profiles across large brands with Flamin' Hot and Doritos;
- Reducing sodium in some of our biggest brands like Lay's Classic, Doritos Nacho Cheese, and Cheetos Crunchy in the U.S.; Sabritas Adobadas in Mexico; and Walkers in the U.K.; and
- Reducing added sugars and expanding our zero sugar offerings across our beverage portfolio, with Pepsi Zero Sugar now available in 121 international markets.

People and Planet at the Center

As we work to grow our business and deliver best-in-class performance, we continue to make sure we are a company that has a positive impact beyond our financials.

In 2023, pep+ remained our North Star, and we made progress across its three core pillars: Positive Agriculture, Positive Value Chain, and Positive Choices.

Positive Agriculture:

- Forging industry-leading partnerships to advance our goal of adopting regenerative agriculture practices across seven million acres worldwide, roughly the size of our agricultural footprint. This includes a collaboration with Walmart to cover more than two million acres of farmland in the U.S. and Canada, as well as strategic partnerships with three of the most well-respected U.S. farmer-facing organizations – Practical Farmers of Iowa, the Soil and Water Outcomes Fund, and the Illinois Corn Growers Association; and
- Announcing the third year of our Positive Agriculture Outcomes Accelerator with investments in projects across nine countries that support farmer livelihoods, help scale sustainable innovations, and accelerate the spread of regenerative agriculture.

Positive Value Chain:

- Introducing more sustainable packaging solutions, with 31 markets having at least one product packaged with 100% rPET;
- Continuing to scale new business models that require little or no single-use packaging, allowing users to personalize their choices in reusable containers at home or on the go through SodaStream and expanding Beyond the Bottle at Gatorade and Propel with enhancers, tablets, and powders;
- Opening an industry-leading Greenhouse Learning Center for the Frito-Lay and Quaker Research and Development teams to study compostable packaging, aimed at speeding up the rate of innovation for packaging solutions;
- Launching pep+ Partners for Tomorrow to help our partners achieve their own sustainability goals, bringing PepsiCo's comprehensive customer sustainability offerings under a single umbrella;
- Advancing our Diversity, Equity, and Inclusion agenda around our people to reflect the communities where we operate, including reaching 45% women in management roles globally, while increasing U.S. Black and Hispanic representation at the manager level to 9.2% and 10.3%, respectively. We also continued to strengthen our ability to hire, develop, and retain the best and brightest talent, supporting our business partners, while helping to build an inclusive supply chain and create economic opportunity in the communities we serve;
- Continuing to focus on investing in our employees – both frontline and professional – and providing more opportunities for career advancement; and
- Creating smiles in our communities through the PepsiCo Foundation, investing $47.4 million in more than 40 countries to help unlock access to nutritious food, safe water, and economic opportunity.

Positive Choices:

- Continuing to transform our portfolio with new goals to further reduce sodium and deliver 145 billion portions of diverse ingredients such as legumes, whole grains, plant-based proteins, fruits, vegetables, and nuts and seeds annually by 2030; and
- Expanding the variety of positive choice offerings with our air popped, baked, reduced fat, lightly salted, and Simply branded products, as well as smaller pack sizes.

Performing to Our Potential

From our investments in long-term growth to our actions to build a more resilient and sustainable world, we are proud of our progress in 2023 – a challenging year, defined in many ways by economic instability, geopolitical tensions, high inflation, and a tight labor market. We have proven we can navigate these challenges well. The next few years will no doubt bring new and different challenges, and the landscape will continue to evolve. To remain an industry leader, we must continue to evolve too, seizing new opportunities.

We're coming from a position of strength: we've spent a lot of time and resources building up our technology, our world class talent, our brands, and our capabilities. Now, we need to do the hard work of building on some very strong years to perform to our full potential in 2024 and beyond.

To achieve profitable growth in the years ahead, we will work to accelerate our growth in North America ($55 billion in 2023 reported net revenue) by capturing new consumer needs and occasions, and we'll continue to scale our International business ($36 billion in 2023 reported net revenue) by broadening our presence and availability in key markets where there are many opportunities to develop our categories.

Central to our growth strategy will be building up core capabilities, including:

- **Advancing consumer-centric innovation** by offering more positive choices, delivering new flavors and packaging options, building new ways for consumers to connect with our brands across different occasions, providing opportunities to customize and personalize products, and extending our brands into new channels;
- **Digitalizing our company** by leveraging cutting-edge technologies, such as artificial intelligence and machine learning, to gain more consumer insights and analytics, develop faster and more agile forecasting, and deliver better execution and performance from the plant to the shelf; and
- **Accelerating and expanding our productivity**, with more automation at our plants and warehouses to empower frontline decision-making, greater optimization across our transportation and fleet network, and greater focus on cost management and eliminating waste.

I am more confident than ever that our Winning with pep+ strategy is the right one to achieve these goals and make us an even Faster, even Stronger, and even Better company.

We have the right team to get us there. Our people are the key to our success, and I am proud of our leaders and our associates who continue to deliver exceptional results in a dynamic and complex operating environment.

I'd like to also extend my gratitude to our partners and suppliers around the world for showing us what best-in-class collaboration looks like. With their continued support – and the support of all our stakeholders – we will be well-positioned to achieve our goals for 2024 and move closer to performing to our full potential.

Thank you for your continued support and for trusting us with your investment.



Ramon L. Laguarta
PepsiCo Chairman of the Board of Directors and Chief Executive Officer

PEPSICO BOARD OF DIRECTORS

This list is as of March 22, 2024.

Segun Agbaje
Group Chief Executive Officer, Guaranty Trust Holding Company Plc (GTCO Plc)
Elected 2020

Jennifer Bailey
Vice President, Internet Services, Apple Pay, Apple, Inc.
Elected 2023

Cesar Conde
Chairman, NBCUniversal News Group
Elected 2016

Ian Cook
Former Chairman, President and Chief Executive Officer, Colgate-Palmolive Company
Elected 2008

Edith W. Cooper
Former Executive Vice President and Global Head, Human Capital Management, The Goldman Sachs Group, Inc.
Elected 2021

Susan M. Diamond
Chief Financial Officer, Humana, Inc.
Elected 2023

Dina Dublon
Former Executive Vice President and Chief Financial Officer, JPMorgan Chase & Co.
Elected 2005

Michelle Gass
President and Chief Executive Officer, Levi Strauss & Co.
Elected 2019

Ramon L. Laguarta
Chairman of the Board of Directors and Chief Executive Officer, PepsiCo
Elected 2018

Sir Dave J. Lewis
Former Group Chief Executive Officer, Tesco PLC; Chair, Haleon plc; Chairman of Xlinks
Elected 2020

David C. Page, MD
Professor, Massachusetts Institute of Technology; Former Director and President, Whitehead Institute for Biomedical Research
Elected 2014

Robert C. Pohlad
President of various family-owned entities; Former Chairman and Chief Executive Officer, PepsiAmericas, Inc.
Elected 2015

Daniel Vasella, MD
Former Chairman and Chief Executive Officer, Novartis AG
Elected 2002

Darren Walker
President, Ford Foundation
Elected 2016

Alberto Weisser
Former Chairman and Chief Executive Officer, Bunge Limited
Elected 2011

PEPSICO LEADERSHIP

See pages 27–29 of our Annual Report on Form 10-K for a list of PepsiCo Executive Officers subject to Section 16 of the Securities Exchange Act of 1934.

This list is as of March 22, 2024.

Ramon L. Laguarta
Chairman of the Board of Directors and Chief Executive Officer

Jim Andrew
Executive Vice President and Chief Sustainability Officer

James T. Caulfield
Executive Vice President and Chief Financial Officer

David J. Flavell
Executive Vice President, General Counsel and Corporate Secretary

Athina Kanioura
Executive Vice President and Chief Strategy and Transformation Officer

Stephen Kehoe
Executive Vice President, Chief Corporate Affairs Officer and Chairman of the Board of Directors, PepsiCo Foundation

Ram Krishnan
Chief Executive Officer, PepsiCo Beverages North America

René Lammers
Executive Vice President and Chief Science Officer

Silviu Popovici
Chief Executive Officer, Europe

Gregg Roden
Executive Vice President and Chief Operations Officer

Paula Santilli
Chief Executive Officer, Latin America

Becky Schmitt
Executive Vice President and Chief Human Resources Officer

Wern-Yuen Tan
Chief Executive Officer, Asia Pacific, Australia, New Zealand and China, and Chief Commercial Officer

Jane Wakely
Executive Vice President, Chief Consumer and Marketing Officer and Chief Growth Officer, International Foods

Eugene Willemsen
Chief Executive Officer, Africa, Middle East, South Asia, and International Beverages

Steven Williams
Chief Executive Officer, PepsiCo Foods North America

2023 Citizenship Giving	(in millions)
PepsiCo Foundation	$47
Corporate Contributions	7
Division Contributions	23
Division Estimated In-kind	108
Total	$185

2023 Diversity Statistics	Women % (Global)	People of Color[1] % (U.S. Only)
Board of Directors	33%	40%[2]
Senior Executives[3]	27%	38%
Executives	41%	32%
All Managers	45%	34%
All Employees	27%	49%

The data in this chart is as of December 30, 2023.

1. Based on completed self-identification forms. Defined as ethnically/racially diverse individuals.
2. Global.
3. Composed of PepsiCo Executive Officers subject to Section 16 of the Securities Exchange Act of 1934.

PepsiCo, Inc.
Annual Report 2023
Form 10-K

For the fiscal year ended December 30, 2023

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2023

OR

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

For the transition period from _____ to _____

Commission file number 1-1183



PepsiCo, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

700 Anderson Hill Road, Purchase, New York 10577
(Address of principal executive offices and Zip Code)

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

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value 1-2/3 cents per share	PEP	The Nasdaq Stock Market LLC
0.250% Senior Notes Due 2024	PEP24	The Nasdaq Stock Market LLC
2.625% Senior Notes Due 2026	PEP26	The Nasdaq Stock Market LLC
0.750% Senior Notes Due 2027	PEP27	The Nasdaq Stock Market LLC
0.875% Senior Notes Due 2028	PEP28	The Nasdaq Stock Market LLC
0.500% Senior Notes Due 2028	PEP28A	The Nasdaq Stock Market LLC
3.200% Senior Notes Due 2029	PEP29	The Nasdaq Stock Market LLC
1.125% Senior Notes Due 2031	PEP31	The Nasdaq Stock Market LLC
0.400% Senior Notes Due 2032	PEP32	The Nasdaq Stock Market LLC
0.750% Senior Notes Due 2033	PEP33	The Nasdaq Stock Market LLC
3.550% Senior Notes Due 2034	PEP34	The Nasdaq Stock Market LLC
0.875% Senior Notes Due 2039	PEP39	The Nasdaq Stock Market LLC
1.050% Senior Notes Due 2050	PEP50	The Nasdaq Stock Market LLC

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 ☒ 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 ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 16, 2023, the last day of business of our most recently completed second fiscal quarter, was $255.9 billion (based on the closing sale price of PepsiCo, Inc.'s Common Stock on that date as reported on the Nasdaq Global Select Market).

The number of shares of PepsiCo, Inc. Common Stock outstanding as of February 2, 2024 was 1,374,429,271.

Documents Incorporated by Reference

Portions of the Proxy Statement relating to PepsiCo, Inc.'s 2024 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

PepsiCo, Inc.

Form 10-K Annual Report
For the Fiscal Year Ended December 30, 2023

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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," "expressed confidence," "forecast," "future," "goal," "guidance," "intend," "may," "objective," "outlook," "plan," "position," "potential," "project," "seek," "should," "strategy," "target," "will" or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. These risks and uncertainties include, but are not limited to, those described in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business – Our Business Risks." 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 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.

When used in this report, the terms "we," "us," "our," "PepsiCo" and the "Company" mean PepsiCo, Inc. and its consolidated subsidiaries, collectively. Certain terms used in this Annual Report on Form 10-K are defined in the Glossary included in Item 7. of this report.

Company Overview

We were incorporated in Delaware in 1919 and reincorporated in North Carolina in 1986. We are a leading global beverage and convenient food company with a complementary portfolio of brands, including Lay's, Doritos, Cheetos, Gatorade, Pepsi-Cola, Mountain Dew, Quaker and SodaStream. Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of beverages and convenient foods, serving customers and consumers in more than 200 countries and territories.

Our Operations

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

1) Frito-Lay North America (FLNA), which includes our branded convenient food businesses in the United States and Canada;
2) Quaker Foods North America (QFNA), which includes our branded convenient food businesses, such as cereal, rice, pasta and other branded food, in the United States and Canada;
3) PepsiCo Beverages North America (PBNA), which includes our beverage businesses in the United States and Canada;
4) Latin America (LatAm), which includes all of our beverage and convenient food businesses in Latin America;
5) Europe, which includes all of our beverage and convenient food businesses in Europe;

6) Africa, Middle East and South Asia (AMESA), which includes all of our beverage and convenient food businesses in Africa, the Middle East and South Asia; and

7) Asia Pacific, Australia and New Zealand and China Region (APAC), which includes all of our beverage and convenient food businesses in Asia Pacific, Australia and New Zealand, and China region.

Frito-Lay North America

Either independently or in conjunction with third parties, FLNA makes, markets, distributes and sells branded convenient foods. These foods include branded dips, Cheetos cheese-flavored snacks, Doritos tortilla chips, Fritos corn chips, Lay's potato chips, Ruffles potato chips and Tostitos 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.

Quaker Foods North America

Either independently or in conjunction with third parties, QFNA makes, markets, distributes and sells branded convenient foods, which include cereals, rice, pasta and other branded products. QFNA's products include Cap'n Crunch cereal, Life cereal, Pearl Milling Company syrups and mixes, Quaker Chewy granola bars, Quaker grits, Quaker oatmeal, Quaker rice cakes, Quaker Simply Granola and Rice-A-Roni side dishes. QFNA's branded products are sold to independent distributors and retailers.

PepsiCo Beverages North America

Either independently or in conjunction with third parties, PBNA makes, markets and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including Aquafina, Bubly, Diet Mountain Dew, Diet Pepsi, Gatorade, Gatorade Zero, Mountain Dew, Pepsi and Propel. PBNA operates its own bottling plants and distribution facilities and sells branded finished goods directly to independent distributors and retailers. PBNA 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. PBNA also, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink tea and coffee products through joint ventures with Unilever (under the Lipton brand name) and Starbucks, respectively. Further, PBNA manufactures and distributes certain brands licensed from Keurig Dr Pepper Inc., including Crush, Dr Pepper and Schweppes, and certain juice brands licensed from Dole Food Company, Inc. and Ocean Spray Cranberries, Inc. In 2022, PBNA began to distribute Hard MTN Dew, an alcoholic beverage manufactured and owned by the Boston Beer Company. In the first quarter of 2022, we sold our Tropicana, Naked and other select juice brands to PAI Partners, while retaining a 39% noncontrolling interest in a newly formed joint venture, Tropicana Brands Group (TBG), operating across North America and Europe (Juice Transaction). In the United States, PepsiCo acts as the exclusive distributor for TBG's portfolio of brands for small-format and foodservice customers with chilled direct-store-delivery (DSD). See Note 13 to our consolidated financial statements for further information.

Latin America

Either independently or in conjunction with third parties, LatAm makes, markets, distributes and sells a number of convenient food brands including Cheetos, Doritos, Emperador, Lay's, Marias Gamesa, Ruffles, Sabritas, Saladitas and Tostitos, as well as many Quaker-branded convenient foods. LatAm 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 7UP, Diet 7UP, Gatorade, H2oh!, Manzanita Sol, Mirinda, Pepsi, Pepsi Black, San Carlos and Toddy. These branded products are sold to authorized and independent bottlers, independent distributors and retailers. LatAm

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).

Europe

Either independently or in conjunction with third parties, Europe makes, markets, distributes and sells a number of convenient food brands including Cheetos, Doritos, Lay's, Ruffles and Walkers, as well as many Quaker-branded convenient foods, 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 7UP, Diet Pepsi, Lubimyj Sad, Mirinda, Pepsi and Pepsi Max. These branded products are sold to authorized and independent bottlers, independent distributors and retailers. In certain markets, however, Europe operates its own bottling plants and distribution facilities. Europe also, as part of its beverage business, manufactures and distributes SodaStream sparkling water makers and related products. Further, Europe makes, markets, distributes and sells a number of dairy products including Agusha, Chudo and Domik v Derevne. Europe 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). In the first quarter of 2022, we sold our Tropicana, Naked and other select juice brands to PAI Partners, while retaining a 39% noncontrolling interest in TBG, operating across North America and Europe. See Note 13 to our consolidated financial statements for further information.

Africa, Middle East and South Asia

Either independently or in conjunction with third parties, AMESA makes, markets, distributes and sells a number of convenient food brands including Cheetos, Chipsy, Doritos, Kurkure, Lay's, Sasko, Spekko and White Star, as well as many Quaker-branded convenient foods, through consolidated businesses, as well as through noncontrolled affiliates. AMESA also makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including 7UP, Aquafina, Mirinda, Mountain Dew and Pepsi. These branded products are sold to authorized and independent bottlers, independent distributors and retailers. In certain markets, however, AMESA operates its own bottling plants and distribution facilities. AMESA 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).

Asia Pacific, Australia and New Zealand and China Region

Either independently or in conjunction with third parties, APAC makes, markets, distributes and sells a number of convenient food brands including BaiCaoWei, Cheetos, Doritos, Lay's and Smith's, as well as many Quaker-branded convenient foods, through consolidated businesses, as well as through noncontrolled affiliates. APAC also makes, markets, distributes and sells beverage concentrates, fountain syrups and finished goods under various beverage brands including 7UP, Aquafina, Mirinda, Mountain Dew, Pepsi and Sting. These branded products are sold to authorized and independent bottlers, independent distributors and retailers. APAC 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).

Our Distribution Network

Our products are primarily brought to market through DSD, customer warehouse and distributor networks and are also sold directly to consumers through e-commerce platforms and retailers. 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 and convenient foods 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 distribution centers, both company and third-party operated, to customer warehouses. 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 and convenient foods to restaurants, businesses, schools and stadiums through third-party foodservice and vending distributors and operators.

E-commerce

Our products are also available and sold directly to consumers on a growing number of company-owned and third-party e-commerce websites and mobile commerce applications.

Ingredients and Other Supplies

The principal ingredients we use in our beverage and convenient food products are acesulfame potassium, aspartame, corn, corn sweeteners, flavorings, flour, juice concentrates, oats, 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 convenient foods, aluminum, glass, closures, cardboard and paperboard cartons. In addition, we continue to integrate recyclability into our product development process and support the increased use of recycled content, including recycled PET, in our packaging. Fuel, electricity and natural gas are also important commodities for our businesses due to their use in our and our business partners' facilities and the vehicles delivering our products. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages that would prevent us from meeting our requirements. 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. In addition, we continue to make investments to improve the sustainability and resources of our agricultural supply chain, including the development of our initiative to advance sustainable farming practices by our suppliers and expanding it further globally. During 2023, we continued to experience increased commodity, packaging and other input costs and, in some instances, supply constraints related to the deadly conflict in Ukraine, the inflationary cost environment, adverse weather conditions, supply chain disruptions and labor shortages, which may continue into fiscal 2024. See Note 9 to our consolidated financial statements for further information on how we manage our exposure to commodity prices.

We also maintain voluntary supply chain finance agreements with several participating global financial institutions, pursuant to which our suppliers, at their sole discretion, may elect to sell their accounts receivable with PepsiCo to such global financial institutions. These agreements did not have a material impact on our business or financial results. See "Our Financial Results – Our Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 to our consolidated financial statements for further information.

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, Arto Lifewtr, Baja Blast, BaiCaoWei, Bare, Bokomo, Bubly, Cap'n Crunch, Ceres, Cheetos, Chester's, Chipsy, Chokis, Chudo, Cracker Jack, Crunchy, Diet Mountain Dew, Diet Mug, Diet Pepsi, Diet 7UP (outside the United States), Domik v Derevne, Doritos, Driftwell, Duyvis, Elma Chips, Emperador, Evolve, Fast Twitch, Frito-Lay, Fritos, Fruktovy Sad, G2, Gamesa, Gatorade, Gatorade Fit, Gatorade Zero, Gatorlyte, Grandma's, H2oh!, Hard MTN Dew, Health Warrior, Imunele, J7, Kas, Kurkure, Lay's, Life, Lifewtr, Liquifruit, Lubimyj Sad, Manzanita Sol, Marias Gamesa, Matutano, Mirinda, Miss Vickie's, Moirs, Mother's, Mountain Dew, Mountain Dew Code Red, Mountain Dew Game Fuel, Mountain Dew Kickstart, Mountain Dew Zero Sugar, MTN Dew Energy, Mug, Munchies, Muscle Milk, Near East, Off the Eaten Path, Paso de los Toros, Pasta Roni, Pearl Milling Company, Pepsi, Pepsi Black, Pepsi Max, Pepsi Zero Sugar, PopCorners, Pronutro, Propel, Quaker, Quaker Chewy, Quaker Simply Granola, Rice-A-Roni, Rockstar Energy, Rold Gold, Ruffles, Sabritas, Safari, Sakata, Saladitas Gamesa, San Carlos, Sandora, Santitas, Sasko, 7UP (outside the United States), 7UP Free (outside the United States), Simba, Smartfood, Smith's, Snack a Jacks, SoBe, SodaStream, Sonric's, Spekko, Stacy's, Starry, Starry Zero Sugar, Sting, Stubborn Soda, SunChips, Toddy, Toddynho, Tostitos, V Water, Vesely Molochnik, Walkers, Weetbix, White Star, Ya and Yachak. We also hold long-term licenses to use valuable trademarks in connection with our products in certain markets, including Ocean Spray. We also distribute Celsius energy drinks and various Keurig Dr Pepper Inc. brands, including Dr Pepper in certain markets, Crush and Schweppes. Joint ventures in which we have an ownership interest either own or have the right to use certain trademarks, such as Lipton, Sabra and Starbucks. In addition, in the first quarter of 2022, we sold our Tropicana, Naked and other select juice brands to PAI Partners, while retaining a 39% noncontrolling interest in TBG, operating across North America and Europe. In the United States, PepsiCo acts as the exclusive distributor for TBG's portfolio of brands for small-format and foodservice customers with chilled DSD. See Note 13 to our consolidated financial statements for further information. In 2022, we began to distribute Hard MTN Dew, an alcoholic beverage manufactured and owned by the Boston Beer Company. We have licensed the use of the Hard MTN Dew trademark to the Boston Beer Company, which has appointed us as their distributor for this product. 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 convenient 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.

Seasonality

Our businesses are affected by seasonal variations. Our beverage and convenient food 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 has not had a material impact on our consolidated financial results.

Our Customers

Our customers include wholesale and other distributors, foodservice customers, grocery stores, drug stores, convenience stores, discount/dollar stores, mass merchandisers, membership stores, hard discounters, e-commerce retailers and authorized independent bottlers, among others. 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.

We rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products to the consumer. 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 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.

Changes to the retail landscape, including increased consolidation of retail ownership, the continued growth of sales through e-commerce websites and mobile commerce applications, including through subscription services and other direct-to-consumer businesses, the integration of physical and digital operations among retailers, as well as the international expansion of hard discounters, and the current economic environment continue to increase the importance of major customers. In 2023, sales to Walmart Inc. (Walmart) and its affiliates, including Sam's Club (Sam's), represented approximately 14% of our consolidated net revenue, with sales reported across all of our divisions, including concentrate sales to our independent bottlers, which were used in finished goods sold by them to Walmart. The loss of this customer would have a material adverse effect on our FLNA, QFNA and PBNA divisions.

Our Competition

Our beverage and convenient food products are in highly competitive categories and markets and compete against products of international beverage and convenient food companies that, like us, operate in multiple geographies, as well as regional, local and private label manufacturers and economy brands and other competitors, including smaller companies developing and selling micro brands directly to consumers through e-commerce platforms or through retailers focused on locally-sourced products. In many countries in which our products are sold, including the United States, The Coca-Cola Company is our primary beverage competitor. Other beverage and convenient food competitors include, but are not limited to, Campbell Soup Company, Conagra Brands, Inc., Hormel Foods Corporation, Kellanova, Keurig Dr Pepper Inc., The Kraft Heinz Company, Link Snacks, Inc., Mondelēz International, Inc., Monster Beverage Corporation, Nestlé S.A., Red Bull GmbH and Utz Brands, Inc.

Many of our convenient food products hold significant leadership positions in the convenient food industry in the United States and worldwide. In 2023, we and The Coca-Cola Company represented approximately 19% and 20%, respectively, of the U.S. liquid refreshment beverage category by estimated retail sales in measured channels, according to Information Resources, Inc. However, The Coca-Cola Company has significant carbonated soft drink (CSD) share advantage in many markets outside the United States.

Our beverage and convenient food products compete primarily on the basis of brand recognition and loyalty, taste, price, value, quality, product variety, innovation, distribution, shelf space, advertising, marketing and promotional activity (including digital), packaging, convenience, service and the ability to anticipate and effectively respond to consumer preferences and trends, including increased consumer focus on health and wellness and sustainability and the continued acceleration of e-commerce and other methods of distributing and purchasing products. Success in this competitive environment is dependent on effective promotion of existing products, effective introduction of new products and reformulations of existing products, increased efficiency in production techniques, effective incorporation of technology and digital tools across all areas of our business, the effectiveness of our advertising campaigns, marketing programs, product packaging and pricing, 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.

Research and Development

We engage in a variety of research and development activities and invest in innovation globally with the goal of meeting the needs of our customers and consumers and accelerating growth. These activities principally involve: innovations focused on creating consumer preferred products to grow and transform our portfolio through development of new technologies, ingredients, flavors and substrates; development and improvement of our manufacturing processes, including reductions in cost and environmental footprint; implementing product improvements to our global portfolio that reduce added sugars, sodium or saturated fat; offering more products with functional ingredients and positive nutrition including legumes, whole grains, fruits and vegetables, nuts and seeds, dairy, protein (including plant-based proteins), fiber, micronutrients and hydration; development of packaging technology and new package designs, including reducing the amount of plastic in our packaging and developing recyclable, compostable, biodegradable, reusable or otherwise sustainable packaging; development of marketing, merchandising and dispensing equipment; further expanding our beyond the bottle portfolio including innovation for our SodaStream business; investments in technology and digitalization, including artificial intelligence and data analytics to enhance our consumer insights and research; continuing to strengthen our omnichannel capabilities, particularly in e-commerce; and efforts focused on reducing our impact on the environment, including reducing water use in our operations and our agricultural practices and reducing our environmental impact in our operations throughout our value chain.

Our research centers are located around the world, including in Brazil, China, India, Ireland, Mexico, Russia, South Africa, the United Kingdom and the United States, and leverage consumer insights, food science and engineering to meet our strategy to continually innovate our portfolio of beverages and convenient foods.

Regulatory Matters

The conduct of our businesses, including the production, storage, distribution, sale, display, advertising, marketing, labeling, content, quality, safety, transportation, packaging, disposal, recycling and use of our products, as well as our employment and occupational health and safety practices and protection of personal information, 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 in the more than 200 other countries and territories 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.

The U.S. laws and regulations that we are subject to include, but are not limited to: the Federal Food, Drug and Cosmetic Act and various state laws governing food safety and food labeling; the Food Safety

Modernization Act; the Occupational Safety and Health Act and various state laws and regulations governing workplace health and safety; various federal, state and local environmental protection laws, as discussed below; the Federal Motor Carrier Safety Act; the Federal Trade Commission Act; the Lanham Act and various state law statutory and common law duties regarding false advertising; various federal and state laws and regulations governing competition and trade practices, including the Robinson-Patman Act and the Clayton Act; 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 and those related to overtime compensation, such as the Fair Labor Standards Act; various state and federal laws pertaining to sale and distribution of alcohol beverages; data privacy and personal data protection laws and regulations, including the California Consumer Privacy Act of 2018 (as modified by the California Privacy Rights Act); customs and foreign trade laws and regulations, including laws regarding the import or export of our products or ingredients used in our products and tariffs; laws regulating the sale of certain of our products in schools; laws regulating the ingredients or substances contained in, or attributes of, our products; laws regulating our supply chain, including the 2010 California Transparency in Supply Chains Act and laws relating to the payment of taxes. We are also required to comply with the Foreign Corrupt Practices 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 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, unless the amount of such substance in the product is below a safe harbor level.

We are subject to numerous similar and other laws and regulations outside the United States, including but not limited to laws and regulations governing food safety, international trade and tariffs, supply chains, including the U.K. Modern Slavery Act, occupational health and safety, competition, anti-corruption and data privacy, including the European Union General Data Protection Regulation. 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, including the U.K. Bribery Act. We rely on legal and operational compliance programs, as well as in-house and outside counsel and other experts, to guide our businesses in complying with the laws and regulations around the world that apply to our businesses.

Certain jurisdictions have either imposed, or are considering imposing, new or increased taxes on the manufacture, distribution or sale of our products, ingredients or substances contained in, or attributes of, our products or commodities used in the production of our products. These taxes vary in scope and form: some apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Similarly, some measures apply a single tax rate per ounce/liter on beverages containing over a certain level of added sugar (or other sweetener) while others apply a graduated tax rate depending upon the amount of added sugar (or other sweetener) in the beverage and some apply a flat tax rate on beverages containing a particular substance or ingredient, regardless of the level of such substance or ingredient.

Certain jurisdictions have either imposed, or are considering imposing, product labeling or warning requirements or other limitations on the marketing or sale of certain of our products as a result of ingredients or substances contained in such products or the audience to whom products are marketed. These types of provisions have required that we highlight perceived concerns about a product, warn consumers to avoid consumption of certain ingredients or substances present in our products, restrict the age of consumers to whom products are marketed or sold, limit the location in which our products may be available or discontinue the use of certain ingredients. It is possible that similar or more restrictive requirements may be proposed or enacted in the future.

Certain jurisdictions have either imposed or are considering imposing regulations designed to increase recycling rates, encourage waste reduction, restrict the sale of products utilizing certain packaging or to carry warnings about the environmental impact of plastic packaging. These regulations vary in scope and form from deposit return systems designed to incentivize the return of beverage containers, to extended producer responsibility policies and even restrictions or bans on the use of certain types of packaging, including single-use plastics and packaging containing per- and polyfluoroalkyl substances (PFAS). It is possible that similar or more restrictive requirements may be proposed or enacted in the future.

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, we are subject to the Clean Air Act, the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act and other federal, state and local laws and regulations regarding handling, storage, release and disposal of wastes generated onsite and sent to third-party owned and operated offsite licensed facilities. Our operations outside the United States are subject to similar laws and regulations. In addition, continuing concern over environmental, social and governance matters, including climate change, is expected to continue to result in new or increased legal and regulatory requirements (in or outside of the United States) to reduce emissions to mitigate the potential effects of greenhouse gases, to limit or impose additional costs on commercial water use due to local water scarcity concerns or to expand mandatory reporting of certain environmental, social and governance metrics. Our policy is to abide by all applicable environmental laws and regulations, and we have internal programs in place with respect to our global environmental compliance. We have made, and plan to continue making, necessary expenditures for compliance with applicable environmental laws and regulations and to achieve our sustainability goals. While these expenditures have not had a material impact on our business, financial condition or results of operations to date, changes in environmental compliance requirements, and expenditures necessary to comply with such requirements or to achieve our sustainability goals, could adversely affect our financial performance. In addition, we and our subsidiaries are subject to environmental remediation obligations arising 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 or properties acquired by us or our subsidiaries. While these environmental remediation and indemnification obligations cannot be predicted with certainty, such obligations have not had, and are not expected to have, a material impact on our capital expenditures, earnings or competitive position.

In addition to the discussion in this section, see also “Item 1A. Risk Factors.”

Human Capital

PepsiCo believes that human capital management, including attracting, developing and retaining a high quality workforce, is critical to our long-term success. Our Board of Directors (Board) and its Committees provide oversight on a broad range of human capital management topics, including corporate culture, diversity, equity and inclusion, pay equity, health and safety, training and development and compensation and benefits.

We employed approximately 318,000 people worldwide as of December 30, 2023, including approximately 134,000 people within the United States. We are party to numerous collective bargaining agreements and believe that relations with our employees are generally good.

Protecting the safety, health, and well-being of our associates around the world is PepsiCo’s top priority. We strive to achieve an injury-free work environment. We also continue to invest in emerging technologies to protect our employees from injuries, including leveraging fleet telematics and distracted driving technology, resulting in reductions in road traffic incidents, and deploying ergonomic and machine safety risk reduction solutions.

We believe that our culture of diversity, equity and inclusion is a competitive advantage that fuels innovation, enhances our ability to attract and retain talent and strengthens our reputation. We continually strive to improve the attraction, retention, and advancement of diverse associates to ensure we sustain a high-caliber pipeline of talent that also represents the communities we serve. As of December 30, 2023, our global workforce was approximately 27% female, while management roles were approximately 45% female. As of December 30, 2023, approximately 49% of our U.S. workforce was comprised of racially/ethnically diverse individuals, of which approximately 34% of our U.S. associates in managerial roles were racially/ethnically diverse individuals. The Board has overseen appointments of current direct reports of our Chief Executive Officer, who include 7 executives globally who are racially/ethnically diverse and/or female.

We are also committed to the continued growth and development of our associates. PepsiCo supports and develops its associates through a variety of global training and development programs that build and strengthen employees' leadership and professional skills, including career development plans, mentoring programs and in-house learning opportunities, such as PEP U Degreed, our internal global online learning resource. In 2023, PepsiCo employees completed over 1.5 million hours of training.

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 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.

Investors should note that we currently announce material information to our investors and others using filings with the SEC, press releases, public conference calls, webcasts or our corporate website (www.pepsico.com), including news and announcements regarding our financial performance, key personnel, our brands and our business strategy. Information that we post on our corporate website could be deemed material to investors. We encourage investors, the media, our customers, consumers, business partners and others interested in us to review the information we post on these channels. We may from time to time update the list of channels we will use to communicate information that could be deemed material and will post information about any such change on www.pepsico.com. 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.

The following risks, some of which have occurred and any of which may occur in the future, can have a material adverse effect on our business or financial performance, which in turn can affect the price of our publicly traded securities. These are not the only risks we face. There may be other risks we are not currently aware of or that we currently deem not to be material but that may become material in the future.

Business Risks

Risks associated with the deadly conflict in Ukraine

The deadly conflict in Ukraine and related sanctions have continued to result in worldwide geopolitical and macroeconomic uncertainty. The conflict has resulted and could continue to result in volatile commodity markets, supply chain disruptions, increased risk of cyber incidents or other disruptions to our

information systems, reputational risk, heightened risks to employee safety, business disruptions (including labor shortages), significant volatility of the Russian ruble, limitations on access to credit markets and other corporate banking services, including working capital facilities, reduced availability and increased costs for transportation, energy, packaging and raw materials and other input costs, environmental, health and safety risks related to securing and maintaining facilities, additional sanctions, export controls and other legislation or regulations (including restrictions on the transfer of funds to and from Russia). The ongoing conflict could result in the temporary or permanent loss of assets, including the nationalization or expropriation of assets, result in additional impairment charges or significantly affect our ability to manage our operations in these markets which could result in the deconsolidation of such businesses. We cannot predict how and the extent to which the conflict will continue to affect our employees, operations, customers, consumers or business partners or our ability to achieve certain of our sustainability goals. The conflict has adversely affected and could continue to adversely affect demand for our products and our global business.

Reduction in future demand for our products would adversely affect our business.

Demand for our products depends in part on our ability to innovate and anticipate and effectively respond to shifts in consumer trends and preferences, including the types of products our consumers want and how they browse for, purchase and consume them. Consumer preferences continuously evolve due to a variety of factors, including: changes in consumer demographics, consumption patterns, diet (whether due to changes in consumer behavior and eating habits, the use of weight-loss drugs or other factors) and channel preferences (including continued increases in the e-commerce and online-to-offline channels); pricing; product quality; concerns or perceptions regarding packaging and its environmental impact (such as single-use and other plastic packaging); and concerns or perceptions regarding the nutrition profile and health effects of, or location of origin of, ingredients or substances in our products or packaging, including due to the results of third-party studies (whether or not scientifically valid). Concerns with any of the foregoing could lead consumers to reduce or publicly boycott the purchase or consumption of our products. Pandemics, epidemics or other disease outbreaks, such as COVID-19, and geopolitical events, wars and other military conflicts have also impacted and could continue to impact consumer preferences and demand for our products. Consumer preferences are also influenced by perception of our brand image or the brand images of our products, the success of our advertising and marketing campaigns, our ability to engage with our consumers in the manner they prefer, including through the use of digital media or assets, and the perception of our use of social media and our response to political and social issues, geopolitical events, wars and other military conflicts or catastrophic events. These and other factors have reduced and could continue to reduce consumers' willingness to purchase certain of our products, including as a result of public boycotts. Any inability on our part to anticipate or react to changes in consumer preferences and trends, or make the right strategic investments to do so, including investments in data analytics to understand consumer trends, can lead to reduced demand for our products, lead to inventory write-offs or erode our competitive and financial position, thereby adversely affecting our business. In addition, our business operations, including our supply chain, are subject to disruption by geopolitical events, wars and other military conflicts, natural disasters, pandemics, epidemics or other events beyond our control that could negatively impact product availability and decrease demand for our products if our crisis management plans do not effectively mitigate these issues.

Damage to our reputation or brand image can adversely affect our business.

Maintaining a positive reputation globally is critical to selling our products. Our reputation or brand image has in the past been, and could in the future be, adversely impacted by a variety of factors, including: any failure by us, our business partners, or other actors in the supply chain to maintain high ethical, business and environmental, social and governance practices, including with respect to human rights, child labor, diversity, equity and inclusion, workplace conditions and employee health and safety; any failure, or

perception of a failure, to achieve our environmental, social and governance goals, or any negative perception toward such goals, including with respect to the nutrition profile of our products, diversity, equity and inclusion initiatives, packaging, water use and our impact on the environment; any failure to address health or other concerns about our products, products we distribute (including alcoholic beverages), or particular ingredients in our products, including concerns regarding whether certain of our products contribute to obesity and other health conditions or an increase in public health costs; our research and development efforts; any product quality or safety issues, including the recall of any of our products; any failure to comply with laws and regulations; consumer perception of our advertising campaigns, sponsorship arrangements, marketing programs, use of social media and our response to political and social issues, geopolitical events, wars and other military conflicts or catastrophic events; or any failure to effectively respond to negative or inaccurate comments about us on social media or otherwise regarding any of the foregoing. Damage to our reputation or brand image has in the past and could in the future decrease demand for our products, thereby adversely affecting our business.

Product recalls or other issues or concerns with respect to product quality and safety can adversely affect our business.

We have recalled, and could in the future recall, products due to product quality or safety issues, including actual or alleged mislabeling, misbranding, spoilage, undeclared allergens, adulteration or contamination. Joint ventures in which we have an interest have also recalled, and could in the future recall, products for the same or other reasons. Product recalls, including the voluntary recall of certain bars and cereals in our QFNA division (Quaker Recall), have in the past and could in the future adversely affect our business by resulting in losses due to their cost, the destruction of product inventory, customer fines and returns or lost sales due to any unavailability of the product for a period of time. In addition, product quality or safety issues have in the past and could in the future also reduce consumer confidence and demand for our products, cause production and delivery disruptions, including as a result of temporary or permanent closure of manufacturing plants or facilities, and result in increased costs (including payment of fines and/or judgments, cleaning and remediation costs and legal fees, and costs associated with alternative sources of production) and damage our reputation (or the reputation of joint ventures in which we have an interest), particularly as we or our joint ventures continue to expand into new categories, all of which can adversely affect our business. Any perception or allegation (whether or not valid) of failure to maintain adequate oversight over product quality or safety can result in product recalls, litigation, government investigations or inquiries or civil or criminal proceedings, all of which may result in fines, penalties, damages or criminal liability. Our business can also be adversely affected if consumers lose confidence in product quality, safety and integrity generally, even if such loss of confidence is unrelated to products in our portfolio. In addition, while we currently maintain insurance coverage that, subject to its terms and conditions, is intended to address costs associated with certain aspects of product recalls, this insurance coverage may not, depending on the specific facts and circumstances surrounding an incident, cover all losses or all types of claims that arise from an incident, or the damage to our reputation or brands that may result from an incident.

Any inability to compete effectively can adversely affect our business.

Our products compete against products of international beverage and convenient food companies that, like us, operate in multiple geographies, as well as regional, local and private label and economy brand manufacturers and other competitors, including smaller companies developing and selling micro brands directly to consumers through e-commerce platforms or through retailers focused on locally sourced products. In many countries in which our products are sold, including the United States, The Coca-Cola Company is our primary beverage competitor. Our products compete primarily on the basis of brand recognition and loyalty, taste, price, value, quality, product variety, innovation, distribution, shelf space, advertising, marketing and promotional activity, packaging, convenience, service and the ability to

anticipate and effectively respond to consumer preferences and trends. Our business can be adversely affected if we are unable to effectively promote or develop our existing products or introduce and effectively market new products, if we are unable to effectively adopt new technologies, including artificial intelligence and data analytics to develop new commercial insights and improve operating efficiencies, if we are unable to continuously strengthen and evolve our capabilities in digital marketing, if our competitors spend more aggressively or effectively than we do or if we are otherwise unable to effectively respond to supply disruptions, pricing pressure (including as a result of commodity inflation) or otherwise compete effectively, and we may be unable to grow or maintain sales or category share or we may need to increase capital, marketing or other expenditures.

Failure to attract, develop and maintain a highly skilled and diverse workforce or effectively manage changes in our workforce can have an adverse effect on our business.

Our business requires that we attract, develop and maintain a highly skilled and diverse workforce. Our employees are highly sought after by our competitors and other companies and our continued ability to compete effectively depends on our ability to attract, retain, develop and motivate highly skilled personnel for all areas of our organization. Our ability to do so has been and may continue to be impacted by challenges in the labor market, which has experienced and may continue to experience wage inflation, labor shortages, increased employee turnover, changes in availability of our workforce and changing worker expectations regarding flexible work models. Any unplanned turnover, sustained labor shortage or unsuccessful implementation of our succession plans to backfill current leadership positions, including the Chief Executive Officer, or failure to attract, develop and maintain a highly skilled and diverse workforce, including with key capabilities such as e-commerce and digital marketing and data analytic skills, can deplete our institutional knowledge base, erode our competitive advantage or result in increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. In addition, failure to attract, retain and develop associates from underrepresented communities can damage our business results and our reputation. Any of the foregoing can adversely affect our business.

Water scarcity can adversely affect our business.

We and our business partners use water in the manufacturing of our products. Water is also essential to the production of the raw materials needed in our manufacturing process. Lack of available water of acceptable quality, actions by governmental and non-governmental organizations, investors, customers and consumers on water scarcity and increasing pressure to conserve and replenish water in areas of scarcity and stress, including due to the effects of climate change, can lead to: supply chain disruption; adverse effects on our operations or the operations of our business partners; higher compliance costs; increased capital expenditures (including investments in the development of technologies to enhance water efficiency and reduce consumption); higher production costs, including less favorable pricing for water; the interruption or cessation of operations at, or relocation of, our facilities or the facilities of our business partners; failure to achieve our goals relating to water use; perception of our failure to act responsibly with respect to water use or to effectively respond to legal or regulatory requirements concerning water scarcity; or damage to our reputation, any of which can adversely affect our business.

Changes in the retail landscape or in sales to any key customer can adversely affect our business.

The retail landscape continues to evolve, including continued growth in e-commerce channels and hard discounters. Our business will be adversely affected if we are unable to maintain and develop successful relationships with e-commerce retailers and hard discounters, while also maintaining relationships with our key customers operating in traditional retail channels (many of whom are also focused on increasing their e-commerce sales). Our business can be adversely affected if e-commerce channels and hard discounters take significant additional market share away from traditional retailers or we fail to find ways to create increasingly better digital tools and capabilities for our retail customers to enable them to grow

their businesses. In addition, our business can be adversely affected if we are unable to profitably expand our own direct-to-consumer e-commerce capabilities.

The retail industry is also impacted by the actions and increasing power of retailers, including as a result of increased consolidation of ownership resulting in large retailers or buying groups with increased purchasing power, particularly in North America, Europe and Latin America. In this changing retail landscape, retailers and buying groups have impacted and may continue to impact our ability to compete in these jurisdictions by demanding lower prices or increased promotional programs, removing our products or otherwise reducing shelf space allocated to our products. The increasing power of retailers and consolidation also adversely impacts our smaller customers' ability to compete effectively, resulting in an inability on their part to pay for our products or reduced or canceled orders of our products. Further, we must maintain mutually beneficial relationships with our key customers, including Walmart, to compete effectively. Our inability to resolve a significant dispute with any of our key customers, a change in the business condition (financial or otherwise) of any of our key customers, even if unrelated to us, a significant reduction in sales to any key customer, or the loss of any of our key customers has adversely affected and can continue to adversely affect our business.

Disruption of our manufacturing operations or supply chain, including continued increased commodity, packaging, transportation, labor and other input costs, can adversely affect our business.

We have experienced and could continue to experience disruption in our manufacturing operations and supply chain. Many of the raw materials and supplies used in the production of our products are sourced from countries experiencing war and other military conflict, acts of terrorism, civil unrest, political instability or unfavorable economic conditions. Natural disasters and extreme weather conditions also pose physical risks to our facilities, which could impair our production capabilities and disrupt our supply chain. Some raw materials and supplies, including packaging materials, are available only from a limited number of suppliers or from a sole supplier or are in short supply when seasonal demand is at its peak. There can be no assurance that we will be able to maintain favorable arrangements and relationships with suppliers or that our contingency plans will be effective to mitigate disruptions that may arise from shortages or discontinuation of any raw materials and other supplies that we use in the manufacture, production and distribution of our products or from operational or financial instability of our key suppliers. Any sustained or significant disruption in the future to the manufacturing or sourcing of products or materials could increase our costs and interrupt product supply, which can adversely impact our business.

The raw materials and other supplies, including agricultural commodities, fuel and packaging materials, such as recycled PET, transportation, labor and other supply chain inputs that we use for the manufacturing, production and distribution of our products are subject to price volatility and fluctuations in availability caused by many factors, including changes in supply and demand, supplier capacity constraints, inflation, weather conditions (including potential effects of climate change), fire, natural disasters, disease or pests (including the impact of greening disease on the citrus industry), agricultural uncertainty, health epidemics or pandemics or other contagious outbreaks (including COVID-19), labor shortages or changes in availability of our or our business partners' workforce (including the lack of availability of truck drivers as a result of COVID-19), strikes or work stoppages (including by railway workers or other third parties involved in the manufacture, production and distribution of our products), governmental incentives and controls (including import/export restrictions, such as new or increased tariffs, sanctions, quotas or trade barriers), port congestions or delays, transport capacity constraints, cybersecurity incidents or other disruptions, loss or impairment of key manufacturing sites, political uncertainties, geopolitical events, wars and other military conflicts, acts of terrorism, governmental instability or currency exchange rates. Many of our raw materials and supplies are purchased in the open market and the prices we pay for such items are subject to fluctuation. We continued to experience

increased commodity, packaging and transportation costs during 2023, which may continue. When input prices increase unexpectedly or significantly, we may be unwilling or unable to increase our product prices or unable to effectively hedge against price increases to offset these increased costs without suffering reduced volume, revenue, margins and operating results.

Political, social and geopolitical conditions can adversely affect our business.

Political, social and geopolitical conditions in the markets in which our products are sold have been and could continue to be difficult to predict, resulting in adverse effects on our business. The results of elections, referendums or other political conditions (including government shutdowns), geopolitical events, wars and other military conflicts (such as the ongoing conflicts in Ukraine and the Middle East) in these markets have in the past and could continue to impact how existing laws, regulations and government programs or policies are implemented or result in uncertainty as to how such laws, regulations, programs or policies may change, including with respect to tariffs, sanctions, environmental and climate change regulations, taxes, benefit programs, the movement of goods, services and people between countries, relationships between countries, customer or consumer perception of a particular country or its government and other matters, and has resulted in and could continue to result in exchange rate fluctuation, volatility in global stock markets and global economic uncertainty or adversely affect demand for our products, any of which can adversely affect our business. In addition, political and social conditions in certain cities throughout the United States as well as globally have resulted in demonstrations and protests, including in connection with political elections, civil rights and liberties and geopolitical events. Our operations or the operations of our business partners, including the distribution of our products and the ingredients or other raw materials used in the production of our products, may be disrupted if such events persist for a prolonged period of time, including due to actions taken by governmental authorities in affected cities and regions, which can adversely affect our business.

Our business can be adversely affected if we are unable to grow in developing and emerging markets.

Our success depends in part on our ability to grow our business in developing and emerging markets, including Brazil, China, Mexico, Russia and South Africa. There can be no assurance that our products will be accepted or be successful in any particular developing or emerging market, due to competition, price, cultural differences, consumer preferences, regulation, method of distribution or otherwise. Our business in these markets has been and could continue in the future to be impacted by economic, political and social conditions; geopolitical conflicts, acts of war, terrorist acts, and civil unrest, including demonstrations and protests; competition; tariffs, sanctions or other regulations restricting contact with certain countries in these markets; foreign ownership restrictions; nationalization of our assets or the assets of our business partners; government-mandated closure, or threatened closure, of our operations or the operations of our business partners; restrictions on the import or export of our products or ingredients or substances used in our products; highly inflationary economies; devaluation or fluctuation or demonetization of currency; regulations on the transfer of funds to and from foreign countries, currency controls or other currency exchange restrictions, which result in significant cash balances in foreign countries, from time to time, or can significantly affect our ability to effectively manage our operations in certain of these markets and can result in the deconsolidation of such businesses; the lack of well-established or reliable legal systems; increased costs of doing business due to compliance with complex foreign and U.S. laws and regulations that apply to our international operations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and the Trade Sanctions Reform and Export Enhancement Act; and adverse consequences, such as the assessment of fines or penalties, for any failure to comply with laws and regulations. Our business can be adversely affected if we are unable to expand our business in developing and emerging markets, effectively operate, or manage the risks associated with operating, in these markets, or achieve the return on capital we expect from our investments in these markets.

Changes in economic conditions can adversely impact our business.

Many of the jurisdictions in which our products are sold have experienced and could continue to experience uncertain or unfavorable economic conditions, such as high inflation and adverse changes in interest rates, tax laws or tax rates, including as a result of geopolitical events. These uncertain or unfavorable economic conditions have resulted in and could continue to result in recessions or economic slowdowns; volatile commodity markets; labor shortages; highly inflationary economies, devaluation, fluctuation or demonetization of currency; contraction in the availability of credit; austerity or stimulus measures; the effects of any default by or deterioration in the creditworthiness of the countries in which our products are sold; or a decrease in the fair value of pension or post-retirement assets that could increase future employee benefit costs and/or funding requirements of our pension or post-retirement plans. In addition, we cannot predict how current or future economic conditions will affect our business partners, including financial institutions with whom we do business, and any negative impact on any of the foregoing may also have an adverse impact on our business.

Future cyber incidents and other disruptions to our information systems can adversely affect our business.

We depend on information systems and technology, including public websites and cloud-based services, for many activities important to our business, including communications within our company, interfacing with customers and consumers; ordering and managing inventory; managing and operating our facilities; protecting confidential information, including personal data we collect; maintaining accurate financial records and complying with regulatory, financial reporting, legal and tax requirements. Our business has in the past and could in the future be negatively affected by system shutdowns, degraded systems performance, systems disruptions or security incidents. These disruptions or incidents may be caused by cyberattacks and other cyber incidents, network or power outages, software, equipment or telecommunications failures, the unintentional or malicious actions of employees or contractors, natural disasters, fires or other catastrophic events. In addition, the increase in certain of our employees working remotely has resulted in increased demand on our information technology infrastructure, which can be subject to failure, disruption or unavailability, and increased vulnerability to cyberattacks and other cyber incidents.

Cyberattacks and other cyber incidents are occurring more frequently, the techniques used to gain access to information technology systems and data, disable or degrade service or sabotage systems are constantly evolving and becoming more sophisticated in nature and are being carried out by groups and individuals with a wide range of expertise and motives. In addition, the rapid evolution and increased adoption of artificial intelligence technologies may increase our cybersecurity risks, including generative artificial intelligence augmenting threat actors' technological sophistication to enhance existing or create new malware. Cyberattacks and cyber incidents may be difficult to detect for periods of time and take many forms including cyber extortion, denial of service, social engineering, introduction of viruses or malware (such as ransomware), exploiting vulnerabilities in hardware, software or other infrastructure, hacking, website defacement or theft of passwords and other credentials, unauthorized use of computing resources for digital currency mining and business email compromise. As with other global companies, we are regularly subject to cyberattacks and other cyber incidents, including the types of attacks and incidents described above. Continued geopolitical instability has heightened the risk of cyberattacks. If we do not allocate and effectively manage the resources necessary to continue building and maintaining our information technology infrastructure, or if we fail to timely identify or appropriately respond to cyberattacks or other cyber incidents, our business has been and can continue to be adversely affected, which has resulted in and can continue to result in some or all of the following: transaction errors, processing inefficiencies, inability to access our data or systems, lost revenues or other costs resulting from disruptions or shutdowns of offices, plants, warehouses, distribution centers or other facilities,

intellectual property or other data loss, litigation, claims, legal or regulatory proceedings, inquiries or investigations, fines or penalties, remediation costs, damage to our reputation or a negative impact on employee morale and the loss of current or potential customers. In addition, these risks also exist in acquired businesses, joint ventures or companies we invest in or partner with that use separate information systems or that have not yet been fully integrated into our information systems.

Similar risks exist with respect to our business partners and third-party providers, including suppliers, software and cloud-based service providers, that we rely upon for aspects of various business processes and activities, including procurement, supply chain, manufacturing, distribution, information technology support services and administrative functions (including payroll processing, health and benefit plan administration and certain finance and accounting functions) and the systems managed, hosted, provided and/or used by such third parties and their vendors. For example, malicious actors have employed and could continue to employ the information technology supply chain to introduce malware through software updates or compromised supplier accounts or hardware and exploit known or unknown hardware or software vulnerabilities in our systems or the systems of our vendors and third-party service providers. The need to coordinate with various third-party service providers, including with respect to timely notification and access to personnel and information concerning an incident, may complicate our efforts to address issues that arise. As a result, we are subject to the risk that the activities associated with our third-party service providers can adversely affect our business even if the attack or breach does not directly impact our systems or information.

Although the cyber incidents and other systems disruptions that we have experienced to date have not had a material effect on our business, such incidents or disruptions could have a material adverse effect on us in the future. While we believe we devote significant resources to network security, disaster recovery, employee training and other measures to secure our information technology systems and prevent unauthorized access to or loss of data, there are no guarantees that they will be adequate to safeguard against all cyber incidents, systems disruptions, system compromises or misuses of data. In addition, while we currently maintain insurance coverage that, subject to its terms and conditions, is intended to address costs associated with certain aspects of cyber incidents and information systems failures, this insurance coverage may not, depending on the specific facts and circumstances surrounding an incident, cover all losses or all types of claims that arise from an incident, or the damage to our reputation or brands that may result from an incident.

Failure to successfully complete or manage strategic transactions can adversely affect our business.

We regularly review our portfolio of businesses and evaluate potential acquisitions, joint ventures, distribution agreements, divestitures, refranchisings and other strategic transactions. The success of these transactions is dependent upon, among other things, our ability to realize the full extent of the expected returns, benefits, cost savings or synergies as a result of a transaction, within the anticipated time frame, or at all; and receipt of necessary consents, clearances and approvals. Risks associated with strategic transactions include integrating manufacturing, distribution, sales, accounting, financial reporting and administrative support activities and information technology systems with our company or difficulties separating such personnel, activities and systems in connection with divestitures; operating through new business models or in new categories or territories; motivating, recruiting and retaining executives and key employees; conforming controls (including internal control over financial reporting, disclosure controls and procedures and data protection and cybersecurity) and policies (including with respect to environmental compliance, health and safety compliance and compliance with anti-bribery laws); retaining existing customers and consumers and attracting new customers and consumers; managing tax costs or inefficiencies; maintaining good relations with divested or refranchised businesses in our supply or sales chain; inability to offset loss of revenue associated with divested brands or businesses; recognition of impairment charges in connection with potential divestitures; managing the impact of business

decisions or other actions or omissions of our joint venture partners that may have different interests than we do; and other unanticipated problems or liabilities, such as contingent liabilities and litigation. Strategic transactions that are not successfully completed or managed effectively, or our failure to effectively manage the risks associated with such transactions, have in the past and could continue to result in adverse effects on our business.

Our reliance on third-party service providers and enterprise-wide systems can have an adverse effect on our business.

We rely on third-party service providers, including software and cloud data service providers, for certain areas of our business, including procurement, supply chain, manufacturing, distribution, information technology support services and administrative functions (such as payroll processing, health and benefit plan administration and certain finance and accounting functions). Failure by these third parties to meet their contractual, regulatory and other obligations to us, or our failure to adequately monitor their performance, has in the past and could continue to result in our inability to achieve the expected cost savings or efficiencies and result in additional costs to correct errors made by such service providers. Depending on the function involved, such errors can also lead to business disruption, systems performance degradation, processing inefficiencies or other systems disruptions, the loss of or damage to intellectual property or sensitive data through security breaches or otherwise, incorrect or adverse effects on financial reporting, litigation, claims, legal or regulatory proceedings, inquiries or investigations, fines or penalties, remediation costs, damage to our reputation or have a negative impact on employee morale, all of which can adversely affect our business.

In addition, we continue on our multi-year phased business transformation initiative to migrate certain of our systems, including our financial processing systems, to enterprise-wide systems solutions and have deployed these systems in certain countries and divisions. We have experienced and could continue to experience systems outages and operating inefficiencies following these planned implementations. In addition, if we do not allocate and effectively manage the resources necessary to build and sustain the proper information technology infrastructure, or if we fail to achieve the expected benefits from this initiative, our business could be adversely affected.

Climate change or measures to address climate change and other sustainability matters can negatively affect our business or damage our reputation.

Climate change may increase the frequency or severity of natural disasters and other extreme weather conditions, including rising temperatures and drought. Natural disasters and extreme weather conditions could pose physical risks to our facilities, impair our production capabilities, disrupt our supply chain or impact demand for our products. In addition, climate change or other weather-related disruptions to our supply chain may also have a negative effect on agricultural production resulting in decreased availability or less favorable pricing for certain commodities that are necessary for our products, such as potatoes, sugar cane, corn, wheat, rice, oats, oranges and other commodities. Also, there is an increased focus in many jurisdictions in which our products are made, manufactured, distributed or sold regarding environmental policies relating to climate change, biodiversity loss, deforestation, regulating greenhouse gas emissions, energy policies and sustainability, including single-use plastics. This increased focus may result in new or increased legal and regulatory requirements, such as potential carbon pricing programs or revised product labeling requirements or other regulatory measures, which could, along with initiatives to meet our sustainability goals, continue to result in significant increased costs and require additional investments in facilities and equipment. As a result, the effects of climate change can negatively affect our business and operations. In addition, working toward achieving our sustainability goals will require significant effort and resources from us and other stakeholders, such as our suppliers and other third parties, governmental entities, and the development of technology that may not currently exist or exist at scale. Lack of progress or failure to properly report on our goals with respect to reducing our impact on

the environment or perception of a failure to act responsibly with respect to the environment or to effectively respond to regulatory requirements concerning climate change and other sustainability matters, including the use of single-use plastics, can lead to adverse publicity, which could result in reduced demand for our products, damage to our reputation or increase the risk of litigation, regulatory proceedings, inquiries or investigations. Any of the foregoing can adversely affect our business.

Strikes or work stoppages can cause our business to suffer.

Many of our employees and employees of third parties that are involved in the manufacturing, production or distribution of our products are covered by collective bargaining agreements, and other employees may seek to be covered by collective bargaining agreements. Strikes or work stoppages or other business interruptions have occurred and may occur in the future if we or the third parties that are involved in the manufacturing, production and distribution of our products are unable to renew, or enter into new, collective bargaining agreements on satisfactory terms and can impair manufacturing and distribution of our products, interrupt product supply, lead to a loss of sales, increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency or to adapt to changing business needs or strategy, all of which can adversely affect our business.

Financial Risks

Failure to realize benefits from our productivity initiatives can adversely affect our financial performance.

Our future growth depends, in part, on our ability to continue to reduce costs and improve efficiencies, including our multi-year phased implementation of shared business service organizational models. We continue to identify and implement productivity initiatives that we believe will position our business for long-term sustainable growth by allowing us to achieve a lower cost structure, improve decision-making and operate more efficiently. Some of these measures result in unintended consequences, such as business disruptions, distraction of management and employees, reduced morale and productivity, unexpected employee attrition, an inability to attract or retain key personnel and negative publicity. If we are unable to successfully implement our productivity initiatives as planned or do not achieve expected savings as a result of these initiatives, we may not realize all or any of the anticipated benefits, resulting in adverse effects on our financial performance.

A deterioration in our estimates and underlying assumptions regarding the future performance of our business or investments can result in impairment charges that adversely affect our results of operations.

We conduct impairment tests on our goodwill and other indefinite-lived intangible assets annually or more frequently if circumstances indicate that impairment may have occurred. In addition, amortizable intangible assets, equity method investments, equity investments without readily determinable fair values, investments in available-for-sale debt securities, property, plant and equipment and other long-lived assets are evaluated for impairment upon a significant change in the operating or macroeconomic environment. Our equity method investees also perform similar impairment tests and we record our proportionate share of impairment charges recorded by them, adjusted for the impact of items such as basis differences and deferred taxes, as appropriate. A deterioration in our underlying assumptions, or those of our equity method investees, regarding the impact of competitive operating conditions, geopolitical conditions (including the ongoing conflicts in Ukraine and the Middle East), macroeconomic conditions, including the interest rate environment, or other factors used to estimate the future performance of any of our reporting units or assets, including any deterioration in the weighted-average cost of capital based on market data available at the time, as well as our ability to hold the investment until recovery of fair value to amortized cost for available-for-sale debt securities, have resulted and could in the future result in an impairment charge, thereby adversely affecting our results of operations.

Fluctuations in exchange rates impact our financial performance.

Because our consolidated financial statements are presented in U.S. dollars, the financial statements of our subsidiaries outside the United States, where the functional currency is other than the U.S. dollar, are translated into U.S. dollars. Given our global operations, we also pay for the ingredients, raw materials and commodities used in our business in numerous currencies. Fluctuations in exchange rates, including as a result of inflation, central bank monetary policies, currency controls or other currency exchange restrictions or geopolitical instability have had, and could continue to have, an adverse impact on our financial performance.

Our borrowing costs and access to capital and credit markets can be adversely affected by a downgrade or potential downgrade of our credit ratings.

Rating agencies routinely evaluate us and their ratings are based on a number of factors, including our cash generating capability, levels of indebtedness, policies with respect to shareholder distributions and our financial strength generally, as well as factors beyond our control, such as the state of the economy and our industry. We expect to maintain Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global credit markets at favorable interest rates. Any downgrade or announcement that we are under review for a potential downgrade of our credit ratings, especially any downgrade to below investment grade, can increase our future borrowing costs, impair our ability to access capital and credit markets on terms commercially acceptable to us or at all, result in a reduction in our liquidity, or impair our ability to access the commercial paper market with the same flexibility that we have experienced historically (and therefore require us to rely more heavily on more expensive types of debt financing), all of which can adversely affect our financial performance.

Legal, Tax and Regulatory Risks

Taxes aimed at our products can adversely affect our business or financial performance.

Certain jurisdictions in which our products are sold have either imposed, or are considering imposing, new or increased taxes on the manufacture, distribution or sale of certain of our products, particularly our beverages, as a result of ingredients contained in our products. These taxes vary in scope and form: some apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Similarly, some measures apply a single tax rate per ounce/liter on beverages containing over a certain amount of added sugar (or other sweetener), some apply a graduated tax rate depending upon the amount of added sugar (or other sweetener) in the beverage and others apply a flat tax rate on beverages containing any amount of added sugar (or other sweetener). For example, Romania enacted a graduated tax on all non-alcoholic beverages, effective January 1, 2024, at a rate of 0.4 Romanian Leu (0.09 U.S. dollars) per liter for drinks with a sugar content between 5-8g per 100ml and 0.6 Romanian Leu (0.13 U.S. dollars) per liter for drinks with a sugar content between above 8g per 100ml. These tax measures, whatever their scope or form, have in the past and could continue to increase the cost of certain of our products, reduce overall consumption of our products or lead to negative publicity, resulting in an adverse effect on our business and financial performance.

Limitations on the marketing or sale of our products can adversely affect our business and financial performance.

Certain jurisdictions in which our products are sold have either imposed, or are considering imposing, limitations on the marketing or sale of our products as a result of ingredients or substances in our products or product packaging. These limitations require that we highlight perceived concerns about a product or product packaging, warn consumers to avoid consumption of certain ingredients or substances present in our products, restrict the age of consumers to whom products are marketed or sold, limit the location in which our products may be available or discontinue the use of certain ingredients or packaging. For

example, Colombia enacted warning labeling requirements effective in 2023 to indicate whether a particular pre-packaged food product contains any amount of sweeteners or is considered to be high in added sugar, sodium, saturated fat or trans-fat. Certain jurisdictions have imposed or are considering imposing color-coded labeling requirements where colors such as red, yellow and green are used to indicate various levels of a particular ingredient, such as sugar, sodium or saturated fat, in products. The imposition or proposed imposition of additional limitations on the marketing or sale of our products has in the past reduced and could continue to reduce overall consumption of our products, lead to negative publicity or leave consumers with the perception that our products do not meet their health and wellness needs, resulting in an adverse effect on our business and financial performance.

Laws and regulations related to the use or disposal of plastics or other packaging materials can adversely affect our business and financial performance.

We rely on diverse packaging solutions to safely deliver products to our customers and consumers. Certain of our products are sold in packaging designed to be recyclable, commercially compostable, biodegradable or reusable. However, not all packaging is recovered, whether due to lack of infrastructure, improper disposal or otherwise, and certain of our packaging is not currently recyclable, commercially compostable, biodegradable or reusable. Packaging waste not properly disposed of that displays one or more of our brands has in the past resulted in and could continue to result in negative publicity, litigation, government investigations or other action or reduced consumer demand for our products, adversely affecting our financial performance. Many jurisdictions in which our products are sold have imposed or are considering imposing laws, regulations or policies intended to encourage the use of sustainable packaging, waste reduction, increased recycling rates or decreased use of single-use plastics or to restrict the sale of products utilizing certain packaging. These laws, regulations and policies vary in form and scope and include extended producer responsibility policies, plastic or packaging taxes, minimum recycled content requirements, restrictions on certain products and materials, requirements for bottle caps to be tethered to bottles, restrictions or bans on the use of certain types of packaging, including single-use plastics and packaging containing PFAS, restrictions on labeling related to recyclability, requirements to charge deposit fees and requirements to scale reusable or refillable packaging. For example, the European Union, Peru, South Africa and certain states in the United States, among other jurisdictions, have imposed a minimum recycled content requirement for beverage bottle packaging and similar legislation is under consideration in other jurisdictions. These laws and regulations have in the past increased and could continue to increase the cost of our products, impact demand for our products, result in negative publicity and require us and our business partners, including our independent bottlers, to increase capital expenditures to invest in reducing the amount of virgin plastic or other materials used in our packaging, to develop alternative packaging or to revise product labeling, all of which can adversely affect our business and financial performance.

Failure to comply with personal data protection and privacy laws can adversely affect our business.

We are subject to a variety of continuously evolving and developing laws and regulations in numerous jurisdictions regarding personal data protection and privacy laws. These laws and regulations may be interpreted and applied differently from country to country or, within the United States, from state to state, and can create inconsistent or conflicting requirements. Our efforts to comply with these laws and regulations, including the California Consumer Privacy Act, which was significantly modified by the California Privacy Rights Act, as well as comprehensive privacy legislation in Virginia, Colorado, Utah and Connecticut that became effective in 2023, as well as the European Union's General Data Protection Regulation (GDPR), the U.K. General Data Protection Regulation (which implements the GDPR into U.K. law) and China's Personal Information Protection Act, impose significant costs and challenges that are likely to continue to increase over time, particularly as additional jurisdictions continue to adopt similar regulations. Failure to comply with these laws and regulations or to otherwise protect personal data from

unauthorized access, use or other processing, have in the past and could in the future result in litigation, claims, legal or regulatory proceedings, inquiries or investigations, damage to our reputation, fines or penalties, all of which can adversely affect our business.

Increases in income tax rates, changes in income tax laws or disagreements with tax authorities can adversely affect our financial performance.

Increases in income tax rates or other changes in tax laws, including changes in how existing tax laws are interpreted or enforced, can adversely affect our financial performance. For example, economic and political conditions in countries where we are subject to taxes, including the United States, have in the past and could continue to result in significant changes in tax legislation or regulation. For example, numerous countries have agreed to a statement in support of the Organization for Economic Co-operation and Development model (OECD) rules that propose a partial global profit reallocation and a global minimum tax rate of 15%. Certain countries, including European Union member states, have enacted or are expected to enact legislation incorporating the global minimum tax with effect as early as 2024 and widespread implementation of a global minimum tax is expected by 2025. As the legislation becomes effective in countries in which we do business, our taxes could increase and negatively impact our provision for income taxes. This increasingly complex global tax environment has in the past and could continue to increase tax uncertainty, resulting in higher compliance costs and adverse effects on our financial performance. We are also subject to regular reviews, examinations and audits by numerous taxing authorities with respect to income and non-income based taxes. Economic and political pressures to increase tax revenues in jurisdictions in which we operate, or the adoption of new or reformed tax legislation or regulation, has made and could continue to make resolving tax disputes more difficult and the final resolution of tax audits and any related litigation can differ from our historical provisions and accruals, resulting in an adverse effect on our financial performance.

If we are unable to adequately protect our intellectual property rights, or if we are found to infringe on the intellectual property rights of others, our business can be adversely affected.

We possess intellectual property rights that are important to our business, including ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets. The laws of various jurisdictions in which we operate have differing levels of protection of intellectual property. Our competitive position and the value of our products and brands can be reduced and our business adversely affected if we fail to obtain or adequately protect our intellectual property, including our ingredient formulas, or if there is a change in law that limits or removes the current legal protections afforded our intellectual property. Also, in the course of developing new products or improving the quality of existing products, we have in the past been alleged to have infringed, and could in the future infringe or be alleged to infringe, on the intellectual property rights of others. Such infringement or allegations of infringement could result in expensive litigation and damages, damage to our reputation, disruption to our operations, injunctions against development, manufacturing, use and/or sale of certain products, inventory write-offs or other limitations on our ability to introduce new products or improve the quality of existing products, resulting in an adverse effect on our business.

Failure to comply with laws and regulations applicable to our business can adversely affect our business.

The conduct of our business is subject to numerous laws and regulations relating to the production, storage, distribution, sale, display, advertising, marketing, labeling, content (including whether a product contains genetically engineered ingredients), quality, safety, transportation, supply chain, traceability, sourcing (including pesticide use), packaging, disposal, recycling and use of our products or raw materials, employment and occupational health and safety, environmental, social and governance matters and reporting (including climate change), machine learning and artificial intelligence and data privacy and

protection. In addition, in many jurisdictions, compliance with competition and antitrust laws is of special importance to us due to our competitive position, as is compliance with anti-corruption laws. The imposition of new laws, changes in laws or regulatory requirements or changing interpretations thereof, changes in the enforcement priorities of regulators, and differing or competing regulations and standards across the markets where our products or raw materials are made, manufactured, distributed or sold, have in the past and could continue to result in higher compliance costs, capital expenditures and higher production costs, or make it necessary for us to reformulate certain of our products, resulting in adverse effects on our business. For example, increasing governmental and societal attention to environmental, social and governance matters has resulted and could continue to result in new laws or regulatory requirements, including expanded disclosure requirements that are expected to continue to expand the nature, scope and complexity of matters on which we are required to report. In addition, the entry into new markets or categories has resulted in and could continue to result in our business being subject to additional regulations resulting in higher compliance costs. If one jurisdiction imposes or proposes to impose new laws or regulations that impact the manufacture, distribution or sale of our products, other jurisdictions may follow. Failure to comply with such laws or regulations (or allegations thereof) can subject us to criminal or civil investigations or enforcement actions, including voluntary and involuntary document requests, fines, injunctions, product recalls, penalties, disgorgement of profits or activity restrictions, all of which can adversely affect our business. In addition, the results of third-party studies (whether or not scientifically valid) purporting to assess the health implications of consumption of certain ingredients or substances present in certain of our products or packaging materials have resulted in and could continue to result in our being subject to new taxes and regulations or lawsuits that can adversely affect our business.

Potential liabilities and costs from litigation, claims, legal or regulatory proceedings, inquiries or investigations can have an adverse impact on our business.

We and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations, including but not limited to matters related to our advertising, marketing or commercial practices, product labels, claims and ingredients, personal injury and property damage, intellectual property rights, privacy, employment, tax and insurance matters, environmental, social and governance matters, including concerns or perceptions regarding our packaging and its environmental impact, and matters relating to our compliance with applicable laws and regulations. These matters are inherently uncertain and there is no guarantee that we will be successful in defending ourselves or that our assessment of the materiality of these matters and the likely outcome or potential losses and established reserves will be consistent with the ultimate outcome of such matters. Responding to these matters, even those that are ultimately non-meritorious, requires us to incur significant expense and devote significant resources, and may generate adverse publicity that damages our reputation or brand image. Any of the foregoing can adversely affect our business.

Item 1B. Unresolved Staff Comments.

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2023 fiscal year and that remain unresolved.

Item 1C. Cybersecurity.

Cybersecurity Risk Management and Strategy

We are regularly subject to cyberattacks and other cyber incidents. In response, we have implemented cybersecurity processes, technologies, and controls to aid in our efforts to assess, identify, and manage cybersecurity risks. Our enterprise risk management framework considers cybersecurity risk alongside other company risks as part of our overall risk assessment process. Our enterprise risk management team collaborates with our Information Security function, led by the Company's Chief Strategy and

Transformation Officer and the Company's Chief Information Security Officer, to gather insights for identifying, assessing and managing cybersecurity threat risks, their severity, and potential mitigations.

We assess PepsiCo's Information Security program using an industry-leading cybersecurity framework from the National Institute of Standards and Technology. To help assess and identify our cybersecurity risks, we maintain internal resources to perform penetration testing designed to simulate evolving tactics and techniques of real-world threat actors, engage with industry partners and law enforcement and intelligence communities and conduct tabletop exercises and periodic risk interviews across our business. We also engage an independent third party to perform internal and external penetration testing of PepsiCo's environment periodically and engage other third parties to periodically conduct assessments of our cybersecurity capabilities. In addition, we continue to expand training and awareness practices to mitigate human risk, including mandatory computer-based training, internal communications, and regular phishing awareness campaigns that are designed to emulate real-world contemporary threats and provide immediate feedback (and, if necessary, additional training or remedial action) to employees.

Our processes also address cybersecurity risks associated with our use of third-party service providers including suppliers, software and cloud-based service providers. We proactively evaluate the cybersecurity risk of a third party by utilizing a repository of risk assessments, external monitoring sources, threat intelligence and predictive analytics to better inform PepsiCo during contracting and vendor selection processes. Additionally, when third party risks are identified, we require those third parties to agree by contract to implement appropriate security controls. Security issues are documented and tracked and periodic monitoring is conducted for third parties in order to mitigate risk.

In addition to the processes, technologies, and controls that we have in place to reduce the likelihood of a successful material cyberattack, the Company has established well-defined response procedures to address cyber events that do occur. The program provides for the coordination of various corporate functions and governance groups and serves as a framework for the execution of responsibilities across businesses and operational roles. Our incident response plan coordinates the activities we take to prepare for, detect, respond to and recover from cybersecurity incidents, which include processes to triage, assess severity for, escalate, contain, investigate, and remediate the incident, as well as to assess for potential disclosure, comply with potentially applicable legal obligations and mitigate brand and reputational damage. We also maintain insurance coverage that, subject to its terms and conditions, is intended to address costs associated with certain aspects of cyber incidents and information systems failures.

Based on the information we have as of the date of this Form 10-K, we do not believe any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations or financial condition. See "Item 1A. Risk Factors" for further information about these risks.

Cybersecurity Governance

Cybersecurity is an important part of our risk management processes and an area of focus for our Board and management. Given that cybersecurity risks can impact various areas of responsibility of the Committees of the Board, the Board believes it is useful and effective for the full Board to maintain direct oversight over cybersecurity matters. In 2021, the Board amended our Corporate Governance Guidelines to specifically mention cybersecurity as an area of Board oversight to reflect this existing practice. The Board receives and provides feedback on regular updates from management, including from the Company's Chief Strategy and Transformation Officer and the Company's Chief Information Security Officer, regarding cybersecurity governance processes, the status of projects to strengthen internal cybersecurity, results from third-party assessments, and also discusses any significant cyber incidents, including recent incidents at other companies and the emerging threat landscape.

Our cybersecurity risk management and strategy processes, which are discussed in greater detail above, are led by the Company's Chief Strategy and Transformation Officer and the Company's Chief Information Security Officer. Such individuals have significant prior work experience in various roles across multiple industries involving managing information security, developing cybersecurity strategy, implementing effective information and cybersecurity programs and managing compliance environments.

These members of management are informed about and monitor the prevention, mitigation, detection, and remediation of cybersecurity incidents through their management of, and participation in, the cybersecurity risk management and strategy processes described above, including the operation of our incident response plan.

Item 2. Properties.

Our principal executive office located in Purchase, New York and our facilities located in Plano, Texas, all of which we own, are our most significant corporate properties.

In connection with making, marketing, distributing and selling our products, each division utilizes manufacturing, processing, bottling and production plants, warehouses, distribution centers, storage facilities, offices, including division headquarters, research and development facilities and other facilities, all of which are either owned or leased.

Significant properties by division are as follows:

	Property Type	Location	Owned/ Leased
FLNA	Research and development facility	Plano, Texas	Owned
QFNA	Convenient food plant	Cedar Rapids, Iowa	Owned
PBNA	Research and development facility	Valhalla, New York	Owned
PBNA	Concentrate plant	Arlington, Texas	Owned
LatAm	Convenient food plant	Celaya, Mexico	Owned
LatAm	Two convenient food plants	Vallejo, Mexico	Owned
Europe	Convenient food plant	Leicester, United Kingdom	Owned [(a)]
Europe	Convenient food plant	Kashira, Russia	Owned
Europe	Manufacturing plant	Lehavim, Israel	Owned
Europe	Dairy plant	Moscow, Russia	Owned
AMESA	Convenient food plant	Riyadh, Saudi Arabia	Owned [(a)]
APAC	Convenient food plant	Shanghai, China	Owned [(a)]
FLNA, QFNA, PBNA, LatAm, Corporate	Shared service center	Mexico City, Mexico	Leased
PBNA, LatAm	Concentrate plant	Colonia, Uruguay	Owned [(a)]
PBNA, Europe, AMESA	Two concentrate plants	Cork, Ireland	Owned
PBNA, AMESA, APAC	Concentrate plant	Singapore	Owned [(a)]
All divisions	Shared service center	Hyderabad, India	Leased

(a) The land on which these properties are located is leased.

Most of our plants are owned or leased on a long-term basis. In addition to company-owned or leased properties described above, we also utilize a highly distributed network of plants, warehouses and distribution centers that are owned or leased by our contract manufacturers, co-packers, strategic alliances or joint ventures in which we have an equity interest. We believe that our properties generally are in good operating condition and, taken as a whole, are suitable, adequate and of sufficient capacity for our current operations.

Item 3. Legal Proceedings.

On November 15, 2023, the People of the State of New York filed a lawsuit against PepsiCo, Inc., Frito-Lay, Inc. and Frito-Lay North America, Inc. (the NYS Matter) asserting claims for public nuisance, deceptive acts or practices in the conduct of business, and failure to warn that our packaging was a potential source of plastic pollution, allegedly resulting in plastic pollution in the Buffalo River. This matter is pending in the Commercial Division of the New York State Supreme Court – Erie County. The lawsuit does not specify the amount of damages sought and we believe we have strong defenses to each of these claims. In addition, we and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations. While the results of the NYS Matter and each such other litigation, claim, legal or regulatory proceeding, inquiry and investigation cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our financial condition, results of operations or cash flows. See also "Item 1. Business – Regulatory Matters" and "Item 1A. Risk Factors."

Item 4. Mine Safety Disclosures.

Not applicable.

Information About Our Executive Officers

The following is a list of names, ages and backgrounds of our current executive officers:

Name	Age	Title
James T. Caulfield	64	Executive Vice President and Chief Financial Officer, PepsiCo
David J. Flavell	52	Executive Vice President, General Counsel and Corporate Secretary, PepsiCo
Marie T. Gallagher	64	Senior Vice President and Controller, PepsiCo
Ram Krishnan	53	Chief Executive Officer, PepsiCo Beverages North America
Ramon L. Laguarta	60	Chairman of the Board of Directors and Chief Executive Officer, PepsiCo
Silviu Popovici	56	Chief Executive Officer, Europe
Paula Santilli	59	Chief Executive Officer, Latin America
Becky Schmitt	50	Executive Vice President and Chief Human Resources Officer, PepsiCo
Eugene Willemsen	56	Chief Executive Officer, Africa, Middle East, South Asia and International Beverages
Steven Williams	58	Chief Executive Officer, PepsiCo Foods North America

James T. Caulfield has served as Executive Vice President and Chief Financial Officer, PepsiCo, since November 2023. Prior to that, he served as Senior Vice President and Chief Financial Officer, PepsiCo Foods North America from 2019 to November 2023, as PepsiCo's Senior Vice President, Investor Relations from 2010 to 2019, as Senior Vice President and Chief Financial Officer, PepsiCo Beverages Canada from 2010 to 2011, as Vice President, Corporate Strategy and Development from 2007 to 2010, Vice President, Investor Relations from 2005 to 2007 and as Vice President, Financial Planning and Analysis from 2000 to 2005. He also held a variety of senior finance roles in Frito-Lay North America from 1995 to 2000 and was Director, Corporate Audit from 1993 to 1995. Prior to joining PepsiCo in 1993, Mr. Caulfield was a partner at the accounting firm Coopers & Lybrand.

David J. Flavell has served as Executive Vice President, General Counsel and Corporate Secretary, PepsiCo since 2021. Mr. Flavell previously held a number of leadership roles at PepsiCo, including as Senior Vice President, Deputy General Counsel and Chief Compliance & Ethics Officer for PepsiCo from 2019 to 2021, as Senior Vice President, Deputy General Counsel & Managing Attorney from 2018 to 2019, as Senior Vice President, Deputy General Counsel & General Counsel, International and Global

Groups from 2017 to 2018, as Senior Vice President, Deputy General Counsel & General Counsel, Latin America and Frito-Lay North America from 2016 to 2017, as Senior Vice President, General Counsel, Latin America and Frito-Lay North America from 2015 to 2016, and as Senior Vice President, General Counsel, Asia, Middle East and Africa from 2011 to 2015. Before joining PepsiCo in 2011, Mr. Flavell was general counsel for Danone S.A.'s Asia Pacific and Middle East business. Prior to that, Mr. Flavell served as senior legal counsel at Fonterra Co-operative Group Limited and was a partner at Corrs Chambers Westgarth.

Marie T. Gallagher was appointed PepsiCo's Senior Vice President and Controller in 2011. Ms. Gallagher joined PepsiCo in 2005 as Vice President and Assistant Controller. Prior to joining PepsiCo, Ms. Gallagher was Assistant Controller at Altria Corporate Services from 1992 to 2005 and, prior to that, a senior manager at Coopers & Lybrand.

Ram Krishnan was appointed Chief Executive Officer, PepsiCo Beverages North America, effective February 2024. Prior to that, Mr. Krishnan served as Chief Executive Officer, International Beverages and Chief Commercial Officer of PepsiCo from 2022 to February 2024, as Executive Vice President and Chief Commercial Officer, PepsiCo, from 2019 to 2021, as President and Chief Executive Officer of PepsiCo's Asia Pacific, Australia and New Zealand and China Region from 2018 to 2020, and as PepsiCo's Senior Vice President and Chief Customer Officer for Walmart, leading PepsiCo's global Walmart customer team, from 2016 to 2017. Mr. Krishnan joined PepsiCo in 2006 and held marketing roles of increasing responsibility from 2006 to 2016, including as Senior Vice President and Chief Marketing Officer, Frito-Lay North America from 2014 to 2016, as Senior Vice President, Marketing, Frito-Lay North America from 2012 to 2013 and as Vice President of Global Brands, Frito-Lay North America from 2011 to 2012. Prior to PepsiCo, Mr. Krishnan spent six years at General Motors Company as a marketing manager for Cadillac.

Ramon L. Laguarta has served as PepsiCo's Chief Executive Officer and a director on the Board since 2018, and assumed the role of Chairman of the Board in 2019. Mr. Laguarta previously served as President of PepsiCo from 2017 to 2018. Prior to serving as President, Mr. Laguarta held a variety of positions of increasing responsibility in Europe, including as Commercial Vice President of PepsiCo Europe from 2006 to 2008, PepsiCo Eastern Europe Region from 2008 to 2012, President, Developing & Emerging Markets, PepsiCo Europe from 2012 to 2015, Chief Executive Officer, PepsiCo Europe in 2015, and Chief Executive Officer, Europe Sub-Saharan Africa from 2015 until 2017. From 2002 to 2006, he was General Manager for Iberia Snacks and Juices, and from 1999 to 2001, a General Manager for Greece Snacks. Prior to joining PepsiCo in 1996 as a marketing vice president for Spain Snacks, Mr. Laguarta worked for Chupa Chups, S.A., where he worked in several international assignments in Asia, Europe, the Middle East and the United States. Mr. Laguarta has served as a director of Visa Inc. since 2019.

Silviu Popovici was appointed Chief Executive Officer, Europe, effective 2019. Prior to this role, he served as Chief Executive Officer, Europe Sub-Saharan Africa in 2019 and as President, Europe Sub-Saharan Africa from 2017 to early 2019. Mr. Popovici previously served as President, Russia, Ukraine and CIS (The Commonwealth of Independent States) from 2015 to 2017, and as President, PepsiCo Russia from 2013 to 2015. Mr. Popovici joined PepsiCo in 2011 following PepsiCo's acquisition of Wimm-Bill-Dann Foods OJSC (WBD) and served as General Manager, WBD Foods Division from 2011 until 2012. Prior to the acquisition, Mr. Popovici held senior leadership roles at WBD, running its dairy business from 2008 to 2011 and its beverages business from 2006 to 2008.

Paula Santilli was appointed Chief Executive Officer, Latin America, effective 2019. Previously, she served in various leadership positions at PepsiCo Mexico Foods, as President from 2017 to 2019, as Chief Operating Officer from 2016 to 2017 and as Vice President and General Manager from 2011 to 2016. Prior to joining PepsiCo Mexico Foods, she held a variety of roles, including leadership positions in Beverages in Mexico, as well as in Foods and Snacks in the Latin America Southern Cone region

comprising Argentina, Uruguay and Paraguay. Ms. Santilli joined PepsiCo in 2001 following PepsiCo's acquisition of the Quaker Oats Company. At Quaker, she held various roles of increasing responsibility from 1992 to 2001, including running the regional Quaker Foods and Gatorade businesses in Argentina, Chile and Uruguay.

Becky Schmitt was appointed Executive Vice President and Chief Human Resources Officer, PepsiCo, in June 2023. Prior to that, Ms. Schmitt served as executive vice president, chief people officer of Cognizant Technology Solutions Corp. from 2020 to 2023. Prior to joining Cognizant, Ms. Schmitt served in various executive human resources roles at Walmart, Inc., including as senior vice president, chief people officer of Sam's Club, a division of Walmart, from 2018 to 2020, senior vice president, chief people officer of U.S. eCommerce and corporate functions from late 2016 to 2018, and vice president, human resources – technology from early 2016 to late 2016. Prior to joining Walmart, Ms. Schmitt spent over 20 years with Accenture plc in multiple senior human resources roles globally.

Eugene Willemsen was appointed Chief Executive Officer, Africa, Middle East, South Asia and International Beverages, effective February 2024. Previously he served as Chief Executive Officer, Africa, Middle East, South Asia from 2019 to February 2024, as Chief Executive Officer, Sub-Saharan Africa in 2019 and as Executive Vice President, Global Categories and Franchise Management from 2015 to 2019. Before that, he led the global Pepsi-Lipton Joint Venture as President from 2014 to 2015. Prior to such role, Mr. Willemsen served as PepsiCo's Senior Vice President and General Manager, South East Europe from 2011 to 2013, as Senior Vice President and General Manager, Commercial, Europe from 2008 to 2011, as Senior Vice President and General Manager, Northern Europe from 2006 to 2008, as Vice President, General Manager, Benelux from 2000 to 2005 and as Commercial Director, Benelux for the snacks business from 1998 to 2000. Mr. Willemsen joined PepsiCo in 1995 as a business development manager.

Steven Williams was appointed Chief Executive Officer, PepsiCo Foods North America, effective 2019. Prior to this role, Mr. Williams served in leadership positions for Frito-Lay's U.S. operations, as Senior Vice President, Commercial Sales and Chief Commercial Officer from 2017 to 2019 and as General Manager and Senior Vice President, East Division from 2016 to 2017. Prior to that, he served as General Manager and Senior Vice President, Customer Management for PepsiCo's global Walmart business from 2013 to 2016, as Sales Senior Vice President, North American Nutrition from 2011 to 2013 and as Vice President, Sales, Central Division from 2009 to 2011. Mr. Williams joined PepsiCo in 2001 as a part of PepsiCo's acquisition of the Quaker Oats Company, which he joined in 1997 and has held leadership positions of increasing responsibility in sales and customer management.

Executive officers are elected by our Board, and their terms of office continue until the next annual meeting of the Board or until their successors are elected and have qualified. There are no family relationships among our executive officers.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Stock Trading Symbol – PEP.

Stock Exchange Listings – The Nasdaq Global Select Market is the principal market for our common stock, which is also listed on the SIX Swiss Exchange.

Shareholders – As of February 2, 2024, there were approximately 94,999 shareholders of record of our common stock.

Dividends – We have paid consecutive quarterly cash dividends since 1965. The declaration and payment of future dividends are at the discretion of the Board. Dividends are usually declared in February, May, July and November and paid at the end of March, June and September and the beginning of January. On February 7, 2024, the Board declared a quarterly dividend of $1.265 per share payable April 1, 2024, to shareholders of record on March 1, 2024. For the remainder of 2024, the record dates for these dividend payments are expected to be June 7, September 6 and December 6, 2024, subject to the approval of the Board. On February 9, 2024, we announced a 7% increase in our annualized dividend to $5.42 per share from $5.06 per share, effective with the dividend expected to be paid in June 2024. We expect to return a total of approximately $8.2 billion to shareholders in 2024, comprising dividends of approximately $7.2 billion and share repurchases of approximately $1.0 billion.

For information on securities authorized for issuance under our equity compensation plans, see "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

A summary of our common stock repurchases (in millions, except average price per share) during the fourth quarter of 2023 is set forth in the table below.

Issuer Purchases of Common Stock

Period	Total Number of Shares Repurchased[(a)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
9/9/2023				$ 7,741
9/10/2023-10/7/2023	0.6	$ 174.26	0.6	(105)
				7,636
10/8/2023-11/4/2023	0.3	$ 162.20	0.3	(47)
				7,589
11/5/2023-12/2/2023	0.3	$ 167.35	0.3	(54)
				7,535
12/3/2023-12/30/2023	0.2	$ 168.08	0.2	(35)
Total	**1.4**	**$ 169.31**	**1.4**	**$ 7,500**

(a) All shares were repurchased in open market transactions pursuant to the $10 billion repurchase program authorized by our Board and publicly announced on February 10, 2022, which commenced on February 11, 2022 and will expire on February 28, 2026. Shares repurchased under this program may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Discussion in this Form 10-K includes results of operations and financial condition for 2023 and 2022 and year-over-year comparisons between 2023 and 2022. For discussion on results of operations and financial condition pertaining to 2021 and year-over-year comparisons between 2022 and 2021, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022.

OUR BUSINESS

Executive Overview

PepsiCo is a leading global convenient food and beverage company with a complementary portfolio of brands, including Lay's, Doritos, Cheetos, Gatorade, Pepsi-Cola, Mountain Dew, Quaker and SodaStream. Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of beverages and convenient foods, serving customers and consumers in more than 200 countries and territories.

As a global company with deep local ties, we faced many of the same challenges in 2023 as our consumers, customers, and competitors across the world, including supply chain disruptions; inflationary pressures; shifting consumer preferences and behaviors; ongoing climate issues; a highly competitive operating environment; a rapidly changing retail landscape, including growth in e-commerce; continued macroeconomic and political volatility, including the deadly conflicts in Ukraine and the Middle East; and an evolving regulatory landscape.

To meet the challenges of today – and those of tomorrow – we are driven by an approach called pep+ (PepsiCo Positive). pep+ is a strategic end-to-end transformation of our business, with sustainability at the center of how the company will strive to create growth and value, while inspiring positive change for the planet and people. pep+ guides how we are working to transform our business operations, and can be seen in such efforts as sourcing ingredients and making and selling products in a more sustainable way, to leveraging our more than one billion connections with consumers each day, to driving positive change across our value chain and inspiring people to make choices that are better for themselves and the planet.

pep+ drives action and progress across three key pillars:

Positive Agriculture: We are working to expand and share regenerative practices across seven million acres (approximately equal to the company's agricultural footprint, sustainably source key crops and ingredients, and improve the livelihoods of more people in our agricultural supply chain. Understanding that scale and collaboration are essential to achieve these goals, in 2023, we expanded our partnership approach with new programs aimed at accelerating regenerative agriculture. This included a $120 million investment with Walmart to support regenerative agriculture on more than two million acres of farmland in the United States and Canada and a $216 million investment with three of the most well-respected farmer-facing organizations—Practical Farmers of Iowa, the Soil and Water Outcomes Fund and the Illinois Corn Growers Association—to help drive adoption of regenerative agriculture practices across the United States.

Technology is also a key enabler. Through the third year of our Positive Agriculture Outcomes Accelerator, we invested in a variety of practical advancements with farmers across the globe, including weather stations in Pakistan, on-farm water analysis in Iraq and sprinkler irrigation systems in Colombia.

We have continued developing new solutions, such as fertilizer produced from green hydrogen through a partnership with Fertiberia in Spain, aiming to reduce emissions by 15% in potato crops. And through innovations such as Agroscout, which combines artificial intelligence and drone technology, we are able to identify crop diseases more efficiently, reducing pesticide use and improving crop yields.

Positive Value Chain: We are working to help build a circular and inclusive value chain through actions aiming to: achieve net-zero emissions by 2040; become net water positive by 2030; and introduce more sustainable packaging into the value chain. Our packaging goals include cutting virgin plastic per serving, using more recycled content in our plastic packaging, and scaling our reusable packaging offerings by 2030.

As we work to decarbonize our operations, alongside growing our use of electric and alternative low emission fuel vehicles, in 2023 we opened our first biomethane plant at our foods site in Manisa, Turkey, converting dried corn husks and potato peelings into biogas. We are also embedding pep+ into our new facilities, including our $320 million manufacturing facility in Poland.

To support our customers on their sustainability journey, we launched pep+ Partners for Tomorrow in the United States to share training and initiatives on one platform. We are focused on reducing virgin plastic through new launches of bottles made with recycled plastic in India and the United Arab Emirates, while also expanding paper options, such as our Quaker pots and Walkers multipacks in the United Kingdom. In December 2023, Walkers Sunbites announced the introduction of new packaging made with 50% recycled plastic. Through 2023, we continued to scale new business models that require little or no single-use packaging, including the iconic SodaStream, already sold in more than 40 countries. We also offer returnable bottles in Mexico and Spain and are engaged in reusable cup pilots, including in the United States.

We are also making progress on our diversity, equity and inclusion journey around the world. And we continue to empower each of our approximately 318,000 employees to make a positive impact in their communities through our global workforce volunteering program, One Smile at a Time.

Positive Choices: We continue working to evolve our portfolio of convenient food and beverage products so they continue to be positive for the planet and people, including by incorporating more diverse ingredients in both new and existing products, prioritizing legumes, plant-based proteins, whole grains and fruits and vegetables; expanding our position in the nuts and seeds category; accelerating our reduction of added sugars and sodium through the use of science-based targets across our portfolio; and cooking our food offerings with healthier oils. In 2023, we announced two new ambitious nutrition goals, which aim to further reduce sodium and purposefully deliver 145 billion portions of diverse ingredients annually by 2030.

We believe these priorities will position our Company for long-term sustainable growth.

See also “Item 1A. Risk Factors” for further information about risks and uncertainties that the Company faces.

Our Operations

See “Item 1. Business” for information on our divisions and a description of our distribution network, ingredients and other supplies, brands and intellectual property rights, seasonality, customers, competition, research and development, regulatory matters and human capital. In addition, see Note 1 to our consolidated financial statements for financial information about our divisions and geographic areas.

Other Relationships

Certain members of our Board also serve on the boards of certain vendors and customers. These Board members do not participate in our vendor selection and negotiations nor in our customer negotiations. Our

transactions with these vendors and customers are in the normal course of business and are consistent with terms negotiated with other vendors and customers. In addition, certain of our employees serve on the boards of Pepsi Bottling Ventures LLC and other affiliated companies of PepsiCo and do not receive incremental compensation for such services.

Our Business Risks

Risks Associated with Commodities and Our Supply Chain

During 2023, we continued to experience significantly higher operating costs, including on transportation, labor and commodity (including energy) costs, which may continue in 2024. Many of the commodities used in the production and transportation of our products 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. A number of external factors, including the ongoing conflict in Ukraine, the inflationary cost environment, adverse weather conditions, supply chain disruptions (including raw material shortages) and labor shortages, have impacted and may continue to impact transportation, labor and commodity availability and costs. When prices increase, we may or may not pass on such increases to our customers without suffering reduced volume, revenue, margins and operating results.

See Note 9 to our consolidated financial statements for further information on how we manage our exposure to commodity prices.

Risks Associated with Climate Change

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased legal and regulatory requirements to reduce or mitigate the potential effects of climate change, including regulation of greenhouse gas emissions and potential carbon pricing programs. These new or increased legal or regulatory requirements, along with initiatives to meet our sustainability goals, could result in significant increased costs and additional investments in facilities and equipment. However, we are unable to predict the scope, nature and timing of any new or increased environmental laws and regulations and therefore cannot predict the ultimate impact of such laws and regulations on our business or financial results. We continue to monitor existing and proposed laws and regulations in the jurisdictions in which our products are made, manufactured, distributed and sold and to consider actions we may take to potentially mitigate the unfavorable impact, if any, of such laws or regulations.

Risks Associated with International Operations

We are subject to risks in the normal course of business that are inherent to international operations. During the periods presented in this report, certain jurisdictions in which our products are made, manufactured, distributed or sold, including in certain developing and emerging markets, operated in a challenging environment, experiencing unstable economic, political and social conditions, civil unrest, geopolitical conflicts, acts of war, terrorist acts, natural disasters, debt and credit issues and currency controls or fluctuations. We continue to monitor the economic, operating and political environment in these markets closely, including risks of additional impairments or write-offs, and to identify actions to potentially mitigate any unfavorable impacts on our future results.

See Notes 1 and 4 to our consolidated financial statements for a discussion of impairment charges recognized in the years ended December 30, 2023 and December 31, 2022.

Risks Associated with the Deadly Conflict in Ukraine

In addition to the risks associated with international operations discussed above, we continue to face risks associated with the ongoing conflict in Ukraine. The conflict and related sanctions imposed on Russia by

the United States and others has continued to result in worldwide geopolitical and macroeconomic uncertainty and has impacted our operations in Ukraine and Russia. We have suspended sales to our customers of Pepsi-Cola and certain of our other global beverage brands, our discretionary capital investments and advertising and promotional activities in Russia, which has negatively impacted and could continue to negatively impact our business. We continue to offer our other products in Russia. Our operations in Russia accounted for 4% and 5% of our consolidated net revenue for the years ended December 30, 2023 and December 31, 2022, respectively. Russia accounted for 3% and 4% of our consolidated assets and 35% and 32% of our accumulated currency translation adjustment loss as of December 30, 2023 and December 31, 2022, respectively. Our operations in Ukraine accounted for 0.3% and 0.2% of our consolidated net revenue for the years ended December 30, 2023 and December 31, 2022, respectively. Ukraine accounted for 0.1% of our consolidated assets as of December 30, 2023 and December 31, 2022.

The conflict has resulted and could continue to result in volatile commodity markets, supply chain disruptions, increased risk of cyber incidents or other disruptions to our information systems, reputational risks, heightened risks to employee safety, business disruptions (including labor shortages), significant volatility of the Russian ruble, limitations on access to credit markets and other corporate banking services, including working capital facilities, reduced availability and increased costs for transportation, energy, packaging, raw materials and other input costs, environmental, health and safety risks related to securing and maintaining facilities, additional sanctions, export controls and other legislation or regulations (including restrictions on the transfer of funds to and from Russia). The ongoing conflict could result in the temporary or permanent loss of assets, including the nationalization or expropriation of assets, result in additional impairment charges or significantly affect our ability to manage our operations in these markets which could result in the deconsolidation of such businesses. We cannot predict how and the extent to which the conflict will continue to affect our employees, customers, operations or business partners or impact our ability to achieve certain of our sustainability goals. The conflict has adversely affected and could continue to adversely affect demand for our products and our global business. See Notes 1 and 4 to our consolidated financial statements for a discussion of the Russia-Ukraine conflict charges, including impairment charges, recognized in the year ended December 31, 2022.

The extent of the impact of these tragic events on our business remains uncertain and will continue to depend on numerous evolving factors that we are not able to accurately predict, including the duration and scope of the conflict, regional instability and ongoing and additional financial and economic sanctions, export controls and other legislation imposed by governments. We will continue to monitor and assess the situation as circumstances evolve and to identify actions to potentially mitigate any unfavorable impacts on our future results.

Imposition of Taxes and Regulations on our Products

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased taxes or regulations on the manufacture, distribution or sale of our products or their packaging, ingredients or substances contained in, or attributes of, our products or their packaging, commodities used in the production of our products or their packaging or the recyclability or recoverability of our packaging. These taxes and regulations vary in scope and form. For example, some taxes apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). Further, some regulations apply to all products using certain types of packaging (e.g., plastic), while others are designed to increase the sustainability of packaging, encourage waste reduction and increased recycling rates or facilitate the waste management process or restrict the sale of products in certain packaging.

We sell a wide variety of beverages and convenient foods in more than 200 countries and territories and the profile of the products we sell, the amount of revenue attributable to such products and the type of

packaging used vary by jurisdiction. Because of this, we cannot predict the scope or form potential taxes, regulations or other limitations on our products or their packaging may take, and therefore cannot predict the impact of such taxes, regulations or limitations on our financial results. In addition, taxes, regulations and limitations may impact us and our competitors differently. We continue to monitor existing and proposed taxes and regulations in the jurisdictions in which our products are made, manufactured, distributed and sold and to consider actions we may take to potentially mitigate the unfavorable impact, if any, of such taxes, regulations or limitations, including advocating alternative measures with respect to the imposition, form and scope of any such taxes, regulations or limitations.

OECD Global Minimum Tax

Numerous countries have agreed to a statement in support of the OECD model rules that propose a global minimum tax rate of 15%. Certain countries, including European Union member states, have enacted or are expected to enact legislation incorporating the agreed to global minimum tax with effect as early as 2024, and widespread implementation of a global minimum tax is expected as soon as 2025. As the legislation becomes effective in countries in which we do business, our taxes could increase and negatively impact our provision for income taxes. We will continue to monitor pending legislation and implementation by individual countries and evaluate the potential impact on our business in future periods.

Retail Landscape

Our industry continues to be affected by disruption of the retail landscape, including the continued growth in sales through e-commerce websites and mobile commerce applications, including through subscription services, the integration of physical and digital operations among retailers and the international expansion of hard discounters. We have seen and expect to continue to see a further shift to e-commerce, online-to-offline and other online purchasing by consumers. We continue to monitor changes in the retail landscape and seek to identify actions we may take to build our global e-commerce and digital capabilities, such as expanding our direct-to-consumer business, and distribute our products effectively through all existing and emerging channels of trade and potentially mitigate any unfavorable impacts on our future results.

The retail industry also continues to be impacted by the actions and increasing power of retailers, including as a result consolidation of ownership resulting in large retailers or buying groups with increased purchasing power, particularly in North America, Europe and Latin America. We have seen and expect to continue to see retailers and buying groups impact our ability to compete in these jurisdictions. We continue to monitor our relationships with retailers and buying groups and seek to identify actions we may take to maintain mutually beneficial relationships and resolve any significant disputes and potentially mitigate any unfavorable impacts on our future results.

See also “Item 1A. Risk Factors,” “Executive Overview” above and “Market Risks” below for more information about these risks and the actions we have taken to address key challenges.

Risk Management Framework

The achievement of our strategic and operating objectives involves risks, many of which evolve over time. To identify, assess, prioritize, address, manage, monitor and communicate these risks across the Company’s operations and foster a corporate culture of integrity and risk awareness, we leverage an integrated risk management framework. This framework includes the following:

- PepsiCo’s Board has oversight responsibility for PepsiCo’s integrated risk management framework. One of the Board’s primary responsibilities is overseeing and interacting with senior management with respect to key aspects of the Company’s business, including risk assessment and risk mitigation of the Company’s top risks. Throughout the year, the Board and relevant Committees of the Board receive updates from management with respect to various enterprise risk

management issues and dedicate a portion of their meetings to reviewing and discussing specific risk topics in greater detail, including risks related to cybersecurity, food safety, sustainability, human capital management (including diversity, equity and inclusion) and supply chain and commodity inflation. The Board receives and provides feedback on regular updates from management regarding the Company's top risks, including updates from members of management responsible for overseeing impacted areas (for example, the Chief Strategy and Transformation Officer and Chief Information Security Officer), governance processes associated with managing these risks, the status of projects to strengthen the Company's risk mitigation efforts and recent incidents impacting the industry and threat landscape. Given that cybersecurity risks can impact various areas of responsibility of the Committees of the Board, the Board believes it is useful and effective for the full Board to maintain direct oversight over cybersecurity matters. In evaluating top risks, the Board and management consider short-, medium- and long-term potential impacts on the Company's business, financial condition and results of operations, including looking at the internal and external environment when evaluating risks, risk amplifiers and emerging trends, and considers the risk horizon as part of prioritizing the Company's risk mitigation efforts. The Board receives updates through presentations, memos and other written materials, teleconferences and other appropriate means of communication, with numerous opportunities for discussion and feedback, and continuously evaluates its approach in addressing top risks as circumstances evolve. For example, as part of risk updates to the Board and relevant Committees during 2023, the Board or its relevant Committee were provided updates on the impact of disruptive events, such as the Russia-Ukraine conflict, supply chain disruption and commodity inflation. The Board also receives periodic updates from external experts and advisers on global macroeconomic trends and conditions that may impact the Company's strategy and financial performance, including geopolitical conflicts, economic instability, labor market trends, changing consumer behavior, retail disruption and digitalization.

The Board has tasked designated Committees of the Board with oversight of certain categories of risk management, and the Committees report to the Board regularly on these matters.

- The Audit Committee of the Board reviews and assesses the guidelines and policies governing PepsiCo's risk management and oversight processes, and assists the Board's oversight of financial, compliance and employee safety risks facing PepsiCo. The Audit Committee also assists the Board's oversight of the Company's compliance with legal and regulatory requirements and the Chief Compliance & Ethics Officer, who reports to the General Counsel, meets regularly with the Audit Committee, including in executive session without management present;
- The Compensation Committee of the Board reviews PepsiCo's employee compensation policies and practices to assess whether such policies and practices could lead to unnecessary risk-taking behavior;
- The Nominating and Corporate Governance Committee assists the Board in its oversight of the Company's governance structure and other corporate governance matters, including succession planning; and
- The Sustainability, Diversity and Public Policy Committee of the Board assists the Board in its oversight of PepsiCo's policies, programs and related risks that concern key sustainability (including climate change), diversity, equity and inclusion, and public policy matters.

- The PepsiCo Risk Committee (PRC) meets regularly to identify, assess, prioritize and address top strategic, financial, operating, compliance, safety, reputational and other risks. The PRC is also

responsible for reporting progress on our risk mitigation efforts to the Board and designated Committees. The PRC is comprised of a cross-functional, geographically diverse, senior management group, including PepsiCo's Chairman of the Board of Directors and Chief Executive Officer, Chief Financial Officer, General Counsel, Sector Chief Executive Officers and the heads of Corporate Affairs, Human Resources, Research & Development, Information Technology, Sustainability, Strategy, Transformation, International Beverages, Commercial, Global Operations, Marketing and Financial Planning & Analysis;

- Division and key market risk committees, comprised of cross-functional senior management teams, meet regularly to identify, assess, prioritize and address division and country-specific business risks;
- PepsiCo's Risk Management Office, which manages the overall risk management process, provides ongoing guidance, tools and analytical support to the PRC and the division and key country risk committees, identifies and assesses potential risks and facilitates ongoing communication between the parties, as well as with PepsiCo's Board, the Audit Committee of the Board and other Committees of the Board;
- PepsiCo's Internal Audit Department evaluates the ongoing effectiveness of our key internal controls through periodic audit and review procedures; and
- PepsiCo's Compliance & Ethics and Law Departments lead and coordinate our compliance policies and practices.
- PepsiCo's Disclosure Committee, comprised of the General Counsel, Controller and heads of Internal Audit, Financial Planning & Analysis and Investor Relations, evaluates information from PepsiCo's integrated risk management framework as part of the Disclosure Committee's monitoring of the integrity and effectiveness of the Company's disclosure controls and procedures. PepsiCo's risk oversight processes and disclosure controls and procedures are designed to appropriately escalate key risks to the Board as well as to analyze potential risks for disclosure.

Market Risks

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange rates and currency restrictions; and
- interest rates.

In the normal course of business, we manage commodity price, foreign exchange and interest rate risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. Our global purchasing programs include fixed-price contracts and purchase orders and pricing agreements. See "Item 1A. Risk Factors" for further discussion of our market risks.

The fair value of our derivatives fluctuates based on market rates and prices. The sensitivity of our derivatives to these market fluctuations is discussed below. See Note 9 to our consolidated financial statements for further discussion of these derivatives and our hedging policies. The fair value of our indefinite-lived intangible assets is impacted by changes in market conditions, including interest rates and inflationary, deflationary and recessionary conditions. See "Our Critical Accounting Policies and

Estimates" for a discussion of the exposure of our goodwill and other intangible assets and pension and retiree medical plan assets and liabilities to risks related to market fluctuations.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products. See "Item 1A. Risk Factors" for further discussion.

Commodity Prices

Our commodity derivatives had a total notional value of $1.7 billion as of December 30, 2023 and $1.8 billion as of December 31, 2022. At the end of 2023, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses in 2023 by $157 million, which would generally be offset by a reduction in the cost of the underlying commodity purchases.

Foreign Exchange

Our operations outside of the United States generated 43% of our consolidated net revenue in 2023, with Mexico, Canada, Russia, China, the United Kingdom, Brazil and South Africa, collectively, comprising approximately 25% of our consolidated net revenue in 2023. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. Additionally, we are exposed to foreign exchange risk from net investments in foreign subsidiaries, foreign currency purchases, foreign currency assets and liabilities created in the normal course of business. During 2023, unfavorable foreign exchange reduced net revenue growth by 2 percentage points, primarily due to declines in the Russian ruble and Egyptian pound, partially offset by an appreciation of the Mexican peso. Currency declines against the U.S. dollar which are not offset could adversely impact our future financial results.

In addition, volatile economic, political and social conditions and civil unrest in certain markets in which our products are made, manufactured, distributed or sold, including in Argentina, Brazil, China, Mexico, the Middle East, Pakistan, Russia, Turkey and Ukraine, and currency controls or fluctuations in certain of these international markets, continue to, and the threat or imposition of new or increased tariffs or sanctions or other impositions in or related to these international markets may, result in challenging operating environments.

Our foreign currency derivatives had a total notional value of $3.8 billion as of December 30, 2023 and $3.0 billion as of December 31, 2022. At the end of 2023, we estimate that an unfavorable 10% change in the underlying exchange rates would have increased our net unrealized losses in 2023 by $371 million, which would be significantly offset by an inverse change in the fair value of the underlying exposure.

The total notional amount of our debt instruments designated as net investment hedges was $3.0 billion as of December 30, 2023 and $2.9 billion as of December 31, 2022.

Interest Rates

Our interest rate derivatives had a total notional value of $1.3 billion as of December 30, 2023 and December 31, 2022. Assuming year-end 2023 investment levels and variable rate debt, a 1-percentage-point increase in interest rates would have decreased our net interest expense in 2023 by $57 million due to higher cash and cash equivalents and short-term investments levels, as compared with our variable rate debt.

OUR FINANCIAL RESULTS

Results of Operations — Consolidated Review

Volume

Physical or unit volume is one of the key metrics management uses internally to make operating and strategic decisions, including the preparation of our annual operating plan and the evaluation of our business performance. We believe volume provides additional information to facilitate the comparison of our historical operating performance and underlying trends, and provides additional transparency on how we evaluate our business because it measures demand for our products at the consumer level. Unit volume growth adjusts for the impacts of acquisitions and divestitures. Acquisitions and divestitures, when used in this report, reflect mergers and acquisitions activity, as well as divestitures and other structural changes, including changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees. Further, our fiscal 2022 results include an additional week (53rd reporting week). Unit volume growth excludes the impact of the 53rd reporting week from 2022 results.

Beverage volume includes volume of concentrate sold to independent bottlers and volume of finished products bearing company-owned or licensed trademarks and allied brand products and joint venture trademarks sold by company-owned bottling operations. Beverage volume also includes volume of finished products bearing company-owned or licensed trademarks sold by our noncontrolled affiliates. Concentrate volume sold to independent bottlers is reported in concentrate shipments and equivalents (CSE), whereas finished beverage product volume is reported in bottler case sales (BCS). Both CSE and BCS convert all beverage volume to an 8-ounce-case metric. Typically, CSE and BCS are not equal in any given period due to seasonality, timing of product launches, product mix, bottler inventory practices and other factors. While our net revenue is not entirely based on BCS volume due to the independent bottlers in our supply chain, we believe that BCS is a better measure of the consumption of our beverage products. PBNA, LatAm, Europe, AMESA and APAC, either independently or in conjunction with third parties, make, market, distribute and sell ready-to-drink tea products through a joint venture with Unilever (under the Lipton brand name), and PBNA, either independently or in conjunction with third parties, makes, markets, distributes and sells ready-to-drink coffee products through a joint venture with Starbucks.

Convenient food volume includes volume sold by us and our noncontrolled affiliates of convenient food products bearing company-owned or licensed trademarks. Internationally, we measure convenient food product volume in kilograms, while in North America we measure convenient food product volume in pounds. FLNA makes, markets, distributes and sells Sabra refrigerated dips and spreads through a joint venture with Strauss Group.

Consolidated Net Revenue and Operating Profit

	2023	2022	**Change**
Net revenue	**$ 91,471**	$ 86,392	**6 %**
Operating profit	**$ 11,986**	$ 11,512	**4 %**
Operating margin	**13.1 %**	13.3 %	**(0.2)**

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

Operating profit grew 4% while operating margin declined 0.2 percentage points. Operating profit growth was primarily driven by effective net pricing, productivity savings, an 11-percentage-point favorable impact of prior-year charges associated with the Russia-Ukraine conflict, and a 5-percentage-point favorable impact of prior-year impairment on intangible assets, investment and property, plant and equipment and other charges as a result of management’s decision to reposition or discontinue the sale/

distribution of certain brands and to sell an investment (brand portfolio impairment charges). These impacts were partially offset by certain operating cost increases, a 26-percentage-point unfavorable impact of the prior-year gain associated with the Juice Transaction, a 22-percentage-point impact of higher commodity costs, a decrease in organic volume and higher advertising and marketing expenses. Corporate unallocated expenses reflect an increase in expenses related to our ongoing business initiatives and higher contributions to The PepsiCo Foundation, Inc. to fund charitable and social programs. The 53rd reporting week in the prior year reduced operating profit growth by 1 percentage point.

The operating margin decline primarily reflects the unfavorable impact of the prior-year gain associated with the Juice Transaction partially offset by the prior-year charges associated with the Russia-Ukraine conflict and the brand portfolio impairment charges.

Other Consolidated Results

	2023	2022	**Change**
Other pension and retiree medical benefits income	**$ 250**	$ 132	**$ 118**
Net interest expense and other	**$ 819**	$ 939	**$ (120)**
Annual tax rate	**19.8 %**	16.1 %	
Net income attributable to PepsiCo	**$ 9,074**	$ 8,910	**2 %**
Net income attributable to PepsiCo per common share – diluted	**$ 6.56**	$ 6.42	**2 %**

Other pension and retiree medical benefits income increased $118 million, primarily reflecting prior-year settlement charges of $318 million related to U.S. defined benefit plans. In addition, the increase in other pension and retiree medical benefits income reflects lower amortization of net losses on pension obligations and a higher rate of expected return on plan assets, partially offset by higher interest cost and recognition of fixed income losses on plan assets, all driven primarily by higher interest rates.

Net interest expense and other decreased $120 million, primarily due to higher interest rates on average cash balances, gains on the market value of investments used to economically hedge a portion of our deferred compensation liability and higher average cash balances, partially offset by higher interest rates on debt and higher average debt balances.

The reported tax rate increased 3.7 percentage points, primarily reflecting the prior-year adjustment to reserves for uncertain tax positions as a result of our agreement with the Internal Revenue Service (IRS) to settle one of the issues assessed in the 2014 to 2016 audit as well as the prior-year impact of the Juice Transaction.

Results of Operations — Division Review

See “Our Business Risks,” “Non-GAAP Measures” and “Items Affecting Comparability” for a discussion of items to consider when evaluating our results and related information regarding measures not in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

In the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

Net Revenue and Organic Revenue Growth

Organic revenue growth is a non-GAAP financial measure. For further information on this measure, see "Non-GAAP Measures."

	2023						
		Impact of				Impact of	
	Reported % Change, GAAP Measure	Foreign exchange translation	Acquisitions and divestitures	53rd reporting week	Organic % Change, Non-GAAP Measure[a]	Organic volume[b]	Effective net pricing
FLNA	**7 %**	—	—	2	**9 %**	(1)	10
QFNA [c]	**(2)%**	—	—	2	**1 %**	(5)	5
PBNA	**5 %**	—	—	1.5	**7 %**	(5)	12
LatAm	**19 %**	(9)	1	—	**11 %**	(5)	16
Europe	**4 %**	8	1	—	**14 %**	(2)	16
AMESA	**(5)%**	21	1	—	**17 %**	(2)	20
APAC	**— %**	4	—	—	**4 %**	(2)	6
Total	**6 %**	2	—	1	**9 %**	(3)	13

(a) Amounts may not sum due to rounding.

(b) Excludes the impact of acquisitions and divestitures and the 53rd reporting week. In certain instances, the impact of organic volume on net revenue growth differs from the unit volume change disclosed in the following divisional discussions due to the impacts of product mix, nonconsolidated joint venture volume, and, for our franchise-owned beverage businesses, temporary timing differences between BCS and CSE. We report net revenue from our franchise-owned beverage businesses based on CSE. The volume sold by our nonconsolidated joint ventures has no direct impact on our net revenue.

(c) Net revenue decline was impacted by product returns related to the Quaker Recall by 2 percentage points, as well as cessation of sales of products as a result of the Quaker Recall.

Operating Profit/(Loss), Operating Profit/(Loss) Adjusted for Items Affecting Comparability and Operating Profit/(Loss) Performance Adjusted for Items Affecting Comparability on a Constant Currency Basis

Operating profit/(loss) adjusted for items affecting comparability and operating profit/(loss) performance adjusted for items affecting comparability on a constant currency basis are both non-GAAP financial measures. For further information on these measures, see "Non-GAAP Measures" and "Items Affecting Comparability."

Operating Profit/(Loss) and Operating Profit/(Loss) Adjusted for Items Affecting Comparability

	2023						
		Items Affecting Comparability[a]					
	Reported, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	Acquisition and divestiture-related charges	Impairment and other charges	Product recall-related impact	Core, Non-GAAP Measure
FLNA	**$ 6,755**	$ —	$ 42	$ —	$ —	$ —	**$ 6,797**
QFNA	**492**	—	—	—	—	136	**628**
PBNA	**2,584**	—	41	16	321	—	**2,962**
LatAm	**2,252**	—	29	—	2	—	**2,283**
Europe	**767**	—	223	(2)	855	—	**1,843**
AMESA	**807**	—	15	2	(7)	—	**817**
APAC	**713**	—	8	—	59	—	**780**
Corporate unallocated expenses	**(2,384)**	36	88	25	—	—	**(2,235)**
Total	**$ 11,986**	$ 36	$ 446	$ 41	$ 1,230	$ 136	**$ 13,875**

	2022						
		Items Affecting Comparability[a]					
	Reported, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	Acquisition and divestiture-related charges	Gain associated with the Juice Transaction	Impairment and other charges	Core, Non-GAAP Measure
FLNA	$ 6,135	$ —	$ 46	$ —	$ —	$ 88	$ 6,269
QFNA	604	—	7	—	—	—	611
PBNA	5,426	—	68	51	(3,029)	160	2,676
LatAm	1,627	—	32	—	—	71	1,730
Europe	(1,380)	—	109	14	(292)	2,932	1,383
AMESA	666	—	12	3	—	190	871
APAC	537	—	16	—	—	177	730
Corporate unallocated expenses	(2,103)	62	90	6	—	—	(1,945)
Total	$ 11,512	$ 62	$ 380	$ 74	$ (3,321)	$ 3,618	$ 12,325

(a) See "Items Affecting Comparability."

Operating Profit/(Loss) Performance and Operating Profit/(Loss) Performance Adjusted for Items Affecting Comparability on a Constant Currency Basis

	2023									
		Impact of Items Affecting Comparability[a]							Impact of	
	Reported % Change, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	Acquisition and divestiture-related charges	Gain associated with the Juice Transaction	Impairment and other charges	Product recall-related impact	Core % Change, Non-GAAP Measure[b]	Foreign exchange translation	Core Constant Currency % Change, Non-GAAP Measure[b]
FLNA	10 %	—	—	—	—	(2)	—	**8 %**	—	**9 %**
QFNA	(19)%	—	(1)	—	—	—	22	**3 %**	—	**3 %**
PBNA	(52)%	—	(0.5)	(1)	61	3	—	**11 %**	—	**11 %**
LatAm	38 %	—	—	—	—	(6)	—	**32 %**	(13)	**19 %**
Europe	n/m	—	n/m	n/m	n/m	n/m	—	**33 %**	16	**50 %**
AMESA	21 %	—	0.5	—	—	(28)	—	**(6)%**	21	**15 %**
APAC	33 %	—	(2)	—	—	(24)	—	**7 %**	4	**11 %**
Corporate unallocated expenses	13 %	5	—	(3.5)	—	—	—	**15 %**	—	**15 %**
Total	4 %	—	0.5	—	26	(19)	1	**13 %**	2	**15 %**

(a) See "Items Affecting Comparability."
(b) Amounts may not sum due to rounding.

n/m - Not meaningful due to the impact of impairment and other charges, resulting in an operating loss in 2022.

FLNA

Net revenue grew 7%, primarily driven by effective net pricing, partially offset by the impact of the 53rd reporting week in the prior year, which reduced net revenue by 2 percentage points.

Unit volume decreased 1%, primarily driven by a high-single-digit decline in dips, a mid-single-digit decline in trademark Tostitos and a low-single-digit decline in trademark Lay's, partially offset by double-digit growth in Sunchips and mid-single-digit growth in trademark Cheetos.

Operating profit increased 10%, primarily reflecting the effective net pricing, productivity savings and a 2-percentage-point favorable impact of prior-year impairment charges associated with a baked fruit convenient food brand. These impacts were partially offset by certain operating cost increases, including strategic initiatives, and a 10-percentage-point impact of higher commodity costs, primarily cooking oil, seasoning ingredients and potatoes. The 53rd reporting week in the prior year reduced operating profit growth by 2 percentage points.

QFNA

Net revenue declined 2%, primarily driven by a decrease in organic volume and a 2-percentage-point negative impact of the 53rd reporting week in the prior year, partially offset by effective net pricing. The organic volume decline and effective net pricing collectively included a 2-percentage-point negative impact of the product returns from the Quaker Recall and was negatively impacted by cessation of sales of products as a result of the Quaker Recall.

Unit volume declined 5% primarily reflecting a high-single-digit decline in oatmeal, a double-digit decline in bars, a high-single-digit decline in rice/pasta sides and a low-single-digit decline in ready-to-eat cereals. The unit volume decline in bars and ready-to-eat cereals was negatively impacted by the Quaker Recall.

Operating profit declined 19%, reflecting a 22-percentage-point impact of product returns and charges associated with the Quaker Recall, certain operating cost increases, the decrease in organic volume, a 9-percentage-point impact of higher commodity costs, higher advertising and marketing expenses and a 2-percentage-point unfavorable impact of the 53rd reporting week in the prior year. These impacts were partially offset by effective net pricing and productivity savings.

In 2024, unit volume, net revenue and operating profit will continue to be negatively impacted by the Quaker Recall due to lower sales and additional charges.

PBNA

Net revenue increased 5%, primarily driven by effective net pricing, partially offset by a decrease in organic volume. The 53rd reporting week in the prior year reduced net revenue growth by 1.5 percentage points.

Unit volume decreased 5%, driven by a 6% decrease in non-carbonated beverage (NCB) volume and a 4% decrease in CSD volume. The NCB volume decrease primarily reflected high-single-digit decreases in Gatorade sports drinks and our overall water portfolio.

Operating profit decreased 52%, primarily reflecting the unfavorable impact of the prior-year gain of $3.0 billion associated with the Juice Transaction and the current-year impairment charges of $321 million related to our TBG investment, partially offset by the prior-year impairment and other related charges of $160 million associated with our decision to terminate the agreement with Vital Pharmaceuticals, Inc. to distribute Bang energy drinks. Operating profit also decreased due to certain operating cost increases, the decrease in organic volume, an 18-percentage-point impact of higher commodity costs, primarily sweeteners and energy, a 5-percentage-point unfavorable impact due to a prior-year gain on an asset sale and higher advertising and marketing expenses. Additionally, operating profit performance reflects a 2-percentage-point unfavorable impact of the 53rd reporting week in the prior year. These impacts were partially offset by the effective net pricing and productivity savings.

LatAm

Net revenue increased 19%, primarily reflecting effective net pricing and a 9-percentage-point impact of favorable foreign exchange, partially offset by a net organic volume decline.

Convenient foods unit volume declined 4%, primarily reflecting a double-digit decline in Colombia. Additionally, Mexico and Brazil experienced low-single-digit declines.

Beverage unit volume grew 3%, primarily reflecting low-single-digit growth in Mexico and mid-single-digit growth in Guatemala and Colombia, partially offset by a mid-single-digit decline in Argentina. Additionally, Chile experienced slight growth and Brazil experienced low-single-digit growth.

Operating profit increased 38%, primarily reflecting the effective net pricing, productivity savings, a 13-percentage-point impact of favorable foreign exchange and a 6-percentage-point favorable impact of a

prior-year impairment and other charges associated with the sale of certain non-strategic brands. These impacts were partially offset by certain operating cost increases, the net organic volume decline, an 11-percentage-point impact of higher commodity costs, primarily potatoes, sweeteners and other ingredients and higher advertising and marketing expenses.

Europe

Net revenue increased 4%, primarily reflecting effective net pricing, partially offset by an 8-percentage-point impact of unfavorable foreign exchange and an organic volume decline.

Convenient foods unit volume decreased slightly, primarily reflecting a high-single-digit decline in the United Kingdom, a double-digit decline in Spain, a mid-single-digit decline in France and a low-single-digit decline in the Netherlands, partially offset by double-digit growth in Russia and high-single-digit growth in Turkey.

Beverage unit volume declined 3%, primarily reflecting a double-digit decline in Germany, a high-single-digit decline in France and a low-single-digit decline in Russia, partially offset by double-digit growth in Turkey. Additionally, the United Kingdom experienced a low-single-digit decline.

Operating profit improvement primarily reflects the favorable impact of prior-year charges associated with the Russia-Ukraine conflict and impairment of intangible assets related to the repositioning or discontinuation of certain juice and dairy brands in Russia (brand portfolio impairment charges) and the favorable impact of lower impairment charges related to the SodaStream business (other impairment charges), partially offset by the unfavorable impact of the prior-year gain associated with the Juice Transaction. Operating profit improvement also reflects the effective net pricing and productivity savings. These impacts were partially offset by certain operating cost increases, a 54-percentage-point impact of higher commodity costs, primarily sweeteners, packaging and potatoes, a 16-percentage-point impact of unfavorable foreign exchange, higher advertising and marketing expenses and the organic volume decline.

AMESA

Net revenue declined 5%, primarily reflecting a 21-percentage-point impact of unfavorable foreign exchange, driven primarily by the weakening of the Egyptian pound, and a net organic volume decline, partially offset by effective net pricing.

Convenient foods unit volume declined 3.5%, primarily reflecting a high-single-digit decline in South Africa, partially offset by high-single-digit growth in the Middle East and low-single-digit growth in Pakistan. Additionally, India experienced a low-single-digit decline.

Beverage unit volume grew 2%, primarily reflecting double-digit growth in India and low-single-digit growth in the Middle East, partially offset by a double-digit decline in Pakistan and a low-single-digit decline in Nigeria.

Operating profit grew 21%, primarily reflecting a 24-percentage-point favorable impact of impairment and other charges associated with our decision to sell or discontinue certain non-strategic brands and an investment in the prior year (brand portfolio impairment charges), a 4-percentage-point favorable impact of impairment charges primarily related to certain juice brands from the Pioneer Food Group Ltd. (Pioneer Foods) acquisition in the prior year (other impairment charges), the effective net pricing and productivity savings. These impacts were partially offset by a 70-percentage-point impact of higher commodity costs, primarily packaging materials, sweeteners and grains, largely driven by transaction-related foreign exchange, certain operating cost increases and a 21-percentage-point impact of unfavorable foreign exchange, primarily due to weakening of the Egyptian pound.

APAC

Net revenue grew slightly, primarily reflecting effective net pricing, partially offset by a 4-percentage-point impact of unfavorable foreign exchange and a net organic volume decline.

Convenient foods unit volume declined 2%, primarily reflecting a double-digit decline in Thailand and a low-single-digit decline in Australia, partially offset by low-single-digit growth in China.

Beverage unit volume grew 2.5%, primarily reflecting mid-single-digit growth in China, high-single-digit growth in Thailand and low-single-digit growth in Vietnam, partially offset by a mid-single-digit decline in the Philippines.

Operating profit grew 33%, primarily reflecting a 23-percentage-point favorable impact of lower impairment charges related to the Be & Cheery brand (other impairment charges), the effective net pricing and productivity savings. These impacts were partially offset by certain operating cost increases, higher advertising and marketing expenses, the net organic volume decline, a 5-percentage-point impact of higher commodity costs and a 4-percentage-point impact of unfavorable foreign exchange.

Non-GAAP Measures

Certain financial measures contained in this Form 10-K adjust for the impact of specified items and are not in accordance with GAAP. We use non-GAAP financial measures internally to make operating and strategic decisions, including the preparation of our annual operating plan, evaluation of our overall business performance and as a factor in determining compensation for certain employees. We believe presenting non-GAAP financial measures in this Form 10-K provides additional information to facilitate comparison of our historical operating results and trends in our underlying operating results and provides additional transparency on how we evaluate our business. We also believe presenting these measures in this Form 10-K allows investors to view our performance using the same measures that we use in evaluating our financial and business performance and trends.

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include: amounts related to mark-to-market gains or losses (non-cash); charges related to restructuring plans; charges associated with acquisitions and divestitures; gains associated with divestitures; asset impairment charges (non-cash); product recall-related impact; pension and retiree medical-related amounts, including all settlement and curtailment gains and losses; charges or adjustments related to the enactment of new laws, rules or regulations, such as tax law changes; amounts related to the resolution of tax positions; tax benefits related to reorganizations of our operations; debt redemptions, cash tender or exchange offers; and remeasurements of net monetary assets. Prior to the fourth quarter of 2021, certain immaterial pension and retiree medical-related settlement and curtailment gains and losses were not considered items affecting comparability. Pension and retiree medical-related service cost, interest cost, expected return on plan assets, and other net periodic pension costs continue to be reflected in our core results. See below and "Items Affecting Comparability" for a description of adjustments to our GAAP financial measures in this Form 10-K.

Non-GAAP information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, our non-GAAP financial measures may not be the same as or comparable to similar non-GAAP measures presented by other companies.

The following non-GAAP financial measures contained in this Form 10-K are discussed below:

Cost of sales, gross profit, selling, general and administrative expenses, gain associated with the Juice Transaction, impairment of intangible assets, other pension and retiree medical benefits income, net interest expense and other, provision for income taxes, net income attributable to noncontrolling interests and net income attributable to PepsiCo, each adjusted for items affecting comparability, operating profit and net income attributable to PepsiCo per common share – diluted, each adjusted for items affecting comparability, and the corresponding constant currency growth rates

These measures exclude the net impact of mark-to-market gains and losses on centrally managed commodity derivatives that do not qualify for hedge accounting, restructuring and impairment charges related to our 2019 Multi-Year Productivity Plan (2019 Productivity Plan), charges associated with our acquisitions and divestitures, the gain associated with the Juice Transaction, impairment and other charges comprised of Russia-Ukraine conflict charges, brand portfolio impairment charges and other impairment charges, product recall-related impact, the impact of settlement and curtailment gains and losses related to pension and retiree medical plans, a charge related to cash tender offers, tax benefit related to the IRS audit and tax expense related to the Tax Cuts and Jobs Act (TCJ Act) (see "Items Affecting Comparability" for a detailed description of each of these items). We also evaluate performance on operating profit and net income attributable to PepsiCo per common share – diluted, each adjusted for items affecting comparability, on a constant currency basis, which measure our financial results assuming constant foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current-year U.S. dollar results by the current-year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior-year average foreign exchange rates. We believe these measures provide useful information in evaluating the results of our business because they exclude items that we believe are not indicative of our ongoing performance or that we believe impact comparability with the prior year.

Organic revenue growth

We define organic revenue growth as a measure that adjusts for the impacts of foreign exchange translation, acquisitions and divestitures, and every five or six years, the impact of the 53rd reporting week, including in our 2022 financial results. Adjusting for acquisitions and divestitures reflects mergers and acquisitions activity, as well as divestitures and other structural changes, including changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees. We believe organic revenue growth provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year.

See "Net Revenue and Organic Revenue Growth" in "Results of Operations – Division Review" for further information.

Free cash flow

We define free cash flow as net cash from operating activities less capital spending, plus sales of property, plant and equipment. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Free cash flow is used by us primarily for acquisitions and financing activities, including debt repayments, dividends and share repurchases. Free cash flow is not a measure of cash available for discretionary expenditures since we have certain non-discretionary obligations such as debt service that are not deducted from the measure.

See “Free Cash Flow” in “Our Liquidity and Capital Resources” for further information.

Return on invested capital (ROIC) and net ROIC, excluding items affecting comparability

We define ROIC as net income attributable to PepsiCo plus interest expense after-tax divided by the sum of quarterly average debt obligations and quarterly average common shareholders’ equity. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by management to calculate ROIC may differ from the methods other companies use to calculate their ROIC.

We believe this metric serves as a measure of how well we use our capital to generate returns. In addition, we use net ROIC, excluding items affecting comparability, to compare our performance over various reporting periods on a consistent basis because it removes from our operating results the impact of items that we believe are not indicative of our ongoing performance and reflects how management evaluates our operating results and trends. We define net ROIC, excluding items affecting comparability, as ROIC, adjusted for quarterly average cash, cash equivalents and short-term investments, after-tax interest income and items affecting comparability. We believe the calculation of ROIC and net ROIC, excluding items affecting comparability, provides useful information to investors and is an additional relevant comparison of our performance to consider when evaluating our capital allocation efficiency.

See “Return on Invested Capital” in “Our Liquidity and Capital Resources” for further information.

Items Affecting Comparability

Our reported financial results in this Form 10-K are impacted by the following items in each of the following years:

	2023								
	Cost of sales	Gross profit	Selling, general and administrative expenses	Impairment of intangible assets	Operating profit	Other pension and retiree medical benefits income	Provision for income taxes[a]	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo
Reported, GAAP Measure	**$ 41,881**	**$ 49,590**	**$ 36,677**	**$ 927**	**$ 11,986**	**$ 250**	**$ 2,262**	**$ 81**	**$ 9,074**
Items Affecting Comparability									
Mark-to-market net impact	(3)	3	(33)	—	36	—	9	—	27
Restructuring and impairment charges	(13)	13	(433)	—	446	(1)	96	1	348
Acquisition and divestiture-related charges	—	—	(41)	—	41	—	18	—	23
Impairment and other charges	5	(5)	(308)	(927)	1,230	—	284	—	946
Product recall-related impact	(136)	136	—	—	136	—	32	—	104
Pension and retiree medical-related impact	—	—	—	—	—	14	3	—	11
Core, Non-GAAP Measure	**$ 41,734**	**$ 49,737**	**$ 35,862**	**$ —**	**$ 13,875**	**$ 263**	**$ 2,704**	**$ 82**	**$ 10,533**

	2022									
	Cost of sales	Gross profit	Selling, general and administrative expenses	Gain associated with the Juice Transaction	Impairment of intangible assets	Operating profit	Other pension and retiree medical benefits income	Provision for income taxes[a]	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo
Reported, GAAP Measure	$40,576	$45,816	$ 34,459	$ (3,321)	$ 3,166	$ 11,512	$ 132	$ 1,727	$ 68	$ 8,910
Items Affecting Comparability										
Mark-to-market net impact	(52)	52	(10)	—	—	62	—	14	—	48
Restructuring and impairment charges	(33)	33	(347)	—	—	380	31	77	1	333
Acquisition and divestiture-related charges	—	—	(74)	—	—	74	6	14	—	66
Gain associated with the Juice Transaction	—	—	—	3,321	—	(3,321)	—	(433)	—	(2,888)
Impairment and other charges	(201)	201	(251)	—	(3,166)	3,618	—	671	—	2,947
Pension and retiree medical-related impact	—	—	—	—	—	—	307	69	—	238
Tax benefit related to the IRS audit	—	—	—	—	—	—	—	319	—	(319)
Tax expense related to the TCJ Act	—	—	—	—	—	—	—	(86)	—	86
Core, Non-GAAP Measure	$40,290	$46,102	$ 33,777	$ —	$ —	$ 12,325	$ 476	$ 2,372	$ 69	$ 9,421

(a) Provision for income taxes is the expected tax charge/benefit on the underlying item based on the tax laws and income tax rates applicable to the underlying item in its corresponding tax jurisdiction.

	2023	2022	**Change**
Net income attributable to PepsiCo per common share – diluted, GAAP measure	**$ 6.56**	$ 6.42	**2 %**
Mark-to-market net impact	**0.02**	0.03	
Restructuring and impairment charges	**0.25**	0.24	
Acquisition and divestiture-related charges	**0.02**	0.05	
Gain associated with the Juice Transaction	**—**	(2.08)	
Impairment and other charges	**0.68**	2.12	
Product recall-related impact	**0.07**	—	
Pension and retiree medical-related impact	**0.01**	0.17	
Tax benefit related to the IRS audit	**—**	(0.23)	
Tax expense related to the TCJ Act	**—**	0.06	
Core net income attributable to PepsiCo per common share – diluted, non-GAAP measure	**$ 7.62** [a]	$ 6.79 [a]	**12 %**
Impact of foreign exchange translation			**2**
Growth in core net income attributable to PepsiCo per common share – diluted, on a constant currency basis, non-GAAP measure			**14 %**

(a) Does not sum due to rounding.

Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include agricultural products, energy and metals. Commodity derivatives that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses.

Restructuring and Impairment Charges

2019 Multi-Year Productivity Plan

The 2019 Productivity Plan, publicly announced on February 15, 2019, will leverage new technology and business models to further simplify, harmonize and automate processes; re-engineer our go-to-market and information systems, including deploying the right automation for each market; and simplify our organization and optimize our manufacturing and supply chain footprint. To build on the successful implementation of the 2019 Productivity Plan, in 2022, we expanded and extended the plan through the end of 2028 to take advantage of additional opportunities within the initiatives described above. As a result, we expect to incur pre-tax charges of approximately $3.65 billion, including cash expenditures of approximately $2.9 billion. Plan to date through December 30, 2023, we have incurred pre-tax charges of $1.9 billion, including cash expenditures of $1.4 billion. In our 2024 financial results, we expect to incur pre-tax charges and cash expenditures of approximately $500 million each. These charges will be funded primarily through cash from operations. We expect to incur the majority of the remaining pre-tax charges and cash expenditures through 2025, with the balance to be incurred through 2028. Charges include severance and other employee costs, asset impairments and other costs.

See Note 3 to our consolidated financial statements for further information related to our 2019 Productivity Plan. We regularly evaluate productivity initiatives beyond the productivity plan and other initiatives discussed above and in Note 3 to our consolidated financial statements.

Acquisition and Divestiture-Related Charges

Acquisition and divestiture-related charges primarily include merger and integration charges and costs associated with divestitures. Merger and integration charges include liabilities to support socioeconomic programs in South Africa, gains associated with contingent consideration, employee-related costs, contract termination costs, closing costs and other integration costs. Divestiture-related charges reflect transaction expenses, including consulting, advisory and other professional fees.

See Note 13 to our consolidated financial statements for further information.

Gain Associated with the Juice Transaction

We recognized a gain associated with the Juice Transaction in our PBNA and Europe divisions.

See Note 13 to our consolidated financial statements for further information.

Impairment and Other Charges

We recognized Russia-Ukraine conflict charges, brand portfolio impairment charges and other impairment charges as described below.

Russia-Ukraine Conflict Charges

In connection with the ongoing conflict in Ukraine, we recognized charges related to indefinite-lived intangible assets and property, plant and equipment impairment, allowance for expected credit losses, inventory write-downs and other costs. We also recognized adjustments to the charges recorded in 2022.

See Notes 1 and 4 to our consolidated financial statements for further information.

Brand Portfolio Impairment Charges

We recognized intangible asset, investment and property, plant and equipment impairments and other charges as a result of management's decision to reposition or discontinue the sale/distribution of certain brands and to sell an investment. We also recognized adjustments to the charges recorded in 2022.

See Notes 1 and 4 to our consolidated financial statements for further information.

Other Impairment Charges

We recognized impairment charges taken as a result of our quantitative assessments of certain of our indefinite-lived intangible assets and related to our investment in TBG.

See Notes 1, 4 and 9 to our consolidated financial statements for further information.

Product Recall-Related Impact

We recognized product returns, inventory write-offs and customer and consumer-related costs in our QFNA division associated with a voluntary recall of certain bars and cereals.

See Note 1 to our consolidated financial statements for further information.

Pension and Retiree Medical-Related Impact

Pension and retiree medical-related impact includes settlement charges related to lump sum distributions exceeding the total of annual service and interest costs, as well as curtailment gains.

See Notes 7 and 13 to our consolidated financial statements for further information.

Tax Benefit Related to the IRS Audit

We recognized a non-cash tax benefit resulting from our agreement with the IRS to settle one of the issues assessed in the 2014 through 2016 tax audit. The agreement covers tax years 2014 through 2019.

See Note 5 to our consolidated financial statements for further information.

Tax Expense Related to the TCJ Act

Tax expense related to the TCJ Act reflects adjustments to the mandatory transition tax liability under the TCJ Act.

See Note 5 to our consolidated financial statements for further information.

Charge Related to Cash Tender Offers

As a result of the cash tender offers for some of our long-term debt, we recorded a charge primarily representing the tender price paid over the carrying value of the tendered notes and loss on treasury rate locks used to mitigate the interest rate risk on the cash tender offers.

See Note 8 to our consolidated financial statements for further information.

Our Liquidity and Capital Resources

We believe that our cash generating capability and financial condition, together with our revolving credit facilities, working capital lines and other available methods of debt financing, such as commercial paper borrowings and long-term debt financing, will be adequate to meet our operating, investing and financing needs, including with respect to our net capital spending plans. Our primary sources of liquidity include cash from operations, proceeds obtained from issuances of commercial paper and long-term debt, and cash and cash equivalents. These sources of cash are available to fund cash outflows that have both a short- and long-term component, including debt repayments and related interest payments; payments for acquisitions; operating leases; purchase, marketing, and other contractual commitments, including capital expenditures and the transition tax liability under the TCJ Act. In addition, these sources of cash fund other cash outflows including anticipated dividend payments and share repurchases. We do not have guarantees or off-balance sheet financing arrangements, including variable interest entities, that we believe could have a material impact on our liquidity. See “Item 1A. Risk Factors,” “Our Business Risks” and Note 8 to our consolidated financial statements for further information.

Our sources and uses of cash were not materially adversely impacted by the Russia-Ukraine conflict and, to date, we have not identified any material liquidity deficiencies as a result of the conflict. Based on the information currently available to us, we do not expect the impact of the Russia-Ukraine conflict to have a material impact on our future liquidity. We will continue to monitor and assess the impact the Russia-Ukraine conflict may have on our business and financial results. See "Item 1A. Risk Factors," "Our Business Risks" and Note 1 to our consolidated financial statements for further information related to the impact of the Russia-Ukraine conflict on our business and financial results.

As of December 30, 2023, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material.

The TCJ Act imposed a one-time mandatory transition tax on undistributed international earnings. As of December 30, 2023, our mandatory transition tax liability was $2.3 billion, which must be paid through 2026 under the provisions of the TCJ Act; we currently expect to pay approximately $579 million of this liability in 2024. Any additional guidance issued by the IRS may impact our recorded amounts for this transition tax liability. See Note 5 to our consolidated financial statements for further discussion of the TCJ Act.

Supply chain financing arrangements did not have a material impact on our liquidity or capital resources in the periods presented and we do not expect such arrangements to have a material impact on our liquidity or capital resources for the foreseeable future. See Note 14 to our consolidated financial statements for further discussion of supply chain financing arrangements.

Furthermore, our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related patterns and generally lowest in the first quarter. On a continuing basis, we consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures, joint ventures, dividends, share repurchases, productivity and other efficiency initiatives and other structural changes. These transactions may result in future cash proceeds or payments.

The table below summarizes our cash activity:

	2023	2022
Net cash provided by operating activities	**$ 13,442**	$ 10,811
Net cash used for investing activities	**$ (5,495)**	$ (2,430)
Net cash used for financing activities	**$ (3,009)**	$ (8,523)

Operating Activities

In 2023, net cash provided by operating activities was $13.4 billion, compared to $10.8 billion in the prior year. The increase in operating cash flow primarily reflects favorable operating profit performance coupled with favorable working capital comparisons.

Investing Activities

In 2023, net cash used for investing activities was $5.5 billion, primarily reflecting net capital spending of $5.3 billion.

In 2022, net cash used for investing activities was $2.4 billion, primarily reflecting net capital spending of $5.0 billion and our investment in Celsius Holdings, Inc. (Celsius) convertible preferred stock and agreement to distribute Celsius energy drinks of $0.8 billion, partially offset by proceeds associated with the Juice Transaction of $3.5 billion.

See Note 1 to our consolidated financial statements for further discussion of capital spending by division; see Notes 4 and 9 to our consolidated financial statements for further discussion of our agreement with

and investment in Celsius; and see Note 13 to our consolidated financial statements for further discussion of our acquisitions and divestitures.

We regularly review our plans with respect to net capital spending, including in light of the ongoing uncertainty caused by the Russia-Ukraine conflict on our business, and believe that we have sufficient liquidity to meet our net capital spending needs.

Financing Activities

In 2023, net cash used for financing activities was $3.0 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments of $6.7 billion and share repurchases of $1.0 billion, as well as payments of long-term debt borrowings of $3.0 billion, partially offset by proceeds from issuances of long-term debt of $5.5 billion and net proceeds from short-term borrowings of $2.3 billion.

In 2022, net cash used for financing activities was $8.5 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments of $6.2 billion and share repurchases of $1.5 billion, payments of long-term debt borrowings of $2.5 billion and debt redemptions/cash tender offers of $1.7 billion, partially offset by proceeds from issuances of long-term debt of $3.4 billion.

See Note 8 to our consolidated financial statements for further discussion of debt obligations.

We annually review our capital structure with our Board, including our dividend policy and share repurchase activity. On February 10, 2022, we announced a share repurchase program providing for the repurchase of up to $10.0 billion of PepsiCo common stock which commenced on February 11, 2022 and will expire on February 28, 2026. In addition, on February 9, 2024, we announced a 7% increase in our annualized dividend to $5.42 per share from $5.06 per share, effective with the dividend expected to be paid in June 2024. We expect to return a total of approximately $8.2 billion to shareholders in 2024, comprising dividends of approximately $7.2 billion and share repurchases of approximately $1.0 billion.

Free Cash Flow

The table below reconciles net cash provided by operating activities, as reflected on our cash flow statement, to our free cash flow. Free cash flow is a non-GAAP financial measure. For further information on free cash flow, see "Non-GAAP Measures."

	2023	2022	**Change**
Net cash provided by operating activities, GAAP measure	**$ 13,442**	$ 10,811	**24 %**
Capital spending	**(5,518)**	(5,207)	
Sales of property, plant and equipment	**198**	251	
Free cash flow, non-GAAP measure	**$ 8,122**	$ 5,855	**39 %**

We use free cash flow primarily for acquisitions and financing activities, including debt repayments, dividends and share repurchases. We expect to continue to return free cash flow to our shareholders primarily through dividends and share repurchases while maintaining Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. However, see "Item 1A. Risk Factors" and "Our Business Risks" for certain factors that may impact our credit ratings or our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether or not as a result of our actions or factors which are beyond our control, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of

debt financing. See "Item 1A. Risk Factors," "Our Business Risks" and Note 8 to our consolidated financial statements for further information.

Changes in Line Items in Our Consolidated Financial Statements

Changes in line items in our consolidated statement of income are discussed in "Results of Operations – Consolidated Review," "Results of Operations – Division Review" and "Items Affecting Comparability."

Changes in line items in our consolidated statement of cash flows are discussed in "Our Liquidity and Capital Resources."

Changes in line items in our consolidated balance sheet are discussed below:

Total Assets

As of December 30, 2023, total assets were $100.5 billion, compared to $92.2 billion as of December 31, 2022. The increase in total assets is primarily driven by the following line items:

	Change[(a)]	Reference
Cash and cash equivalents	$ 4.8	Statement of Cash Flows
Property, plant and equipment, net	$ 2.7	Note 15
Other assets	$ 1.4	Note 15

Total Liabilities

As of December 30, 2023, total liabilities were $81.9 billion, compared to $74.9 billion as of December 31, 2022. The increase in total liabilities is primarily driven by the following line items:

	Change[(a)]	Reference
Short-term debt obligations	$ 3.1	Note 8
Accounts payable and other current liabilities	$ 1.8	Note 15
Long-term debt obligations	$ 1.9	Note 8

(a) In billions.

Total Equity

See our consolidated statement of equity and Notes 9 and 11 to our consolidated financial statements.

Return on Invested Capital

ROIC is a non-GAAP financial measure. For further information on ROIC, see "Non-GAAP Measures."

	2023	2022
Net income attributable to PepsiCo	**$ 9,074**	$ 8,910
Interest expense	**1,437**	1,119
Tax on interest expense	**(319)**	(248)
	$ 10,192	$ 9,781
Average debt obligations [(a)]	**$ 42,668**	$ 39,595
Average common shareholders' equity [(b)]	**17,837**	17,785
Average invested capital	**$ 60,505**	$ 57,380
ROIC, non-GAAP measure	**16.8 %**	17.0 %

(a) Includes a quarterly average of short-term and long-term debt obligations.

(b) Includes a quarterly average of common stock, capital in excess of par value, retained earnings, accumulated other comprehensive loss and repurchased common stock.

The table below reconciles ROIC as calculated above to net ROIC, excluding items affecting comparability.

	2023	2022
ROIC, non-GAAP measure	**16.8 %**	17.0 %
Impact of:		
Average cash, cash equivalents and short-term investments	**2.5**	2.1
Interest income	**(1.0)**	(0.3)
Tax on interest income	**0.2**	0.1
Mark-to-market net impact	**—**	0.1
Restructuring and impairment charges	**0.4**	0.3
Acquisition and divestiture-related charges	**—**	0.1
Gain associated with the Juice Transaction	**0.9**	(3.3)
Impairment and other charges	**0.6**	3.7
Product recall-related impact	**0.2**	—
Pension and retiree medical-related impact	**—**	0.3
Tax benefit related to the IRS audit	**0.1**	(0.4)
Tax expense related to the TCJ Act	**(0.1)**	0.1
Charge related to cash tender offers	**(0.2)**	(0.2)
Core Net ROIC, non-GAAP measure	**20.4 %**	19.6 %

OUR CRITICAL ACCOUNTING POLICIES AND ESTIMATES

An appreciation of our critical accounting policies and estimates is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, including the business and economic uncertainty resulting from the ongoing conflicts in Ukraine and the Middle East and the high interest rate and inflationary cost environment, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. We applied our critical accounting policies and estimation methods consistently in all material respects and for all periods presented. We have discussed our critical accounting policies and estimates with our Audit Committee.

Our critical accounting policies and estimates are:

- revenue recognition;
- goodwill and other intangible assets;
- income tax expense and accruals; and
- pension and retiree medical plans.

Revenue Recognition

We recognize revenue when our performance obligation is satisfied. Our primary performance obligation (the distribution and sales of beverage and convenient food products) is satisfied upon the shipment or delivery of products to our customers, which is also when control is transferred. The transfer of control of products to our customers is typically based on written sales terms that generally do not allow for a right of return, except in the instance of a product recall or other limited circumstances that may allow for product returns. Our policy for DSD, including certain chilled products, is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and

freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. As a result, we record reserves, based on estimates, for product recall, anticipated damaged and out-of-date products.

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the United States, and generally within 30 to 90 days internationally, and may allow discounts for early payment.

We estimate and reserve for our expected credit loss exposure based on our experience with past due accounts and collectibility, write-off history, the aging of accounts receivable, our analysis of customer data, and forward-looking information (including the expected impact of a high interest rate and inflationary cost environment), leveraging estimates of creditworthiness and projections of default and recovery rates for certain of our customers.

Our policy is to provide customers with product when needed. In fact, our commitment to freshness and product dating serves to regulate the quantity of product shipped or delivered. In addition, DSD products are placed on the shelf by our employees with customer shelf space and storerooms limiting the quantity of product. For product delivered through other distribution networks, we monitor customer inventory levels.

As discussed in "Our Customers" in "Item 1. Business," we offer sales incentives and discounts through various programs to customers and consumers. Total marketplace spending includes sales incentives, discounts, advertising and other marketing activities. Sales incentives and discounts are primarily accounted for as a reduction of revenue and include payments to customers for performing activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. Sales incentives and discounts also include support provided to our independent bottlers through funding of advertising and other marketing activities.

A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year, as products are delivered, for the expected payout, which may occur after year-end once reconciled and settled. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer and consumer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year as incurred.

See Note 2 to our consolidated financial statements for further information on our revenue recognition and related policies, including total marketplace spending.

Goodwill and Other Intangible Assets

We sell products under a number of brand names, many of which were developed by us. Brand development costs are expensed as incurred. We also purchase brands and other intangible assets in acquisitions. In a business combination, the consideration is first assigned to identifiable assets and liabilities, including brands and other intangible assets, based on estimated fair values, with any excess recorded as goodwill. Determining fair value requires significant estimates and assumptions, including those related to the ongoing conflicts in Ukraine and the Middle East and a high interest rate and inflationary cost environment, based on an evaluation of a number of factors, such as marketplace participants, product life cycles, market share, consumer awareness, brand history and future expansion expectations, amount and timing of future cash flows and the discount rate applied to the cash flows.

We believe that a brand has an indefinite life if it has a history of strong revenue and cash flow

performance and we have the intent and ability to support the brand with marketplace spending for the foreseeable future. If these indefinite-lived brand criteria are not met, brands are amortized over their expected useful lives, which generally range from 20 to 40 years. Determining the expected life of a brand requires management judgment and is based on an evaluation of a number of factors, including market share, consumer awareness, brand history, future expansion expectations and regulatory restrictions, as well as the macroeconomic environment of the countries in which the brand is sold.

In connection with previous acquisitions, we reacquired certain franchise rights which provided the exclusive and perpetual rights to manufacture and/or distribute beverages for sale in specified territories. In determining the useful life of these franchise rights, many factors were considered, including the pre-existing perpetual bottling arrangements, the indefinite period expected for these franchise rights to contribute to our future cash flows, as well as the lack of any factors that would limit the useful life of these franchise rights to us, including legal, regulatory, contractual, competitive, economic or other factors. Therefore, certain of these franchise rights are considered as indefinite-lived. Franchise rights that are not considered indefinite-lived are amortized over the remaining contractual period of the contract in which the right was granted.

Indefinite-lived intangible assets and goodwill are not amortized and, as a result, are assessed for impairment at least annually, using either a qualitative or quantitative approach. We perform this annual assessment during our third quarter, or more frequently if circumstances indicate that the carrying value may not be recoverable. Where we use the qualitative assessment, first we determine if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include macroeconomic conditions (including those related to the ongoing conflicts in Ukraine and the Middle East and a high interest rate and inflationary cost environment), industry and competitive conditions, legal and regulatory environment, historical financial performance and significant changes in the brand or reporting unit. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed.

In the quantitative assessment for indefinite-lived intangible assets and goodwill, an assessment is performed to determine the fair value of the indefinite-lived intangible asset and the reporting unit, respectively. Estimated fair value is determined using discounted cash flows and requires an analysis of several estimates including future cash flows or income consistent with management's strategic business plans, annual sales growth rates, perpetuity growth assumptions and the selection of assumptions underlying a discount rate (weighted-average cost of capital) based on market data available at the time. Significant management judgment is necessary to estimate the impact of competitive operating, macroeconomic and other factors (including those related to the ongoing conflicts in Ukraine and the Middle East and a high interest rate and inflationary cost environment) to estimate future levels of sales, operating profit or cash flows. All assumptions used in our impairment evaluations for indefinite-lived intangible assets and goodwill, such as forecasted growth rates (including perpetuity growth assumptions) and weighted-average cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. A deterioration in these assumptions could adversely impact our results. These assumptions could be adversely impacted by certain of the risks described in "Item 1A. Risk Factors" and "Our Business Risks."

In 2023, we recorded $0.6 billion ($0.4 billion after-tax or $0.32 per share) of indefinite-lived intangible asset impairment charges related to the SodaStream brand and $0.3 billion ($0.3 billion after-tax or $0.22 per share) of goodwill impairment charges related to the SodaStream reporting unit in Europe. As a result, the carrying value of the SodaStream reporting unit as of December 30, 2023 is equal to its fair value and the SodaStream reporting unit is at a heightened risk of future goodwill impairment if certain assumptions and estimates were to change. For example, a mutually exclusive 100-basis-point increase in the discount rate and a 100-basis-point decrease in the perpetuity growth rate used to estimate the fair value of the

SodaStream reporting unit would result in an additional estimated impairment charge of approximately $0.2 billion and $0.1 billion, respectively. We will continue to monitor the performance of the SodaStream reporting unit, as well as all of our indefinite-lived intangible assets.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

See Notes 2 and 4 to our consolidated financial statements for further information.

Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax structure and transactions, including transfer pricing arrangements, available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we likely will not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit, new tax laws, relevant court cases or tax authority settlements. See “Item 1A. Risk Factors” for further discussion.

An estimated annual effective tax rate is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item. We consider the tax adjustments from the resolution of prior-year tax matters to be among such items.

Tax law requires items to be included in our tax returns at different times than the items are reflected in our consolidated financial statements. As a result, our annual tax rate reflected in our consolidated financial statements is different than that reported in our tax returns (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit on our consolidated financial statements. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is not more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax liabilities generally represent tax expense recognized in our consolidated financial statements for which payment has been deferred, or expense for which we have already taken a deduction in our tax return but have not yet recognized as expense in our consolidated financial statements.

In 2023, our annual tax rate was 19.8% compared to 16.1% in 2022. See “Other Consolidated Results” for further information.

See Note 5 to our consolidated financial statements for further information.

Pension and Retiree Medical Plans

Our pension plans cover certain employees in the United States and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. Certain U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts, which vary based upon years of service, with retirees contributing the remainder of the cost. In addition, we have been phasing out certain subsidies of retiree medical benefits.

See “Items Affecting Comparability” and Note 7 to our consolidated financial statements for information about changes and settlements within our pension plans.

Our Assumptions

The determination of pension and retiree medical expenses and obligations requires the use of assumptions to estimate the amount of benefits that employees earn while working, as well as the present value of those benefits. Annual pension and retiree medical expense amounts are principally based on four components: (1) the value of benefits earned by employees for working during the year (service cost), (2) the increase in the projected benefit obligation due to the passage of time (interest cost), and (3) other gains and losses as discussed in Note 7 to our consolidated financial statements, reduced by (4) the expected return on assets for our funded plans.

Significant assumptions used to measure our annual pension and retiree medical expenses include:

- certain employee-related demographic factors, such as turnover, retirement age and mortality;
- the expected rate of return on assets in our funded plans; and
- the spot rates along the yield curve used to determine service and interest costs and the present value of liabilities.

Certain assumptions reflect our historical experience and management’s best judgment regarding future expectations. All actuarial assumptions are reviewed annually, except in the case of an interim remeasurement due to a significant event such as a curtailment or settlement. Due to the significant management judgment involved, these assumptions could have a material impact on the measurement of our pension and retiree medical expenses and obligations.

At each measurement date, the discount rates are based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to those of our liabilities. Our U.S. obligation and pension and retiree medical expense is based on the discount rates determined using the Mercer Above Mean Curve. This curve includes bonds that closely match the timing and amount of our expected benefit payments and reflects the portfolio of investments we would consider to settle our liabilities.

See Note 7 to our consolidated financial statements for information about the expected rate of return on plan assets and our plans’ investment strategy. Although we review our expected long-term rates of return on an annual basis, our asset returns in a given year do not significantly influence our evaluation of long-term rates of return.

Weighted-average assumptions for pension and retiree medical expense are as follows:

	2024	2023	2022
Pension			
Service cost discount rate [(a)]	**5.4 %**	5.5 %	3.2 %
Interest cost discount rate [(a)]	**5.1 %**	5.4 %	2.9 %
Expected rate of return on plan assets [(a)]	**7.0 %**	7.0 %	6.3 %
Retiree medical			
Service cost discount rate	**5.1 %**	5.4 %	2.8 %
Interest cost discount rate	**5.0 %**	5.3 %	2.1 %
Expected rate of return on plan assets	**7.1 %**	7.1 %	5.7 %

(a) 2022 rates reflect remeasurement of a U.S. qualified defined benefit pension plan in the second quarter of 2022.

We expect our pension and retiree medical expense to remain consistent in 2024 primarily reflecting the change in demographic experience, offset by the recognition of gains on plan assets and impact of discretionary plan contributions.

Sensitivity of Assumptions

A decrease in each of the collective discount rates or in the expected rate of return assumptions would increase expense for our benefit plans. A 100-basis-point decrease in each of the above discount rates and expected rate of return assumptions would individually increase 2024 pre-tax pension and retiree medical expense as follows:

Assumption	Amount
Discount rates used in the calculation of expense	$ 83
Expected rate of return	$ 155

Funding

We make contributions to pension trusts that provide plan benefits for certain pension plans. These contributions are made in accordance with applicable tax regulations that provide for current tax deductions for our contributions and taxation to the employee only upon receipt of plan benefits. Generally, we do not fund our pension plans when our contributions would not be currently tax deductible. As our retiree medical plans are not subject to regulatory funding requirements, we generally fund these plans on a pay-as-you-go basis, although we periodically review available options to make additional contributions toward these benefits.

We made a discretionary contribution of $150 million to a U.S. qualified defined benefit plan in January 2024.

Our pension and retiree medical plan contributions are subject to change as a result of many factors, such as changes in interest rates, deviations between actual and expected asset returns and changes in tax or other benefit laws. We regularly evaluate different opportunities to reduce risk and volatility associated with our pension and retiree medical plans. See Note 7 to our consolidated financial statements for our past and expected contributions and estimated future benefit payments.

Consolidated Statement of Income
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021
(in millions except per share amounts)

	2023	2022	2021
Net Revenue	**$ 91,471**	$ 86,392	$ 79,474
Cost of sales	**41,881**	40,576	37,075
Gross profit	**49,590**	45,816	42,399
Selling, general and administrative expenses	**36,677**	34,459	31,237
Gain associated with the Juice Transaction (see Note 13)	**—**	(3,321)	—
Impairment of intangible assets (see Notes 1 and 4)	**927**	3,166	—
Operating Profit	**11,986**	11,512	11,162
Other pension and retiree medical benefits income	**250**	132	522
Net interest expense and other	**(819)**	(939)	(1,863)
Income before income taxes	**11,417**	10,705	9,821
Provision for income taxes	**2,262**	1,727	2,142
Net income	**9,155**	8,978	7,679
Less: Net income attributable to noncontrolling interests	**81**	68	61
Net Income Attributable to PepsiCo	**$ 9,074**	$ 8,910	$ 7,618
Net Income Attributable to PepsiCo per Common Share			
Basic	**$ 6.59**	$ 6.45	$ 5.51
Diluted	**$ 6.56**	$ 6.42	$ 5.49
Weighted-average common shares outstanding			
Basic	**1,376**	1,380	1,382
Diluted	**1,383**	1,387	1,389

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021
(in millions)

	2023	2022	2021
Net income	**$ 9,155**	$ 8,978	$ 7,679
Other comprehensive (loss)/income, net of taxes:			
Net currency translation adjustment	**(307)**	(643)	(369)
Net change on cash flow hedges	**(32)**	(158)	155
Net pension and retiree medical adjustments	**(358)**	389	770
Net change on available-for-sale debt securities and other	**465**	4	22
	(232)	(408)	578
Comprehensive income	**8,923**	8,570	8,257
Less: Comprehensive income attributable to noncontrolling interests	**81**	64	61
Comprehensive Income Attributable to PepsiCo	**$ 8,842**	$ 8,506	$ 8,196

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021
(in millions)

	2023	2022	2021
Operating Activities			
Net income	**$ 9,155**	$ 8,978	$ 7,679
Depreciation and amortization	**2,948**	2,763	2,710
Gain associated with the Juice Transaction	**—**	(3,321)	—
Impairment and other charges	**1,230**	3,618	—
Product recall-related impact	**136**	—	—
Operating lease right-of-use asset amortization	**570**	517	505
Share-based compensation expense	**380**	343	301
Restructuring and impairment charges	**445**	411	247
Cash payments for restructuring charges	**(434)**	(224)	(256)
Acquisition and divestiture-related charges	**41**	80	(4)
Cash payments for acquisition and divestiture-related charges	**(41)**	(46)	(176)
Pension and retiree medical plan expenses	**150**	419	123
Pension and retiree medical plan contributions	**(410)**	(384)	(785)
Deferred income taxes and other tax charges and credits	**(271)**	(873)	298
Tax expense related to the TCJ Act	**—**	86	190
Tax payments related to the TCJ Act	**(309)**	(309)	(309)
Change in assets and liabilities:			
Accounts and notes receivable	**(793)**	(1,763)	(651)
Inventories	**(261)**	(1,142)	(582)
Prepaid expenses and other current assets	**(13)**	118	159
Accounts payable and other current liabilities	**420**	1,842	1,762
Income taxes payable	**310**	57	30
Other, net	**189**	(359)	375
Net Cash Provided by Operating Activities	**13,442**	10,811	11,616
Investing Activities			
Capital spending	**(5,518)**	(5,207)	(4,625)
Sales of property, plant and equipment	**198**	251	166
Acquisitions, net of cash acquired, investments in noncontrolled affiliates and purchases of intangible and other assets	**(314)**	(873)	(61)
Proceeds associated with the Juice Transaction	**—**	3,456	—
Other divestitures, sales of investments in noncontrolled affiliates and other assets	**75**	49	169
Short-term investments, by original maturity:			
More than three months - purchases	**(555)**	(291)	—
More than three months - maturities	**556**	150	1,135
More than three months - sales	**12**	—	—
Three months or less, net	**3**	24	(58)
Other investing, net	**48**	11	5
Net Cash Used for Investing Activities	**(5,495)**	(2,430)	(3,269)

(Continued on following page)

Consolidated Statement of Cash Flows (continued)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021
(in millions)

	2023	2022	2021
Financing Activities			
Proceeds from issuances of long-term debt	**$ 5,482**	$ 3,377	$ 4,122
Payments of long-term debt	**(3,005)**	(2,458)	(3,455)
Debt redemptions/cash tender offers	**—**	(1,716)	(4,844)
Short-term borrowings, by original maturity:			
More than three months - proceeds	**5,428**	1,969	8
More than three months - payments	**(3,106)**	(1,951)	(397)
Three months or less, net	**(29)**	(31)	434
Payments of acquisition-related contingent consideration	**—**	—	(773)
Cash dividends paid	**(6,682)**	(6,172)	(5,815)
Share repurchases - common	**(1,000)**	(1,500)	(106)
Proceeds from exercises of stock options	**116**	138	185
Withholding tax payments on restricted stock units (RSUs) and performance stock units (PSUs) converted	**(140)**	(107)	(92)
Other financing	**(73)**	(72)	(47)
Net Cash Used for Financing Activities	**(3,009)**	(8,523)	(10,780)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	**(277)**	(465)	(114)
Net Increase/(Decrease) in Cash and Cash Equivalents and Restricted Cash	**4,661**	(607)	(2,547)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	**5,100**	5,707	8,254
Cash and Cash Equivalents and Restricted Cash, End of Year	**$ 9,761**	$ 5,100	$ 5,707

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
December 30, 2023 and December 31, 2022
(in millions except per share amounts)

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 9,711**	$ 4,954
Short-term investments	**292**	394
Accounts and notes receivable, net	**10,815**	10,163
Inventories		
Raw materials and packaging	**2,388**	2,366
Work-in-process	**104**	114
Finished goods	**2,842**	2,742
	5,334	5,222
Prepaid expenses and other current assets	**798**	806
Total Current Assets	**26,950**	21,539
Property, Plant and Equipment, net	**27,039**	24,291
Amortizable Intangible Assets, net	**1,199**	1,277
Goodwill	**17,728**	18,202
Other Indefinite-Lived Intangible Assets	**13,730**	14,309
Investments in Noncontrolled Affiliates	**2,714**	3,073
Deferred Income Taxes	**4,474**	4,204
Other Assets	**6,661**	5,292
Total Assets	**$ 100,495**	$ 92,187
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt obligations	**$ 6,510**	$ 3,414
Accounts payable and other current liabilities	**25,137**	23,371
Total Current Liabilities	**31,647**	26,785
Long-Term Debt Obligations	**37,595**	35,657
Deferred Income Taxes	**3,895**	4,133
Other Liabilities	**8,721**	8,339
Total Liabilities	**81,858**	74,914
Commitments and contingencies		
PepsiCo Common Shareholders' Equity		
Common stock, par value $1^2/_3$¢ per share (authorized 3,600 shares; issued, net of repurchased common stock at par value: 1,374 and 1,377 shares, respectively)	**23**	23
Capital in excess of par value	**4,261**	4,134
Retained earnings	**70,035**	67,800
Accumulated other comprehensive loss	**(15,534)**	(15,302)
Repurchased common stock, in excess of par value (493 and 490 shares, respectively)	**(40,282)**	(39,506)
Total PepsiCo Common Shareholders' Equity	**18,503**	17,149
Noncontrolling interests	**134**	124
Total Equity	**18,637**	17,273
Total Liabilities and Equity	**$ 100,495**	$ 92,187

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Equity
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021
(in millions except per share amounts)

	2023		2022		2021	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance, beginning of year	**1,377**	**$ 23**	1,383	$ 23	1,380	$ 23
Change in repurchased common stock	**(3)**	**—**	(6)	—	3	—
Balance, end of year	**1,374**	**23**	1,377	23	1,383	23
Capital in Excess of Par Value						
Balance, beginning of year		**4,134**		4,001		3,910
Share-based compensation expense		**379**		346		302
Stock option exercises, RSUs and PSUs converted		**(107)**		(102)		(118)
Withholding tax on RSUs and PSUs converted		**(140)**		(107)		(92)
Other		**(5)**		(4)		(1)
Balance, end of year		**4,261**		4,134		4,001
Retained Earnings						
Balance, beginning of year		**67,800**		65,165		63,443
Net income attributable to PepsiCo		**9,074**		8,910		7,618
Cash dividends declared - common [(a)]		**(6,839)**		(6,275)		(5,896)
Balance, end of year		**70,035**		67,800		65,165
Accumulated Other Comprehensive Loss						
Balance, beginning of year		**(15,302)**		(14,898)		(15,476)
Other comprehensive (loss)/income attributable to PepsiCo		**(232)**		(404)		578
Balance, end of year		**(15,534)**		(15,302)		(14,898)
Repurchased Common Stock						
Balance, beginning of year	**(490)**	**(39,506)**	(484)	(38,248)	(487)	(38,446)
Share repurchases	**(6)**	**(1,000)**	(9)	(1,500)	(1)	(106)
Stock option exercises, RSUs and PSUs converted	**3**	**223**	3	240	4	303
Other	**—**	**1**	—	2	—	1
Balance, end of year	**(493)**	**(40,282)**	(490)	(39,506)	(484)	(38,248)
Total PepsiCo Common Shareholders' Equity		**18,503**		17,149		16,043
Noncontrolling Interests						
Balance, beginning of year		**124**		108		98
Net income attributable to noncontrolling interests		**81**		68		61
Distributions to noncontrolling interests		**(68)**		(69)		(49)
Acquisitions		**—**		21		—
Other, net		**(3)**		(4)		(2)
Balance, end of year		**134**		124		108
Total Equity		**$ 18,637**		$ 17,273		$ 16,151

(a) Cash dividends declared per common share were $4.9450, $4.5250 and $4.2475 for 2023, 2022 and 2021, respectively.

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1 — Basis of Presentation and Our Divisions

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP and include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates using the equity method based on our economic ownership interest, our ability to exercise significant influence over the operating or financial decisions of these affiliates or our ability to direct their economic resources. We do not control these other affiliates, as our ownership in these other affiliates is generally 50% or less. Intercompany balances and transactions are eliminated. As a result of exchange restrictions and other operating restrictions, we do not have control over our Venezuelan subsidiaries. As such, our Venezuelan subsidiaries are not included within our consolidated financial results for any period presented.

Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw materials handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product, including merchandising activities, are included in selling, general and administrative expenses.

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used in determining, among other items, sales incentives accruals, tax reserves, share-based compensation, pension and retiree medical accruals, amounts and useful lives for intangible assets and future cash flows associated with impairment testing for indefinite-lived intangible assets, goodwill and other long-lived assets. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. Additionally, the business and economic uncertainty resulting from the ongoing conflicts in Ukraine and the Middle East and the high interest rate and inflationary cost environment has made such estimates and assumptions more difficult to calculate. As future events and their effect cannot be determined with precision, actual results could differ significantly from those estimates.

Our fiscal year ends on the last Saturday of each December, resulting in a 53rd reporting week every five or six years, including in our 2022 financial results. While our North America financial results are reported on a weekly calendar basis, substantially all of our international operations reported on a monthly calendar basis prior to the fourth quarter of 2021. Beginning in the fourth quarter of 2021, all of our international operations reported on a monthly calendar basis. This change did not have a material impact on our consolidated financial statements. The following chart details our quarterly reporting schedule:

Quarter	United States and Canada	International
First Quarter	12 weeks	January and February
Second Quarter	12 weeks	March, April and May
Third Quarter	12 weeks	June, July and August
Fourth Quarter	16 weeks (17 weeks for 2022)	September, October, November and December

Unless otherwise noted, tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

Our Divisions

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

1) Frito-Lay North America (FLNA), which includes our branded convenient food businesses in the United States and Canada;
2) Quaker Foods North America (QFNA), which includes our branded convenient food businesses, such as cereal, rice, pasta and other branded food, in the United States and Canada;
3) PepsiCo Beverages North America (PBNA), which includes our beverage businesses in the United States and Canada;
4) Latin America (LatAm), which includes all of our beverage and convenient food businesses in Latin America;
5) Europe, which includes all of our beverage and convenient food businesses in Europe;
6) Africa, Middle East and South Asia (AMESA), which includes all of our beverage and convenient food businesses in Africa, the Middle East and South Asia; and
7) Asia Pacific, Australia and New Zealand and China region (APAC), which includes all of our beverage and convenient food businesses in Asia Pacific, Australia and New Zealand, and China region.

Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, distribute and sell a wide variety of beverages and convenient foods, serving customers and consumers in more than 200 countries and territories with our largest operations in the United States, Mexico, Canada, Russia, China, the United Kingdom, Brazil and South Africa.

The accounting policies for the divisions are the same as those described in Note 2, except for the following allocation methodologies:

- share-based compensation expense;
- pension and retiree medical expense; and
- derivatives.

Share-Based Compensation Expense

Our divisions are held accountable for share-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost.

The allocation of share-based compensation expense of each division is as follows:

	2023	2022	2021
FLNA	**13 %**	13 %	13 %
QFNA	**1 %**	1 %	1 %
PBNA	**18 %**	20 %	19 %
LatAm	**6 %**	6 %	5 %
Europe	**10 %**	11 %	13 %
AMESA	**5 %**	5 %	6 %
APAC	**3 %**	3 %	2 %
Corporate unallocated expenses	**44 %**	41 %	41 %

The expense allocated to our divisions excludes any impact of changes in our assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

Pension and Retiree Medical Expense

Pension and retiree medical service costs measured at fixed discount rates are reflected in division results. The variance between the fixed discount rate used to determine the service cost reflected in division results and the discount rate as disclosed in Note 7 is reflected in corporate unallocated expenses.

Derivatives

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include agricultural products, energy and metals. Commodity derivatives that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses. These derivatives hedge underlying commodity price risk and were not entered into for trading or speculative purposes.

Net Revenue and Operating Profit/(Loss)

Net revenue and operating profit/(loss) of each division are as follows:

	Net Revenue			Operating Profit/(Loss)		
	2023	2022	2021	**2023[a]**	2022[a]	2021
FLNA	**$ 24,914**	$ 23,291	$ 19,608	**$ 6,755**	$ 6,135	$ 5,633
QFNA[b]	**3,101**	3,160	2,751	**492**	604	578
PBNA[c]	**27,626**	26,213	25,276	**2,584**	5,426	2,442
LatAm	**11,654**	9,779	8,108	**2,252**	1,627	1,369
Europe[c]	**13,234**	12,724	13,038	**767**	(1,380)	1,292
AMESA	**6,139**	6,438	6,078	**807**	666	858
APAC	**4,803**	4,787	4,615	**713**	537	673
Total division	**91,471**	86,392	79,474	**14,370**	13,615	12,845
Corporate unallocated expenses	**—**	—	—	**(2,384)**	(2,103)	(1,683)
Total	**$ 91,471**	$ 86,392	$ 79,474	**$ 11,986**	$ 11,512	$ 11,162

(a) See below for impairment and other charges taken related to the Russia-Ukraine conflict, brand portfolio impairment and other impairment.

(b) In 2023, operating profit included a pre-tax charge of $136 million ($104 million after-tax or $0.07 per share) in cost of sales for product returns, inventory write-offs and customer and consumer-related costs associated with the Quaker Recall.

(c) In 2022, we recorded a gain of $3,029 million and $292 million in our PBNA and Europe divisions, respectively, associated with the Juice Transaction. The total after-tax amount was $2,888 million or $2.08 per share. See Note 13 for further information.

Disaggregation of Net Revenue

Our primary performance obligation is the distribution and sales of beverage and convenient food products to our customers. The following table reflects the percentage of net revenue generated between our beverage business and our convenient food business for each of our international divisions, as well as our consolidated net revenue:

	2023		2022		2021	
	Beverages[a]	**Convenient Foods**	Beverages[a]	Convenient Foods	Beverages[a]	Convenient Foods
LatAm	**9 %**	**91 %**	9 %	91 %	10 %	90 %
Europe	**48 %**	**52 %**	50 %	50 %	54 %	46 %
AMESA	**29 %**	**71 %**	30 %	70 %	31 %	69 %
APAC	**23 %**	**77 %**	23 %	77 %	22 %	78 %
PepsiCo	**41 %**	**59 %**	42 %	58 %	45 %	55 %

(a) Beverage revenue from company-owned bottlers, which primarily includes our consolidated bottling operations in our PBNA and Europe divisions, is 35%, 37% and 40% of our consolidated net revenue in 2023, 2022 and 2021, respectively. Generally, our finished goods beverage operations produce higher net revenue, but lower operating margins as compared to concentrate sold to authorized bottling partners for the manufacture of finished goods beverages.

Impairment and Other Charges

We recognized Russia-Ukraine conflict charges, brand portfolio impairment charges and other impairment charges as described below.

A summary of pre-tax charges taken in 2022 in our Europe division as a result of the Russia-Ukraine conflict is as follows:

	Cost of sales	Selling, general and administrative expenses	Impairment of intangible assets[a]	Total
Impairment charges related to intangible assets	$ —	$ —	$ 1,198	$ 1,198
Impairment charges related to property, plant and equipment	103	22	—	125
Allowance for expected credit losses	—	12	—	12
Allowance for inventory write downs	28	1	—	29
Other	9	42	—	51
Total	$ 140	$ 77	$ 1,198	$ 1,415
After-tax amount				$ 1,124
Impact on net income attributable to PepsiCo per common share				$ (0.81)

(a) See Note 4 for further information. For information on our policies for indefinite-lived intangible assets, see Note 2.

In 2023, a pre-tax credit of $7 million ($7 million after-tax or $0.01 per share) was recorded in our Europe division, primarily in selling, general and administrative expenses, representing adjustments for changes in estimates of previously recorded amounts. In addition, a tax benefit of $68 million ($0.05 per share) was recorded in our Europe division related to the impairment of certain consolidated investments.

A summary of pre-tax charges taken in 2022 as a result of our decision to reposition or discontinue the sale/distribution of certain brands and to sell an investment is as follows:

	Cost of sales	Selling, general and administrative expenses	Impairment of intangible assets[(a)]	Total	
PBNA	$ 26	$ 8	$ 126	$ 160	Impairment and other charges associated with distribution rights and inventory due to the termination of Bang energy drinks distribution agreement
LatAm	—	35	36	71	Loss on sale and impairment of intangible assets related to the sale of certain non-strategic brands
Europe	1	10	242	253	Primarily impairment of intangible assets related to the discontinuation or repositioning of certain juice and dairy brands in Russia
AMESA	29	121	9	159	Primarily impairment of investment, property, plant and equipment and intangible assets related to the sale or discontinuation of non-strategic investment and brands
APAC	5	—	—	5	Impairment of property, plant and equipment related to the discontinuation of a non-strategic brand in China
Total	$ 61	$ 174	$ 413	$ 648	
After-tax amount				$ 522	
Impact on net income attributable to PepsiCo per common share				$ (0.38)	

(a) See Note 4 for further information. For information on our policies for indefinite-lived intangible assets, see Note 2.

In 2023, a pre-tax credit of $13 million ($13 million after-tax or $0.01 per share) was recorded in our AMESA division, with $9 million in selling, general and administrative expenses and $4 million in cost of sales. In addition, a pre-tax charge of $2 million ($1 million after-tax with a nominal amount per share) was recorded in our LatAm division in selling, general and administrative expenses. Both of these amounts represent adjustments for changes in estimates of previously recorded amounts.

A summary of pre-tax impairment charges taken as a result of our quantitative assessments of certain of our indefinite-lived intangible assets and related to our investment in TBG is as follows:

	Other impairment charges				
	2023			2022	
	Selling, general and administrative expenses	**Impairment of intangible assets[(a)]**	**Total**	Impairment of intangible assets[(a)]	
FLNA	**$ —**	**$ —**	**$ —**	$ 88	Related to a baked fruit convenient food brand
PBNA	**321**	**—**	**321**	—	Includes our proportionate share of TBG's indefinite-lived intangible assets impairment and other-than-temporary impairment of our investment in TBG
Europe	**—**	**862**	**862**	1,264	Related to the SodaStream brand and goodwill
AMESA	**—**	**6**	**6**	31	Related to brands from the Pioneer Foods acquisition
APAC	**—**	**59**	**59**	172	Related to the Be & Cheery brand
Total	**$ 321**	**$ 927**	**$ 1,248**	$ 1,555	
After-tax amount			**$ 1,033**	$ 1,301	
Impact on net income attributable to PepsiCo per common share			**$ (0.75)**	$ (0.94)	

(a) See Note 4 for further information. For information on our policies for indefinite-lived intangible assets, see Note 2.

COVID-19 Charges

Operating profit includes certain pre-tax charges taken as a result of the COVID-19 pandemic related to incremental employee compensation costs, such as certain leave benefits and labor costs, employee protection costs, allowances for expected credit losses and upfront payments to customers and their related adjustments for changes in estimates as conditions improve. These pre-tax charges were not significant in 2023. In 2022 and 2021, these pre-tax charges by division were as follows:

	COVID-19 charges	
	2022	2021
FLNA	$ 25	$ 56
QFNA	1	2
PBNA [(a)]	23	(11)
LatAm	15	64
Europe	5	21
AMESA	5	7
APAC	21	9
Total	$ 95	$ 148

(a) Income amount primarily relates to adjustments for changes in estimates of allowances for expected credit losses and upfront payments to customers, due to improved projected default rates and lower at-risk balances.

Corporate Unallocated Expenses

Corporate unallocated expenses include costs of our corporate headquarters, centrally managed initiatives such as commodity derivative gains and losses, foreign exchange transaction gains and losses, our ongoing business transformation initiatives, unallocated research and development costs, unallocated insurance and benefit programs, tax-related contingent consideration, certain acquisition and divestiture-related charges, certain gains and losses on equity investments, as well as certain other items.

Other Division Information

Total assets and capital spending of each division are as follows:

	Total Assets			Capital Spending		
	2023	2022		**2023**	2022	2021
FLNA	**$ 12,176**	$ 11,042	**$ 1,341**	$ 1,464	$ 1,411
QFNA	**1,199**	1,245	**103**	93	92
PBNA	**41,355**	40,286	**1,723**	1,714	1,275
LatAm	**9,281**	7,886	**841**	581	461
Europe	**15,615**	16,230	**551**	668	752
AMESA	**6,389**	6,143	**391**	307	325
APAC	**5,630**	5,452	**284**	241	203
Total division	**91,645**	88,284	**5,234**	5,068	4,519
Corporate [(a)]	**8,850**	3,903	**284**	139	106
Total	**$ 100,495**	$ 92,187	**$ 5,518**	$ 5,207	$ 4,625

(a) Corporate assets consist principally of certain cash and cash equivalents, restricted cash, short-term investments, derivative instruments, property, plant and equipment, pension plan assets and tax assets. In 2023, the change in assets was primarily due to an increase in cash and cash equivalents.

Amortization of intangible assets and depreciation and other amortization of each division are as follows:

	Amortization of Intangible Assets			Depreciation and Other Amortization		
	2023	2022	2021	**2023**	2022	2021
FLNA	**$ 11**	$ 11	$ 11	**$ 736**	$ 653	$ 594
QFNA	**—**	—	—	**51**	47	46
PBNA	**22**	22	25	**1,003**	930	926
LatAm	**2**	3	4	**372**	306	283
Europe	**29**	30	37	**347**	357	364
AMESA	**3**	4	5	**167**	179	181
APAC	**8**	8	9	**99**	92	102
Total division	**75**	78	91	**2,775**	2,564	2,496
Corporate	**—**	—	—	**98**	121	123
Total	**$ 75**	$ 78	$ 91	**$ 2,873**	$ 2,685	$ 2,619

Net revenue and long-lived assets by country are as follows:

	Net Revenue			Long-Lived Assets[a]	
	2023	2022	2021	**2023**	2022
United States	**$ 52,165**	$ 49,390	$ 44,545	**$ 41,234**	$ 38,240
Mexico	**7,011**	5,472	4,580	**2,509**	1,933
Canada	**3,722**	3,536	3,405	**2,815**	2,678
Russia	**3,566**	4,118	3,426	**1,986**	2,538
China	**2,703**	2,752	2,679	**1,510**	1,517
United Kingdom	**1,946**	1,844	2,102	**868**	847
Brazil	**1,779**	1,617	1,252	**573**	446
South Africa	**1,707**	1,837	2,008	**1,305**	1,327
All other countries	**16,872**	15,826	15,477	**11,226**	12,439
Total	**$ 91,471**	$ 86,392	$ 79,474	**$ 64,026**	$ 61,965

(a) Long-lived assets represent property, plant and equipment, indefinite-lived intangible assets, amortizable intangible assets, investments in noncontrolled affiliates and other investments included in other assets. See Notes 2 and 15 for further information on property, plant and equipment. See Notes 2 and 4 for further information on goodwill and other intangible assets. See Notes 9 and 15 for further information on other assets. These assets are reported in the country where they are primarily used.

Note 2 — Our Significant Accounting Policies

Revenue Recognition

We recognize revenue when our performance obligation is satisfied. Our primary performance obligation (the distribution and sales of beverage and convenient food products) is satisfied upon the shipment or delivery of products to our customers, which is also when control is transferred. Merchandising activities are performed after a customer obtains control of the product, are accounted for as fulfillment of our performance obligation to ship or deliver product to our customers and are recorded in selling, general and administrative expenses. Merchandising activities are immaterial in the context of our contracts. In addition, we exclude from net revenue all sales, use, value-added and certain excise taxes assessed by government authorities on revenue producing transactions.

The transfer of control of products to our customers is typically based on written sales terms that generally do not allow for a right of return, except in the instance of a product recall or other limited circumstances that may allow for product returns. Our policy for DSD, including certain chilled products, is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for certain warehouse-distributed products is to replace damaged and out-of-date products. As a result, we record reserves, based on estimates, for product recall, anticipated damaged and out-of-date products.

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the United States, and generally within 30 to 90 days internationally, and may allow discounts for early payment.

We estimate and reserve for our expected credit loss exposure based on our experience with past due accounts and collectibility, write-off history, the aging of accounts receivable, our analysis of customer data, and forward-looking information (including the expected impact of a high interest rate and inflationary cost environment), leveraging estimates of creditworthiness and projections of default and recovery rates for certain of our customers.

We are exposed to concentration of credit risk from our major customers, including Walmart. We have not experienced credit issues with these customers. In 2023, sales to Walmart and its affiliates (including Sam's) represented approximately 14% of our consolidated net revenue, including concentrate sales to our independent bottlers, which were used in finished goods sold by them to Walmart.

Total Marketplace Spending

We offer sales incentives and discounts through various programs to customers and consumers. Total marketplace spending includes sales incentives, discounts, advertising and other marketing activities. Sales incentives and discounts are primarily accounted for as a reduction of revenue and include payments to customers for performing activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. Sales incentives and discounts also include support provided to our independent bottlers through funding of advertising and other marketing activities.

A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year, as products are delivered, for the expected payout, which may occur after year-end once reconciled and settled. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer and consumer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year as incurred.

The terms of most of our incentive arrangements do not exceed one year and, therefore, do not require highly uncertain long-term estimates. Certain arrangements, such as fountain pouring rights, may extend beyond one year. Upfront payments to customers under these arrangements are recognized over the shorter of the economic or contractual life, primarily as a reduction of revenue, and the remaining balances of $228 million as of December 30, 2023 and $242 million as of December 31, 2022 are included in prepaid expenses and other current assets and other assets on our balance sheet.

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period's actual gross revenue or volume, as applicable, to our forecasted annual gross revenue or volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized beginning in the interim period that they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for certain advertising and other marketing activities. Our annual consolidated financial statements are not impacted by this interim allocation methodology.

Advertising and other marketing activities, reported as selling, general and administrative expenses, totaled $5.7 billion in 2023, $5.2 billion in 2022 and $5.1 billion in 2021, including advertising expenses of $3.8 billion in 2023 and $3.5 billion in both 2022 and 2021. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments;
- promotional materials in inventory; and
- production costs of future media advertising.

Deferred advertising costs of $67 million and $40 million as of December 30, 2023 and December 31, 2022, respectively, are classified as prepaid expenses and other current assets on our balance sheet.

Distribution Costs

Distribution costs, including the costs of shipping and handling activities, which include certain merchandising activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were $15.4 billion in 2023, $15.0 billion in 2022 and $13.7 billion in 2021.

Software Costs

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs include (1) external direct costs of materials and services utilized in developing or obtaining computer software, (2) compensation and related benefits for employees who are directly associated with the software projects and (3) interest costs incurred while developing internal-use computer software. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line basis when placed into service over the estimated useful lives of the software, which approximate five to 10 years. Software amortization totaled $159 million in 2023, $123 million in 2022 and $135 million in 2021. Net capitalized software and development costs were $1.4 billion and $1.1 billion as of December 30, 2023 and December 31, 2022, respectively.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, certain taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable.

Research and Development

We engage in a variety of research and development activities and continue to invest to accelerate growth and to drive innovation globally. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were $804 million, $771 million and $752 million in 2023, 2022 and 2021, respectively, and are reported within selling, general and administrative expenses.

Goodwill and Other Intangible Assets

Indefinite-lived intangible assets and goodwill are not amortized and, as a result, are assessed for impairment at least annually, using either a qualitative or quantitative approach. We perform this annual assessment during our third quarter, or more frequently if circumstances indicate that the carrying value may not be recoverable. Where we use the qualitative assessment, first we determine if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include macroeconomic conditions (including those related to the ongoing conflicts in Ukraine and the Middle East and a high interest rate and inflationary cost environment), industry and competitive conditions, legal and regulatory environment, historical financial performance and significant changes in the brand or reporting unit. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed.

In the quantitative assessment for indefinite-lived intangible assets and goodwill, an assessment is performed to determine the fair value of the indefinite-lived intangible asset and the reporting unit, respectively. Estimated fair value is determined using discounted cash flows and requires an analysis of several estimates including future cash flows or income consistent with management's strategic business plans, annual sales growth rates, perpetuity growth assumptions and the selection of assumptions underlying a discount rate (weighted-average cost of capital) based on market data available at the time. Significant management judgment is necessary to estimate the impact of competitive operating, macroeconomic and other factors (including those related to the ongoing conflicts in Ukraine and the Middle East and a high interest rate and inflationary cost environment) to estimate future levels of sales, operating profit or cash flows. All assumptions used in our impairment evaluations for indefinite-lived intangible assets and goodwill, such as forecasted growth rates (including perpetuity growth assumptions) and weighted-average cost of capital, are based on the best available market information and are consistent

with our internal forecasts and operating plans. A deterioration in these assumptions could adversely impact our results.

Amortizable intangible assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

See Note 4 for further information.

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- *Basis of Presentation* – Note 1 includes a description of our policies regarding use of estimates, basis of presentation and consolidation.
- *Income Taxes* – Note 5.
- *Share-Based Compensation* – Note 6.
- *Pension, Retiree Medical and Savings Plans* – Note 7.
- *Financial Instruments* – Note 9.
- *Cash Equivalents* – Cash equivalents are highly liquid investments with original maturities of three months or less.
- *Inventories* – Inventories are valued at the lower of cost or net realizable value. Cost is determined using the average; first-in, first-out (FIFO); or, in limited instances, last-in, first-out (LIFO) methods. For inventories valued under the LIFO method, the differences between the LIFO and FIFO methods of valuing inventories are not material.
- *Property, Plant and Equipment* – Note 15. Property, plant and equipment is recorded at historical cost. Depreciation is recognized on a straight-line basis over an asset's estimated useful life. Construction in progress is not depreciated until ready for service.
- *Translation of Financial Statements of Foreign Subsidiaries* – Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within common shareholders' equity as currency translation adjustment.

Recently Issued Accounting Pronouncements

Adopted

In September 2022, the Financial Accounting Standards Board (FASB) issued guidance to enhance the transparency of supplier finance programs to allow financial statement users to understand the effect on working capital, liquidity and cash flows. The new guidance requires disclosure of key terms of the program, including a description of the payment terms, payment timing and assets pledged as security or other forms of guarantees provided to the finance provider or intermediary. Other requirements include the disclosure of the amount that remains unpaid as of the end of the reporting period, a description of where these obligations are presented in the balance sheet and a rollforward of the obligation during the annual period. We adopted the guidance in the first quarter of 2023, except for the rollforward, which is effective in fiscal year 2024 with early adoption permitted. We will adopt the rollforward guidance when effective, in our 2024 annual reporting. See Note 14 for disclosures currently required under this guidance.

Not Yet Adopted

In December 2023, the FASB issued guidance to enhance transparency of income tax disclosures. On an annual basis, the new guidance requires a public entity to disclose: (1) specific categories in the rate reconciliation, (2) additional information for reconciling items that are equal to or greater than 5% of the amount computed by multiplying income (or loss) from continuing operations before income tax expense (or benefit) by the applicable statutory income tax rate, (3) income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, with foreign taxes disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5% of total income taxes paid, (4) income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and (5) income tax expense (or benefit) from continuing operations disaggregated between federal (national), state and foreign. The guidance is effective for fiscal year 2025 annual reporting, with early adoption permitted, to be applied on a prospective basis, with retrospective application permitted. We will adopt the guidance when it becomes effective, in our 2025 annual reporting, on a prospective basis.

In November 2023, the FASB issued guidance to enhance disclosure of expenses of a public entity's reportable segments. The new guidance requires a public entity to disclose: (1) on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss, (2) on an annual and interim basis, an amount for other segment items (the difference between segment revenue less the significant expenses disclosed under the significant expense principle and each reported measure of segment profit or loss), including a description of its composition, (3) on an annual and interim basis, information about a reportable segment's profit or loss and assets previously required to be disclosed only on an annual basis, and (4) the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and how to allocate resources. The new guidance also clarifies that if the CODM uses more than one measure of a segment's profit or loss, one or more of those measures may be reported and requires that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this update and all existing segment disclosures. The guidance is effective for fiscal year 2024 annual reporting, and in the first quarter of 2025 for interim period reporting, with early adoption permitted. Upon adoption, this guidance should be applied retrospectively to all prior periods presented. We will adopt the guidance when it becomes effective, in our 2024 annual reporting.

Note 3 — Restructuring and Impairment Charges

2019 Multi-Year Productivity Plan

We publicly announced a multi-year productivity plan on February 15, 2019 that will leverage new technology and business models to further simplify, harmonize and automate processes; re-engineer our go-to-market and information systems, including deploying the right automation for each market; and simplify our organization and optimize our manufacturing and supply chain footprint. To build on the successful implementation of the 2019 Productivity Plan, in 2022, we expanded and extended the plan through the end of 2028 to take advantage of additional opportunities within the initiatives described above. As a result, we expect to incur pre-tax charges of approximately $3.65 billion, including cash expenditures of approximately $2.9 billion. These pre-tax charges are expected to consist of approximately 55% of severance and other employee-related costs, 10% for asset impairments (all non-cash) resulting from plant closures and related actions and 35% for other costs associated with the implementation of our initiatives.

The total plan pre-tax charges are expected to be incurred by division approximately as follows:

	FLNA	QFNA	PBNA	LatAm	Europe	AMESA	APAC	Corporate
Expected pre-tax charges	15 %	1 %	25 %	10 %	25 %	5 %	4 %	15 %

A summary of our 2019 Productivity Plan charges is as follows:

	2023	2022	2021
Cost of sales	**$ 13**	$ 33	$ 29
Selling, general and administrative expenses	**433**	347	208
Other pension and retiree medical benefits (income)/ expense [(a)]	**(1)**	31	10
Total restructuring and impairment charges	**$ 445**	$ 411	$ 247
After-tax amount	**$ 349**	$ 334	$ 206
Impact on net income attributable to PepsiCo per common share	**$ (0.25)**	$ (0.24)	$ (0.15)

	2023	2022	2021	Plan to Date through 12/30/2023
FLNA	**$ 42**	$ 46	$ 28	$ 252
QFNA	**—**	7	—	19
PBNA	**41**	68	20	267
LatAm	**29**	32	37	200
Europe	**223**	109	81	566
AMESA	**15**	12	15	97
APAC	**8**	16	7	85
Corporate	**88**	90	49	317
	446	380	237	1,803
Other pension and retiree medical benefits (income)/expense [(a)]	**(1)**	31	10	97
Total	**$ 445**	$ 411	$ 247	$ 1,900

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

	Plan to Date through 12/30/2023
Severance and other employee costs	$ 1,050
Asset impairments	192
Other costs	658
Total	$ 1,900

Severance and other employee costs primarily include severance and other termination benefits, as well as voluntary separation arrangements. Other costs primarily include costs associated with the implementation of our initiatives, including consulting and other professional fees, as well as contract termination costs.

A summary of our 2019 Productivity Plan is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 26, 2020	$ 122	$ —	$ 5	$ 127
2021 restructuring charges	120	32	95	247
Cash payments [(a)]	(163)	—	(93)	(256)
Non-cash charges and translation	(15)	(32)	—	(47)
Liability as of December 25, 2021	64	—	7	71
2022 restructuring charges	243	33	135	411
Cash payments [(a)]	(90)	—	(134)	(224)
Non-cash charges and translation	(29)	(33)	—	(62)
Liability as of December 31, 2022	188	—	8	196
2023 restructuring charges	243	2	200	445
Cash payments [(a)]	(242)	—	(192)	(434)
Non-cash charges and translation	(1)	(2)	(7)	(10)
Liability as of December 30, 2023	**$ 188**	**$ —**	**$ 9**	**$ 197**

(a) Excludes cash expenditures of $1 million in 2023, $1 million in 2022 and $2 million in 2021, reported in the cash flow statement in pension and retiree medical plan contributions.

The majority of the restructuring accrual at December 30, 2023 is expected to be paid by the end of 2024.

Other Productivity Initiatives

There were no material charges related to other productivity and efficiency initiatives outside the scope of the 2019 Productivity Plan.

We regularly evaluate different productivity initiatives beyond the productivity plan and other initiatives described above.

For information on additional impairment charges, see Notes 1, 4 and 9 for impairment and other charges taken related to the Russia-Ukraine conflict, brand portfolio impairment charges and other impairment charges.

Note 4 — Intangible Assets

A summary of our amortizable intangible assets is as follows:

		2023			2022			2021
	Average Useful Life (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net	
Acquired franchise rights	56 – 60	**$ 840**	**$ (214)**	**$ 626**	$ 837	$ (200)	$ 637	
Customer relationships	10 – 24	**560**	**(265)**	**295**	571	(237)	334	
Brands	20 – 40	**1,093**	**(989)**	**104**	1,097	(973)	124	
Other identifiable intangibles	10 – 24	**449**	**(275)**	**174**	447	(265)	182	
Total		**$ 2,942**	**$ (1,743)**	**$ 1,199**	$ 2,952	$ (1,675)	$ 1,277	
Amortization expense				**$ 75**			$ 78	$ 91

Amortization is recognized on a straight-line basis over an intangible asset's estimated useful life. Amortization of intangible assets for each of the next five years, based on existing intangible assets as of December 30, 2023 and using average 2023 foreign exchange rates, is expected to be as follows:

	2024	2025	2026	2027	2028
Five-year projected amortization	$ 72	$ 70	$ 62	$ 60	$ 59

Depreciable and amortizable assets are evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need for revision.

Indefinite-Lived Intangible Assets

As discussed in Note 2, we perform our annual impairment assessment on indefinite-lived intangible assets during our third quarter. The annual impairment assessment on indefinite-lived intangible assets performed in the third quarter of 2023, based on best available market information and our internal forecasts and operating plans at the time, did not result in any material impairment charges.

In the fourth quarter of 2023, macroeconomic conditions, including higher interest rates, inflationary costs, and the ongoing conflict in the Middle East, and recent business performance indicated a deterioration of the significant inputs used to determine the fair value of our indefinite-lived intangible assets in various markets, primarily assumptions underlying the weighted-average cost of capital and the impact of economic uncertainty on current and future financial performance, and required us to perform a quantitative assessment on certain assets. The fair value of our indefinite-lived intangible assets was estimated using discounted cash flows under the income approach, which we consider to be a Level 3 measurement. We determined that the carrying value exceeded the fair value, which reflects the increase in the weighted-average cost of capital as well as our most current estimates of future sales and their contributions to operating profit and expected future cash flows (including perpetuity growth assumptions). As a result of the quantitative assessment, we recorded pre-tax impairment charges of $0.6 billion ($0.5 billion after-tax or $0.35 per share) for brands and $0.3 billion ($0.3 billion after-tax or $0.22 per share) for goodwill, both in impairment of intangible assets, primarily related to the SodaStream brand and reporting unit in our Europe division, in the year ended December 30, 2023. See Note 1 for further information.

In the first quarter of 2022, we discontinued or repositioned certain juice and dairy brands in Russia in our Europe division. As a result, we recognized pre-tax impairment charges (included in brand portfolio impairment charges) of $241 million ($193 million after-tax or $0.14 per share) in impairment of intangible assets, primarily related to indefinite-lived intangible assets in the year ended December 31, 2022. See Note 1 for further information.

In the second quarter of 2022, macroeconomic factors, sanctions and other regulations as a result of the Russia-Ukraine conflict indicated a material deterioration of the significant inputs used to determine the fair value of our indefinite-lived intangible assets in Russia, primarily assumptions underlying the weighted-average cost of capital. These factors required us to perform a quantitative assessment, despite the absence of a material adverse impact on these assets' financial performance (e.g., sales, operating profit, cash flows). The fair value of our indefinite-lived intangible assets in Russia was estimated using discounted cash flows under the income approach, which we consider to be a Level 3 measurement. We determined that the carrying value exceeded the fair value, with the decrease in the fair value primarily attributable to a significant increase in the weighted-average cost of capital, which reflected the macroeconomic uncertainty in Russia. As a result of the quantitative assessment, we recorded pre-tax

impairment charges of $1.2 billion ($958 million after-tax or $0.69 per share) in impairment of intangible assets, related to our juice and dairy brands in Russia in our Europe division, in the year ended December 31, 2022. See Note 1 for further information.

In the fourth quarter of 2022, macroeconomic conditions including a high interest rate and inflationary cost environment, coupled with recent business performance, indicated a deterioration of the significant inputs used to determine the fair value of our indefinite-lived intangible assets in various markets, primarily assumptions underlying the weighted-average cost of capital and the impact of economic uncertainty on current and future financial performance, and required us to perform a quantitative assessment on certain assets. The fair value of our indefinite-lived intangible assets was estimated using discounted cash flows under the income approach, which we consider to be a Level 3 measurement. We determined that the carrying value exceeded the fair value, which reflected the increase in the weighted-average cost of capital as well as our most current estimates of future sales and their contributions to operating profit and expected future cash flows (including perpetuity growth assumptions). As a result of the quantitative assessment, we recognized pre-tax impairment charges of $1.6 billion ($1.3 billion after-tax or $0.94 per share) in impairment of intangible assets, primarily related to the SodaStream brand in our Europe division, in the year ended December 31, 2022. See Note 1 for further information.

We did not recognize any impairment charges for goodwill in each of the years ended December 31, 2022 and December 25, 2021. We did not recognize any impairment charges for indefinite-lived intangible assets in the year ended December 25, 2021.

As of December 30, 2023, the estimated fair values of our indefinite-lived reacquired and acquired franchise rights recorded at PBNA exceeded their carrying values. However, there could be an impairment of the carrying value of PBNA's reacquired and acquired franchise rights, as well as further impairment to the carrying value of the SodaStream reporting unit goodwill, if future sales and their contributions to operating profit do not achieve our expected future cash flows (including perpetuity growth assumptions) or if macroeconomic conditions result in a future increase in the weighted-average cost of capital used to estimate fair value.

For further information on our policies for indefinite-lived intangible assets, see Note 2.

The change in the book value of indefinite-lived intangible assets is as follows:

	Balance, Beginning 2022	Acquisitions	Impairment	Translation and Other	Balance, End of 2022	Acquisitions	Impairment	Translation and Other	Balance, End of 2023
FLNA									
Goodwill	$ 458	$ —	$ —	$ (7)	$ 451	$ —	$ —	$ 2	**$ 453**
Brands [a]	340	—	(88)	(1)	251	—	—	—	**251**
Total	798	—	(88)	(8)	702	—	—	2	**704**
QFNA									
Goodwill	189	—	—	—	189	—	—	—	**189**
Total	189	—	—	—	189	—	—	—	**189**
PBNA									
Goodwill	11,974	—	—	(27)	11,947	4	—	10	**11,961**
Reacquired franchise rights	7,107	—	—	(46)	7,061	36	—	17	**7,114**
Acquired franchise rights [b]	1,538	230	—	(10)	1,758	14	—	(35)	**1,737**
Brands	2,508	—	—	—	2,508	—	—	—	**2,508**
Total	23,127	230	—	(83)	23,274	54	—	(8)	**23,320**
LatAm									
Goodwill	433	—	—	3	436	—	—	24	**460**
Brands [c]	100	—	(29)	4	75	—	—	7	**82**
Total	533	—	(29)	7	511	—	—	31	**542**
Europe									
Goodwill [d][e]	3,700	—	—	(54)	3,646	—	(290)	(190)	**3,166**
Reacquired franchise rights	441	—	—	(20)	421	—	—	(2)	**419**
Acquired franchise rights	158	—	(1)	(9)	148	—	—	6	**154**
Brands [e]	4,254	—	(2,684)	94	1,664	—	(572)	32	**1,124**
Total	8,553	—	(2,685)	11	5,879	—	(862)	(154)	**4,863**
AMESA									
Goodwill	1,063	14	—	(62)	1,015	34	—	(58)	**991**
Brands [f]	205	—	(36)	(13)	156	—	(6)	(13)	**137**
Total	1,268	14	(36)	(75)	1,171	34	(6)	(71)	**1,128**
APAC									
Goodwill	564	—	—	(46)	518	—	—	(10)	**508**
Brands [g]	476	—	(172)	(37)	267	—	(59)	(4)	**204**
Total	1,040	—	(172)	(83)	785	—	(59)	(14)	**712**
Total goodwill	18,381	14	—	(193)	18,202	38	(290)	(222)	**17,728**
Total reacquired franchise rights	7,548	—	—	(66)	7,482	36	—	15	**7,533**
Total acquired franchise rights	1,696	230	(1)	(19)	1,906	14	—	(29)	**1,891**
Total brands	7,883	—	(3,009)	47	4,921	—	(637)	22	**4,306**
Total	$ 35,508	$ 244	$ (3,010)	$ (231)	$32,511	$ 88	$ (927)	$ (214)	**$31,458**

(a) Impairment in 2022 is related to a baked fruit convenient food brand.

(b) Acquisitions in 2022 primarily reflect our agreement with Celsius to distribute Celsius energy drinks in the United States. Translation and other in 2023 primarily reflects adjustments to previously recorded amounts related to our agreement with Celsius. See Note 9 for further information.

(c) Impairment in 2022 is related to the sale of certain non-strategic brands. See Note 1 for further information.

(d) Translation and other in 2023 primarily reflects the depreciation of the Russian ruble, partially offset by appreciation of the euro and British pound.

(e) Impairment in 2022 is related to the SodaStream brand, the decrease in fair value as a result of the Russia-Ukraine conflict and the discontinuation or repositioning of certain juice and dairy brands in Russia. Impairments in 2023 are related to SodaStream goodwill and brand.

(f) Impairment is related to brands from the Pioneer Foods acquisition.
(g) Impairment in 2022 and 2023 is related to the Be & Cheery brand.

Note 5 — Income Taxes

The components of income before income taxes are as follows:

	2023	2022	2021
United States	**$ 4,120**	$ 7,305	$ 3,740
Foreign	**7,297**	3,400	6,081
	$ 11,417	$ 10,705	$ 9,821

The provision for income taxes consisted of the following:

	2023	2022	2021
Current:			
U.S. Federal	**$ 1,133**	$ 1,137	$ 702
Foreign	**1,201**	1,027	955
State	**309**	246	44
	2,643	2,410	1,701
Deferred:			
U.S. Federal	**(109)**	22	375
Foreign	**(212)**	(709)	(14)
State	**(60)**	4	80
	(381)	(683)	441
	$ 2,262	$ 1,727	$ 2,142

A reconciliation of the U.S. Federal statutory tax rate to our annual tax rate is as follows:

	2023	2022	2021
U.S. Federal statutory tax rate	**21.0 %**	21.0 %	21.0 %
State income tax, net of U.S. Federal tax benefit	**1.8**	1.8	1.0
Lower taxes on foreign results	**(2.5)**	(1.5)	(1.6)
One-time mandatory transition tax - TCJ Act	**—**	0.8	1.9
Juice Transaction	**(0.1)**	(2.4)	—
Tax settlements	**—**	(3.0)	—
Other, net	**(0.4)**	(0.6)	(0.5)
Annual tax rate	**19.8 %**	16.1 %	21.8 %

Tax Cuts and Jobs Act

In 2022, we recorded $86 million ($0.06 per share) of net tax expense related to the TCJ Act as a result of correlating adjustments related to a partial audit settlement with the IRS for tax years 2014 through 2019. In 2021, we recorded $190 million ($0.14 per share) of net tax expense related to the TCJ Act as a result of adjustments related to the final assessment of the 2014 through 2016 IRS audit.

As of December 30, 2023, our mandatory transition tax liability was $2.3 billion, which must be paid through 2026 under the provisions of the TCJ Act. We reduced our liability through cash payments and application of tax overpayments by $309 million in each of 2023, 2022 and 2021. We currently expect to pay approximately $579 million of this liability in 2024.

The TCJ Act also created a requirement that certain income earned by foreign subsidiaries, known as global intangible low-tax income (GILTI), must be included in the gross income of their U.S. shareholder. The FASB allows an accounting policy election of either recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years or recognizing such taxes as a current-period expense when incurred. We elected to treat the tax effect of GILTI as a current-period expense when incurred.

Other Tax Matters

In 2021, we received a final assessment from the IRS audit for the tax years 2014 through 2016. The assessment included both agreed and unagreed issues. On October 29, 2021, we filed a formal written protest of the assessment and requested an appeals conference. As a result of the analysis of the 2014 through 2016 final assessment, we remeasured all applicable reserves for uncertain tax positions for all years open under the statute of limitations, including any correlating adjustments impacting the mandatory transition tax liability under the TCJ Act, resulting in a net non-cash tax expense of $112 million ($0.08 per share) in 2021.

In 2022, we came to an agreement with the IRS to settle one of the issues assessed in the 2014 through 2016 tax audit. The agreement covers tax years 2014 through 2019. As a result, we reduced our reserves for uncertain tax positions, including any correlating adjustments impacting the mandatory transition tax liability under the TCJ Act, resulting in a net non-cash tax benefit of $233 million ($0.17 per share) in 2022. Tax years 2014 through 2019 remain under audit for other issues.

Deferred tax liabilities and assets are comprised of the following:

	2023	2022
Deferred tax liabilities		
Debt guarantee of wholly-owned subsidiary	**$ 578**	$ 578
Property, plant and equipment	**1,978**	2,126
Recapture of net operating losses	**492**	492
Pension liabilities	**167**	189
Right-of-use assets	**660**	534
Investment in TBG	**93**	186
Other	**350**	232
Gross deferred tax liabilities	**4,318**	4,337
Deferred tax assets		
Net carryforwards	**6,877**	5,342
Intangible assets other than nondeductible goodwill	**1,758**	1,614
Share-based compensation	**137**	120
Retiree medical benefits	**114**	118
Other employee-related benefits	**412**	349
Deductible state tax and interest benefits	**176**	144
Lease liabilities	**660**	534
Capitalized research and development	**210**	150
Other	**1,031**	1,050
Gross deferred tax assets	**11,375**	9,421
Valuation allowances	**(6,478)**	(5,013)
Deferred tax assets, net	**4,897**	4,408
Net deferred tax (assets)/liabilities	**$ (579)**	$ (71)

A summary of our valuation allowance activity is as follows:

	2023	2022	2021
Balance, beginning of year	**$ 5,013**	$ 4,628	$ 4,686
Provision	**1,419**	492	(9)
Other (deductions)/additions	**46**	(107)	(49)
Balance, end of year	**$ 6,478**	$ 5,013	$ 4,628

Reserves

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions and the related open tax audits are as follows:

Jurisdiction	Years Open to Audit	Years Currently Under Audit
United States	2014-2022	2014-2019
Mexico	2014-2022	2014-2019
United Kingdom	2021-2022	None
Canada (Domestic)	2018-2022	2019
Canada (International)	2012-2022	2012-2019
Russia	2020-2022	None

Our annual tax rate is based on our income, statutory tax rates and tax planning strategies and transactions, including transfer pricing arrangements, available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we likely will not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit, new tax laws, relevant court cases or tax authority settlements. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution.

As of December 30, 2023, the total gross amount of reserves for income taxes, reported in other liabilities, was $2.1 billion. We accrue interest related to reserves for income taxes in our provision for income taxes and any associated penalties are recorded in selling, general and administrative expenses. The gross amount of interest accrued, reported in other liabilities, was $390 million as of December 30, 2023, of which $102 million of tax expense was recognized in 2023. The gross amount of interest accrued, reported in other liabilities, was $292 million as of December 31, 2022, of which $4 million of tax benefit was recognized in 2022.

A reconciliation of unrecognized tax benefits is as follows:

	2023	2022
Balance, beginning of year	**$ 1,867**	$ 1,900
Additions for tax positions related to the current year	**225**	228
Additions for tax positions from prior years	**123**	206
Reductions for tax positions from prior years	**(51)**	(357)
Settlement payments	**(16)**	(53)
Statutes of limitations expiration	**(33)**	(36)
Translation and other	**(22)**	(21)
Balance, end of year	**$ 2,093**	$ 1,867

Carryforwards and Allowances

Operating loss carryforwards and income tax credits totaling $34.7 billion as of December 30, 2023 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses and income tax credits from prior periods to reduce future taxable income or income tax liabilities. These operating losses and income tax credits will expire as follows: $0.4 billion in 2024, $29.8

billion between 2025 and 2041 and $4.5 billion may be carried forward indefinitely. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is not more likely than not that some portion or all of the deferred tax assets will be realized.

Undistributed International Earnings

As of December 30, 2023, we had approximately $7 billion of undistributed international earnings. We intend to continue to reinvest $7 billion of earnings outside the United States for the foreseeable future and while future distribution of these earnings would not be subject to U.S. federal tax expense, no deferred tax liabilities with respect to items such as certain foreign exchange gains or losses, foreign withholding taxes or state taxes have been recognized. It is not practicable for us to determine the amount of unrecognized tax expense on these reinvested international earnings.

Note 6 — Share-Based Compensation

Our share-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. PepsiCo has granted stock options, RSUs, PSUs and long-term cash awards to employees under the shareholder-approved PepsiCo, Inc. Long-Term Incentive Plan (LTIP). Executives who are awarded long-term incentives based on their performance may generally elect to receive their grant in the form of stock options or RSUs, or a combination thereof. Executives who elect stock options receive four stock options for every one RSU that would have otherwise been granted. Certain executive officers and other senior executives do not have a choice and are granted 66% PSUs and 34% long-term cash, each of which are subject to pre-established performance targets.

The Company may use authorized and unissued shares to meet share requirements resulting from the exercise of stock options and the vesting of RSUs and PSUs.

As of December 30, 2023, 28 million shares were available for future share-based compensation grants under the LTIP.

The following table summarizes our total share-based compensation expense, which is primarily recorded in selling, general and administrative expenses, and excess tax benefits recognized:

	2023	2022	2021
Share-based compensation expense - equity awards	**$ 380**	$ 343	$ 301
Share-based compensation expense - liability awards	**19**	30	20
Acquisition and divestiture-related charges	**—**	3	—
Restructuring charges	**(1)**	—	1
Total	**$ 398**	$ 376	$ 322
Income tax benefits recognized in earnings related to share-based compensation	**$ 73**	$ 62	$ 57
Excess tax benefits related to share-based compensation	**$ 36**	$ 44	$ 38

As of December 30, 2023, there was $441 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation cost is expected to be recognized over a weighted-average period of two years.

Method of Accounting and Our Assumptions

The fair value of share-based award grants is amortized to expense over the vesting period, primarily three years. Awards to employees eligible for retirement prior to the award becoming fully vested are amortized to expense over the period through the date that the employee first becomes eligible to retire and is no

longer required to provide service to earn the award. In addition, we use historical data to estimate forfeiture rates and record share-based compensation expense only for those awards that are expected to vest.

We do not backdate, reprice or grant share-based compensation awards retroactively. Repricing of awards would require shareholder approval under the LTIP.

Stock Options

A stock option permits the holder to purchase shares of PepsiCo common stock at a specified price. We account for our employee stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and generally have a 10-year term.

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

	2023	2022	2021
Expected life	**7 years**	7 years	7 years
Risk-free interest rate	**4.2 %**	1.9 %	1.1 %
Expected volatility	**16 %**	16 %	14 %
Expected dividend yield	**2.7 %**	2.5 %	3.1 %

The expected life is the period over which our employee groups are expected to hold their options. It is based on our historical experience with similar grants. The risk-free interest rate is based on the expected U.S. Treasury rate over the expected life. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Dividend yield is estimated over the expected life based on our stated dividend policy and forecasts of net income, share repurchases and stock price.

A summary of our stock option activity for the year ended December 30, 2023 is as follows:

	Options[a]	**Weighted-Average Exercise Price Per Unit**	**Weighted-Average Contractual Life Remaining (years)**	**Aggregate Intrinsic Value[a]**
Outstanding at December 31, 2022	10,504	$ 124.63		
Granted	2,162	$ 171.73		
Exercised	(1,205)	$ 96.82		
Forfeited/expired	(294)	$ 149.42		
Outstanding at December 30, 2023	**11,167**	**$ 136.10**	**6.16**	**$ 380,801**
Exercisable at December 30, 2023	**5,225**	**$ 111.18**	**3.74**	**$ 306,536**
Expected to vest as of December 30, 2023	**5,604**	**$ 157.42**	**8.25**	**$ 73,219**

(a) In thousands.

Restricted Stock Units and Performance Stock Units

Each RSU represents our obligation to deliver to the holder one share of PepsiCo common stock when the award vests at the end of the service period. PSUs are awards pursuant to which a number of shares are delivered to the holder upon vesting at the end of the service period based on PepsiCo's performance against specified financial performance metrics. The number of shares may be increased to the maximum or reduced to the minimum threshold based on the results of these performance metrics in accordance with the terms established at the time of the award. During the vesting period, RSUs and PSUs accrue dividend equivalents that pay out in cash (without interest) if and when the applicable RSU or PSU vests and becomes payable.

The fair value of RSUs and PSUs are measured at the market price of the Company's stock on the date of grant.

A summary of our RSU and PSU activity for the year ended December 30, 2023 is as follows:

	RSUs/PSUs[a]	Weighted-Average Grant-Date Fair Value Per Unit	Weighted-Average Contractual Life Remaining (years)	Aggregate Intrinsic Value[a]
Outstanding at December 31, 2022	5,714	$ 143.02		
Granted	2,151	$ 171.11		
Converted	(1,982)	$ 134.42		
Forfeited	(285)	$ 153.07		
Outstanding at December 30, 2023 [b]	**5,598**	**$ 156.43**	**1.22**	**$ 950,735**
Expected to vest as of December 30, 2023 [c]	**5,853**	**$ 155.51**	**1.17**	**$ 993,990**

(a) In thousands. Outstanding awards are disclosed at target.
(b) The outstanding PSUs for which the vesting period has not ended as of December 30, 2023, at the threshold, target and maximum award levels were zero, 0.7 million and 1.3 million, respectively.
(c) Represents the number of outstanding awards expected to vest, including estimated performance adjustments on all outstanding PSUs as of December 30, 2023.

Long-Term Cash

Certain executive officers and other senior executives were granted long-term cash awards for which final payout is based on PepsiCo's total shareholder return relative to a specific set of peer companies and achievement of a specified performance target over a three-year performance period.

Long-term cash awards that qualify as liability awards under share-based compensation guidance are valued through the end of the performance period on a mark-to-market basis using the Monte Carlo simulation model.

A summary of our long-term cash activity for the year ended December 30, 2023 is as follows:

	Long-Term Cash Award[a]	Balance Sheet Date Fair Value[b]	Contractual Life Remaining (years)
Outstanding at December 31, 2022	$ 50,254		
Granted	20,298		
Vested	(17,171)		
Forfeited	(1,530)		
Outstanding at December 30, 2023 [c]	**$ 51,851**	**$ 55,058**	**1.26**
Expected to vest as of December 30, 2023	**$ 49,161**	**$ 52,678**	**1.23**

(a) In thousands, disclosed at target.
(b) In thousands, based on the most recent valuation as of December 30, 2023.
(c) The outstanding awards for which the vesting period has not ended as of December 30, 2023, at the threshold, target and maximum award levels based on the achievement of its market conditions were zero, $52 million and $104 million, respectively.

Other Share-Based Compensation Data

The following is a summary of other share-based compensation data:

	2023	2022	2021
Stock Options			
Total number of options granted [a]	**2,162**	2,422	2,157
Weighted-average grant-date fair value per unit of options granted	**$ 29.81**	$ 19.72	$ 9.88
Total intrinsic value of options exercised [a]	**$100,209**	$134,580	$153,306
Total grant-date fair value of options vested [a]	**$ 11,830**	$ 9,661	$ 10,605
RSUs/PSUs			
Total number of RSUs/PSUs granted [a]	**2,151**	2,263	2,636
Weighted-average grant-date fair value per unit of RSUs/PSUs granted	**$ 171.11**	$ 163.02	$ 131.81
Total intrinsic value of RSUs/PSUs converted [a]	**$396,123**	$329,705	$273,878
Total grant-date fair value of RSUs/PSUs vested [a]	**$286,605**	$196,649	$198,469

(a) In thousands.

As of December 30, 2023 and December 31, 2022, there were approximately 330,000 and 307,000 outstanding awards, respectively, consisting primarily of phantom stock units that were granted under the PepsiCo Director Deferral Program and will be settled in shares of PepsiCo common stock pursuant to the LTIP at the end of the applicable deferral period, not included in the tables above.

Note 7 — Pension, Retiree Medical and Savings Plans

Effective December 31, 2022, we merged two U.S. qualified defined benefit pension plans, PepsiCo Employees Retirement Plan I (Plan I), mostly inactive participants, and PepsiCo Employees Retirement Plan A (Plan A), mostly active participants, with Plan I remaining. The accrued benefits offered to the plans' participants were unchanged. The merger was made to provide additional flexibility in evaluating opportunities to reduce risk and volatility. Actuarial gains and losses of the merged plan will be amortized over the average remaining life expectancy of participants. There was no material impact to pre-tax pension benefits expense from this merger.

In 2022, we transferred pension and retiree medical obligations of $145 million and related assets to TBG in connection with the Juice Transaction. See Note 13 for further information.

In 2021, we adopted a change to the Canadian defined benefit plans to freeze pension accruals for salaried participants, effective January 1, 2024, and to close the hourly plan to new non-union employees hired on or after January 1, 2022. After the effective date, all salaried participants receive an employer contribution to the defined contribution plan based on age and years of service regardless of employee contribution and the opportunity to receive employer contributions to match employee contributions up to defined limits. We also adopted a change to the U.K. defined benefit plan to freeze pension accruals for all participants effective March 31, 2022. After the effective date, participants have the opportunity to receive employer contributions to match employee contributions up to defined limits. Pre-tax pension benefits expense will decrease after the effective dates, partially offset by contributions to defined contribution plans.

In 2021, we adopted a change to the U.S. qualified defined benefit plans to transfer certain participants from Plan A to Plan I, effective January 1, 2022. The accrued benefits offered to the plans' participants were unchanged. There was no material impact to pre-tax pension benefits expense from this transaction.

In 2020, we adopted an amendment to the U.S. qualified defined benefit plans to freeze benefit accruals for salaried participants, effective December 31, 2025.

Gains and losses resulting from actual experience differing from our assumptions, including the difference between the actual and expected return on plan assets, as well as changes in our assumptions, are determined at each measurement date. These differences are recognized as a component of net gain or loss in accumulated other comprehensive loss within common shareholders' equity. If this net accumulated gain or loss exceeds 10% of the greater of the market-related value of plan assets or plan obligations, a portion of the net gain or loss is included in other pension and retiree medical benefits income for the following year based upon the average remaining service life for participants in PepsiCo Employees Retirement Hourly Plan (Plan H) (approximately 11 years) and retiree medical (approximately 10 years), and the remaining life expectancy for participants in Plan I (approximately 26 years).

The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in other pension and retiree medical benefits income on a straight-line basis over the average remaining service life for participants in Plan H, and the remaining life expectancy for participants in Plan I, except that prior service cost/(credit) for salaried participants subject to the benefit accruals freeze effective December 31, 2025 is amortized on a straight-line basis over the period up to the effective date of the freeze.

Selected financial information for our pension and retiree medical plans is as follows:

	Pension				Retiree Medical	
	U.S.		International			
	2023	2022	**2023**	2022	**2023**	2022
Change in projected benefit obligation						
Obligation at beginning of year	**$ 11,543**	$ 16,216	**$ 2,603**	$ 4,175	**$ 714**	$ 954
Service cost	**327**	487	**43**	64	**29**	37
Interest cost	**593**	434	**141**	90	**36**	19
Plan amendments	**13**	10	**—**	—	**—**	—
Participant contributions	**—**	—	**2**	2	**—**	—
Experience loss/(gain)	**603**	(3,989)	**194**	(1,284)	**(22)**	(198)
Benefit payments	**(1,006)**	(412)	**(116)**	(127)	**(80)**	(81)
Settlement/curtailment	**(36)**	(1,109)	**(26)**	(5)	**—**	(14)
Special termination benefits	**(1)**	37	**—**	—	**—**	—
Other, including foreign currency adjustment	**(1)**	(131)	**145**	(312)	**—**	(3)
Obligation at end of year	**$ 12,035**	$ 11,543	**$ 2,986**	$ 2,603	**$ 677**	$ 714
Change in fair value of plan assets						
Fair value at beginning of year	**$ 11,148**	$ 15,904	**$ 3,195**	$ 4,624	**$ 196**	$ 299
Actual return on plan assets	**1,121**	(3,337)	**267**	(1,026)	**21**	(68)
Employer contributions/funding	**314**	235	**50**	101	**46**	48
Participant contributions	**—**	—	**2**	2	**—**	—
Benefit payments	**(1,006)**	(412)	**(116)**	(127)	**(80)**	(81)
Settlement	**(36)**	(1,117)	**(26)**	(5)	**—**	—
Other, including foreign currency adjustment	**—**	(125)	**156**	(374)	**—**	(2)
Fair value at end of year	**$ 11,541**	$ 11,148	**$ 3,528**	$ 3,195	**$ 183**	$ 196
Funded status	**$ (494)**	$ (395)	**$ 542**	$ 592	**$ (494)**	$ (518)
Amounts recognized						
Other assets	**$ 313**	$ 225	**$ 727**	$ 708	**$ —**	$ —
Other current liabilities	**(75)**	(56)	**(11)**	(7)	**(52)**	(54)
Other liabilities	**(732)**	(564)	**(174)**	(109)	**(442)**	(464)
Net amount recognized	**$ (494)**	$ (395)	**$ 542**	$ 592	**$ (494)**	$ (518)
Amounts included in accumulated other comprehensive loss (pre-tax)						
Net loss/(gain)	**$ 3,596**	$ 3,337	**$ 707**	$ 571	**$ (323)**	$ (320)
Prior service cost/(credit)	**18**	(21)	**(8)**	(9)	**(19)**	(25)
Total	**$ 3,614**	$ 3,316	**$ 699**	$ 562	**$ (342)**	$ (345)
Changes recognized in net (gain)/loss included in other comprehensive loss						
Net loss/(gain) arising in current year	**$ 333**	$ 254	**$ 119**	$ (40)	**$ (30)**	$ (114)
Amortization and settlement recognition	**(74)**	(467)	**(23)**	(30)	**27**	14
Foreign currency translation loss/(gain)	**—**	—	**40**	(55)	**—**	—
Total	**$ 259**	$ (213)	**$ 136**	$ (125)	**$ (3)**	$ (100)
Accumulated benefit obligation at end of year	**$ 11,653**	$ 11,104	**$ 2,835**	$ 2,483		

The net loss arising in the current year is primarily attributable to the impact of lower discount rates, partially offset by an increase in the actual return on plan assets.

The amount we report in operating profit as pension and retiree medical cost is service cost, which is the value of benefits earned by employees for working during the year.

The amounts we report below operating profit as pension and retiree medical cost consist of the following components:

- Interest cost is the accrued interest on the projected benefit obligation due to the passage of time.
- Expected return on plan assets is the long-term return we expect to earn on plan investments for our funded plans that will be used to settle future benefit obligations.
- Amortization of prior service cost/(credit) represents the recognition in the income statement of benefit changes resulting from plan amendments.
- Amortization of net loss/(gain) represents the recognition in the income statement of changes in the amount of plan assets and the projected benefit obligation based on changes in assumptions and actual experience.
- Settlement/curtailment loss/(gain) represents the result of actions that effectively eliminate all or a portion of related projected benefit obligations. Settlements are triggered when payouts to settle the projected benefit obligation of a plan due to lump sums or other events exceed the total of annual service and interest cost. Settlements are recognized when actions are irrevocable and we are relieved of the primary responsibility and risk for projected benefit obligations. Lump sum payouts are generally higher when interest rates are lower. Curtailments are recognized when events such as plant closures, the sale of a business, or plan changes result in a significant reduction of future service or benefits. Curtailment losses are recognized when an event is probable and estimable, while curtailment gains are recognized when an event has occurred (when the related employees terminate or an amendment is adopted).
- Special termination benefits are the additional benefits offered to employees upon departure due to actions such as restructuring.

The components of total pension and retiree medical benefit costs are as follows:

	Pension						Retiree Medical		
	U.S.			International					
	2023	2022	2021	**2023**	2022	2021	**2023**	2022	2021
Service cost	**$ 327**	$ 487	$ 518	**$ 43**	$ 64	$ 104	**$ 29**	$ 37	$ 33
Other pension and retiree medical benefits (income)/expense:									
Interest cost	**$ 593**	$ 434	$ 324	**$ 141**	$ 90	$ 74	**$ 36**	$ 19	$ 15
Expected return on plan assets	**(851)**	(912)	(970)	**(192)**	(218)	(231)	**(13)**	(16)	(15)
Amortization of prior service credits	**(26)**	(28)	(31)	**(1)**	(1)	(2)	**(6)**	(8)	(11)
Amortization of net losses/(gains)	**70**	149	224	**13**	29	77	**(27)**	(14)	(14)
Settlement/curtailment losses/(gains) [(a)]	**4**	322	40	**10**	1	(11)	**—**	(16)	—
Special termination benefits	**(1)**	37	9	**—**	—	—	**—**	—	—
Total other pension and retiree medical benefits (income)/expense	**$ (211)**	$ 2	$ (404)	**$ (29)**	$ (99)	$ (93)	**$ (10)**	$ (35)	$ (25)
Total	**$ 116**	$ 489	$ 114	**$ 14**	$ (35)	$ 11	**$ 19**	$ 2	$ 8

(a) In 2022, U.S. includes a settlement charge of $318 million ($246 million after-tax or $0.18 per share) related to lump sum distributions exceeding the total of annual service and interest cost.

The following table provides the weighted-average assumptions used to determine net periodic benefit cost and projected benefit obligation for our pension and retiree medical plans:

	Pension						Retiree Medical		
	U.S.			International					
	2023	2022	2021	**2023**	2022	2021	**2023**	2022	2021
Net Periodic Benefit Cost									
Service cost discount rate [(a)]	**5.4 %**	3.1 %	2.6 %	**7.0 %**	4.2 %	2.7 %	**5.4 %**	2.8 %	2.3 %
Interest cost discount rate [(a)]	**5.4 %**	3.1 %	2.0 %	**5.4 %**	2.3 %	1.7 %	**5.3 %**	2.1 %	1.6 %
Expected return on plan assets [(a)]	**7.4 %**	6.7 %	6.4 %	**5.7 %**	5.3 %	5.3 %	**7.1 %**	5.7 %	5.4 %
Rate of salary increases	**3.2 %**	3.0 %	3.0 %	**4.2 %**	3.3 %	3.3 %			
Projected Benefit Obligation									
Discount rate	**5.1 %**	5.4 %	2.9 %	**5.1 %**	5.3 %	2.4 %	**5.1 %**	5.4 %	2.7 %
Rate of salary increases	**3.9 %**	3.2 %	3.0 %	**4.3 %**	4.2 %	3.3 %			

(a) 2022 U.S. rates reflect remeasurement of a U.S. qualified defined benefit pension plan in the second quarter of 2022.

The following table provides selected information about plans with accumulated benefit obligation and total projected benefit obligation in excess of plan assets:

	Pension				Retiree Medical	
	U.S.		International			
	2023	2022	**2023**	2022	**2023**	2022
Selected information for plans with accumulated benefit obligation in excess of plan assets						
Obligation for service to date	**$ (631)**	$ (584)	**$ (255)**	$ (158)		
Fair value of plan assets	**$ —**	$ —	**$ 190**	$ 129		
Selected information for plans with projected benefit obligation in excess of plan assets						
Benefit obligation	**$ (8,223)**	$ (620)	**$ (375)**	$ (273)	**$ (677)**	$ (714)
Fair value of plan assets	**$ 7,416**	$ —	**$ 190**	$ 157	**$ 183**	$ 196

Of the total projected pension benefit obligation as of December 30, 2023, approximately $678 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.

Future Benefit Payments

Our estimated future benefit payments are as follows:

	2024	2025	2026	2027	2028	2029 - 2033
Pension	$ 1,102	$ 925	$ 964	$ 996	$ 1,023	$ 5,403
Retiree medical [(a)]	$ 81	$ 80	$ 76	$ 74	$ 70	$ 309

(a) Expected future benefit payments for our retiree medical plans do not reflect any estimated subsidies expected to be received under the 2003 Medicare Act. Subsidies are expected to be approximately $1 million for each of the years from 2024 through 2028 and approximately $2 million in total for 2029 through 2033.

These future benefit payments to beneficiaries include payments from both funded and unfunded plans.

Funding

Contributions to our pension and retiree medical plans were as follows:

	Pension			Retiree Medical		
	2023	2022	2021	**2023**	2022	2021
Discretionary [(a)]	**$ 267**	$ 160	$ 525	**$ —**	$ —	$ —
Non-discretionary	**97**	176	213	**46**	48	47
Total	**$ 364**	$ 336	$ 738	**$ 46**	$ 48	$ 47

(a) Includes $250 million contribution in 2023, $150 million contribution in 2022 and $500 million contribution in 2021 to fund our U.S. qualified defined benefit plans.

We made a discretionary contribution of $150 million to a U.S. qualified defined benefit plan in January 2024. In addition, in 2024, we expect to make non-discretionary contributions of approximately $99 million to our U.S. and international pension benefit plans and contributions of approximately $51 million for retiree medical benefits.

We also regularly evaluate opportunities to reduce risk and volatility associated with our pension and retiree medical plans.

Plan Assets

Our pension plan investment strategy includes the use of actively managed accounts and is reviewed periodically in conjunction with plan obligations, an evaluation of market conditions, tolerance for risk and cash requirements for benefit payments. This strategy is also applicable to funds held for the retiree medical plans. Our investment objective includes ensuring that funds are available to meet the plans' benefit obligations when they become due. Assets contributed to our pension plans are no longer controlled by us, but become the property of our individual pension plans. However, we are indirectly impacted by changes in these plan assets as compared to changes in our projected obligations. Our overall investment policy is to prudently invest plan assets in a well-diversified portfolio of equity and high-quality debt securities and real estate to achieve our long-term return expectations. Our investment policy also permits the use of derivative instruments, such as futures and forward contracts, to reduce interest rate and foreign currency risks. Futures contracts represent commitments to purchase or sell securities at a future date and at a specified price. Forward contracts consist of currency forwards.

For 2024 and 2023, our expected long-term rate of return on U.S. plan assets is 7.4%. Our target investment allocations for U.S. plan assets are as follows:

	2024	2023
Fixed income	**55 %**	56 %
U.S. equity	**22 %**	22 %
International equity	**19 %**	18 %
Real estate	**4 %**	4 %

Actual investment allocations may vary from our target investment allocations due to prevailing market conditions. We regularly review our actual investment allocations and periodically rebalance our investments.

The expected return on plan assets is based on our investment strategy and our expectations for long-term rates of return by asset class, taking into account volatility and correlation among asset classes and our historical experience. We also review current levels of interest rates and inflation to assess the reasonableness of the long-term rates. We evaluate our expected return assumptions annually to ensure that they are reasonable. To calculate the expected return on plan assets, our market-related value of assets for fixed income is the actual fair value. For all other asset categories, such as equity securities, we use a

method that recognizes investment gains or losses (the difference between the expected and actual return based on the market-related value of assets) over a five-year period. This has the effect of reducing year-to-year volatility.

Plan assets measured at fair value as of year-end 2023 and 2022 are categorized consistently by Level 1 (quoted prices in active markets for identical assets), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) in both years and are as follows:

	Fair Value Hierarchy Level	2023	2022
U.S. plan assets [(a)]			
Equity securities, including preferred stock [(b)]	**1**	**$ 4,698**	$ 4,387
Government securities [(c)]	**2**	**1,812**	1,751
Corporate bonds [(c)]	**2**	**4,233**	4,245
Mortgage-backed securities [(c)]	**2**	**133**	142
Contracts with insurance companies [(d)]	**3**	**1**	9
Cash and cash equivalents [(e)]	**1, 2**	**349**	157
Sub-total U.S. plan assets		**11,226**	10,691
Real estate commingled funds measured at net asset value [(f)]		**411**	533
Dividends and interest receivable, net of payables		**87**	120
Total U.S. plan assets		**$ 11,724**	$ 11,344
International plan assets			
Equity securities [(b)]	**1**	**$ 1,175**	$ 1,291
Government securities [(c)]	**2**	**1,207**	736
Corporate bonds [(c)]	**2**	**267**	254
Fixed income commingled funds [(g)]	**1**	**526**	628
Contracts with insurance companies [(d)]	**3**	**30**	27
Cash and cash equivalents	**1**	**143**	75
Sub-total international plan assets		**3,348**	3,011
Real estate commingled funds measured at net asset value [(f)]		**162**	173
Dividends and interest receivable		**18**	11
Total international plan assets		**$ 3,528**	$ 3,195

(a) Includes $183 million and $196 million in 2023 and 2022, respectively, of retiree medical plan assets that are restricted for purposes of providing health benefits for U.S. retirees and their beneficiaries.

(b) Invested in U.S. and international common stock and commingled funds, and the preferred stock portfolio was invested in domestic and international corporate preferred stock investments. The common and preferred stock investments are based on quoted prices in active markets. The commingled funds are based on the published price of the fund and include one large-cap fund that represents 13% and 10% of total U.S. plan assets for 2023 and 2022, respectively.

(c) These investments are based on quoted bid prices for comparable securities in the marketplace and broker/dealer quotes in active markets. Corporate bonds of U.S.-based companies represents 31% and 32% of total U.S. plan assets for 2023 and 2022, respectively.

(d) Based on the fair value of the contracts as determined by the insurance companies using inputs that are not observable. The changes in Level 3 amounts were not significant in the years ended December 30, 2023 and December 31, 2022.

(e) Includes Level 1 assets of $3 million for 2023 and Level 2 assets of $346 million and $157 million for 2023 and 2022, respectively.

(f) The real estate commingled funds include investments in limited partnerships. These funds are based on the net asset value of the appraised value of investments owned by these funds as determined by independent third parties using inputs that are not observable. The majority of the funds are redeemable quarterly subject to availability of cash and have notice periods ranging from 45 to 90 days.

(g) Based on the published price of the fund.

Retiree Medical Cost Trend Rates

The assumed health care cost trend rates are as follows:

	2024	2023
Average increase assumed	**5 %**	6 %
Ultimate projected increase	**4 %**	4 %
Year of ultimate projected increase	**2046**	2046

Annually, we review external data and our historical experience to estimate assumed health care cost trend rates that impact our retiree medical plan obligation and expense, however the cap on our share of retiree medical costs limits the impact.

Savings Plan

Certain U.S. employees are eligible to participate in a 401(k) savings plan, which is a voluntary defined contribution plan. The plan is designed to help employees accumulate savings for retirement and we make Company matching contributions for certain employees on a portion of employee contributions based on years of service.

Certain U.S. employees, who are either not eligible to participate in a defined benefit pension plan or whose benefit is capped, are also eligible to receive an employer contribution based on either years of service or age and years of service regardless of employee contribution.

In 2023, 2022 and 2021, our total Company contributions were $356 million, $283 million and $246 million, respectively.

Note 8 — Debt Obligations

The following table summarizes our debt obligations:

	2023[a]	2022[a]
Short-term debt obligations [b]		
Current maturities of long-term debt	**$ 3,924**	$ 3,096
Commercial paper (5.5%)	**2,286**	—
Other borrowings (7.8% and 15.0%)	**300**	318
	$ 6,510	$ 3,414
Long-term debt obligations [b]		
Notes due 2023 (1.7%)	**$ —**	$ 3,094
Notes due 2024 (3.0% and 2.2%)	**3,919**	2,867
Notes due 2025 (3.2% and 2.7%)	**3,994**	3,193
Notes due 2026 (3.7% and 3.1%)	**3,961**	2,396
Notes due 2027 (2.4% and 2.5%)	**2,544**	2,523
Notes due 2028 (2.1% and 1.5%)	**3,323**	2,606
Notes due 2029-2060 (3.0% and 2.9%)	**23,725**	22,046
Other, due 2023-2033 (3.6% and 1.3%)	**53**	28
	41,519	38,753
Less: current maturities of long-term debt obligations	**3,924**	3,096
Total	**$ 37,595**	$ 35,657

(a) Amounts are shown net of unamortized net discounts of $225 million and $227 million for 2023 and 2022, respectively.

(b) The interest rates presented reflect weighted-average effective interest rates at year-end. See Note 9 for further information regarding our interest rate derivative instruments.

As of December 30, 2023 and December 31, 2022, our international debt of $279 million and $304 million, respectively, was related to borrowings from external parties, including various lines of credit. These lines of credit are subject to normal banking terms and conditions and are fully committed at least to the extent of our borrowings.

In 2023, we issued the following senior notes:

Interest Rate	Maturity Date	Principal Amount[(a)]
Floating Rate	February 2026	$ 350
4.550 %	February 2026	$ 500
4.450 %	May 2028	$ 650
4.450 %	February 2033	$ 1,000
4.650 %	February 2053	$ 500
Floating Rate	November 2024	$ 1,000
5.250 %	November 2025	$ 800
5.125 %	November 2026	$ 700

(a) Excludes debt issuance costs, discounts and premiums.

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

In 2023, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement), which expires on May 26, 2028. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to $4.2 billion in U.S. dollars and/or euros, including a $0.75 billion swing line subfacility for euro-denominated borrowings permitted to be borrowed on a same-day basis, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.95 billion (or the equivalent amount in euros). Additionally, we may, once a year, request renewal of the agreement for an additional one-year period. The Five-Year Credit Agreement replaced our $3.8 billion five-year credit agreement, dated as of May 27, 2022.

Also in 2023, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement), which expires on May 24, 2024. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to $4.2 billion in U.S. dollars and/or euros, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to $4.95 billion (or the equivalent amount in euros). We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which term loan would mature no later than the anniversary of the then effective termination date. The 364-Day Credit Agreement replaced our $3.8 billion 364-day credit agreement, dated as of May 27, 2022.

Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes. Subject to certain conditions, we may borrow, prepay and reborrow amounts under these agreements. As of December 30, 2023, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

In 2023, we discharged via legal defeasance $94 million outstanding principal amount of certain notes originally issued by our subsidiary, The Quaker Oats Company, following the deposit of $102 million of U.S. government securities with the Bank of New York Mellon, as trustee, in the fourth quarter of 2022.

In 2022, we paid $750 million to redeem all $750 million outstanding principal amount of our 2.25% senior notes due May 2022, we paid $800 million to redeem all $800 million outstanding principal amount of our 3.10% senior notes due July 2022 and we paid $154 million to redeem all $133 million outstanding

principal amount of our subsidiary, Pepsi-Cola Metropolitan Bottling Company, Inc.'s 7.00% senior notes due March 2029 and 5.50% notes due May 2035.

In 2021, we completed cash tender offers to redeem $4.1 billion principal amount of certain notes, with maturity dates ranging from May 2035 to March 2060 and interest rates ranging from 3.375% to 5.500%, for $4.8 billion in cash. As a result of the cash tender offers, we recorded a pre-tax charge of $842 million ($677 million after-tax or $0.49 per share) to net interest expense and other, primarily representing the tender price paid over the carrying value of the tendered notes and loss on treasury rate locks used to mitigate the interest rate risk on the cash tender offers.

Also in 2021, we paid $750 million to redeem all $750 million outstanding principal amount of our 1.70% senior notes due 2021 and terminated the associated interest rate swap with a notional amount of $250 million.

Note 9 — Financial Instruments

Derivatives and Hedging

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange rates and currency restrictions; and
- interest rates.

In the normal course of business, we manage commodity price, foreign exchange and interest rate risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost-saving opportunities or efficiencies, including the use of derivatives. We do not use derivative instruments for trading or speculative purposes. Our global purchasing programs include fixed-price contracts and purchase orders and pricing agreements.

Our hedging strategies include the use of derivatives and, in the case of our net investment hedges, debt instruments. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. The accounting for qualifying hedges allows changes in a hedging instrument's fair value to offset corresponding changes in the hedged item in the same reporting period that the hedged item impacts earnings. Gains or losses on derivatives designated as cash flow hedges are recorded in accumulated other comprehensive loss within common shareholders' equity and reclassified to our income statement when the hedged transaction affects earnings. If it becomes probable that the hedged transaction will not occur, we immediately recognize the related hedging gains or losses in earnings; there were no such gains or losses reclassified during the year ended December 30, 2023.

Cash flows from derivatives used to manage commodity price, foreign exchange or interest rate risks are classified as operating activities in the cash flow statement. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item.

Credit Risk

We perform assessments of our counterparty credit risk regularly, including reviewing netting agreements, if any, and a review of credit ratings, credit default swap rates and potential nonperformance of the counterparty. Based on our most recent assessment of our counterparty credit risk, we consider this risk to be low. In addition, we enter into derivative contracts with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

Certain of our agreements with our counterparties require us to post full collateral on derivative instruments in a net liability position if our credit rating is at A2 (Moody's Investors Service, Inc.) or A (S&P Global Ratings) and we have been placed on credit watch for possible downgrade or if our credit rating falls below either of these levels. The fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position as of December 30, 2023 was $144 million. We have posted no collateral under these contracts and no credit-risk-related contingent features were triggered as of December 30, 2023.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price contracts and purchase orders, pricing agreements and derivative instruments, which primarily include swaps and futures. In addition, risk to our supply of certain raw materials is mitigated through purchases from multiple geographies and suppliers. We use derivatives, with terms of no more than three years, to hedge price fluctuations related to a portion of our anticipated commodity purchases, primarily for agricultural products, energy and metals. Derivatives used to hedge commodity price risk that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit.

Our commodity derivatives had a total notional value of $1.7 billion as of December 30, 2023 and $1.8 billion as of December 31, 2022.

Foreign Exchange

We are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. Additionally, we are exposed to foreign exchange risk from net investments in foreign subsidiaries, foreign currency purchases and foreign currency assets and liabilities created in the normal course of business. We manage this risk through sourcing purchases from local suppliers, negotiating contracts in local currencies with foreign suppliers and through the use of derivatives, primarily forward contracts with terms of no more than two years. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses on our income statement as incurred. We also use net investment hedges to partially offset the effects of foreign currency on our investments in certain of our foreign subsidiaries.

Our foreign currency derivatives had a total notional value of $3.8 billion as of December 30, 2023 and $3.0 billion as of December 31, 2022. The total notional amount of our debt instruments designated as net investment hedges was $3.0 billion as of December 30, 2023 and $2.9 billion as of December 31, 2022. For foreign currency derivatives that do not qualify for hedge accounting treatment, gains and losses were offset by changes in the underlying hedged items, resulting in no material net impact on earnings.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use various interest rate derivative instruments including, but not limited to, interest rate swaps, cross-currency interest rate swaps, Treasury locks and swap locks to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. The notional amount, interest payment and maturity date of our cross-currency interest rate swaps match the principal, interest payment and maturity date of the related debt. Our cross-currency interest rate swaps have terms of no more than

twelve years. Our Treasury locks and swap locks are entered into to protect against unfavorable interest rate changes relating to forecasted debt transactions.

Our interest rate derivatives had a total notional value of $1.3 billion as of December 30, 2023 and December 31, 2022.

As of December 30, 2023, approximately 9% of total debt was subject to variable rates, compared to approximately 1%, after the impact of the related interest rate derivative instruments, as of December 31, 2022.

Debt Securities

Held-to-Maturity

Investments in debt securities that we have the positive intent and ability to hold until maturity are classified as held-to-maturity. Highly liquid debt securities with original maturities of three months or less are recorded as cash equivalents. Our held-to-maturity debt securities consist of commercial paper. As of December 30, 2023, we had $309 million of investments in commercial paper recorded in cash and cash equivalents. As of December 31, 2022, we had no investments in held-to-maturity debt securities. Held-to-maturity debt securities are recorded at amortized cost, which approximates fair value, and realized gains or losses are reported in earnings. As of December 30, 2023, gross unrecognized gains and losses and the allowance for expected credit losses were not material.

Available-for-Sale

Investments in available-for-sale debt securities are reported at fair value. Changes in the fair value of available-for-sale debt securities are generally recognized in accumulated other comprehensive loss within common shareholders' equity. Changes in the fair value of available-for-sale debt securities impact earnings only when such securities are sold, or an allowance for expected credit losses or impairment is recognized. We regularly evaluate our investment portfolio for expected credit losses and impairment. In making this judgment, we evaluate, among other things, the extent to which the fair value of a debt security is less than its amortized cost; the financial condition of the issuer, including the credit quality, and any changes thereto; and our intent to sell, or whether we will more likely than not be required to sell, the debt security before recovery of its amortized cost basis. Our assessment of whether a debt security has a credit loss or is impaired could change in the future due to new developments or changes in assumptions related to any particular debt security.

In 2022, we entered into an agreement with Celsius to distribute Celsius energy drinks in the United States (see Note 4 for further information) and invested $550 million in Series A convertible preferred shares issued by Celsius, which included certain conversion and redemption features. The preferred shares automatically convert into Celsius common shares after six years if certain market-based conditions are met, or can be redeemed after seven years. Shares underlying the transaction were priced at $75 per share, and the preferred shares are entitled to a 5% annual dividend, payable either in cash or in-kind. Given our redemption right, we classified our investment in the convertible preferred stock as an available-for-sale debt security. As of December 31, 2022, the fair value of this investment was classified as Level 2, based primarily on the transaction price. There were no unrealized gains and losses on our investment in the year ended December 31, 2022. In the year ended December 30, 2023, we transferred $558 million from Level 2 to Level 3 as unobservable inputs to the fair value became more significant and subsequently recorded an unrealized gain of $612 million in other comprehensive income and a decrease in the investment of $14 million due to cash dividends received. There were no impairment charges related to our investment in the years ended December 30, 2023 and December 31, 2022.

TBG Investment

In the first quarter of 2022, we sold our Tropicana, Naked and other select juice brands to PAI Partners, while retaining a 39% noncontrolling interest in TBG, operating across North America and Europe. We have significant influence over our investment in TBG and account for our investment under the equity method, recognizing our proportionate share of TBG's earnings on our income statement (recorded in selling, general and administrative expenses). See Note 13 for further information.

In 2023, we recorded our proportionate share of TBG's earnings, which includes an impairment of TBG's indefinite-lived intangible assets, and recorded an other-than-temporary impairment of our investment, both of which resulted in pre-tax impairment charges of $321 million ($243 million after-tax or $0.18 per share), recorded in selling, general and administrative expenses in our PBNA division. We estimated the fair value of our ownership in TBG using discounted cash flows and an option pricing model related to our liquidation preference in TBG, which we categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy.

Recurring Fair Value Measurements

The fair values of our financial assets and liabilities as of December 30, 2023 and December 31, 2022 are categorized as follows:

		2023		2022	
	Fair Value Hierarchy Levels[a]	**Assets[a]**	**Liabilities[a]**	Assets[a]	Liabilities[a]
Available-for-sale debt securities [b]	**2, 3**	**$ 1,334**	**$ —**	$ 660	**$ —**
Index funds [c]	**1**	**$ 292**	**$ —**	$ 257	$ —
Prepaid forward contracts [d]	**2**	**$ 13**	**$ —**	$ 14	$ —
Deferred compensation [e]	**2**	**$ —**	**$ 477**	$ —	$ 434
Derivatives designated as cash flow hedging instruments:					
Foreign exchange [f]	**2**	**$ 3**	**$ 31**	$ 24	$ 22
Interest rate [f]	**2**	**5**	**135**	—	164
Commodity [g]	**2**	**10**	**24**	2	60
		$ 18	**$ 190**	$ 26	$ 246
Derivatives not designated as hedging instruments:					
Foreign exchange [f]	**2**	**$ 33**	**$ 38**	$ 21	$ 21
Commodity [g]	**2**	**5**	**13**	11	51
		$ 38	**$ 51**	$ 32	$ 72
Total derivatives at fair value [h]		**$ 56**	**$ 241**	$ 58	$ 318
Total		**$ 1,695**	**$ 718**	$ 989	$ 752

(a) Fair value hierarchy levels are defined in Note 7. Unless otherwise noted, financial assets are classified on our balance sheet within prepaid expenses and other current assets and other assets. Financial liabilities are classified on our balance sheet within accounts payable and other current liabilities and other liabilities.

(b) Includes Level 2 assets of $178 million and Level 3 assets of $1,156 million as of December 30, 2023, and Level 2 assets of $660 million as of December 31, 2022. As of December 30, 2023, $1,334 million was classified as other assets. As of December 31, 2022, $3 million, $104 million and $553 million were classified as cash equivalents, short-term investments and other assets, respectively. The fair values of these Level 2 investments approximate the transaction price and any accrued dividends, as well as the amortized cost. The fair value of our Level 3 investment in Celsius is estimated using probability-weighted discounted future cash flows based on a Monte Carlo simulation using significant unobservable inputs such as an 80% probability that a certain market-based condition will be met and an average estimated discount rate of 8.1% based on Celsius' estimated synthetic credit rating. An increase in the probability that certain market-based conditions will be met or a decrease in the discount rate would result in a higher fair value measurement, while a decrease in the probability that certain market-based conditions will be met or an increase in the discount rate would result in a lower fair value measurement.

(c) Based on the price of index funds. These investments are classified as short-term investments and are used to manage a portion of market risk arising from our deferred compensation liability.

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

(e) Based on the fair value of investments corresponding to employees' investment elections.

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

(g) Primarily based on recently reported market transactions of swap arrangements.

(h) Derivative assets and liabilities are presented on a gross basis on our balance sheet. Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on our balance sheet as of December 30, 2023 and December 31, 2022 were not material. Collateral received or posted against our asset or liability positions was not material. Exchange-traded commodity futures are cash-settled on a daily basis and, therefore, not included in the table.

The carrying amounts of our cash and cash equivalents and short-term investments recorded at amortized cost approximate fair value (classified as Level 2 in the fair value hierarchy) due to their short-term maturity. The fair value of our debt obligations as of December 30, 2023 and December 31, 2022 was $41 billion and $35 billion, respectively, based upon prices of identical or similar instruments in the marketplace, which are considered Level 2 inputs.

Losses/(gains) on our cash flow and net investment hedges are categorized as follows:

	Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		**Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement[a]**	
	2023	2022	**2023**	2022
Foreign exchange	**$ 93**	$ (3)	**$ 61**	$ (21)
Interest	**(34)**	138	**(31)**	159
Commodity	**149**	(57)	**125**	(267)
Net investment	**122**	(120)	**—**	—
Total	**$ 330**	$ (42)	**$ 155**	$ (129)

(a) Foreign exchange derivative losses/gains are included in net revenue and cost of sales. Interest rate derivative losses/gains on cross-currency interest rate swaps are included in selling, general and administrative expenses. Commodity derivative losses/gains are included in either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. See Note 11 for further information.

Based on current market conditions, we expect to reclassify net losses of $112 million related to our cash flow hedges from accumulated other comprehensive loss within common shareholders' equity into net income during the next 12 months.

Losses/(gains) recognized in the income statement related to our non-designated hedges are categorized as follows:

	2023			2022		
	Cost of Sales	Selling, general and administrative expenses	Total	Cost of Sales	Selling, general and administrative expenses	Total
Foreign exchange	$ (1)	$ 41	$ 40	$ —	$ (58)	$ (58)
Commodity	39	33	72	(8)	(171)	(179)
Total	$ 38	$ 74	$ 112	$ (8)	$ (229)	$ (237)

Note 10 — Net Income Attributable to PepsiCo per Common Share

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

	2023		2022		2021	
	Income	Shares[a]	Income	Shares[a]	Income	Shares[a]
Basic net income attributable to PepsiCo per common share	$ 6.59		$ 6.45		$ 5.51	
Net income available for PepsiCo common shareholders	$ 9,074	1,376	$ 8,910	1,380	$ 7,618	1,382
Dilutive securities:						
Stock options, RSUs, PSUs and other[b]	—	7	—	7	—	7
Diluted	$ 9,074	1,383	$ 8,910	1,387	$ 7,618	1,389
Diluted net income attributable to PepsiCo per common share	$ 6.56		$ 6.42		$ 5.49	

(a) Weighted-average common shares outstanding (in millions).
(b) The dilutive effect of these securities is calculated using the treasury stock method.

The weighted-average amount of antidilutive securities excluded from the calculation of diluted earnings per common share was 3 million for the year ended December 30, 2023 and immaterial for the years ended December 31, 2022 and December 25, 2021.

Note 11 — Accumulated Other Comprehensive Loss Attributable to PepsiCo

The changes in the balances of each component of accumulated other comprehensive loss attributable to PepsiCo are as follows:

	Currency Translation Adjustment	Cash Flow Hedges	Pension and Retiree Medical	Available-for-sale debt securities and other[a]	Accumulated Other Comprehensive Loss Attributable to PepsiCo
Balance as of December 26, 2020 [b]	$ (11,940)	$ 4	$ (3,520)	$ (20)	$ (15,476)
Other comprehensive (loss)/income before reclassifications [c]	(340)	248	702	22	632
Amounts reclassified from accumulated other comprehensive loss	18	(48)	299	—	269
Net other comprehensive (loss)/income	(322)	200	1,001	22	901
Tax amounts	(47)	(45)	(231)	—	(323)
Balance as of December 25, 2021 [b]	(12,309)	159	(2,750)	2	(14,898)
Other comprehensive (loss)/income before reclassifications [d]	(603)	(78)	48	8	(625)
Amounts reclassified from accumulated other comprehensive loss	—	(129)	440	—	311
Net other comprehensive (loss)/income	(603)	(207)	488	8	(314)
Tax amounts	(36)	49	(99)	(4)	(90)
Balance as of December 31, 2022 [b]	(12,948)	1	(2,361)	6	(15,302)
Other comprehensive (loss)/income before reclassifications [e]	(442)	(188)	(493)	608	(515)
Amounts reclassified from accumulated other comprehensive loss	108	146	37	—	291
Net other comprehensive (loss)/income	(334)	(42)	(456)	608	(224)
Tax amounts	27	10	98	(143)	(8)
Balance as of December 30, 2023 [b]	**$ (13,255)**	**$ (31)**	**$ (2,719)**	**$ 471**	**$ (15,534)**

(a) The changes primarily represent fair value increases in available-for-sale debt securities, including our investment in Celsius convertible preferred stock in 2023. See Note 9 for further information.

(b) Pension and retiree medical amounts are net of taxes of $1,514 million as of December 26, 2020, $1,283 million as of December 25, 2021, $1,184 million as of December 31, 2022 and $1,282 million as of December 30, 2023.

(c) Currency translation adjustment primarily reflects depreciation of the Turkish lira, Swiss franc and Mexican peso.

(d) Currency translation adjustment primarily reflects depreciation of the Egyptian pound and British pound sterling.

(e) Currency translation adjustment primarily reflects depreciation of the Russian ruble and South African rand, partially offset by the appreciation of the Mexican peso.

The following table summarizes the reclassifications from accumulated other comprehensive loss to the income statement:

	Amount Reclassified from Accumulated Other Comprehensive Loss			Affected Line Item in the Income Statement
	2023	2022	2021	
Currency translation:				
Divestitures	**$ 108**	$ —	$ 18	Selling, general and administrative expenses
Cash flow hedges:				
Foreign exchange contracts	**$ (3)**	$ (11)	$ 6	Net revenue
Foreign exchange contracts	**64**	(10)	76	Cost of sales
Interest rate derivatives	**(40)**	159	64	Selling, general and administrative expenses
Commodity contracts	**126**	(252)	(190)	Cost of sales
Commodity contracts	**(1)**	(15)	(4)	Selling, general and administrative expenses
Net losses/(gains) before tax	**146**	(129)	(48)	
Tax amounts	**(39)**	23	11	
Net losses/(gains) after tax	**$ 107**	$ (106)	$ (37)	
Pension and retiree medical items:				
Amortization of net prior service credit	**$ (33)**	$ (37)	$ (44)	Other pension and retiree medical benefits income
Amortization of net losses	**56**	164	289	Other pension and retiree medical benefits income
Settlement/curtailment losses	**14**	313	54	Other pension and retiree medical benefits income
Net losses before tax	**37**	440	299	
Tax amounts	**(7)**	(80)	(65)	
Net losses after tax	**$ 30**	$ 360	$ 234	
Total net losses reclassified for the year, net of tax	**$ 245**	$ 254	$ 215	

Note 12 — Leases

Lessee

We determine whether an arrangement is a lease at inception. We have operating leases for plants, warehouses, distribution centers, storage facilities, offices and other facilities, as well as machinery and equipment, including fleet. Our leases generally have remaining lease terms of up to 20 years, some of which include options to extend the lease term for up to five years and some of which include options to terminate the lease within one year. We consider these options in determining the lease term used to establish our right-of-use assets and lease liabilities. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

We have lease agreements that contain both lease and non-lease components. For real estate leases, we account for lease components together with non-lease components (e.g., common-area maintenance).

Components of lease cost are as follows:

	2023	2022	2021
Operating lease cost [(a)]	**$ 666**	$ 585	$ 563
Variable lease cost [(b)]	**$ 146**	$ 115	$ 112
Short-term lease cost [(c)]	**$ 582**	$ 510	$ 469

(a) Includes right-of-use asset amortization of $570 million, $517 million, and $505 million in 2023, 2022, and 2021, respectively.
(b) Primarily related to adjustments for inflation, common-area maintenance and property tax.
(c) Not recorded on our balance sheet.

In 2023, 2022 and 2021, we recognized gains of $52 million, $175 million and $42 million, respectively, on sale-leaseback transactions with terms under five years.

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

	2023	2022	2021
Operating cash flow information:			
Cash paid for amounts included in the measurement of lease liabilities	**$ 655**	$ 573	$ 567
Non-cash activity:			
Right-of-use assets obtained in exchange for lease obligations	**$ 1,088**	$ 871	$ 934

Supplemental balance sheet information related to our operating leases is as follows:

	Balance Sheet Classification	2023	2022
Right-of-use assets	Other assets	**$ 2,905**	$ 2,373
Current lease liabilities	Accounts payable and other current liabilities	**$ 556**	$ 483
Non-current lease liabilities	Other liabilities	**$ 2,400**	$ 1,933

Weighted-average remaining lease term and discount rate for our operating leases are as follows:

	2023	2022	2021
Weighted-average remaining lease term	**7 years**	7 years	7 years
Weighted-average discount rate	**4 %**	3 %	3 %

Maturities of lease liabilities by year for our operating leases are as follows:

2024	$ 663
2025	569
2026	493
2027	406
2028	328
2029 and beyond	972
Total lease payments	3,431
Less: Imputed interest	475
Present value of lease liabilities	$ 2,956

Finance leases were not material as of December 30, 2023, December 31, 2022 and December 25, 2021.

Lessor

We have various arrangements for certain foodservice and vending equipment under which we are the lessor. These leases meet the criteria for operating lease classification. Lease income associated with these leases is not material.

Note 13 — Acquisitions and Divestitures

Juice Transaction

In the first quarter of 2022, we sold our Tropicana, Naked and other select juice brands to PAI Partners for approximately $3.5 billion in cash, subject to purchase price adjustments, and a 39% noncontrolling interest in TBG, operating across North America and Europe. The North America portion of the transaction was completed on January 24, 2022 and the Europe portion of the transaction was completed on February 1, 2022. In the United States, PepsiCo acts as the exclusive distributor for TBG's portfolio of brands for small-format and foodservice customers with chilled DSD. We have significant influence over our investment in TBG and account for our investment under the equity method, recognizing our proportionate share of TBG's earnings on our income statement (recorded in selling, general and administrative expenses).

As a result of this transaction, in the year ended December 31, 2022, we recorded a gain in our PBNA and Europe divisions (see detailed income statement activity below), including $520 million related to the remeasurement of our 39% ownership in TBG at fair value using a combination of the transaction price, discounted cash flows and an option pricing model related to our liquidation preference in TBG. In the fourth quarter of 2022, we reached an agreement on final purchase price adjustments for net working capital and net debt amounts as of the transaction close date compared to targeted amounts set forth in the purchase agreement.

A summary of income statement activity related to the Juice Transaction for the year ended December 31, 2022 is as follows:

	PBNA	Europe	Corporate	Total PepsiCo	Provision for income taxes[a]	Net income attributable to PepsiCo	Impact on net income attributable to PepsiCo per common share	
Gain associated with the Juice Transaction	$ (3,029)	$ (292)	$ —	$ (3,321)	$ 433	$ (2,888)	$ 2.08	
Acquisition and divestiture-related charges	51	14	6	71	(13)	58	(0.04)	
Operating profit	$ (2,978)	$ (278)	$ 6	(3,250)	420	(2,830)	2.04	
Other pension and retiree medical benefits income [b]				(10)	3	(7)	0.01	
Total Juice Transaction				$ (3,260)	$ 423	$ (2,837)	$ 2.04	[c]

(a) Includes $186 million of deferred tax expense related to the recognition of our investment in TBG.
(b) Includes $16 million curtailment gain, partially offset by $6 million special termination benefits.
(c) Does not sum due to rounding.

In connection with the sale, we entered into a transition services agreement with PAI Partners, under which we provide certain services to TBG to help facilitate an orderly transition of the business following the sale. In return for these services, TBG is required to pay certain agreed upon fees to reimburse us for our costs without markup.

The Juice Transaction did not meet the criteria to be classified as discontinued operations. As of December 30, 2023 and December 31, 2022, there were no amounts classified as held for sale.

In the year ended December 30, 2023, we recognized impairment charges related to our TBG investment. See Notes 1 and 9 for further information.

Acquisition and Divestiture-Related Charges

Acquisition and divestiture-related charges primarily include merger and integration charges and costs associated with divestitures. Merger and integration charges include liabilities to support socioeconomic programs in South Africa, gains associated with contingent consideration, employee-related costs, contract termination costs, closing costs and other integration costs. Divestiture-related charges reflect transaction expenses, including consulting, advisory and other professional fees.

A summary of our acquisition and divestiture-related charges is as follows:

	2023	2022	2021
FLNA	**$ —**	$ —	$ 2
PBNA	**16**	51	11
Europe [(a)]	**(2)**	14	8
AMESA	**2**	3	10
APAC	**—**	—	4
Corporate [(b)]	**25**	6	(39)
Total [(c)]	**41**	74	(4)
Other pension and retiree medical benefits expense	**—**	6	—
Total acquisition and divestiture-related charges	**$ 41**	$ 80	$ (4)
After-tax amount [(d)]	**$ 23**	$ 66	$ (27)
Impact on net income attributable to PepsiCo per common share	**$ (0.02)**	$ (0.05)	$ 0.02

(a) Income amount represents adjustments for changes in estimates of previously recorded amounts.
(b) Income amount primarily relates to the acceleration payment made in the fourth quarter of 2021 under the contingent consideration arrangement associated with our acquisition of Rockstar, which is partially offset by divestiture-related charges associated with the Juice Transaction.
(c) Primarily recorded in selling, general and administrative expenses.
(d) The amount in 2021 includes a tax benefit related to contributions to socioeconomic programs in South Africa.

Note 14 — Supply Chain Financing Arrangements

As part of our evolving market practices, we work with our suppliers to optimize our terms and conditions, which include the extension of payment terms. Our current payment terms with a majority of our suppliers generally range from 60 to 90 days, which we deem to be commercially reasonable. We will continue to monitor economic conditions and market practice working with our suppliers to adjust as necessary. We also maintain voluntary supply chain finance agreements with several participating global financial institutions. Under these agreements, our suppliers, at their sole discretion, may elect to sell their accounts receivable with PepsiCo to these participating global financial institutions. Supplier participation in these financing arrangements is voluntary. Our suppliers negotiate their financing agreements directly with the respective global financial institutions and we are not a party to these agreements. These financing arrangements allow participating suppliers to leverage PepsiCo's creditworthiness in establishing credit spreads and associated costs, which generally provides our suppliers with more favorable terms than they would be able to secure on their own. Neither PepsiCo nor any of its subsidiaries provide any guarantees to any third party in connection with these financing arrangements. We have no economic interest in our suppliers' decision to participate in these agreements. Our obligations to our suppliers, including amounts due and scheduled payment terms, are not impacted. All outstanding amounts related to suppliers participating in such financing arrangements are recorded within accounts payable and other current liabilities in our consolidated balance sheet. As of both December 30, 2023 and December 31, 2022, $1.7 billion of our accounts payable are to suppliers participating in these financing arrangements.

Note 15 — Supplemental Financial Information

Balance Sheet

	2023	2022	2021
Accounts and notes receivable [a]			
Trade receivables	**$ 8,675**	$ 8,192	
Other receivables	**2,315**	2,121	
Total	**10,990**	10,313	
Allowance, beginning of year	**150**	147	$ 201
Net amounts charged to expense [b]	**55**	21	(19)
Deductions [c]	**(26)**	(12)	(25)
Other [d]	**(4)**	(6)	(10)
Allowance, end of year	**175**	150	$ 147
Accounts and notes receivable, net	**$ 10,815**	$ 10,163	

Property, plant and equipment, net	Average Useful Life (Years)			
Land		**$ 1,159**	$ 1,142	
Buildings and improvements	15 - 44	**11,579**	10,816	
Machinery and equipment, including fleet and software	5 - 15	**36,006**	33,335	
Construction in progress		**5,695**	4,491	
		54,439	49,784	
Accumulated depreciation		**(27,400)**	(25,493)	
Property, plant and equipment, net [e]		**$ 27,039**	$ 24,291	
Depreciation expense		**$ 2,714**	$ 2,523	$ 2,484

Other assets			
Noncurrent notes and accounts receivable	**$ 200**	$ 202	
Deferred marketplace spending	**103**	123	
Pension plans [f]	**1,057**	948	
Right-of-use assets [g]	**2,905**	2,373	
Other investments [h]	**1,616**	813	
Other	**780**	833	
Total	**$ 6,661**	$ 5,292	

Accounts payable and other current liabilities			
Accounts payable [i]	**$ 11,635**	$ 10,732	
Accrued marketplace spending	**3,523**	3,637	
Accrued compensation and benefits	**2,687**	2,519	
Dividends payable	**1,767**	1,610	
Current lease liabilities [g]	**556**	483	
Other current liabilities [j]	**4,969**	4,390	
Total	**$ 25,137**	$ 23,371	

(a) Increase primarily reflects strong revenue performance across much of our portfolio in 2023.
(b) 2021 includes reductions in allowance for expected credit losses related to COVID-19 pandemic recorded in 2020.
(c) Includes accounts written off.
(d) Includes adjustments related primarily to currency translation and other adjustments.
(e) Change is driven by increase in capital spending, partially offset by depreciation.
(f) See Note 7 for further information.
(g) See Note 12 for further information.
(h) Increase in 2023 primarily reflects unrealized pre-tax gains on our investment in Celsius convertible preferred stock. See Note 9 for further information.
(i) Increase reflects higher capital expenditures and commodity costs in 2023.
(j) Increase primarily reflects change in income tax provision. See Note 5 for further information.

Statement of Cash Flows

	2023	2022	2021
Interest paid [(a)]	**$ 1,401**	$ 1,043	$ 1,184
Income taxes paid, net of refunds [(b)]	**$ 2,532**	$ 2,766	$ 1,933

(a) 2022 excludes the premiums paid in accordance with the debt transactions. 2021 excludes the charge related to cash tender offers. See Note 8 for further information.
(b) In each of 2023, 2022 and 2021, includes tax payments of $309 million related to the TCJ Act.

Supplemental Non-Cash Activity

	2023	2022	2021
Debt discharged via legal defeasance	**$ 94**	$ —	$ —

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the balance sheet to the same items as reported in the cash flow statement:

	2023	2022
Cash and cash equivalents	**$ 9,711**	$ 4,954
Restricted cash included in other assets [(a)]	**50**	146
Total cash and cash equivalents and restricted cash	**$ 9,761**	$ 5,100

(a) Primarily relates to collateral posted against certain of our derivative positions.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
PepsiCo, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries (the Company) as of December 30, 2023 and December 31, 2022, the related Consolidated Statements of Income, Comprehensive Income, Cash Flows, and Equity for each of the fiscal years in the three-year period ended December 30, 2023, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 30, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2023 and December 31, 2022, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 30, 2023, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2023 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Sales incentive accruals

As discussed in Note 2 to the consolidated financial statements, the Company offers sales incentives and discounts through various programs to customers and consumers. A number of the sales incentives are based on annual targets, resulting in the need to accrue for the expected liability. These incentives are accrued for in the "Accounts payable and other current liabilities" line on the balance sheet. These accruals are based on sales incentive agreements, expectations regarding customer and consumer participation and performance levels, and historical experience and trends.

We identified the evaluation of certain of the Company's sales incentive accruals as a critical audit matter. Subjective and complex auditor judgment is required in evaluating these sales incentive accruals as a result of the timing difference between when the product is delivered and when the incentive is settled. This specifically related to (1) forecasted customer and consumer participation and performance level assumptions underlying the accrual, and (2) the impact of historical experience and trends.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the sales incentive process, including controls related to (1) the accrual methodology, (2) assumptions around forecasted customer and consumer participation, (3) performance levels, and (4) monitoring of actual sales incentives incurred compared to estimated sales incentives in respect of historical periods. To evaluate the timing and amount of certain accrued sales incentives we (1) analyzed the accrual by sales incentive type as compared to historical trends to identify specific sales incentives that may require additional testing, (2) recalculated expenses and closing accruals on a sample basis,

based on volumes sold and terms of the sales incentives, (3) assessed the Company's ability to accurately estimate its sales incentive accrual by comparing previously established accruals to actual settlements, and (4) tested a sample of settlements or claims that occurred after period end, and compared them to the recorded sales incentive accrual.

Carrying value of certain reacquired and acquired franchise rights and SodaStream goodwill

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company performs impairment testing of its goodwill and other indefinite-lived intangible assets on an annual basis during the third quarter of each fiscal year or more frequently if events or changes in circumstances indicate that it is more likely than not that an impairment exists. The carrying value of other indefinite-lived intangible assets as of December 30, 2023 was $13.7 billion, which represents 13.7% of total assets, and includes certain PepsiCo Beverages North America's (PBNA) reacquired and acquired franchise rights, which had a carrying value of $8.7 billion as of December 30, 2023. The carrying value of goodwill as of December 30, 2023 was $17.7 billion, which represents 17.6% of total assets, and includes goodwill related to the SodaStream reporting unit in Europe.

We identified the assessment of the carrying value of PBNA's reacquired and acquired franchise rights and SodaStream goodwill in Europe as a critical audit matter. The impairment analysis of these indefinite-lived intangible assets required significant auditor judgment to evaluate the Company's forecasted revenue and profitability levels, including the expected long-term growth rates and the selection of the discount rates to be applied to the projected cash flows. Significant auditor judgment was necessary to assess the subjective and uncertain impact of competitive operating and macroeconomic factors on future levels of revenue, operating profit and cash flows.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the goodwill and other indefinite-lived intangible assets impairment process, including controls related to the development of forecasted revenue, profitability levels, expected long-term growth rates, and selection of the discount rates to be applied to the projected cash flows used to estimate the fair value of the goodwill and other indefinite-lived intangible assets. We also evaluated the sensitivity of the Company's conclusion related to changes in assumptions, including the assessment of changes in assumptions from prior periods. To assess the Company's ability to accurately forecast, we compared the Company's historical forecasted results to actual results. We compared forecasted revenue and profitability levels in the cash flow projections used in the impairment tests with available external industry data and other internal information. We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating (1) the long-term growth rates used in the impairment tests by comparing against economic data and information specific to the respective assets, including projected long-term nominal Gross Domestic Product growth in the respective local countries, and (2) the discount rates used in the impairment tests by comparing them against discount rates that were independently developed using publicly available market data, including that of comparable companies.

Unrecognized tax benefits

As discussed in Note 5 to the consolidated financial statements, the Company's global operating model gives rise to income tax obligations in the United States and in certain foreign jurisdictions in which it operates. As of December 30, 2023, the Company recorded reserves for unrecognized tax benefits of $2.1 billion. The Company establishes reserves if it believes that certain positions taken in its tax returns are subject to challenge and the Company likely will not succeed, even though the Company believes the tax return position is supportable under the tax law. The Company adjusts

these reserves, as well as the related interest, in light of new information, such as the progress of a tax examination, new tax law, relevant court rulings or tax authority settlements.

We identified the evaluation of certain of the Company's unrecognized tax benefits as a critical audit matter because the application of tax law and interpretation of a tax authority's settlement history is complex and involves subjective judgment. Such judgments impact both the timing and amount of the reserves that are recognized, including judgments about re-measuring liabilities for positions taken in prior years' tax returns in light of new information.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the unrecognized tax benefits process, including controls to (1) identify uncertain income tax positions, (2) evaluate the tax law and tax authority's settlement history used to estimate the unrecognized tax benefits, and (3) monitor for new information that may give rise to changes to the existing unrecognized tax benefits, such as progress of a tax examination, new tax law or tax authority settlements. We involved tax and valuation professionals with specialized skills and knowledge, who assisted in assessing the unrecognized tax benefits by (1) evaluating the Company's tax structure and transactions, including transfer pricing arrangements, and (2) assessing the Company's interpretation of existing tax law as well as new and amended tax laws, tax positions taken, associated external counsel opinions, information from tax examinations, relevant court rulings and tax authority settlements.

/s/ KPMG LLP

We have served as the Company's auditor since 1990.

New York, New York
February 8, 2024

GLOSSARY

Acquisitions and divestitures: mergers and acquisitions activity, as well as divestitures and other structural changes, including changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

Bottler Case Sales (BCS): measure of physical beverage volume shipped to retailers and independent distributors from both PepsiCo and our independent bottlers.

Bottler funding: financial incentives we give to our independent bottlers to assist in the distribution and promotion of our beverage products.

Concentrate Shipments and Equivalents (CSE): measure of our physical beverage volume shipments to independent bottlers.

Constant currency: financial results assuming constant foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U.S. dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior year average foreign exchange rates.

Consumers: people who eat and drink our products.

CSD: carbonated soft drinks.

Customers: authorized independent bottlers, distributors and retailers.

Direct-Store-Delivery (DSD): delivery system used by us, our independent bottlers and our distributors to deliver beverages and convenient foods directly to retail stores where our products are merchandised.

Effective net pricing: reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

Free cash flow: net cash from operating activities less capital spending, plus sales of property, plant and equipment.

Independent bottlers: customers to whom we have granted exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographical area.

Mark-to-market net impact: change in market value for commodity derivative contracts that we purchase to mitigate the volatility in costs of energy and raw materials that we consume. The market value is determined based on prices on national exchanges and recently reported transactions in the marketplace.

NCB: non-carbonated beverage.

Organic: a measure that adjusts for the impacts of foreign exchange translation, acquisitions and divestitures, and where applicable, the impact of the 53rd reporting week. In excluding the impact of foreign exchange translation, we assume constant foreign exchange rates used for translation based on the rates in effect for the comparable prior-year period. See the definition of "Constant currency" for further information.

Total marketplace spending: includes sales incentives and discounts offered through various programs to our customers, consumers or independent bottlers, as well as advertising and other marketing activities.

Transaction gains and losses: the impact on our consolidated financial statements of exchange rate changes arising from specific transactions.

Translation adjustment: the impact of converting our foreign affiliates' financial statements into U.S. dollars for the purpose of consolidating our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks."

Item 8. Financial Statements and Supplementary Data.

See "Item 15. Exhibits and Financial Statement Schedules."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

(a) Disclosure Controls and Procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon criteria established in *Internal Control – Integrated Framework* (2013) by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 30, 2023.

Attestation Report of the Registered Public Accounting Firm. KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

(c) Changes in Internal Control over Financial Reporting. During our fourth quarter of 2023, we continued migrating certain of our financial processing systems to an Enterprise Resource Planning (ERP) solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses in phases over the next several years. In connection with these ERP implementations, we are updating and will continue to update our internal control over financial reporting, as necessary, to accommodate modifications to our business processes and accounting procedures. During 2023, we continued implementing these systems, resulting in changes that materially affected our internal control over financial reporting. These system implementations did not have an adverse effect, nor do we expect will have an adverse effect, on our internal control over financial reporting. In addition, in connection with our 2019 multi-year productivity plan, we continue to migrate to shared business models across our operations to further simplify, harmonize and automate processes. In connection with our 2019 multi-year

productivity plan and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes, to maintain effective controls over our financial reporting. These business process changes have not materially affected, and we do not expect them to materially affect, our internal control over financial reporting.

Except with respect to the continued implementation of ERP systems, there have been no changes in our internal control over financial reporting during our fourth quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We will continue to assess the impact on our internal control over financial reporting as we continue to implement our ERP solution and our 2019 multi-year productivity plan.

Item 9B. Other Information.

During the 16 weeks ended December 30, 2023, none of our directors or executive officers adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" as such terms are defined under Item 408 of Regulation S-K.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our directors and persons nominated to become directors is contained under the caption "Election of Directors" in our Proxy Statement for our 2024 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the year ended December 30, 2023 (the 2024 Proxy Statement) and is incorporated herein by reference. Information about our executive officers is reported under the caption "Information About Our Executive Officers" in Part I of this report.

Information on beneficial ownership reporting compliance will be contained under the caption "Ownership of PepsiCo Common Stock - Delinquent Section 16(a) Reports," if applicable, in our 2024 Proxy Statement and is incorporated herein by reference.

We have a written code of conduct that applies to all of our employees, including our Chairman of the Board of Directors and Chief Executive Officer, Chief Financial Officer and Controller, and to our Board of Directors. Our Global Code of Conduct is distributed to all employees and is available on our website at http://www.pepsico.com. A copy of our Global Code of Conduct may be obtained free of charge by writing to Investor Relations, PepsiCo, Inc., 700 Anderson Hill Road, Purchase, New York 10577. Any amendment to our Global Code of Conduct and any waiver applicable to our executive officers or senior financial officers will be posted on our website within the time period required by the SEC and applicable rules of The Nasdaq Stock Market LLC.

Information about the procedures by which security holders may recommend nominees to our Board of Directors can be found in our 2024 Proxy Statement under the caption "Board Composition and Refreshment – Shareholder Recommendations and Nominations of Director Candidates" and is incorporated herein by reference.

Information concerning the composition of the Audit Committee and our Audit Committee financial experts is contained in our 2024 Proxy Statement under the caption "Corporate Governance at PepsiCo – Committees of the Board of Directors – Audit Committee" and is incorporated herein by reference.

Item 11. Executive Compensation.

Information about director and executive officer compensation, Compensation Committee interlocks and the Compensation Committee Report is contained in our 2024 Proxy Statement under the captions "2023 Director Compensation," "Executive Compensation," "Corporate Governance at PepsiCo – Committees of the Board of Directors – Compensation Committee – Compensation Committee Interlocks and Insider Participation" and "Executive Compensation – Compensation Committee Report" and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information with respect to securities authorized for issuance under equity compensation plans can be found under the caption "Executive Compensation – Securities Authorized for Issuance Under Equity Compensation Plans" in our 2024 Proxy Statement and is incorporated herein by reference.

Information on the number of shares of PepsiCo Common Stock beneficially owned by each director and named executive officer, by all directors and executive officers as a group and on each beneficial owner of more than 5% of PepsiCo Common Stock is contained under the caption "Ownership of PepsiCo Common Stock" in our 2024 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information with respect to certain relationships and related transactions and director independence is contained under the captions "Corporate Governance at PepsiCo – Related Person Transactions" and "Corporate Governance at PepsiCo – Director Independence" in our 2024 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information on our Audit Committee's pre-approval policy and procedures for audit and other services and information on our principal accountant fees and services is contained in our 2024 Proxy Statement under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm – Audit and Other Fees" and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)1. Financial Statements

The following consolidated financial statements of PepsiCo, Inc. and its affiliates are included herein by reference to the pages indicated on the index appearing in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations":

Consolidated Statement of Income – Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021

Consolidated Statement of Comprehensive Income – Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021

Consolidated Statement of Cash Flows – Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021

Consolidated Balance Sheet – December 30, 2023 and December 31, 2022

Consolidated Statement of Equity – Fiscal years ended December 30, 2023, December 31, 2022 and December 25, 2021

Notes to the Consolidated Financial Statements, and

Report of Independent Registered Public Accounting Firm (PCAOB ID: 185).

(a)2. Financial Statement Schedules

These schedules are omitted because they are not required or because the information is set forth in the financial statements or the notes thereto.

(a)3. Exhibits

See Index to Exhibits.

Item 16. Form 10-K Summary.

None.

INDEX TO EXHIBITS
ITEM 15(a)(3)

The following is a list of the exhibits filed as part of this Form 10-K. The documents incorporated by reference can be viewed on the SEC's website at http://www.sec.gov.

EXHIBIT

3.1 Amended and Restated Articles of Incorporation of PepsiCo, Inc., effective as of May 1, 2019, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2019.

3.2 By-laws of PepsiCo, Inc., as amended and restated, effective as of April 15, 2020, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 16, 2020.

4.1 PepsiCo, Inc. agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument, not otherwise filed herewith, defining the rights of holders of long-term debt of PepsiCo, Inc. and its consolidated subsidiaries and for any of its unconsolidated subsidiaries for which financial statements are required to be filed with the Securities and Exchange Commission.

4.2 Indenture dated May 21, 2007 between PepsiCo, Inc. and The Bank of New York Mellon (formerly known as The Bank of New York), as trustee, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Registration Statement on Form S-3ASR (Registration No. 333-154314) filed with the Securities and Exchange Commission on October 15, 2008.

4.3 Form of 5.50% Senior Note due 2040, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 13, 2010.

4.4 Form of 4.875% Senior Note due 2040, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2010.

4.5 Form of 3.600% Senior Note due 2024, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2014.

4.6 Form of 2.625% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2014.

4.7 Form of 4.250% Senior Note due 2044, which is incorporated herein by reference to Exhibit 4.1 of PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 22, 2014.

4.8 Form of 2.750% Senior Note due 2025, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2015.

4.9 Form of 3.500% Senior Note due 2025, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 17, 2015.

4.10 Form of 4.600% Senior Note due 2045, which is incorporated herein by reference to Exhibit 4.5 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 17, 2015.

4.11 Form of 4.450% Senior Note due 2046, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 14, 2015.

4.12 Form of 2.850% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 24, 2016.

4.13 Form of 4.450% Senior Note due 2046, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 24, 2016.

4.14 Form of 0.875% Senior Note due 2028, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2016.

4.15 Form of 2.375% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.5 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2016.

4.16 Form of 3.450% Senior Note due 2046, which is incorporated herein by reference to Exhibit 4.6 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2016.

4.17 Form of 4.000% Senior Note due 2047, which is incorporated herein by reference to Exhibit 4.5 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 2, 2017.

4.18 Form of 2.150% Senior Note due 2024, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 4, 2017.

4.19 Form of 3.000% Senior Note due 2027, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 10, 2017.

4.20 Board of Directors Resolutions Authorizing PepsiCo, Inc.'s Officers to Establish the Terms of the 5.50% Senior Notes due 2040 and 4.875% Senior Notes due 2040, which are incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the 24 weeks ended June 12, 2010.

4.21 Board of Directors Resolutions Authorizing PepsiCo, Inc.'s Officers to Establish the Terms of the 4.000% Senior Notes due 2042 and the 3.600% Senior Notes due 2042, which are incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2011.

4.22 Form of 4.000% Senior Note due 2042, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2012.

4.23 Form of 3.600% Senior Note due 2042, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 13, 2012.

4.24 Form of 7.00% Senior Note due 2029, Series A, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2018.

4.25 Form of 5.50% Senior Note due 2035, Series A, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2018.

4.26 Form of 7.29% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Registration Statement on Form S-4 (Registration No. 333-228466) filed with the Securities and Exchange Commission on November 19, 2018.

4.27 Form of 7.44% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Registration Statement on Form S-4 (Registration No. 333-228466) filed with the Securities and Exchange Commission on November 19, 2018.

4.28 Form of 7.00% Senior Note due 2029, which is incorporated herein by reference to Exhibit 4.5 to PepsiCo, Inc.'s Registration Statement on Form S-4 (Registration No. 333-228466) filed with the Securities and Exchange Commission on November 19, 2018.

4.29 Form of 5.50% Senior Note due 2035, which is incorporated herein by reference to Exhibit 4.6 to PepsiCo, Inc.'s Registration Statement on Form S-4 (Registration No. 333-228466) filed with the Securities and Exchange Commission on November 19, 2018.

4.30 Form of 0.750% Senior Note due 2027, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2019.

4.31 Form of 1.125% Senior Note due 2031, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2019.

4.32 Form of 2.625% Senior Note due 2029, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2019.

4.33 Form of 3.375% Senior Note due 2049, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2019.

4.34 Form of 2.875% Senior Note due 2049, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 9, 2019.

4.35 Form of 0.875% Senior Note due 2039, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2019.

4.36 Form of 2.250% Senior Note due 2025, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2020.

4.37 Form of 2.625% Senior Note due 2027, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2020.

4.38 Form of 2.750% Senior Note due 2030, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2020.

4.39 Form of 3.500% Senior Note due 2040, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2020.

4.40 Form of 3.625% Senior Note due 2050, which is incorporated herein by reference to Exhibit 4.5 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2020.

4.41 Form of 3.875% Senior Note due 2060, which is incorporated herein by reference to Exhibit 4.6 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2020.

4.42 Form of 1.625% Senior Note due 2030, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 1, 2020.

4.43 Form of 0.250% Senior Note due 2024, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2020.

4.44 Form of 0.500% Senior Note due 2028, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2020.

4.45 Form of 1.400% Senior Note due 2031, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 7, 2020.

4.46 Form of 0.400% Senior Note due 2032, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 9, 2020.

4.47 Form of 1.050% Senior Note due 2050, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 9, 2020.

4.48 Form of 0.750% Senior Note due 2033, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 14, 2021.

4.49 Form of 1.950% Senior Note due 2031, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2021.

4.50 Form of 2.625% Senior Note due 2041, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2021.

4.51 Form of 2.750% Senior Note due 2051, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2021.

4.52 Form of 3.600% Senior Note due 2028, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2022.

4.53 Form of 4.200% Senior Note due 2052, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2022.

4.54 Form of 3.900% Senior Note due 2032, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2022.

4.55 Form of 3.200% Senior Note due 2029, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2022.

4.56 Form of 3.550% Senior Note due 2034, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2022.

4.57 Form of Floating Rate Note due 2026, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2023.

4.58 Form of 4.550% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2023.

4.59 Form of 4.450% Senior Note due 2028, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2023.

4.60 Form of 4.450% Senior Note due 2033, which is incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2023.

4.61 Form of 4.650% Senior Note due 2053, which is incorporated herein by reference to Exhibit 4.5 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2023.

4.62 Form of Floating Rate Note due 2024, which is incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2023.

4.63 Form of 5.250% Senior Note due 2025, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2023.

4.64 Form of 5.125% Senior Note due 2026, which is incorporated herein by reference to Exhibit 4.3 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 13, 2023.

4.65 Board of Directors Resolutions Authorizing PepsiCo, Inc.'s Officers to Establish the Terms of the 3.600% Senior Notes due 2024, the 2.625% Senior Notes due 2026, the 4.250% Senior Notes due 2044, the 2.750% Senior Notes due 2025, the 3.500% Senior Notes due 2025, the 4.600% Senior Notes due 2045, the 4.450% Senior Notes due 2046, the 2.850% Senior Notes due 2026, the 0.875% Senior Notes due 2028, the 2.375% Senior Notes due 2026, the 3.450% Senior Notes due 2046, the 4.000% Senior Notes due 2047, the 2.150% Senior Notes due 2024, the 3.000% Senior Notes due 2027, the 7.00% Senior Notes due 2029, Series A, the 5.50% Senior Notes due 2035, Series A, the 7.29% Senior Notes due 2026, the 7.44% Senior Notes due 2026, the 7.00% Senior Notes due 2029, the 5.50% Senior Notes due 2035, the 0.750% Senior Notes due 2027, the 1.125% Senior Notes due 2031, the 2.625% Senior Notes due 2029, the 3.375% Senior Notes due 2049, the 2.875% Senior Notes due 2049, the 0.875% Senior Notes due 2039, the 2.250% Senior Notes due 2025, the 2.625% Senior Notes due 2027, the 2.750% Senior Notes due 2030, the 3.500% Senior Notes due 2040, the 3.625% Senior Notes due 2050, the 3.875% Senior Notes due 2060, the 1.625% Senior Notes due 2030, the 0.250% Senior Notes due 2024, the 0.500% Senior Notes due 2028, the 1.400% Senior Notes due 2031, the 0.400% Senior Notes due 2032, the 1.050% Senior Notes due 2050, the 0.750% Senior Notes due 2033, the 1.950% Senior Notes due 2031, the 2.625% Senior Notes due 2041, the 2.750% Senior Notes due 2051, the 3.600% Senior Notes due 2028, the 4.200% Senior Notes due 2052, the 3.900% Senior Notes due 2032, the 3.200% Senior Notes due 2029, the 3.550% Senior Notes due 2034, the Floating Rate Notes due 2026, the 4.550% Senior Notes due 2026, the 4.450% Senior Notes due 2028, the 4.450% Senior Notes due 2033, the 4.650% Senior Notes due 2053, the Floating Rate Notes due 2024, the 5.250% Senior Notes due 2025 and the 5.125% Senior Notes due 2026, which are incorporated herein by reference to Exhibit 4.4 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2013.

4.66 Third Supplemental Indenture, dated as of October 24, 2018, between Pepsi-Cola Metropolitan Bottling Company, Inc. and The Bank New York Mellon Trust Company, N.A., as trustee, to the Indenture dated as of January 15, 1993 between Whitman Corporation and The First National Bank of Chicago, as trustee, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2018.

4.67 Second Supplemental Indenture, dated as of February 26, 2010, among Pepsi-Cola Metropolitan Bottling Company, Inc., PepsiAmericas, Inc. and The Bank New York Mellon Trust Company, N.A., as trustee, to the Indenture dated as of January 15, 1993 between Whitman Corporation and The First National Bank of Chicago, as trustee, which is incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 1, 2010.

4.68 First Supplemental Indenture, dated as of May 20, 1999, between Whitman Corporation and The First National Bank of Chicago, as trustee, to the Indenture dated as of January 15, 1993, between Whitman Corporation and The First National Bank of Chicago, as trustee, each of which is incorporated herein by reference to Exhibit 4.3 to Post-Effective Amendment No. 1 to PepsiAmericas, Inc.'s Registration Statement on Form S-8 (Registration No. 333-64292) filed with the Securities and Exchange Commission on December 29, 2005.

4.69 Form of PepsiAmericas, Inc. 7.29% Note due 2026, which is incorporated herein by reference to Exhibit 4.7 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 20, 2010.

4.70 Description of Securities.

10.1 Form of PepsiCo, Inc. Director Indemnification Agreement, which is incorporated herein by reference to Exhibit 10.20 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 25, 2004.*

10.2 Severance Plan for Executive Employees of PepsiCo, Inc. and Affiliates, which is incorporated herein by reference to Exhibit 10.5 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 6, 2008.*

10.3 Form of Aircraft Time Sharing Agreement, which is incorporated herein by reference to Exhibit 10 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended March 21, 2009.*

10.4 Specified Employee Amendments to Arrangements Subject to Section 409A of the Internal Revenue Code, adopted February 18, 2010 and March 29, 2010, which is incorporated herein by reference to Exhibit 10.13 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 20, 2010.*

10.5 PepsiCo, Inc. 2007 Long-Term Incentive Plan, as amended and restated March 13, 2014, which is incorporated herein by reference to Exhibit 10.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 14, 2014.*

10.6 The PepsiCo International Retirement Plan Defined Benefit Program, as amended and restated effective as of January 1, 2023 (with additional amendments through December 31, 2023).*

10.7 The PepsiCo International Retirement Plan Defined Contribution Program, as amended and restated effective as of January 1, 2023.*

10.8 PepsiCo, Inc. Long-Term Incentive Plan (as amended and restated May 4, 2016), which is incorporated herein by reference to Exhibit B to PepsiCo, Inc.'s Proxy Statement for its 2016 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on March 18, 2016.*

10.9 PepsiCo Pension Equalization Plan (Plan Document for the Pre-409A Program), as amended and restated effective as of January 1, 2022, which is incorporated herein by reference to Exhibit 10.9 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 25, 2021.*

10.10 PepsiCo Pension Equalization Plan (Plan Document for the 409A Program), as amended and restated effective as of January 1, 2023.*

10.11 PepsiCo Automatic Retirement Contribution Equalization Plan, as amended and restated effective as of January 1, 2023.*

10.12 PepsiCo Director Deferral Program (Plan Document for the 409A Program), amended and restated effective as of January 1, 2020, which is incorporated by reference to Exhibit 10.25 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 28, 2019.*

10.13 PepsiCo Executive Income Deferral Program (Plan Document for the 409A Program), amended and restated effective as of January 1, 2023.*

10.14 Amendment to Certain PepsiCo Award Agreements, which is incorporated herein by reference to Exhibit 10.45 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2017. *

10.15 PepsiCo, Inc. Long Term Incentive Plan (as amended and restated December 20, 2017), which is incorporated herein by reference to Exhibit 10.47 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2017.*

10.16 PepsiCo, Inc. Executive Incentive Compensation Plan (as amended and restated effective February 4, 2021), which is incorporated by reference to Exhibit 10.20 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 26, 2020.*

10.17 PepsiCo Executive Income Deferral Program (Plan Document for the Pre-409A Program), amended and restated effective as of January 1, 2019, which is incorporated by reference to Exhibit 10.35 to PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 28, 2019.*

10.18	2020 Form of Annual Long-Term Incentive Award Agreement (Performance Stock Units / Long-Term Cash Award), which is incorporated herein by reference to Exhibit 10.1 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 21, 2020.*
10.19	2021 Form of Annual Long-Term Incentive Award Agreement (Performance Stock Units / Long-Term Cash Award), which is incorporated herein by reference to Exhibit 10.1 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 20, 2021.*
10.20	2022 Form of Annual Long-Term Incentive Award Agreement (Performance Stock Units / Long-Term Cash Award), which is incorporated herein by reference to Exhibit 10.1 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 19, 2022.*
10.21	2023 Form of Annual Long-Term Incentive Award Agreement (Performance Stock Units / Long-Term Cash Award), which is incorporated herein by reference to Exhibit 10.1 to PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 25, 2023.*
10.22	2020 Form of Annual Long-Term Incentive Award Agreement (Stock Options / Restricted Stock Units / Performance Stock Units).*
10.23	2021 Form of Annual Long-Term Incentive Award Agreement (Stock Options / Restricted Stock Units).*
10.24	2023 Form of Annual Long-Term Incentive Award Agreement (Stock Options / Restricted Stock Units).*
21	Subsidiaries of PepsiCo, Inc.
23	Consent of KPMG LLP.
24	Power of Attorney.
31	Certification of our Chief Executive Officer and our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of our Chief Executive Officer and our Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
97	PepsiCo, Inc. Compensation Recovery Policy for Covered Executives.
99.1	364-Day Credit Agreement, dated as of May 26, 2023, among PepsiCo, as borrower, the lenders named therein, and Citibank, N.A., as administrative agent, which is incorporated by reference to Exhibit 99.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 30, 2023.
99.2	Five-Year Credit Agreement, dated as of May 26, 2023, among PepsiCo, as borrower, the lenders named therein, and Citibank, N.A., as administrative agent, which is incorporated by reference to Exhibit 99.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 30, 2023.
101	The following materials from PepsiCo, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2023 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Balance Sheets, (v) the Consolidated Statements of Equity and (vi) Notes to the Consolidated Financial Statements.
104	The cover page from the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2023, formatted in Inline XBRL and contained in Exhibit 101.

* Management contracts and compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(a)(3) of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, PepsiCo has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 8, 2024

PepsiCo, Inc.

By: /s/ Ramon L. Laguarta
Ramon L. Laguarta
Chairman of the Board of Directors and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of PepsiCo and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ Ramon L. Laguarta Ramon L. Laguarta	Chairman of the Board of Directors and Chief Executive Officer	February 8, 2024
/s/ James T. Caulfield James T. Caulfield	Executive Vice President and Chief Financial Officer	February 8, 2024
/s/ Marie T. Gallagher Marie T. Gallagher	Senior Vice President and Controller (Principal Accounting Officer)	February 8, 2024
/s/ Segun Agbaje Segun Agbaje	Director	February 8, 2024
/s/ Jennifer Bailey Jennifer Bailey	Director	February 8, 2024
/s/ Cesar Conde Cesar Conde	Director	February 8, 2024
/s/ Ian M. Cook Ian M. Cook	Director	February 8, 2024
/s/ Edith W. Cooper Edith W. Cooper	Director	February 8, 2024
/s/ Susan M. Diamond Susan M. Diamond	Director	February 8, 2024
/s/ Dina Dublon Dina Dublon	Director	February 8, 2024
/s/ Michelle Gass Michelle Gass	Director	February 8, 2024
/s/ Dave J. Lewis Dave J. Lewis	Director	February 8, 2024
/s/ David C. Page David C. Page	Director	February 8, 2024
/s/ Robert C. Pohlad Robert C. Pohlad	Director	February 8, 2024
/s/ Daniel Vasella Daniel Vasella	Director	February 8, 2024
/s/ Darren Walker Darren Walker	Director	February 8, 2024
/s/ Alberto Weisser Alberto Weisser	Director	February 8, 2024

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RECONCILIATION OF GAAP AND NON-GAAP INFORMATION

In discussing financial results and guidance, we refer to the following measures which are not in accordance with GAAP: organic revenue, core results, core constant currency results and free cash flow. We use non-GAAP financial measures internally to make operating and strategic decisions, including the preparation of our annual operating plan, evaluation of our overall business performance and as a factor in determining compensation for certain employees. We believe presenting non-GAAP financial measures provides additional information to facilitate comparison of our historical operating results and trends in our underlying operating results and provides additional transparency on how we evaluate our business. We also believe presenting these measures allows investors to view our performance using the same measures that we use in evaluating our financial and business performance and trends.

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. For further information regarding these non-GAAP financial measures, including further information on the excluded items for the periods presented, see "Non-GAAP Measures," "Items Affecting Comparability" and "Our Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K. The core non-GAAP financial measures contained in this Annual Report exclude the impact of the following items:

Mark-to-market net impact: Mark-to-market net gains and losses on commodity derivatives in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit.

Restructuring and impairment charges: Expenses related to the multi-year productivity plan publicly announced in 2019, which was expanded and extended through the end of 2028 to take advantage of additional opportunities within the initiatives of the plan.

Acquisition and divestiture-related charges: Primarily merger and integration charges and costs associated with divestitures. Merger and integration charges include liabilities to support socioeconomic programs in South Africa, gains associated with contingent consideration, employee-related costs, contract termination costs, closing costs and other integration costs. Divestiture-related charges reflect transaction expenses, including consulting, advisory and other professional fees.

Gain associated with the Juice Transaction: Gain associated with the Juice Transaction in our PepsiCo Beverages North America and Europe divisions.

Impairment and other charges: Comprised of Russia-Ukraine conflict charges, brand portfolio impairment charges and other impairment charges as described below.

> Russia-Ukraine conflict charges: In connection with the ongoing conflict in Ukraine, charges related to indefinite-lived intangible assets and property, plant and equipment impairment, allowance for expected credit losses, inventory write-downs and other costs. Also includes adjustments to the charges recorded in 2022.
>
> Brand portfolio impairment charges: Intangible asset, investment and property, plant and equipment impairments and other charges as a result of management's decision to reposition or discontinue the sale/distribution of certain brands and to sell an investment. Also includes adjustments to the charges recorded in 2022.
>
> Other impairment charges: Impairment charges taken as a result of our quantitative assessments of certain of our indefinite-lived intangible assets and related to our investment in TBG.

Product recall-related impact: Product returns, inventory write-offs and customer and consumer-related costs in our Quaker Foods North America division associated with a voluntary recall of certain bars and cereals.

Pension and retiree medical-related impact: Primarily settlement charges related to lump sum distributions exceeding the total of annual service and interest costs, as well as curtailment gains.

Tax benefit related to the IRS audit: A non-cash tax benefit resulting from our agreement with the IRS to settle one of the issues assessed in the 2014 through 2016 tax audit. The agreement covers tax years 2014 through 2019.

Tax expense related to the TCJ Act: Adjustments to the mandatory transition tax liability under the TCJ Act.

Additionally, organic revenue growth is a measure that adjusts for the impacts of foreign exchange translation, acquisitions and divestitures, and every five or six years, the impact of the 53rd reporting week, including in our 2022 financial results. Adjusting for acquisitions and divestitures reflects mergers and acquisitions activity, including the impact in 2021 of an extra month of net revenue for our acquisitions of Pioneer Foods in our Africa, Middle East and South Asia division and Be & Cheery in our Asia Pacific, Australia and New Zealand and China Region division as we aligned the reporting calendars of these acquisitions with those of our divisions, as well as divestitures and other structural changes, including changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees. We believe organic revenue growth provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year.

Division operating profit is the aggregation of the operating profit for each of our reportable segments, which excludes the impact of corporate unallocated expenses.

Free cash flow is a measure management uses to monitor cash flow performance. We define free cash flow as net cash from operating activities less capital spending, plus sales of property, plant and equipment. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities.

Non-GAAP information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance U.S. GAAP. In addition, our non-GAAP financial measures may not be the same as or comparable to similar non-GAAP measures presented by other companies.

Operating Profit Reconciliation

	Year Ended		
	December 30, 2023	December 31, 2022	% Change
Reported operating profit, GAAP measure	**$ 11,986**	$ 11,512	4%
Mark-to-market net impact	**36**	62	
Restructuring and impairment charges	**446**	380	
Acquisition and divestiture-related charges	**41**	74	
Gain associated with the Juice Transaction	**–**	(3,321)	
Impairment and other charges	**1,230**	3,618	
Product recall-related impact	**136**	–	
Core operating profit, non-GAAP measure	**$ 13,875**	$ 12,325	13%

Note – Dollars are presented in millions.

Diluted EPS Reconciliation

	Year Ended		
	December 30, 2023	December 31, 2022	% Change
Reported diluted EPS, GAAP measure	**$ 6.56**	$ 6.42	2%
Mark-to-market net impact	**0.02**	0.03	
Restructuring and impairment charges	**0.25**	0.24	
Acquisition and divestiture-related charges	**0.02**	0.05	
Gain associated with the Juice Transaction	**–**	(2.08)	
Impairment and other charges	**0.68**	2.12	
Product recall-related impact	**0.07**	–	
Pension and retiree medical-related impact	**0.01**	0.17	
Tax benefit related to the IRS audit	**–**	(0.23)	
Tax expense related to the TCJ Act	**–**	0.06	
Core diluted EPS, non-GAAP measure	**$ 7.62**	$ 6.79	12%
Impact of foreign exchange translation			2
Core constant currency diluted EPS growth, non-GAAP measure			14%

Net Cash Provided by Operating Activities Reconciliation

	Year Ended		
	December 30, 2023	December 31, 2022	% Change
Net cash provided by operating activities, GAAP measure	**$ 13,442**	$ 10,811	24%
Capital spending	**(5,518)**	(5,207)	
Sales of property, plant and equipment	**198**	251	
Free cash flow, non-GAAP measure	**$ 8,122**	$ 5,855	39%

PepsiCo Net Revenue Growth Reconciliation

	2021–2023 Compound Annual Growth Rate	Year Ended		
		December 30, 2023	December 31, 2022	December 25, 2021
Reported % Change, GAAP Measure	9%	**6%**	9%	13%
Impact of:				
Foreign exchange translation		**2**	3	(1)
Acquisitions and divestitures		**–**	4	(2)
53rd reporting week		**1**	(1)	–
Organic % Change, non-GAAP Measure	11%	**9%**	14%	10%

Net Revenue Growth Reconciliation

	Year Ended December 30, 2023				
		Impact of			
	Reported % change, GAAP measure	Foreign exchange translation	Acquisitions and divestitures	53rd reporting week	Organic % change, non-GAAP measure
North America	**6%**	–	–	2	**8%**
International	**6%**	5	1	–	**12%**
Global convenient foods	**7%**	1	0.5	1	**10%**
Global beverages	**4%**	3	–	1	**8%**

Note – Dollars are presented in millions, except per share amounts. Certain amounts above may not sum due to rounding.

Division Operating Profit Reconciliation

	Year Ended December 30, 2023								
			Impact of						
	Reported, GAAP measure	% of Reported division operating profit	Mark-to-market net impact	Restructuring and impairment charges	Acquisition and divestiture-related charges	Impairment and other charges	Product recall-related impact	Core, non-GAAP measure	% of Core division operating profit
Frito-Lay North America	$ 6,755	47%	$ –	$ 42	$ –	$ –	$ –	$ 6,797	42%
Quaker Foods North America	492	3%	–	–	–	–	136	628	4%
PepsiCo Beverages North America	2,584	18%	–	41	16	321	–	2,962	18%
Latin America	2,252	16%	–	29	–	2	–	2,283	14%
Europe	767	5%	–	223	(2)	855	–	1,843	12%
Africa, Middle East and South Asia	807	6%	–	15	2	(7)	–	817	5%
Asia Pacific, Australia and New Zealand and China Region	713	5%	–	8	–	59	–	780	5%
Division operating profit	14,370		–	358	16	1,230	136	16,110	
Corporate unallocated expenses	(2,384)		36	88	25	–	–	(2,235)	
Operating profit	$ 11,986		$ 36	$ 446	$ 41	$ 1,230	$ 136	$ 13,875	

Note – Dollars are presented in millions.

COMMON STOCK INFORMATION

Stock Trading Symbol – PEP

Stock Exchange Listings

The Nasdaq Global Select Market is the principal market for our common stock, which is also listed on the SIX Swiss Exchange.

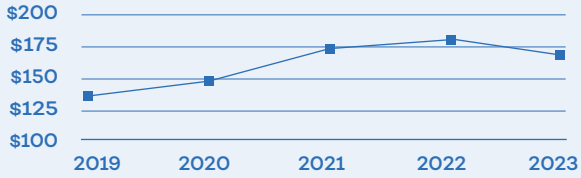
Dividend Policy

Dividends are usually declared in February, May, July and November and paid at the end of March, June and September and the beginning of January.

On February 7, 2024, the Board of Directors of PepsiCo declared a quarterly dividend of $1.265 per share, payable April 1, 2024, to shareholders of record on March 1, 2024. For the remainder of 2024, the record dates for these dividend payments are expected to be June 7, September 6 and December 6, 2024, subject to approval of the Board of Directors. On February 9, 2024, we announced a 7% increase in our annualized dividend to $5.42 per share from $5.06 per share, effective with the dividend expected to be paid in June 2024. We have paid consecutive quarterly cash dividends since 1965.

Year-End Market Price of Stock

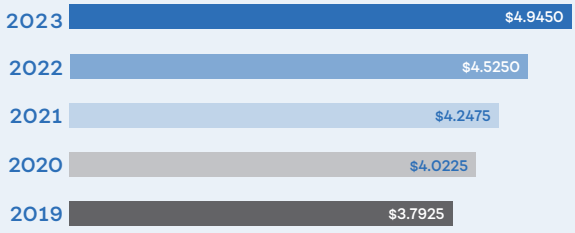
Based on calendar year-end (in U.S. Dollars)



The closing price for a share of PepsiCo common stock on The Nasdaq Global Select Market for the years ended 2019–2023 was the price reported by Bloomberg. Past performance is not necessarily indicative of future stock price performance.

Annualized Cash Dividends Declared

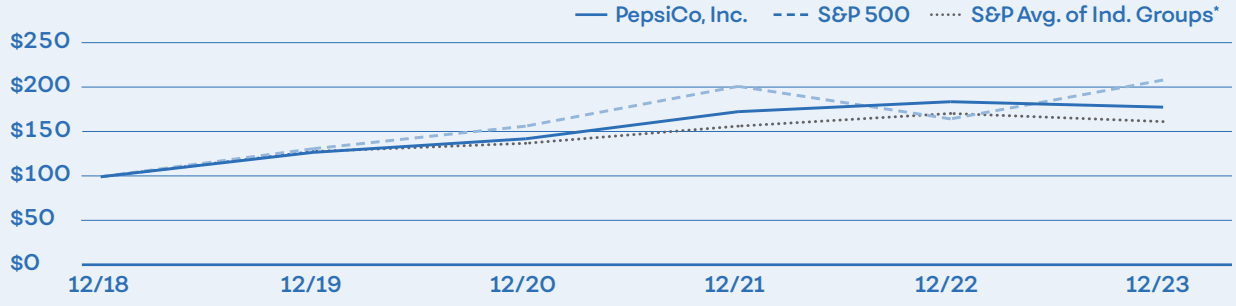
Per share (in U.S. Dollars)



Comparison of Cumulative Total Shareholder Return

(in U.S. Dollars)

The graph below matches PepsiCo Inc.'s cumulative five-year total shareholder return on common stock with the cumulative total returns of the S&P 500® index, and the S&P® Average of Industry Groups index.* The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 12/31/2018 to 12/31/2023.



* The S&P Average of Industry Groups is derived by weighting the returns of two applicable S&P Industry Groups (the S&P 500 Soft Drinks & Non-alcoholic Beverages and S&P 500 Packaged Foods and Meats indices) based on PepsiCo's sales in its beverage and foods businesses. The returns for PepsiCo, the S&P 500 and the S&P Average of Industry Groups are calculated through December 31, 2023.

	12/18	12/19	12/20	12/21	12/22	12/23
PepsiCo, Inc.	$100	$127	$142	$172	$183	$177
S&P 500®	$100	$131	$156	$200	$164	$207
S&P® Average of Industry Groups*	$100	$128	$137	$156	$170	$161

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

SHAREHOLDER INFORMATION

Annual Meeting

The Annual Meeting of Shareholders will be conducted in a virtual-only format on Wednesday, May 1, 2024, at 9 a.m. Eastern Daylight time at www.virtualshareholdermeeting.com/PEP2024. The webcast will open for shareholders at approximately 8:45 a.m. Eastern Daylight time and begin promptly at 9 a.m. Eastern Daylight time. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning transfers, statements, dividend payments, address changes, lost certificates and other administrative matters to:

Computershare Inc.
150 Royall Street, Suite 101
Canton, MA 02021
Telephone: 800-226-0083
201-680-6578 (outside the U.S.)
Email:
web.queries@computershare.com
Website:
www.computershare.com/investor

or

Shareholder Relations
PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
Email: ir@pepsico.com

In all correspondence or telephone inquiries, please mention PepsiCo, the name in which your shares are registered, your holder ID, your address and your telephone number.

Long-Term Incentive Plan Participants

Associates who received Long-Term Incentive awards should address all questions regarding their account, including outstanding options or shares received through option exercises or vesting event, to:

Morgan Stanley
Global Stock Plan Services
P.O. Box 182616
Columbus, OH 43218-2616
Telephone: 844-4-PEP-LTI (U.S. and Canada)
614-414-8060 (all other locations)
Email: PEP@morganstanley.com
Website: atwork.morganstanley.com

PepsiCo Savings Plan Participants

Associates who are a part of the U.S. Retirement programs should address all questions regarding their account to:

Fidelity
P.O. Box 770003
Cincinnati, OH 45277-0065
Telephone: 800-632-2014
Overseas: Dial your country's AT&T Access Number + 800-632-2014
In the U.S., access numbers are available by calling 800-331-1140
Website: www.netbenefits.com/pepsico

PepsiCo Stock Purchase Program Participants

Associates should address all questions regarding their account to:

Fidelity
P.O. Box 770001
Cincinnati, OH 45277-0002
Telephone: 800-544-9354
Website: www.netbenefits.com/pepsico

Please have a copy of your most recent statement available when calling with inquiries.

FORWARD-LOOKING STATEMENTS

This Annual Report contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as "aim," "anticipate," "believe," "drive," "estimate," "expect," "expressed confidence," "forecast," "future," "goal," "guidance," "intend," "may," "objective," "outlook," "plan," "position," "potential," "project," "seek," "should," "strategy," "target," "will" or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act.

These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. These risks and uncertainties include, but are not limited to, those described in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business – Our Business Risks" in our Annual Report on Form 10-K included herewith. 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.

CORPORATE INFORMATION

Corporate Headquarters

PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
Telephone: 914-253-2000

PepsiCo Website

www.pepsico.com

Direct Stock Purchase

Interested investors can make their initial purchase directly through Computershare, transfer agent for PepsiCo and Administrator for the Plan. Please contact our transfer agent for more information.

Computershare Inc.

150 Royall Street, Suite 101
Canton, MA 02021
Telephone: 800-226-0083
201-680-6578 (outside the U.S.)
Email: web.queries@computershare.com
Website: www.computershare.com/investor

Other services include dividend reinvestment, direct deposit of dividends, optional cash investments by electronic funds transfer or check drawn on a U.S. bank, sale of shares, online account access and electronic delivery of shareholder materials.

Independent Auditors

KPMG LLP

345 Park Avenue
New York, NY 10154-0102
Telephone: 212-758-9700

Additional Information

PepsiCo's Annual Report contains many of the valuable trademarks owned and/or used by PepsiCo and its subsidiaries and affiliates in the U.S. and internationally to distinguish products and services of outstanding quality. All other trademarks featured herein are the property of their respective owners.

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Environmental Profile

This Annual Report was printed with Forest Stewardship Council® (FSC®) – certified paper, the use of 100% certified renewable wind power resources and vegetable-based ink. PepsiCo continues to reduce the costs and environmental impact of annual report printing and mailing by utilizing a distribution model that drives increased online readership and fewer printed copies. You can learn more about our environmental efforts at www.pepsico.com.

Design by addison.com Printing by Sandy Alexander Inc.


PEPSICO

Registered number 12057312



MOTION JVCO LIMITED
ANNUAL REPORT AND ACCOUNTS 2022

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At the end of 2022 the Group operated:

142

attractions

with

5,342

rooms

in

25

countries

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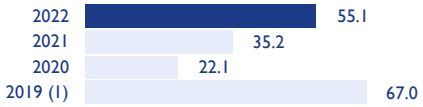
KPIs

52

55.1m

VISITORS +56.3%

2022 53 weeks[2]: 56.4m

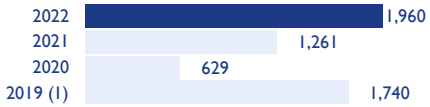


52

£1,960m

REVENUE +55.4%

2022 53 weeks[2]: £2,006m



52 These figures are reported on a 52 week basis

53 These figures are reported on a 53 week basis

52

£385m

UNDERLYING OPERATING PROFIT

2022 53 weeks[2]: £415m

2021: £132m

52

£356m

TOTAL OPERATING PROFIT

2022 53 weeks[2]: £386m

2021: £130m

53

£136m

PROFIT BEFORE TAX

2021: loss of £(94)m

GUEST SATISFACTION

Providing a high quality of experience for our guests is our core purpose, and we are proud that we again maintained the same high score of 94% as in 2021. This is based on guest satisfaction surveys where our target is a score over 90%, and is testimony to the hard work and commitment of our teams across the business.

We continue to monitor our guests' views, engaging with them directly and on social media to measure the quality of their experience and drive improvements.

See more on page 7.

HEALTH AND SAFETY

As trading levels increased during 2022, our COVID-19 countermeasures remained dynamic and able to adapt to differing local government restrictions.

The overall strength of our health and safety performance is evidenced by the continued low level of our Medical Treatment Case (MTC) rate, that captures the rate of guest injuries requiring external medical treatment relative to 10,000 guest visitations.

This measured 0.01 for 2022, having remained constant at 0.02 from 2019 through 2021.

See more on pages 25 to 26.

EMPLOYEE ENGAGEMENT

In 2022 more than 18,000 people completed our 'The Wizard Wants to Know' employee engagement survey, a response rate of 84%.

Our overall engagement score was 68%, an encouraging increase of 5% on the previous year.

We are grateful to our teams for completing the survey, and pleased that they have given us so much valuable feedback to take forward as we continue to work to improve engagement further.

See more on page 24.

How we report our results

Motion JVco Limited (the Company) has been the parent company of the Merlin Entertainments Limited group of companies (Merlin, Merlin Group), since acquiring the Merlin Group in November 2019. Where the strategic report refers to longer term historical activities and strategic initiatives, these should be read as referring to the continuing Merlin business as if the Company had been the parent company in that period. Details on the period under review ('52' and '53' week data) and the performance measures used are set out in the Financial and operating review on page 18. Terms used throughout this document are defined in the Glossary on pages 103 to 104.

(1) 2019 comparative data for the Merlin Entertainments Group has been included to provide a more meaningful comparison of performance to trading prior to the COVID-19 pandemic. This has been extracted from the audited 2019 Merlin Entertainments Limited Annual Report and Accounts.

(2) This year we are reporting on the 53 weeks to 31 December 2022. Profit metrics are provided on a 53 week statutory basis in the financial statements. Consistent with Merlin's approach in previous years, we also present unaudited '52 week' information for 2022 where we think it will provide a more direct comparison of performance.

AT A GLANCE

A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT

MERLIN IS EUROPE'S NUMBER ONE AND THE WORLD'S SECOND-LARGEST VISITOR ATTRACTION OPERATOR AND OPERATES 142 ATTRACTIONS, 24 HOTELS AND SIX HOLIDAY VILLAGES IN 25 COUNTRIES AND ACROSS FOUR CONTINENTS.

Our vision To be the global leader in location based entertainment.

Our purpose To deliver memorable experiences to our millions of visitors by creating lasting connections and moments of joy for families and friends around the world.

Our strategy To build a high growth, high return family entertainment company based on strong brands and a global portfolio that is naturally balanced against the impact of external factors, all delivered by the most passionate team of people whose mission it is to spread joy and happiness to the world.

Merlin operates two distinct types of visitor attractions, organised into three Operating Groups.

Midway Attractions are high quality, branded, predominantly indoor attractions with a typical one to two hour dwell time located in city centres, shopping malls or resorts. We have high quality, chainable brands and are the only company to successfully operate the Midway model on a global scale.

Theme Parks are larger multi-day outdoor destination venues, incorporating on-site themed accommodation.

- LEGOLAND Parks are aimed at families with younger children and have LEGO as the central theme. Highly themed accommodation is central to our strategy to develop the customer offering. Merlin holds the global, exclusive rights to the LEGOLAND brand.
- Resort Theme Parks are national brands aimed at families, teenagers and young adults, with themed accommodation at all locations. They have high brand and customer awareness in their local markets and include the leading theme parks in the UK, Italy and Northern Germany.

Our three Operating Groups are supported by our unique in-house business development, creative, project management and production group, Merlin Magic Making, which includes teams across Europe, North America and the Asia Pacific region. Merlin Magic Making is responsible for driving innovation across our Group and creating compelling propositions for our attractions; developing new concepts into commercially viable attractions; producing compelling content such as LEGO models, wax figures and attraction theming; and constructing new attractions and investment projects, including new hotels and rides.

Our portfolio of assets and brands is highly diversified across geography, attraction type, brand and customer demographic and well balanced between indoor and outdoor attractions and international and domestic visitation. We also partner with third party intellectual property (IP) owners to create new brands which complement the portfolio and broaden our appeal across all key target demographics.

Our footprint across 25 countries provides a high degree of diversity and a strong platform to benefit from long term growth in leisure spending.

We have demonstrated the strength of this diversified business model over many years, where the drivers of our performance have been;

- investment in our existing estate, increasingly including third party and internally created IP. These investments increase capacity, provide compelling new propositions to guests, and improve guest satisfaction;
- rolling out new Midway attractions to drive revenue growth, often with a 'cluster' focus and in locations that continue our geographic diversification;
- developing new LEGOLAND resorts under a combination of operating models. LEGOLAND New York opened in 2021, LEGOLAND Korea opened in the year and three resorts are currently under construction in China;
- transforming our theme parks into destination resorts by adding a broad range of themed accommodation and other 'second gate' attractions to improve guest satisfaction and drive multi-day visitation;
- developing our operating model as our scale has increased - generating revenue from promotions and marketing with an increasing focus on yield management; improving our customers' online 'digital journey'; and operating more efficiently and flexibly. In doing this we maintain our focus on providing a high quality of experience to our guests; and
- acquisitions, ranging from large scale transformational transactions to smaller add-on deals.

AT A GLANCE

A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT

A GLOBAL PORTFOLIO OF ATTRACTIONS AND ACCOMMODATION, REACHING ALL TARGET DEMOGRAPHICS

	UK	Continental Europe	Americas	Asia Pacific	Total	Brand Demographics
MIDWAY ATTRACTIONS (Global brands)						
SEA LIFE	10	16	10	11	**47**	Families and city centre tourists
Madame Tussauds	2	4	6	11	**23**	Families and city centre tourists
Dungeons	6	3	-	1	**10**	Teenagers, young adults and city centre tourists
LEGO/LEGOLAND Discovery Centres	2	5	14	7	**28**	Families
Eye	2	-	-	1	**3**	City centre tourists
Peppa Pig World of Play	-	1	3	1	**5**	Pre-school families
Peppa Pig Theme Park *(see Glossary on page 104)*	-	-	1	-	**1**	Pre-school families
Other	3	2	-	4	**9**	
Total	**25**	**31**	**34**	**36**	**126**	
LEGOLAND PARKS						
	Windsor, UK (209 rooms)	Billund, Denmark (578 rooms)	California, USA (500 rooms)	Dubai, UAE (250 rooms)		
		Günzburg, Germany (509 rooms)	Florida, USA (468 rooms)	Johor, Malaysia (263 rooms)		
			New York, USA (250 rooms)	Nagoya, Japan (252 rooms)		
				Chuncheon, South Korea (154 rooms)		
Total					**10 parks 3,433 rooms**	Families
RESORT THEME PARKS						
	Alton Towers Resort, UK (694 rooms)	Gardaland Resort, Italy (475 rooms)				Families, teenagers and young adults
		Heide Park Resort, Germany (329 rooms)				
	Chessington World of Adventures Resort, UK (254 rooms)					Families
	Warwick Castle, UK (67 rooms)					
	THORPE PARK Resort, UK (90 rooms)					Teenagers and young adults
Total					**6 parks 1,909 rooms**	

CHIEF EXECUTIVE'S INTRODUCTION

STRONG MOMENTUM AND READY FOR THE FUTURE

2022 overview

On behalf of the amazing, driven and passionate colleagues working across 140+ attractions in 25 countries, I am grateful to be writing this introduction to the 2022 annual review in my new role as Chief Executive of Merlin Entertainments. Whilst I assumed the role towards the end of last year, I am aware of and inspired by the tremendous amount of hard work and passion across the organisation, which saw Merlin deliver a robust year in 2022. I'd like to take this opportunity to thank the Board for the opportunity to lead the world's second largest location based entertainment company and Nick Varney for his vision, commitment to growth and his leadership of Merlin Entertainments. It is a privilege to recognise the whole team's achievements in building a foundation for future growth.

In 2022 Merlin saw further significant recovery and continued progress, despite the ongoing challenges of the global COVID-19 pandemic in most geographical locations, as well as the ongoing war in Ukraine. Our global teams have shown great commitment and resilience throughout the year, despite the challenging operating environment, which has been further exacerbated by the recruitment issues seen across many frontline industries including attractions and hospitality.

We continue to focus on strong business growth and invest for the future, with the launch of new attractions together with investment in new products and rides across our existing estate. The performance of our attractions is driven by our commitment to the values at the heart of Merlin's success; to continue to bring families and friends together to create lasting memories, fun and connection, all while striving to build the greatest place to work in the world.

2022 was also a year when we saw further staff engagement with a rise in responses to our annual staff survey, further expansion of our inclusion and diversity strategy and ongoing 'Fun for Everyone' accessibility work, which saw even more effort being made to ensure that our teams and attractions offer fun for everyone.

2022 trading

We welcomed 55 million visitors to our attractions in 2022 *(2021: 35 million)*, with revenue on a 52 week basis of £1,960 million, an increase of £699 million on 2021. For the 53 weeks to 31 December 2022, reported revenue was £2,006 million.

Strong consumer demand was driven by guests being keen to spend time together with friends and family, resulting in elevated revenues per visitor, and high average room rates in our accommodation portfolio, which supported strong trading in North America, the UK, and in parts of Continental Europe. Our domestically-focused brands have traded strongly, and international tourism started to build real momentum in some of the key city destinations.

COVID-19 related restrictions were much less significant than in 2021. Government restrictions generally eased during Q1 and from the end of March substantially all of the portfolio remained open. International tourism in some locations also continued to recover. There were variations by geography, most notably in China where restrictions caused significant disruption and lower levels of outbound Chinese tourism continued to have a wider impact on the rest of the Asia Pacific estate.

Over the last two years we have opened two new LEGOLAND resorts. LEGOLAND New York, which opened in summer 2021 after a series of COVID-19 related delays and into a challenging labour market, is trading positively.

Our latest major investment, LEGOLAND Korea, opened in May 2022 as the country was exiting from its most severe COVID-19 wave. The LEGOLAND Korea hotel opened as planned in July. Initial trading has been encouraging, despite the lingering impact of the pandemic, supporting what will be a continued focus on the resort positioning of the attraction. We remain positive about the long term prospects of these resorts.

We also focused on our growing roster of global Intellectual Property (IP) partners, where the US provides a key growth market. In 2022 we opened the Peppa Pig Theme Park Florida; our first standalone Peppa Pig theme park, this 'second gate' attraction (adjacent to LEGOLAND Florida Resort) highlights Merlin's strong portfolio in the pre-school IP market. This was followed in Europe with the opening at Gardaland Resort of the first ride under our multi-territory IP agreement with Sony Pictures Entertainment, to develop themed rides and resort areas under the 'Jumanji' film franchise IP. In August we announced that Chessington World of Adventures Resort is set to open a themed land 'World of Jumanji' in spring 2023.

The recovery in visitation and our implementation of revenue management initiatives drove revenue growth compared to pre-pandemic levels, while tight cost control, ongoing efficiency initiatives, and government support received in the year have offset continued cost pressures. Our underlying EBITDA totalled £641 million on a 52 week basis, and £671 million for the 53 weeks to 31 December 2022 *(2021: £379 million)*, with positive operating cash flows of £622 million in the year *(2021: £459 million)*.

Outlook

As we move into 2023, we will build on Merlin's unique platform, while evolving alongside the world around us. We will work to increase our emphasis on and deliver several significant initiatives around revenue management. We will also increase our focus on data and data driven decision making, begin to shift more towards a digital and direct marketing approach and begin the improvement processes and structural changes to further increase revenues per visitor in food and beverage and retail.

We will look to add to our portfolio of partners with world class IP, engage in the immersive entertainment space, and look to make strategic investments where there is the opportunity to unlock growth. We are aware of the power of our partnership with such an incredible force for good as we find in the LEGO brand and their employees, matching our footprint around the world. We will continue to collaborate, listen and build on the platform we have been entrusted with.

Given our continued recovery and strong brands, we believe this is a time to grow, and as such are investing in our people as well as our attractions. We believe there is significant growth ahead and will continue to take advantage of our talented executive team, brilliant creative teams and our unmatched reach and scale, to continue to drive magical experiences for guests and driving the business.

Strategic developments

Our strategy remains to offer amazing experiences across a range of exciting brands, diversified by target audience, dwell time and geography, and by partnering with global brands such as Peppa Pig, Jumanji, and of course LEGO.

We continue to pursue opportunities to expand our brands, formats and geographic diversification. We are working with partners to develop three LEGOLAND resorts in China over the next five years in Shanghai, Shenzhen, and Sichuan province.

CHIEF EXECUTIVE'S INTRODUCTION

STRONG MOMENTUM AND READY FOR THE FUTURE

Health, safety and security

The health, safety and security (HSS) of our guests and employees remains our number one priority.

We have maintained a high level of performance across our operations, with our COVID-19 countermeasures remaining dynamic and able to adapt to differing states of government restrictions, dependent on the specific country or territory. The overall strength of our performance in this area is evidenced by continued strong HSS KPI scores in 2022.

Guest satisfaction

We have maintained, and in many cases improved, our customer satisfaction and brand measures, in our focus on delivering memorable experiences to our guests. We are proud that we again maintained our consistently high customer satisfaction score of 94% despite the challenges of tight labour markets, which is testimony to the hard work and commitment of our teams across the business. We continue to monitor our guests' views by engaging with them directly, on social media, and by monitoring online reviews.

Guest accessibility continues to be a key area of focus, as we expand our efforts to allow all of our guests to enjoy as much of the Merlin experience as possible. These efforts are informed by our guests and disability advisors and have included training programmes in disability confidence for our teams, reviewing our existing rides to enhance their accessibility, and working with ride manufacturers to improve accessibility on new rides.

Diversity and inclusivity

In 2022 we continued our focus on equality and diversity in celebrating our culture of belonging. Our four regional task forces delivered regional plans to support our global diversity and inclusion goals, as well as driving meaningful change to our teams and wider communities at a site level.

Over half of Merlin's global workforce is female and as such we are focused on ensuring we drive change at all levels across the Company. Of our top ten attractions globally, half are currently run by women. These include our LEGOLAND resorts in the UK, Germany, and New York, as well as Gardaland Resort and Alton Towers Resort.

We are proud that our commitment to equality is demonstrated throughout our culture and are focused on creating the greatest place to work and a true sense of belonging. We are also committed to ensuring our Merlin Board and senior management teams continue to promote diversity and inclusivity and are delighted that our most recent Executive Committee member is a proud member of the LGBTQ+ community.

Employee engagement

Our people are what makes Merlin so special and are our competitive advantage. We continue to be proud of our global employees as they deliver magical and memorable experiences to millions of guests.

More than 18,000 people completed our 'The Wizard Wants to Know' staff engagement survey in 2022, a significant increase on the 2021 survey and with a really high response rate of 84%. Our overall engagement score was 68%, an encouraging increase of 5% on the previous year. We are grateful to our teams for completing the survey and pleased that they have given us so much valuable feedback to take forward as we continue to work to improve engagement further.

Our recently introduced long term incentive plans, aligned to the strategic objectives of our shareholders, provide incentive structures for our management teams and include outstanding contribution and long service awards that are available to all employees.

More Magic awaits…

Scott M O'Neil
Chief Executive Officer
17 March 2023

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

COMPETITIVE STRENGTHS IN A LONG TERM ATTRACTIVE MARKET ENVIRONMENT

A unique portfolio of strong brands and iconic assets

We operate a unique global portfolio of brands and iconic assets which are widely recognised by consumers, enabling us to differentiate our attractions from unbranded operators.

Our LEGOLAND parks benefit from a mutually synergistic relationship with LEGO, the world's number one toy brand[1]. Our Midway attractions portfolio includes chainable brands such as SEA LIFE and Madame Tussauds, while the Resort Theme Parks attractions are standalone national brands in their respective markets.

Together, the strength and breadth of this portfolio enable us to offer compelling propositions through a wide variety of visitor experiences across a broad range of geographies. This allows us to attract a wide range of target demographic groups from families with young children, teenagers, young adults to older adults. It also provides a degree of resilience to short term trading shocks arising from a particular geography, brand, or demographic.

Intellectual Property (IP) partnerships

Merlin's global reach and multi-format expertise means we are well placed to benefit from the growing opportunities to partner with leading owners of intellectual property (IP) content, enabling us to deliver memorable experiences to our visitors and offer our partners opportunities to increase engagement with their customers.

Most significant is our core global, multi-product and exclusive relationship with the LEGO Group, where we hold the global, exclusive rights to the LEGOLAND brand under the licencing and co-operation agreement with KIRKBI, our largest shareholder (see page 8).

We have multiple other IP agreements, ranging from local relationships for specific attractions, to global, multi-product relationships. These include our multi-territory exclusivity arrangement to develop a range of attractions based on the Peppa Pig brand, one of the best known pre-school IPs in the world.

A unique portfolio of skills

Our three Operating Groups are supported by other teams including our in-house innovation and product delivery group, Merlin Magic Making (MMM), which includes teams across Europe, North America and the Asia Pacific region. Together they capture a unique combination of skills, including research, creative, production and project management. We also have specific resources within the Operating Groups that are dedicated to researching future opportunities, searching out locations for potential new attractions and negotiating with local landlords, developers and civic bodies.

MMM create compelling propositions and develop new concepts into commercially viable attractions. Our in-house production capabilities include bespoke content such as wax figures, attraction theming and LEGO model production, thereby creating efficiencies and reducing costs. Other Merlin teams have in-house ethical animal welfare expertise.

We manage any scale of construction project ranging from individual rides and attractions in our existing estate, new Midway attractions across the globe, through to the development of full-scale LEGOLAND resorts, the latter led by a senior management team who pursue potential new locations through a range of ownership models.

We can also leverage Merlin's extensive experience to provide an opportunity for investors to develop location based entertainment offerings, and to take on the operation of other parties' attractions under management contracts.

Efficient and synergistic operating model

We continue to focus on operational excellence, delivering memorable experiences for our guests, simplifying our operations and maximising the synergies afforded by our scale.

We have re-engineered how we operate to be more flexible as guest volumes change, applying dynamic pricing and promotional strategies. These manage visitor numbers through periods of high and low attendance volume, extend the length of stay, encourage repeat visits, and enhance overall revenue.

Maintaining tight control over attraction capacities during peak season and lowering peak day volumes delivers an improvement in the guest experience, increases rides per guest, reduces queuing, and improves average guest spends. Where we can leverage the expertise of third parties, we may partner with specialist outsourcing providers in areas such as our food and beverage offerings. In 2022 we have entered into such a partnership with Aramark for our UK theme parks, LEGOLAND California Resort and LEGOLAND Florida Resort.

We have also been transforming our support functions through shared service centre initiatives such as our recent finance transformation project, which now supports over two thirds of the Group.

Our scale also allows us to benefit from procurement cost efficiencies within clusters, countries, or regions, while in certain territories our Merlin Annual Pass and Merlin Monthly Membership enable our customers to visit all attractions within a particular country.

Long term attractive market environment

We continue to believe that Merlin operates in an attractive marketplace, benefiting from underlying growth characteristics and favourable dynamics, such as long term increases in leisure spending, including in emerging economies.

This is underpinned by our long term belief in international tourism, where there has been a strong recovery during 2022. We continue to see long term growth opportunities from tourism more widely, which benefits our resorts and drives visitation to our gateway city locations, where we operate our Midway attraction clusters.

We also expect to see continuing growth in domestic short break holidays. Merlin is increasingly well-positioned to meet this demand through our offering of themed, on-site accommodation and 'second gate' attractions that extend the duration of our visitors' stay. Accommodation offerings also enable greater cross-selling opportunities, drive improved levels of guest satisfaction, and lead to increases in pre-bookings, revenue visibility and positive working capital. Our domestically-focused resort positioning also provides a partial hedge against the impact of macro-economic or geopolitical volatility on international tourism.

(1) *Source - Kidz Global Brand Trends Report Spring 2022*

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

OUR CULTURE

Merlin's business model is underpinned by our entrepreneurial culture, an effective corporate governance framework, and a strong sense of how important it is to operate as a responsible business. 'The Merlin Way' sets out these values which are embedded throughout the business. We are proud of the inclusive environment we create for all the people who work at Merlin and focus significant effort in driving a culture of accountability and fairness.

Corporate governance

Merlin believes that effective corporate governance is the foundation of a well-run company and maintains high standards of governance across the Group. We recognise that a strong governance framework is fundamental to the execution of Merlin's strategic objectives, underpinned by a clear purpose and well understood culture and values.

More details are set out on pages 31 to 34.

Health, safety and security

Merlin is dedicated to delivering best in class health, safety and security (HSS) standards that are clearly understood and implemented across the Group. This involves adopting industry leading standards, reinforcing a rigorous safety culture and demanding complete commitment from our teams.

As business and consumer activity increased in 2022, Merlin's COVID-19 countermeasures remained dynamic and able to adapt to differing states of government restrictions, dependent on the specific country or territory. We remained focused on ensuring that Merlin's core HSS programmes and standards continued to be suitable and applied at those attractions that were emerging from multiple years of COVID-19 related lockdowns and restrictions.

The overall strength of our HSS performance is evidenced by the continued low levels of Medical Treatment Case rates (relating to guests and employees).

More details are set out on pages 25 to 26.

Business responsibility

Merlin has an ethical operating culture. Our attractions operate responsibly at the heart of their communities, maintaining high animal welfare standards and contributing to local economies.

We recognise that our operations impact upon the environment and are committed to managing our environmental impacts. In 2023 we will adopt the reporting requirements set out by the Task Force on Climate-Related Financial Disclosures (TCFD).

We partner with two charities. Merlin's Magic Wand provides memorable experiences to children faced with the challenges of serious illness, disability, and adversity. The SEA LIFE TRUST works to protect marine life and habitats across the world, also operating two marine sanctuaries.

More details are set out on page 29.

OUR GUESTS AND OUR PEOPLE

Guests

In 2022 we maintained our focus on providing a high quality of experience for our guests, and continued to monitor their views, engaging with them directly and on social media to measure the quality of their experience and drive improvements.

We have again reported strong customer satisfaction measures, which underpins our confidence in continued demand for high quality, branded location based entertainment. This is despite the impact of continuing employment cost pressures from tight labour markets and the consequential impact on the capacity of our attractions and the product offering. These results are as follows:

- Touchscreens at our attractions measure our guest satisfaction scores. We are proud that we maintained the same guest satisfaction score of 94% as in 2021, well ahead of our 90% benchmark. Our 'Top Box' measure that indicates when guests are 'very satisfied' increased compared to 2021.
- 'Net Promoter' scores measure whether a guest would recommend our attractions. This metric also increased in the year.

The Merlin Board and senior management undertake regular site visits to ensure that the guest experience is in line with guest expectations, and we also use the 'Yext' platform to monitor online guest reviews and help inform how we improve our attractions. Customer insight has also helped us as we make significant progress on guest accessibility.

Employees

Our people are what makes Merlin so special, and we continue to be proud of our global employees as they deliver magical and memorable experiences to millions of guests.

In 2022 we again ran our 'The Wizard Wants to Know' employee engagement survey. More than 18,000 people completed the survey, a response rate of 84%. Our overall engagement score was 68%, an encouraging increase of 5% on the previous year.

In 2022 we continued our focus on gender equality, ethnic diversity, and our inclusion strategy 'Everyone Matters at Merlin'. Our four regional task forces delivered regional plans to support our global diversity and inclusion goals as well as driving meaningful change to our teams and wider communities at site level. We are proud that our commitment to equality is demonstrated throughout our culture and are focused on creating the greatest place to work and a true sense of belonging. We are also committed to ensuring our Merlin Board and senior management teams continue to promote diversity and inclusivity.

See more on page 24.

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

OUR INVESTORS

Since November 2019 the Group has been controlled by a consortium of three principal long term investors with the capability to support Merlin's growth ambitions. The consortium work together in accordance with the formal Shareholder Investment Agreement set out at the time of the transaction. The Shareholder Investment Agreement sets out the Board's terms of reference and 'matters reserved', being certain limited matters, which require the consent of the major shareholders. Their investment is held in the Company.

Details of the investor consortium are set out below and details of their representation on the Board of Directors are set out on pages 33 to 34.

- KIRKBI – KIRKBI A/S is the Kirk Kristiansen family's private holding and investment company founded to build a sustainable future for the family ownership of the LEGO brand through generations. KIRKBI's work is focused on three fundamental tasks all contributing to enabling the Kirk Kristiansen family to succeed with the mission to inspire and develop the builders of tomorrow. KIRKBI works to protect, develop and leverage the LEGO brand across all the LEGO branded entities. They are committed to a long term and responsible investment strategy to ensure a sound financial foundation for the owner family's activities as well as contributing to sustainable development in the world. They are dedicated to support the family members as they prepare for future generations to continue the active and engaged ownership as well as supporting their private activities, companies and philanthropic work. KIRKBI's investment activities include investments in energy transition, circular plastic and significant long term investments in listed and privately held companies as well as real estate investments in Denmark, Switzerland, Germany and the UK. See **www.KIRKBI.com** for more information.
- Blackstone – one of the world's leading investment firms, that seeks to create positive economic impact and long term value for investors, the companies in which it invests, and the communities in which it works. Blackstone's asset management businesses had $975 billion in assets under management as at 31 December 2022 across a range of investment vehicles. Blackstone has long-standing experience investing in location based entertainment businesses, like Merlin, as well as the wider hospitality, travel and leisure sector. Blackstone's investment in Merlin has been made through its long-dated Core Private Equity Strategy, which invests in high-quality businesses for typically ten to 15 or more years.
- Canada Pension Plan Investment Board (CPP Investments) – a professional investment management organisation that manages the CPP Fund in the best interest of the more than 20 million contributors and beneficiaries of the Canada Pension Plan. CPP Investments is governed and managed independently of the Canada Pension Plan and at arm's length from governments. As at 31 December 2022, the Fund totalled C$536 billion, including approximately C$25 billion of assets invested in the United Kingdom, and net investments of C$146 billion in private equity. CPP Investments' private equity team is a committed long term investor with permanent capital, a focus on sizeable investments alongside aligned partners, the ability to invest across the full spectrum of ownership, and the ability to shape the duration and underwriting approach of investments to support longer-date returns on investment initiatives.

GROWTH DRIVERS

HOW WE DRIVE GROWTH

EXISTING ESTATE GROWTH, DRIVEN BY ACCESS TO POWERFUL INTELLECTUAL PROPERTY

We make regular, targeted investments to update and refresh the existing estate, to grow demand and, where applicable, to increase capacity at our attractions.

Each attraction has a planned investment cycle with varying capex levels over several years. These help to smooth overall expenditure across the portfolio and ensure investments are funded from operating free cash flow. Our theme parks require relatively higher capital expenditure due to the scale and nature of new rides and attractions, and the drive to attract repeat visitors. Midway attractions require relatively lower capital expenditure due to the smaller scale of the attractions.

We are increasingly able to develop these investments in partnership with leading intellectual property owners to provide an immersive, themed experience for our visitors.

In April 2022 we opened 'JUMANJI - The Adventure' at Gardaland Resort in Italy, the first ride to be opened as part of our multi-territory exclusivity agreement with Sony Pictures Entertainment, to develop and operate attractions, rides, lands, retail outlets and themed hotel rooms based on the studio's 'Jumanji' film franchise. Chessington World of Adventures Resort is also set to open a themed land 'World of Jumanji' in spring 2023.

At LEGOLAND California Resort, in May 2022 we opened 'LEGO Ferrari Build and Race'. Featuring a life-size LEGO Ferrari F40 model, this interactive attraction puts visitors 'in the driver's seat' as they use their creativity and imagination to build, test and race LEGO Ferraris.

NEW LEGOLAND RESORT DEVELOPMENTS

We have a successful track record of developing and operating LEGOLAND parks globally, where we have two core operating and investment models.

Firstly, in more proven locations, we follow an 'owned and operated' model, securing the land and developing the infrastructure ourselves. The original parks that Merlin acquired in 2005 were all developed in this way, as were LEGOLAND Florida which we opened in 2011, and LEGOLAND New York, that opened in 2021. LEGOLAND Korea, which opened in May 2022, has also been developed under this model (with support from the local province).

Secondly, we work with a local partner, marrying their capabilities and expertise with our strengths and experience to both parties' mutual benefit. Typically, the funding for the capital investment is provided by a third party and we operate the park under a management contract. We currently operate LEGOLAND Malaysia and LEGOLAND Dubai under this model.

We are actively working with a number of partners to develop new LEGOLAND parks, with three previously announced resorts planned to open in China in the next five years. These projects are as follows;

- LEGOLAND Shanghai Resort in the Jinshan District of Shanghai – being developed via a joint venture company, under a co-operation agreement with the Shanghai Jinshan District Government, CMC Inc. and KIRKBI.
- LEGOLAND Shenzen Resort, being developed with Hazens Holdings.
- LEGOLAND Sichuan Resort, being developed with Global Zhongjun Cultural Tourism Development Co. Ltd.

We may also pursue hybrid opportunities which could involve Merlin investing an element of equity in the project.

EVOLUTION OF THEME PARKS INTO DESTINATION RESORTS

We continue to transform our theme parks into destination resorts, extending visitor market reach and enhancing revenues from a number of sales channels. These include primary admissions (including multi-day tickets and second gate admission fees), and commercial spend such as the sale of food and beverages, retail merchandise, and souvenirs such as photos.

The themed accommodation offerings in our hotels and holiday villages continue to be very successful. They provide an integral contribution to the overall visitor experience, helping to drive pre-bookings, increase multi-day ticket sales and improve guest satisfaction.

In early 2023 we announced the UK's first LEGO themed holiday village at LEGOLAND Windsor Resort. Set to open in spring 2024 the LEGOLAND Woodland Village will feature 150 lodges, an on-site restaurant, and a family entertainment hub.

There are also ongoing opportunities to add new visitor attractions at our theme parks, for which additional admission fees are charged. These attractions, such as waterparks, are referred to as 'second gate' attractions.

This is an increasing area of focus across the two theme park Operating Groups. In 2021 we opened the LEGOLAND Water Park at the Gardaland Resort (the first LEGO themed water park in Europe), and in early 2022 we launched our first standalone Peppa Pig theme park, adjacent to LEGOLAND Florida Resort.

GROWTH DRIVERS

HOW WE DRIVE GROWTH

CLUSTERING OF MIDWAY ATTRACTIONS

Our growth strategy includes the roll out of our chainable Midway attractions in new locations and countries, often creating 'clusters', where we develop multiple attractions in one location.

During 2022 we opened the following two new Midway attractions;

- *Peppa Pig World of Play Leidschendam* - opened in February in the Netherlands.
- *LEGO Discovery Centre Brussels* - the first 'next generation' LEGO Discovery Centre opened in Belgium in late June. In 2023 we will open a second attraction with this new format at Springfield Town Center in Washington D.C.

From March 2022 we took over a management contract for the 'THIS IS HOLLAND' flying theatre experience, expanding our Amsterdam cluster. We have also been awarded the management contract for the Sandcastle Waterpark in Blackpool, the UK's largest indoor waterpark.

We continue to see opportunities to open new Midway attractions, especially using intellectual property as a central element of the attraction.

ACQUISITIONS AND NEW FORMAT OPPORTUNITIES

We continue to consider acquisitions of, or investments in, visitor attractions, sites and brands that could strategically enhance our portfolio and enable us to grow into new geographies. We believe that there remain further attractive acquisition opportunities that would meet our investment criteria in the future.

In April 2022 we completed the acquisition of the COEX Aquarium in Seoul, South Korea, adding a further significant attraction to the SEA LIFE portfolio, and consistent with our wider strategy to build clusters of Midway indoor attractions in key gateway cities.

Later in the year we completed on the transaction to take over the operations of Cadbury World in the UK, deepening our relationship with the UK's largest chocolate brand.

We also develop new formats of attraction, where currently our focus is on Peppa Pig branded attractions aimed at pre-school children. We have opened five pilot indoor Peppa Pig World of Play attractions, and one standalone Peppa Pig theme park that opened next to LEGOLAND Florida Resort in early 2022.

In early 2023 we announced we are developing our second Peppa Pig theme park in the Dallas-Fort Worth area in north Texas, scheduled for opening in 2024.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

	Total 53 weeks ended 31 December 2022 £m	Total 52 weeks ended 24 December 2022 £m	Total 52 weeks ended 25 December 2021 £m	Underlying 52 weeks ended 24 December 2022 £m	Underlying 52 weeks ended 25 December 2021 £m	Underlying growth (actual currency)
Revenue	**2,006**	**1,960**	**1,261**	**1,960**	**1,261**	**55.4%**
EBITDA excluding share-based payments	**692**	**662**	**376**	**662**	**379**	**74.3%**
EBITDA	**671**	**641**	**376**	**641**	**379**	**68.9%**
Depreciation, amortisation and impairment	(285)	(285)	(246)	(256)	(247)	(3.8)%
Operating profit	386	356	130	385	132	190.0%
Net finance costs	(250)	(250)	(224)	(250)	(224)	
Profit/(loss) before tax	136	106	(94)	135	(92)	
Taxation	(47)	(38)	(46)	(42)	(46)	
Profit/(loss) for the year	**89**	**68**	**(140)**	**93**	**(138)**	

See 'How we report our results' on page 18 for details of how we report our financial performance.

Introduction

In 2022 robust consumer demand, elevated revenues per visitor, and high average room rates in our accommodation portfolio all supported strong trading in North America, the UK, and in parts of Continental Europe. Our domestically-focused brands have traded strongly and international tourism in some locations also continued to recover.

COVID-19 related restrictions were much less significant than in 2021, with government restrictions generally easing during Q1. From the end of March substantially all of the portfolio remained open. There were variations by geography, most notably in China where restrictions caused significant disruption and lower levels of outbound Chinese tourism continued to have a wider impact on the rest of the Asia Pacific estate.

The recovery in visitation, combined with our targeted approach to revenue management, drove revenue growth compared to pre-pandemic levels. Moreover, tight cost control, ongoing efficiency initiatives, and government support received in the year have partly offset continued cost pressures.

Like other businesses in the leisure and hospitality sector, we continue to see employment cost pressures in a number of locations. Our operational focus has been on limiting the impact of this on the capacity of our attractions and the product offering and ensuring we maintain the quality of the guest experience. While utilities are not a significant proportion of Merlin's cost base, these are also subject to movements in wholesale energy prices.

Our latest major investment, LEGOLAND Korea, opened in May 2022 and initial trading has been encouraging, with a focus on building the resort positioning of the attraction.

We have shown positive operating cashflows, which we continue to monitor closely. The Group's liquidity position is strong, with leverage back to 2019 levels, the year prior to the COVID-19 pandemic.

The Group complied with all its covenants in the year. Under the terms of the covenant waiver we agreed in June 2021, the Group's financial leverage covenant has been waived until Q3 2023. As part of this agreement the Group is required to maintain a minimum liquidity of £75 million (to include amounts undrawn from the revolving credit facility, and cash and cash equivalents).

Presentation of results

Motion JVco Limited (the Company) has been the parent company of the Merlin Entertainments Limited group of companies (Merlin, Merlin Group), since acquiring the Merlin Group in November 2019.

Underlying results and exceptional items

To present the underlying performance of the business more accurately, the impacts of certain activities are reported within exceptional items. More details on exceptional items can be found on page 13. Unless otherwise stated, the commentary below refers to underlying results, that is, before the impact of exceptional items.

The impact of the COVID-19 pandemic on our trading has all been reflected within our underlying results. This includes the impact of government support measures in certain territories.

Alternative performance measures

On page 18 we set out in more detail explanations of how we adopt certain alternative performance measures to help present our trading performance in the most helpful and meaningful way.

This year's consolidated Group financial statements are prepared on a '53 week' basis for the period ending 31 December 2022. In most years we report on a '52 week' period. In certain years an additional week is included to ensure that the statutory financial year end date stays in line with the end of December. To aid comparability, unless where stated, the trading commentary which follows is on a 52 week basis.

All balance sheet, and therefore cash flow information, is reported as at the statutory year end date and therefore represents a 53 week period in 2022 *(2021: 52 weeks)*.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

Performance summary

Reported revenue for the 53 weeks to 31 December 2022 increased to £2,006 million. On a comparable 52 week basis, total revenue increased by £699 million from £1,261 million to £1,960 million.

COVID-19 related restrictions were much less significant than in 2021, with government restrictions generally easing during Q1. All of our seasonal attractions in the UK, Continental Europe and North America opened as planned, and at the end of March approximately 90% of our estate was open. Since then, substantially all of the portfolio remained open. There were variations by geography, most notably in China where attractions were closed for significant parts of the year.

Many of the trading patterns seen in 2021 continued through 2022. Robust consumer demand supported strong trading in North America, the UK, and in parts of Continental Europe, most notably at our domestically-focused brands. International tourism in some locations continued to recover, albeit international travel remained suppressed more widely. Restrictions in China caused significant disruption and lower levels of outbound Chinese tourism continued to have a wider impact on the rest of the Asia Pacific estate.

In 2021 and 2022 we have opened two new LEGOLAND resorts. LEGOLAND New York opened in summer 2021 after a series of COVID-related delays and into a challenging labour market. Trading since opening has been positive, with strong customer spends and positive satisfaction scores, despite the staffing challenges. LEGOLAND Korea opened in May 2022 as the country was exiting from its most severe COVID-19 wave with the LEGOLAND Korea hotel then opening as planned in July. Initial trading has been encouraging and supports what will be a continued focus on the resort positioning of the attraction.

Since the global COVID-19 pandemic began, we have taken steps to refine our operating model, creating a lower and more flexible cost base that is better able to react to any material changes in demand. As a result we have been able to manage our costs actively as trading has improved. Our UK theme parks have successfully transitioned to having food and beverage services provided by our partner Aramark. For those attractions Merlin therefore reports revenues on a 'net' basis under the terms of the contract, and no longer records the value of revenue received from customers, as is the case across much of the rest of the estate. The resulting reduction in reported revenue in 2022 is circa £12 million, with a negligible impact on EBITDA.

Staff expenses increased from £373 million to £531 million, due primarily to significantly higher trading activity compared to the comparative period, combined with lower levels of furlough and other support payments (2022: £2 million, 2021: £19 million, see note 2.1 to the financial statements). Like other businesses in the leisure and hospitality sector, we continue to see employment cost pressures in several locations, with increases in minimum wage levels and tight labour markets, albeit the absolute impact on costs in the short term has been limited due to higher than normal vacancy levels. Our operational focus has been on limiting the impact of this on the capacity of our attractions and the product offering, to ensure we maintain the quality of the guest experience.

Staff expenses include a £21 million *(2021: less than £1 million)* share-based payment accounting charge in respect of management incentive plans implemented in late 2021. These plans are aligned to the strategic objectives of our shareholders and include outstanding contribution and long service awards available to all employees. Further detail is provided in note 5.6 to the financial statements.

Marketing costs increased from £30 million to £74 million as trading levels increased, albeit the level of market demand has allowed us to operate in the short term with marketing spends lower than normal.

Other operating expenses increased from £253 million to £363 million. This reflects increased repairs and maintenance costs compared to 2021 when more attractions were closed, and higher property costs which in 2021 benefited from lower UK business rates.

Broader cost inflation continues to be a challenge. While utilities are not a significant proportion of Merlin's cost base, these have been subject to increases in wholesale energy prices, most notably across the UK and Continental Europe. The overall impact of energy prices has been minimal in 2022 due to limited short term exposure to spot prices. However, contracts renewed in 2022 have resulted in significant price increases which are only partly offset by government support packages. We are acting to minimise energy consumption and limit the financial impact, although it is unlikely that these initiatives will have a significant benefit in the short term.

Other than in relation to energy supply, our trading operations are not directly affected by the war in Ukraine. Merlin has no attractions in the region, no material Russian or Ukrainian suppliers or landlords, and very few staff that are directly affected. Outbound Russian and Ukrainian international tourism at our attractions is also negligible. However, this and other geopolitical and economic factors, and in particular fuel and energy costs, could lead to reduced levels of international tourism, lower guests' disposable income, and put further inflationary pressure on operating costs.

We continued to benefit from governmental support payments totalling £33 million *(2021: £19 million)* for operating costs in certain jurisdictions (see note 2.1 to the financial statements). These were primarily in respect of COVID-19, including where claims were finally settled for previous years. Within the UK, 2021 trading benefited from a lower 5% VAT rate through to the start of October, which then moved to 12.5%. There was a minor benefit at the start of 2022 before the rate returned to 20% in April.

Operating Group margins are also affected by the scale and mix of revenue in the existing estate and the dilutive effect of new attractions and accommodation launched in the year, as a result of the timing and costs associated with launch, and the pace with which attractions reach maturity.

Net central costs of £65 million were £22 million higher than in 2021. This primarily reflects a full year of share-based payment charges in respect of the incentive plans created at the end of 2021, together with lower revenues from the phasing of central development projects. Within our central functions, as in the Operating Groups, we maintained our focus on managing the level of underlying ongoing expenditure.

The trading recovery and our focus on cost management together drove underlying EBITDA of £641 million on a 52 week basis and £671 million for the 53 weeks to 31 December *(2021: £379 million)*.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings.

In the second half of the year, Sterling experienced a material weakening, particularly against the US Dollar. Given a significant proportion of our trading is derived from the USA, the reported results showed a significant benefit arising from translation to Sterling. Retranslating 2022 performance at 2021 rates would result in a £59 million decrease in revenue and a £23 million decrease in underlying EBITDA. We set this out in more detail by major currency on page 105.

Operating profit

Underlying depreciation and amortisation charges increased by £9 million from £247 million to £256 million for the year.

Depreciation charges have increased in respect of LEGOLAND New York, which opened part way through 2021, LEGOLAND Korea, which opened in May, and other new openings.

These are offset by lower charges for Resort Theme Parks. At the start of the year the Group agreed terms with the landlord for Heide Park Resort, following similar transactions that completed at the end of 2021 for the three Resort Theme Parks in the UK. These agreements have secured our tenure at these resorts until 2077, increasing lease liabilities and the associated right-of-use assets. Compared to previous periods depreciation charges have reduced, reflecting the right-of-use assets now being amortised over that longer period.

Exceptional items

	2022 53 weeks £m	2021 52 weeks £m
Underlying profit/(loss) for the year	**114**	**(138)**
Exceptional items:		
Within EBITDA	-	(3)
Within depreciation, amortisation and impairment	(29)	1
Income tax credit on exceptional items above	4	-
Profit/(loss) for the year	**89**	**(140)**

Exceptional items reported within EBITDA totalled £nil before tax credits *(2021: £3 million)*.

Exceptional items reported within depreciation, amortisation and impairment totalled £29 million *(2021: credit of £1 million before tax credits)*. These were £22 million for two Midway attractions, following reviews of market and economic conditions at those specific locations, and £7 million in respect of the Group's investment in the company operating LEGOLAND Dubai Hotel.

Further details can be found in note 2.2 of the financial statements.

Midway Attractions

	2022 53 weeks	2022 52 weeks	2021 52 weeks	Growth (actual currency)	Like for like growth
Visitors (m)	28.7	27.9	16.8	66.1%	
Revenue (£m)	631	610	344	76.9%	70.8%
Underlying EBITDA (£m)	249	234	102	129.5%	
Underlying EBITDA margin	*39.5%*	*38.4%*	*29.6%*		
Operating profit/ (loss) (£m)	130	115	(10)	n/m	

Merlin's Midway attractions are predominantly indoor attractions that operate year round, with trading volumes generally higher around holiday periods.

Our Midway North America attractions traded strongly, where we operate largely domestically-focused brands. Total revenues were ahead of pre-pandemic levels, driven by elevated revenues per guest and recent attraction openings. On a like for like basis, revenues for the year to date were broadly in line with pre-pandemic levels. The North American estate has generally been open in both 2022 and the 2021 comparative period.

Within the Midway UK division, robust revenues per guest and domestic demand drove positive trading. This was supported by a steady recovery in inbound international tourism, primarily to our attractions in London.

Our Continental Europe attractions saw similar trends to the UK, albeit 2022 trading was affected for a longer period by restrictions in certain locations. In 2021 trading restrictions impacted the early part of the year and lifted later than in the UK.

The Asia Pacific region was most negatively impacted by COVID-19 and evolving governmental responses. Rolling restrictions and lockdowns in China caused considerable disruption, albeit they started to ease later in the year. Significantly lower levels of outbound Chinese tourism had a wider impact on the rest of the Midway Asia Pacific estate. There was a continued recovery in Australia and New Zealand, driven by domestic visitation and strong revenues per guest.

EBITDA margins have increased to 38.4% (52 weeks) compared to 29.6% in 2021. This reflects the recovery in visitation levels, the strong revenues per guest as noted above, and short term savings in marketing expenditure. We have also benefited from government support payments for operating costs, including where claims have been settled in respect of previous years. We do not anticipate such support to continue.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

LEGOLAND Parks

	2022 53 weeks	2022 52 weeks	2021 52 weeks	Growth (actual currency)	Like for like growth
Visitors (m)	16.2	15.8	9.4	67.2%	
Revenue (£m)	924	903	537	68.3%	48.3%
Underlying EBITDA (£m)	330	317	172	83.6%	
Underlying EBITDA margin	*35.7%*	*35.0%*	*32.1%*		
Operating profit (£m)	247	234	106	119.7%	

The LEGOLAND parks in California and Florida in the US, and LEGOLAND Japan, are normally open all year round. The three European parks in the UK, Denmark and Germany typically open fully in the spring and trade through to the autumn, with trading over the winter period more focused on accommodation offerings and events. All parks see trading volumes higher around holiday periods, particularly the main summer trading season. The recently opened resorts at LEGOLAND New York and LEGOLAND Korea will operate seasonally, closing over parts of the winter period.

In the US, our LEGOLAND resorts in California and Florida traded strongly, with elevated revenues per guest and higher accommodation room rates. The first standalone Peppa Pig theme park opened in February as a 'second gate' attraction adjacent to LEGOLAND Florida Resort. This new opening traded ahead of expectations, helping drive total visitation to the resort ahead of the equivalent period in 2019. LEGOLAND New York, which opened in 2021, was closed over the winter season and opened on schedule in the spring.

Tight labour markets in the US have resulted in some staff shortages and pressure on wages. Despite these challenges, trading was positive, with strong customer spends and positive satisfaction scores.

Our European resorts all showed strong trading, with revenue management initiatives supporting revenues per guest, leading to like for like revenues increasing against 2019 trading. All resorts showed accommodation revenues ahead of expectations, with demand for short breaks driving strong average room rates. The two resorts located in Germany and Denmark both benefited from the recovery in international tourist visitation.

Within the Asia Pacific region, LEGOLAND Japan built a more sustained recovery through 2022, with positive momentum over peak season, although trading remained below pre-pandemic levels. LEGOLAND Korea opened in May 2022 as the country was exiting from its most severe COVID-19 wave. The LEGOLAND Korea hotel opened as planned on 1 July. Initial trading has been encouraging with a focus on building the resort positioning of the attraction.

Merlin has two LEGOLAND management contract locations. LEGOLAND Dubai park was open throughout the year but has seen a slow recovery, with visitor volumes significantly below pre-pandemic levels. A themed hotel at the resort opened in January, developed in partnership with the park's owners. LEGOLAND Malaysia was open through the year.

EBITDA margins have increased to 35.0% (52 weeks) compared to 32.1% in 2021. This reflects the strong revenues per guest as noted above, higher than average staff vacancy levels, and short term savings in marketing expenditure, offset by ongoing cost pressures. We have also benefited from government support payments for operating costs, including where claims have been settled in respect of previous years. We do not anticipate such support to continue.

Resort Theme Parks

	2022 53 weeks	2022 52 weeks	2021 52 weeks	Growth (actual currency)	Like for like growth
Visitors (m)	11.5	11.4	9.0	26.5%	
Revenue (£m)	450	446	374	19.4%	19.6%
Underlying EBITDA (£m)	157	155	148	4.9%	
Underlying EBITDA margin	*35.0%*	*34.8%*	*39.6%*		
Operating profit (£m)	109	107	87	23.2%	

The main trading period for the Resort Theme Parks attractions, all of which are in Europe, normally starts during the early spring, with trading over the winter period more focused on accommodation offerings and events. All parks see trading volumes higher around holiday periods, particularly the main summer trading season.

All resorts opened on schedule in the spring and trading was robust across the Operating Group, which has now fully recovered and traded ahead of pre-pandemic levels.

The overall performance was driven by the Operating Group's two largest resorts, Alton Towers Resort in the UK and Gardaland Resort in Italy.

Alton Towers Resort reported record revenue, driven by strong revenues per guest, reflecting customer demand, our dynamic approach to revenue and capacity management, and a strong product offering that included a successful events programme. Demand for short breaks supported strong accommodation room rates.

Gardaland Resort benefited from the combination of the recovery of international tourist visitation, a robust domestic market, the impact of the new 'JUMANJI - The Adventure' ride, and a full year of trading from the LEGOLAND Water Park that opened at the Resort in 2021.

EBITDA margins have fallen to 34.8% (52 weeks) compared to 39.6% in 2021. This reflects ongoing cost pressures and inflationary impacts on areas such as repairs and maintenance. Furthermore, within the UK resorts, 2021 trading benefited from a lower 5% VAT rate across the peak trading season and up to the start of October, when it then moved to 12.5%. There was therefore a less significant benefit in 2022 as the rate returned to 20% in April.

These impacts are offset by the strong revenues per guest as noted above, higher than average staff vacancy levels, short term savings in marketing expenditure, and government support payments for operating costs.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

Finance costs

Net finance costs of £250 million were incurred in 2022 *(2021: £224 million)*.

The increase reflects changes in interest rates on the Group's interest-bearing loans and borrowings, increased lease interest charges following the transactions where we extended the tenure at our leasehold Resort Theme Park locations, and lower levels of borrowing costs being capitalised following the completion of LEGOLAND New York and LEGOLAND Korea. These are offset by foreign exchange gains on non Sterling internal loan structures.

As set out in more detail below, in 2022 the Group entered into USD 600 million of interest rate swaps, hedging USD LIBOR floating rate debt to 2026, and EUR 700 million of interest rate caps maturing in 2026.

Profit before tax

As a result of the factors noted above, reported total profit before tax for the 53 weeks to 31 December 2022 was £136 million *(2021: loss of £94 million)*.

Taxation

The total tax expense for the year was £47 million *(2021: £46 million)* which represents a reported effective tax rate (ETR) of 34.6%. The underlying ETR, excluding exceptional items, was 30.8%

The difference between this rate and the UK standard tax rate of 19.0% is primarily attributable to the effect of tax rates in foreign jurisdictions and certain non-deductible expenditure, offset by movements in uncertain tax provisions. During the course of the year, the conclusion of tax authority enquiries has enabled certain provisions to be released or reassessed.

In 2021 the effective tax rate was (48.9)%. The difference between this rate and the UK standard tax rate of 19.0% was primarily attributable to the revaluation of deferred tax liabilities, due to the change in the UK tax rate from 19% to 25% from 1 April 2023, and the non-recognition of tax losses.

The impact of the European Commission's finding relating to the UK's Controlled Foreign Company rules is further detailed in note 2.4. Charging notices from HMRC were received for £28 million in 2021, which the Group was legally obliged to pay. However, it is expected that this £28 million will ultimately be recovered and it is therefore included as a non-current receivable in the consolidated financial statements.

Significant factors impacting the Group's future ETR include the Group's geographic mix of profits and changes to local or international tax laws. In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge.

The Group has a tax policy that sets out our approach in the areas of governance, risk management, tax planning and how we deal with tax authorities. This is available on the Merlin website.

Further detail on taxation is provided in note 2.4 to the financial statements.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

Cash flow

	2022 53 weeks £m	2021 52 weeks £m
Underlying EBITDA	**671**	**379**
Exceptional items	-	(3)
Working capital and other movements	(29)	78
Tax (paid)/received	(20)	5
Net cash inflow from operating activities	**622**	**459**
Capital expenditure – existing estate	(140)	(72)
Capital expenditure – new business development (NBD)	(55)	(219)
Other investing activities	(31)	(7)
Interest paid, net of interest received	(275)	(231)
Other	2	-
Net cash inflow/(outflow) before changes in borrowings	**123**	**(70)**
Net changes in borrowings, including shareholder loans	(16)	(29)
Net capital repayments of leases	(33)	(34)
Net cash inflow/(outflow) for the year	**74**	**(133)**

Operating cash flow

Net cash flow from operating activities for the year was an inflow of £622 million *(2021: £459 million)*, resulting from total EBITDA of £671 million, a working capital outflow of £29 million and net tax payments of £20 million.

Working capital movements in the year of £(29) million related to a number of factors. These included increased trade accounts receivable and higher inventory levels as trading recovered, combined with lower levels of accruals. This was offset by trading related increases in deferred income, together with the impact of share-based payments and certain provisions.

In 2021 positive working capital movements of £78 million reflected the recovery of trading activity against the much lower levels at the end of 2020, the shift to online bookings, and a positive contribution from attractions that opened in 2021 and where there was minimal working capital in prior periods.

In Q1 2021 the Group made payments to HMRC of £28 million in respect of the European Commission's review as to whether certain elements of the UK's Controlled Foreign Company rules partially represent State Aid. The Group expects that this will ultimately be recovered (see note 2.4 for more information). In Q3 2021 the Group received a first payment of £26 million under the CARES Act in the US, in respect of carry back claims against taxes paid in previous years.

Operating free cash flow (being underlying EBITDA less existing estate capital expenditure) was an inflow of £531 million in 2022 *(2021: inflow of £307 million)*.

Investing activities

A total of £195 million was incurred on capital expenditure in 2022 *(2021: £291 million)*.

Existing estate capital expenditure totalled £140 million *(2021: £72 million)*. In 2021 there were significantly lower levels of activity than normal as a result of the COVID-19 pandemic. While activity levels have increased, they have remained suppressed to some extent through 2022.

New business development (NBD) investment totalled £55 million. The most significant element of this was £33 million that related to the development of LEGOLAND parks, primarily LEGOLAND Korea, which opened in the year. The 2021 comparative amount was £177 million which also included spend on LEGOLAND New York. A further £6 million related to new accommodation development across our theme park estate, £7 million was in respect of new Midway attractions and £9 million in respect of other projects.

Other investing activities relates to the acquisition of the COEX Aquarium in April 2022. In 2021 we invested £7 million in respect of the LEGOLAND Shanghai Resort.

Financing activities – interest payments

Interest payments relate to the Group's external debt and its lease arrangements. They therefore reflect both the underlying level of those interest charges, as well as the timing of when payments are made. Debt interest payments are made quarterly and six monthly depending on the nature of the debt. In 2022 an additional quarterly payment was included as a result of the impact of the reporting period being on a 53 week basis.

The timing of lease payments varies depending on local practice. The Group's largest lease commitments are in the UK and are paid quarterly.

Financing activities – changes in borrowings

2022

The net change in borrowings totalled an outflow of £16 million primarily in respect of mandatory quarterly repayments under the terms of the Group's banking facilities.

Capital repayments of leases are stated net of £6 million received from the landlord as part of the agreement to secure tenure at the Heide Park Resort *(2021: £25 million in respect of the three UK Resort Theme Park locations - see note 5.4)*. The timing of payments reflects the factors noted above.

2021

The net change in borrowings totalled an outflow of £29 million, mainly from the repayment of £15 million in respect of funding received in 2020 from KIRKBI for the deferral of certain trading payments and a further £10 million under the terms of the Group's banking facilities.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

Net assets

	2022 £m	2021 £m
Property, plant and equipment	2,664	2,507
Right-of-use assets	1,633	1,512
Brands	1,319	1,311
Goodwill and other intangible assets	2,366	2,200
Investments	11	24
Working capital	(265)	(328)
Net external debt	(3,541)	(3,369)
Lease liabilities	(1,612)	(1,458)
Net derivative financial assets/(liabilities)	37	(2)
Corporate and deferred tax	(414)	(365)
Employee benefits	2	(7)
Other assets and liabilities	(200)	(139)
Net assets	**2,000**	**1,886**

The reported values of property, plant and equipment; goodwill and other intangible assets; and net external debt, reflect the impact of foreign exchange movements, mainly in respect of the weakening of Sterling compared to the US Dollar.

Property, plant, and equipment increased by £157 million, primarily reflecting capital additions and the retranslation of assets at different foreign exchange rates, offset by depreciation charges.

The net derivatives value of £37 million relates to mark to market valuations at the reporting date. These are primarily in respect of the interest rate swap and cap transactions entered into during the period to hedge interest rate exposures.

The increase in lease liabilities and related right-of-use assets reflects the agreement that secured tenure until 2077 at Heide Park Resort, which completed early in the reporting period. For more details see note 5.4.

Further analysis of working capital movements is provided in note 4.4 to the financial statements.

Financing and capital structure

The key terms of the Group's borrowing facilities are summarised as follows:

Senior secured debt

- €1,460 million and $1,342 million drawn facilities to mature in November 2026 entered into by the Company's subsidiary Motion Finco S.à r.l. The margins on these facilities are dependent on the Group's adjusted leverage ratio and at 31 December 2022 were at a margin of 3.0% *(2021: 3.0%)* for EUR debt and 3.25% *(2021: 3.25%)* for USD debt over the floating interest rates when drawn. The relevant floating interest rates are USD LIBOR, which was 4.73% at 31 December 2022 *(0.13% at 25 December 2021)* and EURIBOR, which was 2.20% at 31 December 2022 *(nil% at 25 December 2021)*. The terms of the floating rate debt facility require a repayment of 0.25% of the outstanding principal amount of the USD borrowings every three months.
- €500 million 7.0% senior secured notes due 2025 entered into by the Company's subsidiary Motion Finco S.à r.l.
- $400 million 5.75% senior notes due 2026 entered into by the Company's subsidiary Merlin Entertainments Limited.
- A £400 million revolving credit facility to mature in May 2026, of which £nil was drawn in cash at the end of the reporting period. £30 million was utilised by way of establishing certain ancillary facilities, including letters of credit.

Other senior debt

- $410 million 6.625% senior notes due 2027 and €370 million 4.5% senior notes due 2027 entered into by the Company's subsidiary Motion Bondco DAC.

A reconciliation of net debt is set out in the financial statements in note 5.1.

Interest rate hedging

The Group is exposed to interest rate risk on both interest-bearing assets and liabilities. The Group has a policy of actively managing its interest rate risk exposure using a combination of fixed rate debt and interest rate derivatives.

At the end of the reporting period the Group had $810 million of fixed interest rate notes and $1,342 million of drawn floating rate facilities. During Q3, the Group entered into USD 600 million of interest rate swaps, hedging USD LIBOR floating rate debt to 2026, at an average fixed rate of c.3.15%.

At the end of the reporting period the Group had €870 million of fixed interest rate notes and €1,460 million of drawn floating rate facilities. During Q3, the Group entered into EUR 700 million of interest rate caps maturing in 2026 at an average cap strike rate of c.1.61% at a running cost of c.0.9% per annum to 2026.

In aggregate, at the end of the reporting period, 67% *(2021: 37%)* of the Group's interest-bearing loans and borrowings is at a fixed/capped rate for a weighted average period of 4 years *(2021: 5 years)*.

FINANCIAL AND OPERATING REVIEW

REVENUE GROWTH AND FOCUS ON COSTS

Lenders

The Group maintains ongoing relationships with the institutions that provide financing facilities. This includes the provision of quarterly financial information, and presentations by the Chief Financial Officer and the Group Treasurer and Director of Tax.

The Group keeps the debt markets under review in order to ensure that funding can be obtained at the right time and at the right price to ensure the availability of funds to meet strategic growth plans and our other financing requirements. Merlin actively assesses financing opportunities, which may include new financings, refinancings and transactions by us or our affiliates in our existing debt from time to time, whether in the open market, in privately negotiated transactions, through tender offers or through redemptions, and such transactions may be material.

Covenants

A financial covenant has existed from 30 September 2020 but is only required when the revolving credit facility is drawn by 40% or more (net of cash and cash equivalents). The covenant requires the Group to maintain adjusted consolidated senior secured leverage below 10x.

Effective June 2021, the Group agreed with its revolving credit facility lenders to waive the leverage covenant until Q3 2023. As part of this agreement the Group is required to maintain a minimum liquidity of £75 million (to include amounts undrawn from the revolving credit facility, and cash and cash equivalents), over the period of the waiver.

The Group complied with the financial covenants in the year. The Group is also required to comply with certain non-financial covenants in these bank facilities and notes, and these requirements were satisfied throughout the year.

Financial risk management

Note 5.3 to the financial statements provides information in the following areas:

- Liquidity risk – how the Group monitors cash requirements and actively manages surplus cash, together with details of the Group's contractual maturities.
- Interest rate risk – how the Group manages interest rate exposure.
- Foreign currency risk – how the Group manages foreign exchange transaction and translation exposures, together with details on the carrying value of financial assets and liabilities in foreign currencies.
- Credit risk – how the Group manages risks of customers or counterparties to financial instruments failing to meet their obligations.

The Group's risk assessments have identified liquidity/cash flow risk and foreign exchange translation risk as two of the Group's principal risks. Details of these and whether we believe they are increasing, decreasing, or stable, are set out on page 23.

Going concern and liquidity

We continue to prepare the financial statements on a going concern basis. Our projections are based on what we believe is a balanced approach. We will continue to monitor our liquidity regularly, following the approach as set out elsewhere in this Annual Report.

Further details on our going concern assessment are set out in note 1.1 to the financial statements.

Alistair Windybank
Chief Financial Officer
17 March 2023

How we report our results

Financial KPIs and Alternative Performance Measures (APMs) *– we adopt certain APMs that in our view help present our trading performance in the most helpful and meaningful way, and that we use consistently each year. These can be summarised as follows:*

- *We refer to EBITDA as it is a profit measure we use internally to measure the performance of our attractions. It is the KPI that we feel most appropriately captures the ongoing ability of our attractions to generate operating cash flows. Reflecting IFRS 16, this measure does not include the cost of meeting the obligations under our leases, with the exception of performance-based rentals which continue to be reported within EBITDA.*
- *We refer to operating free cash flow, which is underlying EBITDA less existing estate capital expenditure, and which is then available to contribute to capital reinvestment to support further growth, meet the obligations under our leases, service the Group's debt facilities, settle our tax obligations and provide a return to our shareholders.*
- *We refer to 'underlying' results, which remove the impact of any exceptional items and provide a more direct comparison of trading performance. Details of exceptional items are provided in note 2.2 to the financial statements.*
- *To provide a more direct comparison of trading performance in the existing estate, we refer to 'like for like' performance. This represents growth between two years at constant currency and accounting standards, including all businesses owned and operated before the start of the earlier year.*

Period under review *– this year's consolidated Group financial statements are prepared on a '53 week' basis for the period ending 31 December 2022. In most years we report on a '52 week' period. In certain years an additional week is included to ensure that the statutory financial year end date stays in line with the end of December. Within this report we also present unaudited '52 week' information for 2022 where we think it will provide a more direct comparison of performance. The difference between the 52 and 53 week periods is the week ending 31 December 2022, which includes revenue, cost of sales, and variable operating costs directly attributable to that week. Annual fixed costs and central overheads are not allocated to the 53rd week as they are not incrementally incurred costs. All balance sheet, and therefore cash flow information, is reported as at the statutory year end date and therefore represents a '53 week' period in 2022 (2021: 52 weeks).*

Reference to financial statements *– further information regarding the Group's segmental analysis; geographical revenues and assets; and certain operating costs are provided in note 2.1 to the financial statements on pages 49 to 52. Those areas requiring significant judgement in the preparation of the financial statements are summarised on page 48.*

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Internal control and risk management

In accordance with the delegated matters set out in the Shareholder Investment Agreement, Merlin maintains effective internal control and risk management systems, with Board Committees and executive management keeping them under regular review. These activities are supported by 'The Merlin Way', our corporate values, which we believe should drive good behaviours and actions by all employees.

After two years of turbulence in Merlin's trading activities, the Company continues to be rigorous in its approach to the operational and financial control environment, with a strong focus on protecting corporate resources.

The Audit Committee and the Health, Safety and Security Committee continue to receive regular updates about changes in organisational risk to ensure that the effectiveness of the control frameworks is kept under review.

Internal control framework

The creation of an effective internal control framework helps ensure:

- proper financial records are maintained;
- the Group's assets are safeguarded;
- compliance with laws, regulations, policies and procedures including those relating to health and safety matters; and
- effective and efficient operation of business processes.

Merlin's internal control framework is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The key elements of the internal control framework are described below:

- Management structure – clearly defined reporting lines, accountabilities, and authority levels.
- Strategic planning, risk management and business performance monitoring – reviewed by the Merlin Board annually, with our pipeline for the delivery of new attractions reviewed regularly to:
  (i) assess whether new compelling experiences and attractions in development are progressing according to schedule;
  (ii) identify new ideas and assess fit with our brand portfolio; and
  (iii) assess the expected commercial returns.
  Business objectives and performance measures are set annually together with budgets and forecasts. Regular business performance reviews are conducted at Operating Group and individual attraction level.
- Policies and procedures – a portfolio of policies and procedures is in place for all areas of the business. The appropriateness and application of these is continuously monitored to ensure they are proportionate to the risk and are complied with. Assurance comes from several sources that include health, safety and security (HSS), financial and operational audit activities and self-certification.

Our key control activities include:

- Operational – there are a range of control measures and performance indicators in place to ensure the effective and efficient operation of our attractions and to give our guests safe and memorable visits.
- Health, safety and security (HSS) – all our sites operate using a well-established Safety Management System designed to ensure that they operate in compliance with relevant regulatory and legislative requirements. Regular HSS internal audits are undertaken to confirm this is the case, ensuring that any safety and security matters are understood and dealt with promptly.
- Information technology – the Group has a wide range of IT technical, security, and disaster recovery controls to ensure that it has a stable infrastructure platform from which to operate.
- Financial – our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels. Oversight controls are typically performed by senior managers at Group and business unit level. Month end and year end procedures are performed as part of our regular financial reporting. Transactional level controls operate on a day-to-day basis. To specifically address potential fraud risks at a transactional level, a group of profit protection professionals are employed to support management in addressing these risks at an attraction level.
- Business continuity planning – disaster recovery plans and crisis management protocols are in place to allow attractions to reinstate performance should adverse events occur.

Risk management framework

The risk management framework sets out responsibilities together with the oversight, monitoring, reporting and management processes that support their fulfilment. The framework looks at both 'top down' and 'bottom up' approaches to risk management whereby the Merlin Board retains overall responsibility for risk management, while sites are responsible for identifying, assessing and mitigating operational risks.

Risk oversight and monitoring is the responsibility of the following Committees:

- Health, Safety and Security Committee – oversight and guidance on management of HSS risks. Responsible for ensuring compliance with legislation or industry standards in safeguarding guests, employees, visitors, and contractors.
- Audit Committee – oversight and guidance on financial process risk. Responsible for assessing the effectiveness of the Group's overall approach to risk management and internal control.
- Commercial and Strategic Risk Management Committee – oversight and guidance on management of commercial and strategic risk.

Each Committee reviews the principal risks on a regular basis and considers whether material changes in the external landscape or recent trading trends require alternative approaches to monitoring and managing risk. Committee members regularly receive deep dive updates on topics related to significant risks as well as regular reporting from internal and external assurance providers.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Risk appetite

The Group's risk appetite falls into two distinct categories:

- Compliance risk – the requirement to comply with legislative or regulatory requirements in all territories where the Group operates. It includes, but is not limited to, ride safety, accounting practices, fraud and bribery, as well as ensuring compliance with the Group's values and ethical principles. In these areas we are risk averse and do not countenance any breaches in compliance obligations.
- Commercial risk – commercial risks are taken to maximise profitable growth and sustainable returns, without compromising the health, safety and security of guests, employees, contractors, other visitors or animals. They must be aligned with the Group's policies on sustainability and the environment. The Group manages these commercial risks through an appropriate analysis of threats and opportunities together with structured review processes, independent expert opinions and decision-making authority levels. Factors such as the scale of possible commercial upside, the potential market size, the quantum of downside risk and timescales involved may all be relevant to commercial risk decisions.

Quantitative and qualitative measures ensure effective governance of the Group's risk appetite. Quantitative measures include defined financial and non-financial targets such as EBITDA, operating profit, and guest satisfaction scores. Qualitative measures consider items such as reputational impact and compliance with laws and regulations.

Effectiveness of risk management and internal control systems

Based on its review of risk management systems, both throughout the year and annually, the Board is satisfied that the risk management and internal control systems that were in place during 2022 were effective.

Plans for 2023

During 2023 we will continue to evolve our risk management approach to:

- monitoring and measuring the impact of climate change and associated environmental issues affecting the territories in which our businesses operate;
- employee engagement and retention, so that we continue to be an employer of choice; and
- IT technical, security, and disaster recovery activities to deliver stable infrastructure platforms from which to operate.

At the same time, we will continue our journey to standardise and automate transactional processing activities, to deliver consistency of business process and strengthen the internal financial control framework.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Principal risks

The Merlin Board has considered the feedback from the Board Committees and executive management on the range of risks that could impact the Group, and has concluded that the principal risks are those set out in the table below. The gross risk trend indicator included in the table reflects the exposure before mitigation and is used to compare to the previous year as to whether significant risks are stable, increasing or decreasing. The Merlin Board sees no significant movements in the outlook for most of the principal risks, with the exceptions of the competition for talent, inflationary increases for labour and other operating costs, as well as threats emanating from cyber and fraud related activity. Comments in the table provide extra detail to help illustrate the direction of specific risks.

 Increasing risk  Decreasing risk  Stable

	Risk	Description	How risks are managed
1.	Safety 	Serious incidents leading to guests, staff members or contractors being harmed or becoming ill because of: • a failure to follow health and safety management systems. • fire, flood, storm or utility failure, potentially driven by extreme weather events. • substandard build quality or asset degradation; inadequate maintenance and management of buildings, infrastructure and vegetation.	• Regular performance reviews by Board Committee with a specific mandate for this area. • Ownership of health, safety and security (HSS) risks by line management. • Competent operational and engineering staff monitor and inspect facilities in accordance with a planned programme, backed up by professional HSS teams. • Annual risk register review and action planning processes. • Regular internal and independent external auditing and review regimes. • Contractor selection, approval and monitoring by in-house qualified project managers.
2.	Security 	Reduction in guest confidence to visit the Group's attractions because of sabotage or a terrorist attack on a ride or attraction leading to a guest or staff member or animal in our care being harmed.	• Detailed security protocols before individuals access an attraction (e.g. bag searches). • Regular infrastructure reviews to reduce the opportunity for physical threats to guests, staff or animals. • Extensive use of CCTV. • Regularly tested major incident management plans. • Current events vigilantly monitored to identify emerging risks. • Co-operation with local and national security forces. • Appropriate insurance cover. • Board Committee established with specific mandate for this risk area.
3.	Commercial impact of external threats to location based entertainment operations 	Personal health and security concerns that flow from geopolitical actions, terrorist activity, public health pandemics or climate change events, resulting in falling visitation to a location in which the Group operates, with displacement of both international and domestic tourists. In extremis, such events may lead to governmental or other regulatory instructions to close our attractions, including over multiple geographies. Exchange rate volatility can have a positive or adverse impact on inbound tourism. Acute periods of inflation can impact consumers' appetite for discretionary purchases.	• Increased geographical hedging as a result of further global diversification. • Ability to reduce variable expenditure, for example in staffing, property and marketing costs. • Ability to defer non-essential capital expenditure. • Crisis management procedures for each attraction that set out the appropriate response. • Ability to direct marketing and promotional activity towards domestic or international audiences depending on tourism trends. • Ability to promote access to a wide portfolio of attractions using annual pass or cluster ticketing.
4.	Innovation, brand development and customer satisfaction 	Our growth potential could be impacted if guests: • consider our offerings are outdated, no longer relevant or enjoyable; or • provide negative social media comments that adversely influence the likelihood of a customer to visit an attraction.	• Customer feedback collected at every location and analysed against challenging satisfaction targets. Actions then taken accordingly. • Ongoing investment in our attractions to continually refresh the guest experience. • Engagement with the public and on social media to take any requisite action.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

	Risk	Description	How risks are managed
5.	People availability and expertise 	As noted elsewhere in this report, we continue to face the challenge of attracting and retaining appropriately experienced and well-motivated customer service orientated staff, especially in locations with significant upwards wage pressures. This could impact: • guest satisfaction; or • the successful delivery of planned future expansion.	• Driving greater productivity to ensure more motivated, better rewarded employees. • Reviews of employment markets and salary benchmarking. • Personal development plans across the business to encourage long term employment stability. • Proactively managed succession planning processes embedded across the Group. • Annual employee survey to monitor employee engagement and identify opportunities to develop HR policies and processes.
6.	Competition and Intellectual Property (IP) 	Competition – for leisure time; from new or existing providers of location based entertainment; and for IP around which compelling propositions are created. The commercial benefits from using third party IP may be lost from waning interest or withdrawal of permission to use third party IP content, where contractual obligations are not met, or partner relationships are not managed effectively.	• Diversification of the portfolio. • Ongoing investment to ensure continued appeal to visitors. • Competitor research and monitoring. • Dedicated in-house creative team to deliver new and innovative compelling propositions and IP. • Proactive management of IP partnerships.
7.	Availability and delivery of new sites and attractions 	The ability of the Group to grow in line with strategic objectives could be inhibited by the lack of: • economically viable sites to locate Midway attractions and LEGOLAND parks; and • timely approval of planning consent required for building new rides, attractions and accommodation.	• Experienced site search and business development teams, working several years in advance to maintain a strong pipeline of opportunities. • Sites regularly update development masterplans and work closely on fostering links with local communities and planning authorities. • Dedicated resources used to support the Group's roll out strategy.
8.	Animal welfare 	Incidents or staff behaviours leading to animals in our care being harmed as a result of: • a failure to follow prescribed welfare protocols; or • inadequate maintenance and management of buildings, infrastructure and vegetation.	• External zoo licence audits. • An internal ethics committee and the SEA LIFE Conservation, Welfare and Engagement team monitor the treatment of animals. • A comprehensive range of policies, standards, procedures and guidelines. • Training programmes for all staff who interact with animals. • Planned preventative maintenance programmes to ensure buildings, infrastructure and vegetation remain suitable for displaying the animals in our care.
9.	IT robustness, technological developments and cyber security 	The Group operates various IT systems and applications, the obsolescence or failure of which could impede trading or the ability to operate an attraction. Without the technical developments necessary to meet consumer or business expectations, the Group may fail to deliver the growth required by the business strategy. Failure to put in place suitable technical and organisational measures to ensure compliant data processing in line with global legislative requirements could lead to data loss or inability to use IT systems for a prolonged period, a data breach, or a security incident resulting in data protection sanctions, investigations and enforcement actions by local regulators and individuals themselves. We currently see a greater incidence and impact of cyber-attacks on organisations across the globe. The Merlin Board continues to consider cyber security risks, together with the Group's ongoing investment in that area.	• Strategic focus to ensure the long term stability of operating systems and data security, whilst keeping pace with changing consumer IT expectations. • Increasing resilience and stability of IT infrastructure and security through an expanded use of secured hosting partners and penetration testing regimes. • Implementation of additional security measures to mitigate the increasing threat of cyber security risk. • A number of data protection policies are in place to protect the privacy rights of individuals in accordance with relevant data protection legislation. • Continuous review of our data protection approach in light of evolving legislation in all operating territories. • Independent assessment of compliance arrangements. • Regular updates provided to the Merlin Board by the Chief Technology Officer on any cyber incidents and the wider cyber security landscape.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

	Risk	Description	How risks are managed
10.	Impact of increasing costs on operating margins and returns on capital 	As noted elsewhere in this report, we currently see significant inflationary pressures in a number of economies. This includes areas such as wages, fuel and energy costs. Such inflationary pressures on cost of sales, operating costs and capital expenditure programmes may not be fully compensated by increases in selling prices or the ability to redesign capital projects to keep expenditure down.	• Strategic focus on pricing associated with changing consumer expectations. • Increasing the proportion of the cost base that is variable in nature or can be flexed to meet demand. • Effective financial and contractual controls regarding procurement activities. • Redesign capital schemes to a lower cost outcome.
11.	Anti-bribery and corruption 	Merlin's business model for sales is low risk, the majority of transactions being with individual customers at low values. From a procurement or service delivery perspective, Merlin currently operates in or is establishing operations in a number of territories which have a propensity for incidents of bribery and corruption. Any such incident could lead to criminal or civil prosecution, fines and cause reputational damage to the Group.	• A well-embedded corporate culture in which fraud and bribery at any level are not tolerated. • Global fraud and bribery training programmes and a fraud policy sign-off for all staff. • Financial and contractual controls with regard to procurement activities. • Internal audit monitors purchasing processes on a rotational basis. • A separate profit protection team monitors for theft or other criminal activity across the Group and ensures best practice for protection is shared between sites. • A whistleblowing policy is in place together with an independently operated employee hotline.
12.	Liquidity/cash flow risk 	A lack of liquidity could inhibit the ability of the Group to grow in line with strategic objectives if: • insufficient cash is generated during peak trading periods to cover fixed costs, interest and tax payments and capital investments (including strategic acquisitions, the roll out of Midway attractions, the development of new LEGOLAND parks and new accommodation offerings). • changes in the global credit market impact the Group's long term ability to meet current growth targets. • there is an increase in short term interest rates in primary borrowing currencies. In extremis, adverse events may lead to a requirement to seek extra sources of liquidity.	• A committed £400 million multi-currency revolving credit facility assists with liquidity and seasonal cash flow requirements. • Review of weekly cash flow forecasts covering a period of 12 weeks assists planning for short term liquidity. • Strategic plans cover at least four future years and are reviewed regularly to ensure sufficient financial headroom exists or whether it needs to be created in the future. We also monitor the impact of the plans on the covenant tests set out in the Group's banking facilities. • Interest rate risk is managed through a combination of fixed rate borrowings and hedges taken out on floating rate debt. • Merlin maintains strong relationships with a number of lenders and keeps the debt markets under review in order to ensure that funding can be obtained at the right time and at the right price to ensure the availability of funds to meet strategic growth plans.
13.	Foreign exchange translation risk 	Merlin generates its main profits in Sterling, Euros and US Dollars and has debt in Euros and US Dollars. Merlin reports its results in Sterling and is therefore subject to translation risk from exchange rate fluctuations when reporting its consolidated results.	• The Group presents constant currency figures where appropriate to show underlying results excluding the impact of translation differences. • Treasury policies in place and reviewed annually with regular reviews of currency exposures. • Broad match of borrowings in the currencies of underlying profits.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Our approach

Merlin's commitment and strong social conscience drives our approach to business responsibility and 'being a force for good'. This is reflected in how we treat, and care about, our visitors, our people, our suppliers, our planet, the animals we look after and the communities in which we operate. We have robust governance standards and practices that extend throughout the business.

'The Merlin Way' is the set of values which embody everything we do, and which provide the basis for our goals and objectives. We advocate 'The Merlin Way' through many of our global engagement activities and our staff wellbeing programmes. More details can be found on our website (**www.merlinentertainments.biz**).

We set out more details below, which include the five specific areas required under the non-financial reporting requirements in the Companies Act 2006. Further information can also be found on Merlin's website and the websites of our partner charities.

Employees

Employee engagement

In 2022 more than 18,000 people completed our 'The Wizard Wants to Know' employee engagement survey, a response rate of 84%. Our overall engagement score was 68%, an encouraging increase of 5% on the previous year.

We have introduced long term incentive plans that are aligned to the strategic objectives of our shareholders, provide incentive structures for our management teams and include outstanding contribution and long service awards that are available to all employees.

Employee communication

Throughout the year, lines of communication with our employees were maintained, ensuring that all employees were kept fully updated on business operations on a regular basis. Tools such as the 'MyMerlin' intranet and 'The Wizard's News', our monthly company digital newsletter, continued to celebrate successes and effectively communicate across all our sites.

Gender reporting

Through 2022, one of the Company's seven Directors and one of the Group's seven Executive Committee members were female. At December 2022, of the Group's senior management positions (being attraction General Managers up to and including the Executive Committee) 135 (36%) were female and 243 (64%) were male. This is consistent with 2021. The percentage of female permanent employees is 49% *(2021: 49%)* totalling 4,268 *(2021: 4,165)*. The split of male versus female employees has therefore broadly remained consistent.

Merlin continues to report on UK employees under the UK gender pay gap reporting rules, which identify differences in pay between men and women. For the latest available reporting period to 5 April 2022, Merlin's mean gender pay gap (calculated as the difference between the average hourly pay of men and women as a percentage of the average hourly pay of men) was 18.2% *(2021: 14.2%, 2020: 4.7%)*. The median gender pay gap (the difference between the hourly pay of an employee in the middle of the range of male wages and an employee in the middle of the range of female wages), was 4.0% *(2021: 3.2%, 2020: 3.5%)*.

The increase in both figures reflects shifts in the range of employees captured within the reporting parameters during furlough periods, and the positive employee bonus result which paid out in the 2022 reporting period. The impact of a positive bonus is seen more readily in senior, higher compensated roles, which are currently held by a greater proportion of male employees. Merlin strives to improve its gender balance in senior roles by actively encouraging and promoting more females, as well as opening more opportunities in traditionally male-dominated roles like engineering. We also host a number of initiatives to educate and inspire career progression within Merlin among female staff.

Recruitment, training and development

Merlin runs a variety of training and development activities across all parts of the business. These range from induction training and role specific learning (for example in health and safety, and animal welfare), through management and leadership programmes, and on to executive leadership development. Our Merlin Careers website shows available roles across the business globally as well as providing information on the apprenticeships we offer in areas such as hospitality, engineering, management, and marketing.

During the COVID-19 pandemic we created more online content and self-led learning modules so teams could continue to access learning opportunities remotely. Through 2022, we shifted to a blended mix of online learning and development. and 'in person' programmes for leadership development and critical skills such as marketing, engineering and commercial training.

Risk management

For details of how we manage the risks of people availability and their expertise, see page 22.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Health, safety and security

In accordance with the Shareholder Investment Agreement, the Board has created a Health, Safety and Security Committee which, together with the Merlin Board and management, ensures that Merlin is dedicated to delivering best in class health, safety and security (HSS) standards that are clearly understood and implemented across the Group. These standards ensure the safety and wellbeing of our guests, employees and contractors. To support this mission, Merlin sets out its core HSS strategic initiatives and how these must direct and focus all efforts in a manner that is both systematic and progressive.

To help communicate these initiatives to our key internal and external stakeholders, Merlin publishes an informative brochure called 'Protecting the Magic – a Guide to Health, Safety and Security at Merlin Entertainments'. This document is available via our corporate website and our dedicated HSS 'ProtectingTheMagic.com' website. Additional HSS news items and features are also published throughout the year on Merlin's 'Backstage' website.

Emerging from COVID-19

Much of the world experienced renewed business and consumer activity in 2022 following numerous lockdowns and government imposed restrictions to help combat the worst public health effects of COVID-19. Merlin's COVID-19 countermeasures remained dynamic and able to adapt to differing states of government restrictions, dependent on the specific country or territory. Attention remained focused on ensuring that Merlin's core HSS programmes and standards continued to be suitable and applied at those attractions that were emerging from multiple years of COVID-19 related lockdowns and restrictions.

Attractions applied a robust approach to their HSS activities, ensuring that the correct and necessary arrangements were in place to proactively and effectively support the many new employees that were joining the business in 2022. A resolute and unwavering focus on the application of Merlin's HSS programmes was required through the year as tight labour markets evolved and attractions sought to enhance their resourcing levels. Supported by Merlin's central functions, attraction teams were able to ensure that high safety standards and HSS performance and outcomes were achieved.

The overall strength of our HSS performance is evidenced by the continued low level of Merlin's Medical Treatment Case rates (relating to guests and employees), as seen in the KPI table on the following page.

With global travel freeing up in 2022, Merlin's HSS audit programme resumed. Specialist auditors in the fields of safety, engineering and food safety undertook deep-dive audits across a range of attractions. Such audits remained complemented by independent ride safety inspections undertaken each year by specialist third party ride examiners, as commissioned by Merlin.

Merlin's Safety Week also resumed in 2022, focusing on the important topic of attraction security. With notable enthusiasm and participation across all of Merlin's attractions, many engagement, learning and best practice sharing activities took place, all serving to ensure that security protocols and arrangements remain front and centre of employee understanding and conduct.

Strategic HSS initiatives

The following strategic initiatives form the cornerstones to Merlin's 'Protecting the Magic' programme:

- Leadership and engagement – requiring our leaders to exhibit visible, proactive and unwavering leadership towards HSS, supported by our people who are fully engaged with this shared responsibility. An example is 'safety leadership walks' which are on-site walks, both in visitor areas and 'back of house', by senior leaders in the business where dedicated time is spent talking with staff about HSS matters and understanding what more can be done.
- Competency and culture – fostering a positive and proactive safety culture, with competent and talented people focused on the effective management of HSS risks. Rigorous training and instruction are fundamental to Merlin's approach to HSS across the business, with mandatory new starter training for all employees and safety leadership training for managers.
- Assessment and control of risk – identifying, understanding and controlling HSS risks effectively. For example, in the area of fire safety, fire engineering surveys of our hotels have helped ensure that we continue to uphold the highest of physical and procedural controls at all of our hotels. With regard to food safety we adopt the best practice system of Hazard Analysis and Critical Control Points (HACCP). We ensure traceability and assurance over food produce sources and support our guests in their choice of products based on their specific dietary and allergy requirements.
- Standards and procedures – developing and rigorously implementing clear and suitable standards and procedures for safe design, construction, maintenance and operation of assets and equipment.
- Assets and equipment – managing our assets and equipment to ensure they are fit for purpose throughout their life cycle and that no unacceptable or uncontrolled HSS risk is created. Maintenance systems and procedures comprise daily, weekly, monthly and annual maintenance programmes across Merlin's rides, buildings, facilities and estates.
- Monitoring and assurance – assessing and critically reviewing our performance in a balanced and objective manner, in order to understand, improve and sustain our HSS performance. HSS performance, including near-miss and incident reporting, is regularly reviewed by each attraction, each Operating Group's senior leadership team and the HSS Committee, with best practice learning shared throughout the HSS management community. All attractions undergo three types of routine health and safety reviews (annual self-audits, independent internal audits and periodic independent external audits), in addition to pre-opening assessments and tactical ad-hoc audits. A comprehensive food safety audit programme is also undertaken by third party specialists.

  This process includes the use of two types of performance metric, being;
  (i) *Leading indicators* – which monitor the activities we undertake as part of our HSS governance and monitoring processes. Our approach includes arrangements by attractions for near-miss/unsafe condition reporting, trend analysis and corrective action management.
  (ii) *Lagging indicators* – which capture incident rates for both guests and employees.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

The results of our monitoring and assurance activities are set out below.

Leading indicators	2022	2021
Safety Inspection Certificates – Rides[1]	100%	100%
Safe Operating Procedures – Rides[2]	100%	100%
Food Safety Audits[3]	88%	N/A
Safety Culture Survey Results[4]	74%	75%
HSS Committee Meetings[5]	90%	100%
Lagging indicators		
Medical Treatment Case Rate (Guests)[6]	0.01	0.02
Medical Treatment Case Rate (Employees)[6]	0.04	0.06

(1) Safety Inspection Certificates are issued annually by independent ride examiners following the thorough inspection and testing of every theme park ride in Merlin. This % score indicates the percentage of rides that have valid annual Safety Inspection Certificates issued, or a formal extension granted to such annual Inspection Certificates due to the impact of cross-border travel restrictions brought on by the COVID-19 pandemic (mainly for China).

(2) Each theme park ride in operation in Merlin must have Safe Operating Procedures in place covering the ongoing use of the ride. These procedures must state what the necessary risk controls are for each ride. This % score indicates the percentage of rides that have Safe Operating Procedures in place.

(3) Merlin commissions an independent specialist to audit attractions for compliance with its Food Safety Manual. This % score represents the average compliance score, and includes those additional compliance audits completed in-house by Merlin's Group Head of Food Safety and Public Health. Where opportunities for improvement to local practices are identified, these are discussed with local management and plans implemented to address them. Due to the impact of cross-border travel restrictions brought on by the COVID-19 pandemic, as well as extensive attraction temporary closures, such on-site audits were not able to take place in 2021.

(4) Merlin's annual 'The Wizard Wants to Know' employee survey features a series of questions relating to health and safety and this % score represents the overall safety engagement score.

(5) Through the HSS Committee the Merlin Board provides strategic direction and performance scrutiny of HSS matters within the business. Additionally, each Operating Group has its own HSS Steering Committee. These forums are intended to meet quarterly and this % score indicates compliance with this expectation. Due to some organisational changes, one LEGOLAND Parks HSS Committee meeting and one Midway Attractions HSS Committee meeting were rescheduled to outside of this reporting period.

(6) A Medical Treatment Case (MTC) is defined as an injury which requires external medical treatment (i.e. ambulance attendance to the site or hospital visit directly from the site). The rates referenced are the number of MTCs relative to either 10,000 guest visitations or 10,000 employee hours worked. Through focused and sustained efforts by attraction teams, both Case Rates have seen a positive reduction in 2022, versus 2021.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Environmental matters

Governance

We recognise that our operations impact upon the environment and that effective management of this, in line with our strategic business goals, is essential for sustainable business success. We are committed to minimising the potentially harmful effects of such activity.

The Executive Committee is responsible for setting strategy, policy, principles, and guidance, with ultimate responsibility for our sustainability strategy resting with the Chief Executive Officer, ensuring that strategic policy is implemented and that our sites' sustainability objectives align to our corporate sustainability objectives. We participate in the UK Energy Savings Opportunity Scheme and other applicable environmental regulations globally. Specific budgets are made available each year to test and implement environmentally focused initiatives.

The Group Sustainability Director is responsible for the development and implementation of the strategy, policy and principles across the business in order to ensure effective management of our climate impacts.

Our global attractions can draw from the Group's green capex fund to carry out low-carbon and efficient technology projects, and each attraction has a sustainability champion or manager who is responsible for the delivery of our sustainability objectives at a local level. More details can be found on the 'Policies & Reports' section of our website where our environmental policy is published.

2022 activities

We continued to drive awareness in our staff and guests around environmental issues, launching our sustainability good practice guide and video for our general managers and technical staff. Our green capex fund supported projects within the estate on LED lighting optimisation, variable frequency drives and the optimisation of building management and life support systems.

Merlin is committed to increasing on-site solar photovoltaic energy generation, and we are actively exploring the opportunity to have a combined solar photovoltaic of over 9MW across four of our resorts at LEGOLAND California, LEGOLAND Windsor, Gardaland and THORPE PARK.

We know that electric vehicles have a crucial role to play in decarbonising our planet and ownership of electric vehicles is on the rise. We are therefore working with a partner to install electric vehicle chargers across our UK resorts.

In November 2022 we were delighted to partner with Kensa Group to turn the lastminute.com London Eye green.

Plastic pollution

Merlin has been a long term advocate for reducing plastic pollution as well as progressing the positive impact our businesses and teams can make on their local environments and communities. We continue to review all our retail stores to remove unnecessary packaging and plastic across all of our merchandise.

These initiatives will continue in 2023 and beyond. This includes working with our global supply chain to remove unnecessary plastic packaging from our shops; providing opportunities for all our staff and guests to become involved at our attractions, as well as helping them consider behavioural change in their everyday lives; and supporting the SEA LIFE TRUST in campaigning across the globe for greater protection for our marine environment and its creatures, including their annual beach clean which takes place on World Oceans Day.

Climate change

The Group has identified the following issues related to climate change, which are set out below, together with Merlin's approach in the relevant area:

- *Energy use – how using fossil fuel energy contributes to climate change.*
  Merlin is working on increasing its on-site renewable technologies such as solar photovoltaic.
- *Energy price – the risk of fluctuation in global energy prices.*
  Merlin is exploring the opportunity of a Power Purchase Agreement (PPA) for solar photovoltaic farms. Merlin is also investing in energy efficient systems like variable speed drives and LED lighting to reduce the amount of energy we use.
- *Weather – the risk of distortion in weather patterns.*
  Merlin operates a balance of outdoor theme park resorts and Midway attractions which are generally indoors.
- *Waste, recycling, and the use of landfill.*
  Merlin is diverting waste from landfill where possible through recycling and generating energy from waste. For example, our four largest UK theme parks recycle and recover all their waste for energy generation.

Task Force on Climate-Related Financial Disclosures (TCFD)

In accordance with mandatory TCFD reporting in the UK, Merlin will comply with TCFD from 2023.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Streamlined energy and carbon reporting

The Company is required to report each year on its carbon dioxide emissions, which are set out in the table below. We have followed the 2019 HM Government Environmental Reporting Guidelines. We have used the Greenhouse Gas Protocol – Corporate Standard and have used emissions factors from IEA Emissions Factors 2022 for electricity by country and UK Government GHG Conversion Factors for Company Reporting 2022 for all other carbon activities. We have chosen the financial control boundary method as this allows us to report on all sources of environmental impact over which we have financial control.

In the period covered by this report, Merlin launched a series of energy efficiency initiatives such as a life support system filtration optimisation, LED lighting optimisation, variable frequency drives and building management systems across our estate. Together these projects are expected to save 448,722 kWh annually. In this period, we purchased 62,433 MWh of renewable energy attributes through our energy procurement contracts. The attributes are backed by Renewable Energy Guarantees of Origin (REGOs).

Our carbon reporting period for 2022 is from September 2021 to August 2022. The KPI for measuring our carbon emissions trend is carbon emissions per £1 million of revenue. Our reported carbon intensity ratio, that measures the usage of CO_2 equivalent (CO_2e) as compared to revenue, decreased significantly from 68 to 49 gross tCO_2e per £1 million of revenue. We have therefore achieved a 28% carbon intensity reduction (market-based) on our 2021 figure. This reduction is due to the increase in 2022 revenue compared to 2021, and reflects the fact that a significant element of our energy usage does not flex with trading volumes, combined with the results of energy efficiency measures, green energy procurement and employee awareness.

We have previously set ourselves a target of a 2% year on year reduction in our carbon emissions intensity.

	2022		2021	
	UK	Global (excluding UK)	UK	Global (excluding UK)
Energy consumption used to calculate emissions (MWh)	117,972	265,005	102,993	212,657
Emissions from combustion of natural gas, oil and LPG in tCO_2e (Scope 1)	7,527	11,103	6,659	8,450
Emissions from combustion of fuel for transport purposes in tCO_2e (Scope 1)	83	356	439	911
Emissions from use of CO_2 for food and beverage purposes in tCO_2e (Scope 1)	6	48	11	39
Refrigerant emissions from refrigeration systems in tCO_2e (Scope 1)	686	3,615	679	2,584
Emissions from purchased electricity and district heating (Scope 2, location-based)	14,337	72,182	13,297	63,717
Emissions after applying purchased green emissions in tCO_2e (Scope 2, market-based)	2,144	72,182	2,063	63,717
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel in tCO_2e (Scope 3)	2	Not reported	3	Not reported
Total gross in tCO_2e	10,448	87,304	9,854	75,701
Group total in tCO_2e	97,752		85,555	
Group revenue (£m)	2,006		1,261	
Intensity ratio: Group gross tCO_2e / £1 million revenue	**49**		**68**	

Table notes:

- *Scope 1 refers to direct emissions (natural gas, LPG, heating oil, refrigerants, diesel, petrol).*
- *Scope 2 refers to indirect emissions (purchased electricity, purchased heat).*
- *Scope 2 market-based include REGOs for our UK operations.*
- *Under Scope 3 emissions we report UK business travel mileage claims (a subset of scope 3 category 6 business travel).*
- *Our annual carbon reduction target is measured based on market-based emissions.*
- *We are not able to exclude some emissions from outsourced operations in our food and beverage, games and photography areas, due to the complexity of determining their share of emissions. We plan to determine these emissions in the future and re-base our carbon emissions if necessary, in line with our carbon recalculation policy.*
- *Defra carbon reporting factors 2022 were used for all conversions to MWh based on Gross Calorific Value (CV) (except for business mileage where Net CV was applied; this is less than 0.05% of our overall calculated energy).*
- *1MWh is equivalent to 1,000kWh.*

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Social matters

Our strong social conscience informs how the Group operates and we care about both the people and creatures connected with our business. This is exemplified by areas such as how we approach visitor accessibility, our ethical animal welfare activities, and our work together with our partner charity, Merlin's Magic Wand, to support children faced with the challenges of serious illness, disability and adversity.

Accessibility

In 2022 we continued our commitment to disability inclusion to ensure guests with disabilities can access the magic of Merlin. We understand our obligations and we care about continuously improving accessibility. The Accessibility Steering Group continued to drive improvements across the business.

We have three guiding principles:

- We will make it fun for everyone;
- We will listen, learn and adapt; and
- We will support our people, so they can support our guests.

Some of the key highlights in 2022 were:

- We launched an Internal Intel group – bringing together employees with lived experiences of disability to inform and guide changes we are making to disability inclusion.
- We increased the number of Changing Places toilets across the Group.
- We achieved Autism Centre accreditation for LEGOLAND Florida Resort and will be extending this to other sites in 2023.
- We commissioned mystery visits with disabled guests to further understand the guest experience and where improvements can be made.
- To mark our ongoing commitment, we were once again proud to 'light up purple' on 3 December at our attractions across the world, to celebrate International Day of Persons with Disabilities.

Animal conservation and welfare

We operate to world class welfare standards through our animal care network and support the work of our pioneering marine conservation charity partner, the SEA LIFE TRUST, in its mission to protect marine life and habitats across the world. Our global SEA LIFE teams continue to develop new and exciting guest experiences which will inspire future generations to care for our oceans and marine life within it.

2022 was another strong year for Merlin's teams who continued their welfare and conservation work to rescue, rehabilitate and release sick or injured animals across the globe. Over 70 grey and harbour seals were rescued across the SEA LIFE and SEA LIFE TRUST seal rescue facilities in northern Europe and the UK. Over 135 turtles were rescued in the UK, the US, Europe and Australia. Beluga whales Little White and Little Grey continued to do well in the SEA LIFE TRUST's world's first beluga whale sanctuary in Iceland, whose team also rescued and released over 40 puffins as part of continued support to the local community.

2022 also saw SEA LIFE and the SEA LIFE TRUST launch a conservation programme focused on funding local projects in countries around the world, which included the world's first rewilding of endangered zebra sharks by the SEA LIFE Sydney Aquarium team.

SEA LIFE and the SEA LIFE TRUST continued to campaign against plastic pollution with their global beach clean. Held on World Oceans Day, the event ran over 24 hours at over 50 different SEA LIFE locations.

Beyond this, we also continue to support additional animal welfare initiatives at Chessington World of Adventures Resort in the UK, and WILD LIFE Sydney Zoo in Australia, who both maintained their long-standing commitment to animal breeding or managed species programmes.

For details of how we manage the risks regarding animal welfare, see page 22.

Merlin's Magic Wand

Our dedicated children's charity partner, Merlin's Magic Wand (MMW), will be celebrating its 15th year of operation in 2023. Although the impact of the COVID-19 pandemic remained evident in 2022, the charity was still able to deliver 56,555 Magical Days Out tickets to children and their families, who are facing challenges of serious illness, disability and adversity. The charity also completed the 52nd Merlin's Magic Spaces project based at Ronald McDonald House Philadelphia, in partnership with the LEGOLAND Discovery Center Philadelphia team, and worked with our attraction teams to reach almost 670 children through the Magic on Tour programme.

In 2023, the charity aims to provide more Magical Days Out tickets; deliver on Magic Spaces project commitments; pursue virtual Magic on Tour offerings; and continue to raise awareness of the charity's aims in its 15th birthday year, so that more beneficiaries and charity partners can look forward to a year full of magic.

Other areas

Anti-corruption and anti-bribery matters

Merlin's approach regarding the management of anti-bribery and corruption risks is set out on page 23. Merlin has a zero tolerance approach in this area, with regular reports on whistleblowing being provided to the Audit Committee.

Ethical sourcing

We have a responsibility to the workers in our supply chain and seek to ensure our products are made in an appropriate environment and the products we source are produced in accordance with international laws and legislation. More details on this area are available on our website (**www.merlinentertainments.biz**).

Human rights

Merlin respects and supports human rights and is committed to the highest level of ethical standards and sound governance arrangements. We aim to act ethically and with integrity in all our business dealings. As part of this commitment and in accordance with global Modern Slavery legislation, Merlin has implemented a Human Rights Policy, guided by the International Labour Organisation Declaration on Fundamental Principles and Rights at Work together with the OECD Guidelines for Multinational Enterprises.

Further details and Merlin's Modern Slavery and Human Trafficking Statement can be found on Merlin's website.

SECTION 172 STATEMENT

The Board of Directors of the Company (the Board) recognises its responsibility to maintain high standards of business conduct and consider the impact on all stakeholders when making decisions, including the likely consequences of any decision in the long term. The Company is managed by the Board, which comprises representatives of its principal shareholders and an independent Chairman. The same shareholder representative Directors and independent Chairman, together with the Group's Chief Executive Officer and Chief Financial Officer, also meet regularly as the Board of Merlin Entertainments Limited (the Merlin Board), For more information on the Boards' responsibilities, see page 31.

The Board has considered the analysis undertaken by the Merlin Board on how it has exercised its duty to promote the success of the Group during the year with regard to the matters set out in section 172 of the Companies Act 2006. After careful consideration, bearing in mind the division of responsibilities for the business of the Group between the Company and the Merlin Board, and while acknowledging the need for the Board to exercise overall management and supervision of the Group and to exercise independent judgement, the Board has adopted a section 172 statement in relation to the Company itself which is consistent with that produced by the Merlin Board. Further information in the Annual Report on how the Merlin Board has exercised its duty to promote the success of Merlin during the year with regard to the matters set out in section 172, including examples of how these duties have been applied, can be found throughout the Annual Report as set out below.

The Board takes its responsibility to understand the views of stakeholders seriously and will continue to consider stakeholder interests in its decision-making processes in 2023. See page 33 for more information.

Section 172 duties	Key examples	Page	Key examples	Page
Consequences of decisions in the long term The Board and the Merlin Board approve the Group's strategy which includes long term growth ambitions. Accordingly, the long term consequences for the Company and its stakeholders are always factored into strategic decisions.	Chief Executive's introduction	4	Principal risks	21 to 23
	Business model	6	Corporate social responsibility	27
	Growth drivers	9 to 10	Corporate governance	31, 33
	Financial and operating review	12		
Employee interests The Board and the Merlin Board recognise that employee engagement, diversity, inclusion and a strong culture is important to achieve the Company's vision and objectives.	KPIs	1	Principal risks	22
	Chief Executive's introduction	5	Corporate social responsibility	24
	Business model	7		
Fostering business relationships with suppliers, customers and others The Board and the Merlin Board identify guests as key stakeholders and Merlin constantly monitors guest feedback to measure the quality of their experience and drive improvements. The Board and the Merlin Board believe a collaborative approach with suppliers and business partners provides mutually beneficial relationships, enabling engagement on matters that are in both parties' interests.	KPIs	1	Growth drivers	9
	At a glance	2	Principal risks	21 to 22
	Chief Executive's introduction	5	Corporate social responsibility	27, 29
	Business model	6 to 7	Corporate governance	33
Operational impact on community and environment The Board and the Merlin Board promote an ethical operating culture and high animal welfare standards, and are committed to managing environmental impacts through our sustainability strategy. The Board and the Merlin Board support Merlin's partnership with two charities.	Business model	7		
	Principal risks	22		
	Corporate social responsibility	27 to 29		
Maintaining a reputation for high standards of business conduct The Board and the Merlin Board ensure that policies and procedures are in place to support the highest standards of business conduct and receives regular reports to monitor compliance. The Merlin Board is involved in the management of issues which may have a material impact on the Company's reputation.	KPIs	1	Principal risks	20 to 23
	Chief Executive's introduction	5	Corporate social responsibility	25, 26, 29
	Business model	7	Corporate governance	31
Act fairly between owners of the Company The Board and the Merlin Board act in accordance with the terms of the Shareholder Investment Agreement.	Business model	8		
	Corporate governance	31		

On pages 31 to 34 we set out our corporate governance framework including Board and Committee responsibilities.

GOVERNANCE

CORPORATE GOVERNANCE

Overview

The Board is committed to maintaining the highest standards of governance across the Group and recognises that a strong governance framework is fundamental to achieving Merlin's strategic objectives.

Merlin's overriding purpose is to work with stakeholders to create truly memorable experiences for visitors and long term value for our investors. Our corporate governance framework has been developed to safeguard these objectives.

Board and Committee responsibilities

The Board and the Merlin Board

The Company is managed by its Board of Directors (the Board) which comprises representatives of its principal shareholders and an independent Chairman. The Board meets as required by the Shareholder Investment Agreement (see page 8), to provide governance over the Group and to consider those matters requiring specific approval by the Company.

The same shareholder representative Directors and independent Chairman, together with the Group's Chief Executive Officer and Chief Financial Officer, meet regularly as the Merlin Board to provide leadership and set the strategy for the Group.

The responsibilities of the Merlin Board are detailed below:

- approving strategy and major company policies;
- determining the capital structure;
- maintaining the system of internal controls and risk management;
- approving the strategic plan, the annual capital expenditure budget, major capital projects and strategic transactions;
- approving the appointment of key members of executive management and overseeing management performance;
- overseeing financial performance and reviewing financial reports;
- reviewing Environmental, Social and Governance (ESG) performance metrics;
- establishing and maintaining an effective corporate governance framework, in conjunction with the Board;
- effective engagement with shareholders and other stakeholders; and
- reviewing recommendations from Committees.

Board Committees

The following Committees have been in operation during the year and unless otherwise stated, remain.

Health, Safety and Security Committee

This Committee ensures that health, safety and security (HSS) matters are managed effectively and proactively throughout the Group, by overseeing our policies and procedures for HSS, monitoring our processes for identifying and managing risks, and monitoring the skills, effectiveness and levels of resource within our HSS teams.

The Committee membership comprises an independent chair and representatives from each of the investor consortium, two of whom are Board members. Meetings are also attended by the Group Chief Executive Officer and Group Chief Financial Officer, together with the Group Safety, Engineering and Security Director and the Chief Operating Officer of the Midway Attractions & Resort Theme Parks Operating Groups.

Audit Committee

This Committee assists the Board in discharging its responsibilities regarding financial reporting by monitoring the integrity of our financial statements including considering whether the financial statements are 'fair, balanced and understandable'.

It assists the Board and the Merlin Board in relation to external and internal audits, including monitoring and reviewing the effectiveness of the internal audit function and overseeing the performance and independence of external auditors. It also assists the Merlin Board in matters of risk management and internal controls, including monitoring and reviewing the effectiveness of our whistleblowing and fraud policies and our internal control and risk management.

The Committee membership comprises representatives from two members of the investor consortium, one of whom is a Board member.

Remuneration Committee

The Remuneration Committee assists the Merlin Board in determining its responsibilities in relation to remuneration, including making recommendations on the executive remuneration policy determining the individual remuneration and benefits package of each of the members of the Merlin Executive Committee and recommending and monitoring the remuneration of senior management below the Merlin Executive Committee.

The Committee considers all material elements of Merlin's remuneration policy, remuneration and incentives of Executive Directors and senior management with reference to independent remuneration research and professional advice and makes recommendations on the framework for executive remuneration. The Committee is also responsible for making recommendations for the grants of awards under share incentive plans.

Following the retirement announcements from the outgoing Chief Executive Officer and the Chief Development Officer, the Committee approved their retirement packages for remuneration and benefits.

The Remuneration Committee's membership comprises the independent Chairman and representatives of each of the investor consortium, all of whom are Board members.

Other Committees

In addition to the Board Committees, there are four non-Board Committees:

- *Executive Committee* – chaired by the Chief Executive Officer, this Committee is responsible for managing the Group's day-to-day operations and the development of strategic plans for consideration by the Merlin Board. It implements the Group's strategy and ensures that the business complies with all applicable statutory, regulatory and governance requirements.

Three operational Committees make recommendations to the Executive Committee and have specific areas of responsibility as follows:

- *Commercial and Strategic Risk Management Committee* – provides oversight and guidance on management of commercial and strategic risk.
- *Development Board* – reviews initial proposals for significant capital expenditure and development projects.
- *Investment Board* – appraises major capital expenditure and development projects.

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CORPORATE GOVERNANCE

2022 priorities

During 2022 the main areas of focus for the Merlin Board were as follows;

- Consolidating the improved business performance and strategic acquisitions.
- Approving the acquisitions of Cadbury World and the COEX Aquarium.
- Approving major capital projects.
- The recruitment of a new Chief Executive Officer following the announcement of Nick Varney's retirement.
- Approving the appointment of a new Chief Development Officer following the retirement of his predecessor.
- Agreeing an amendment to the Licence and Co-operation Agreement with KIRKBI.
- Monitoring the progress of LEGOLAND park projects in China.
- Reviewing 'next generation' LEGO Discovery Centres.
- Approving the Group's five year strategic plan towards the end of the year.

Corporate governance framework

During 2022 the Board and the Merlin Board maintained a strong corporate governance framework and they continue to apply the Wates Corporate Governance Principles for Large Private Companies. Details of how the Group approaches these principles are set out below.

Principle One – Purpose and Leadership

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Merlin's strategy has been to create a high growth, high return family entertainment company. The business is based on strong brands and a global portfolio which is naturally balanced against the impact of external factors. This strategy is aligned with our purpose of delivering memorable experiences to our millions of visitors and our vision of being the global leader in location based entertainment.

The Merlin Board continues to review and challenge Merlin's strategy, performance, responsibility, and accountability so that every decision made is of the highest quality, and in line with the Company's culture. This is set out in 'The Merlin Way' values which are embedded throughout the business, from day-to-day management to Merlin Board reviews.

The Group receives feedback from guests and employees via guest satisfaction surveys and employee engagement surveys; where relevant this feedback is incorporated in Board papers. The business model and the growth drivers of the Group are outlined in pages 6 to 10.

Whilst the Board holds overall responsibility for developing and promoting the purpose of the Group, the Merlin Board and the Executive Committee ensure that the values, strategy and culture are embedded globally on their behalf.

The Board Committees and Executive Committee review the effectiveness of key internal policies. For example, the Audit Committee reviews the effectiveness of the Group's whistleblowing and fraud policies across the organisation.

Principle Two – Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having enough capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

The Board is appointed in accordance with the Shareholder Investment Agreement. Each investor has nominated suitably qualified representatives to sit on the Board and the Merlin Board. The Directors possess a wide range of skills, backgrounds, experience, and knowledge across a broad range of businesses. The composition of the Board is considered appropriate for the size and complexity of the Company. Details of the Board members can be found on pages 33 to 34.

An Audit Committee, Remuneration Committee and Health, Safety and Security Committee have been established. They have been in operation throughout the year. The Chairman of the Board and of each Committee is responsible for leading and facilitating constructive meetings. The Chairman of the Board regularly elicits feedback from other Board members on meeting effectiveness and governance.

Careful consideration has been given to the appointment of the Chair of each Committee. The Audit Committee is chaired by an individual with recent and relevant financial experience. The Remuneration Committee is chaired by the independent Chairman. The Health, Safety and Security Committee is chaired by an independent health and safety expert. The responsibilities of the Board and these Committees are outlined on page 31.

Throughout 2022, the Board, Merlin Board and Executive Committee together was comprised of 12 men and two women. Details of the gender mix of the Group and its senior management are set out on page 24, together with details of our actions in the area of diversity and inclusivity.

Principle Three – Directors Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

The Board understands its responsibility for promoting the success of the Company for the benefit of shareholders and with consideration of its stakeholders. This is done in a way which is consistent with its ethical, legal, and regulatory responsibilities and the Company's constitution. The Board, the Merlin Board and Committees are bound by a Shareholder Investment Agreement and respective terms of reference which give clear guidance on the matters and key strategic decisions which require Board or Committee approval.

The Merlin Board met six times during 2022, of which three meetings were conducted in person. The Merlin Board are provided with appropriate board packs in advance of the meetings, including project approval papers and updates on trading, financial performance, employee engagement and welfare, legal matters and management of key business risks. When making decisions, only the shareholder representatives have voting rights.

Key financial information is collated from the Company's accounting systems. The Group's financial information is externally audited, and its controls are reviewed regularly by the Group's internal audit function. The Board delegates the scrutiny of financial information and controls to the Audit Committee. The Merlin Board delegates authority for the day-to-day management of the Company to the Executive Committee which meets at least eight times each year.

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Principle Four – Opportunity and Risk

A board should promote the long term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Oversight of risk management is performed on an ongoing basis through interaction with management and by risk being a regular item on Merlin Board agendas. Two Committees have specific responsibilities for risk management. The Health, Safety and Security Committee oversees the key areas of health, safety and security while wider risk management and internal controls activities and commercial risks are considered by a sub-committee of the Executive Committee, chaired by executive management, which reports back to the Executive Committee regularly.

The Board retains overall responsibility for risk management and the Merlin Board approves the risk management framework which sets out the responsibilities, oversight, monitoring, reporting and management processes. Further details regarding the approach to risk management are set out on pages 19 to 23. Long term strategic opportunities are highlighted through the Group's strategic planning processes that the Board oversees. Other opportunities are brought to the attention of the Board when they arise.

Principle Five – Remuneration

A board should promote executive remuneration structures aligned to the long term sustainable success of a company, considering pay and conditions elsewhere in the company.

Remuneration matters during the year were considered by the Remuneration Committee. All matters relating to remuneration are considered by that body and recommended to the Merlin Board for approval, in line with the Committee's terms of reference. Our remuneration policies and principles are aligned with the Group's performance to support our overall values, purpose and strategy. A series of key principles underpin the Merlin remuneration structure - pay should be based on results and performance; consistent with best practice; and aligned to the long term success of the Company.

During the year the Remuneration Committee ensured awards under the management long term incentive plans for new employees and leavers were managed appropriately. More details are set out in note 5.6 to the financial statements.

Principle Six – Stakeholder Relationships and Engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

The Board are aware of the importance of fostering effective stakeholder relationships to enable the long term success of the Group. Details of how Merlin engages with stakeholders, including employees, is provided in the section 172 statement on page 30. The Group's business model also focuses on our interactions with customers, employees and investors; more information can be found on pages 7 to 8.

During 2022, new Board paper guidance was issued within the business which requires all new proposals for capital projects to include a section on stakeholder engagement, including customers and employees, and how their views have been factored into project plans. Furthermore, Board papers also address the sustainability, accessibility and health and safety aspects of projects. This has improved the quality of Board papers and strengthened stakeholder voices in the Group's development pipeline.

Board membership

The Directors currently serving are the independent Chairman and the members of the investor consortium, who also have the right to appoint observers to the Board, the Merlin Board and Committees. Each Director from the investor consortium has one vote at the Board and the Merlin Board. The Group Chief Executive Officer and the Group Chief Financial Officer are executive roles and these positions do not have voting rights at Merlin Board meetings. The members of the Board during the year and at the date of this report are set out below.

Roland Hernandez, Independent Chairman

Roland was appointed as a Director and independent Chairman on 7 April 2020. He is the Founding Principal and Chief Executive Officer of Hernandez Media Ventures, a privately held company engaged in the acquisition and management of media assets. He has served in this capacity since January 2001.

Before founding Hernandez Media Ventures, Roland served as Chairman of Telemundo Group, Inc., a Spanish-language television and entertainment company, from 1998 to 2000 and as President and Chief Executive Officer from 1995 to 2000. He serves as a member of the Boards of US Bancorp, Fox Corporation, and Take-Two Interactive Software, Inc. He serves on the advisory board of Harvard Law School and previously served on the Board of Directors of Belmond Ltd, MGM Resorts International, Sony Corporation, Walmart Inc, and Vail Resorts, Inc.

Roland received an A.B. in economics from Harvard College and a J.D. from Harvard Law School.

Søren Thorup Sørensen, KIRKBI Shareholder Representative

Søren was appointed as a Director on 26 June 2019, having also been a Non-executive Director of Merlin since 2013, prior to Merlin's initial public offering (IPO), representing KIRKBI. Søren has over 25 years' experience in finance and is currently the Chief Executive Officer of KIRKBI A/S and Director of various entities in the KIRKBI Group.

Søren is currently Deputy Chairman of LEGO A/S and a Non-executive Director of ISS A/S, Landis+Gyr AG, Ole Kirk's Foundation, ATTA Foundation, Koldingvej 2, Billund A/S and K2 Fonden af 2023 and six fully owned subsidiaries of KIRKBI A/S. Søren was formerly a Partner, Chief Financial Officer of A.P. Moller – Maersk Group and Managing Partner of KPMG Denmark.

Jørgen Vig Knudstorp, KIRKBI Shareholder Representative

Jørgen was appointed as a Director on 26 June 2019, having previously been a Board observer while Merlin was listed. Jørgen is a Member of the Board of LEGO A/S and Executive Chairman of the LEGO Brand Group. Jørgen also holds positions as a Member of the Board of Starbucks, a Member of IMD Supervisory Board and as Chairman of BrainPOP. Jørgen joined the LEGO Group in 2001 and in 2004 he was appointed President and CEO of LEGO Group. He began his career at McKinsey & Company in 1998 and holds an M.Sc. and Ph.D. in Economics Management from Aarhus University in Denmark.

Sidsel Marie Kristensen, KIRKBI Shareholder Representative

Sidsel was appointed as a Director on 4 November 2019. Sidsel has more than 20 years' experience as a lawyer. Sidsel joined KIRKBI A/S in 2016 and was an Executive Vice President and General Counsel until 31 January 2023. Sidsel is Chairman of LEGO Juris A/S and a board member of Euro Cater Holding A/S, BrainPOP, Imagination Lab Foundation, seven fully owned subsidiaries of KIRKBI A/S, four fully owned subsidiaries of the Merlin Group and Shanghai LEGOLAND Management Co., Ltd. Sidsel was formerly a Partner of the Danish law firm Bech-Bruun. Following her appointment as CEO of the LEGO Foundation, Koldingvej 2 Billund A/S, Sidsel resigned from the Board and other Merlin companies on 1 February 2023.

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Damir Hamzic, KIRKBI Shareholder Representative (appointed 1 February 2023)
Damir was appointed as a Director on 1 February 2023, having previously been a Board observer. Damir joined KIRKBI A/S in 2018 and is currently Head of Circular Plastics Investments and furthermore supports the LEGO Brand Group. Damir is a board member of Shanghai LEGOLAND Co., Ltd. Prior to joining KIRKBI Damir was a Group Vice President at Falck and a Director at Carnegie Investment Bank.

Joseph Baratta, Blackstone Shareholder Representative
Joseph was appointed as a Director on 4 November 2019. Joseph Baratta is Blackstone's Global Head of Private Equity and a member of Blackstone's Board of Directors and Management Committee. He also serves on many of Blackstone's investment committees.

Mr. Baratta joined Blackstone in 1998 and in 2001 he moved to London to help establish Blackstone's corporate private equity business in Europe. Since 2012, Mr. Baratta has served as the firm's Global Head of Private Equity and is located in New York.

Mr. Baratta has served on the boards of many past Blackstone portfolio companies and currently serves as a member or observer on the boards of Ancestry, Candle Media, First Eagle Investment Management and Medline. He is also a member of the Board of Trustees of Georgetown University, is a trustee of the Tate Foundation, and serves on the board of Year Up, an organization focused on youth employment.

Before joining Blackstone, Mr. Baratta was with Tinicum Incorporated and McCown De Leeuw & Company. Mr. Baratta also worked at Morgan Stanley in its mergers and acquisitions department. Mr. Baratta graduated magna cum laude from Georgetown University.

Peter Wallace, Blackstone Shareholder Representative
Peter was appointed as a Director on 26 June 2019. Mr Wallace is a Senior Managing Director and serves as Global Head of Core Private Equity for Blackstone. Mr. Wallace leads Blackstone's private equity investments in the services, leisure, and consumer/retail sectors. He also serves on several of the firm's investment committees.

Since joining Blackstone in 1997, Mr. Wallace has led or been involved in Blackstone's investments in Alight Solutions, AlliedBarton Security Services, Allied Waste, American Axle & Manufacturing, Centennial Communications, Centerplate (formerly Volume Services America), CommNet Celluar, GCA Services, LocusPoint Networks, Michaels Stores, New Skies Satellites, Outerstuff, Ltd., Pinnacle Foods/Birds Eye Foods, PSAV, PSSI, SeaWorld Parks & Entertainment (formerly Busch Entertainment Corporation), Servpro, Sirius Satellite Radio, Tradesmen International, Universal Orlando, Vivint, Vivint Solar and the Weather Channel. He currently serves on the Board of Directors of Alight Solutions, Chamberlain Group, CoreTrust, Merlin Entertainments, PSAV, PSSI, Servpro, Tradesmen International, and Vivint. He is a trustee of Children's Aid Society, one of America's oldest and largest children's nonprofits.

Mr. Wallace received a BA from Harvard College, where he graduated magna cum laude.

Ricardo Caupers, CPPIB Shareholder Representative (appointed 25 January 2022)
Ricardo was appointed as a Director on 25 January 2022. Ricardo is responsible for CPPIB's direct private equity investments in business services companies in Europe. He also has geographic coverage responsibility for Southern Europe.

Prior to joining CPP Investments in 2020, Ricardo was a Partner at Palamon Capital Partners, where he spent more than ten years focusing on investments in fast-growing European companies. While at Palamon, Ricardo led a number of investments in both consumer and retail as well as business services companies, including Retail Decisions, a B2B payments company, Thomas International, a talent assessment tools provider to small and medium sized businesses, Feelunique, an European online retailer of branded beauty products, and The Rug Company, an international brand of contemporary designer home furnishings. He led the successful sale of Retail Decisions to ACI Worldwide, and Feelunique was eventually exited by Palamon to international beauty retailer Sephora after his departure.

Previously, he worked for The Boston Consulting Group in New York and London from 1999 to 2008, leading strategic advisory projects for Fortune 500 corporates.

Ricardo holds a BA in Business Administration from Universidade Católica Portuguesa and an MBA from Harvard Business School.

Key members of the Merlin Executive Committee

The key members of the Executive Committee together with the Directors of the Board form the Merlin Board. Details of Merlin's key executives are set out below.

Scott M O'Neil, Group Chief Executive Officer
Scott was appointed on 15 November 2022.

Scott has more than 25 years of experience in leading and managing global sports and entertainment brands. With a reputation for innovation, an eye for strategic and global brand development and partnerships, and a passion for culture and talent development, Scott has stewarded some of the sports and entertainment industry's most renowned and iconic brands and properties, including the NBA's New York Knicks and Philadelphia 76ers; the NFL's Philadelphia Eagles, the NHL's New York Rangers and New Jersey Devils; and the internationally ranked sports and entertainment arenas, Madison Square Garden and Prudential Center.

Scott's mission to build innovative, inspiring, diverse, socially impactful and high performing businesses and brands earned the organisations under his management acclaim in innovation and culture. He recently published a life leadership book entitled 'Be Where Your Feet Are' published by St. Martins Press.

Scott earned his Bachelor's degree in Marketing from Villanova University and his Masters in Business Administration from Harvard Business School.

Alistair Windybank, Group Chief Financial Officer
Alistair was appointed Group Chief Financial Officer in November 2020, including responsibility for Merlin Group IT and Procurement.

Alistair joined Merlin in 2008 and has held various senior finance roles, including Head of Corporate Finance, Group Investor Relations Director, Senior Finance Director – Capital Projects and most recently, Deputy Chief Financial Officer.

Prior to Merlin, Alistair worked for Deloitte in Audit & Assurance.

Nick Varney, Group Chief Executive Officer
After being with Merlin for 23 years, Nick retired on 14 November 2022.

GOVERNANCE

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements for the 53 week period ended 31 December 2022. Comparative figures relate to the 52 week period ended 25 December 2021.

In order to make our Annual Report and Accounts more accessible, we have set out below where certain required disclosures can be found in other areas of this Annual Report.

Strategic Report

Non-financial reporting

Information regarding Merlin's approach to the five topics required by the Companies Act is set out in the Responsible Business section on pages 24 to 29.

Other information

Other information is set out as follows:

- Business review and future developments – see pages 1 to 29.
- Research and development – details about Merlin Magic Making are located on page 6.
- Directors – details are on pages 33 to 34.
- Employees – details on how we communicate with employees are on page 24.
- Directors' responsibilities statement – see page 37.

Governance

Wates Principles

The Company has adopted the Wates Corporate Governance Principles for Large Private Companies. Details of the Wates Principles framework can be viewed on the website of the Financial Reporting Council (**www.frc.org.uk**). Details of how the Group approaches these principles are set out on pages 32 to 33.

Guidelines for Disclosure and Transparency in Private Equity

Each of the consortium members is a private equity or 'private equity-like' investor. Accordingly, this Annual Report and Accounts complies with the Guidelines for Disclosure and Transparency in Private Equity for UK companies in private equity ownership.

Other information

Other information is set out as follows:

- Section 172 statement – see page 30.
- Corporate governance – see pages 31 to 34.

Financial statements

The financial statements contain information in the following areas:

- Capitalised interest – see note 2.3.
- Financial instruments – see note 5.3.
- Financial risk management – see note 5.3.
- Share-based payment transactions – see note 5.6.
- Related parties – see note 6.3.
- Subsidiaries and joint ventures – see note 6.6.

Directors' Report

The Directors' Report itself contains the sections detailed below.

Share capital and related matters

The Articles of Association do not contain any restrictions on the transfer of shares in the Company other than customary restrictions applicable where any amount is unpaid on a share (all the issued share capital of the Company as of the date of this Annual Report and Accounts is fully paid). Each ordinary share in the capital of the Company ranks equally in all respects. No shareholder holds shares carrying special rights relating to the control of the Company.

Amendment to the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution of its shareholders passed at a general meeting of its shareholders.

Appointment and removal of Directors

The Company is governed by its Articles of Association, the Shareholder Investment Agreement and the Companies Act 2006 and related legislation, with regard to the appointment and replacement of Directors.

Power of Directors in respect of share capital

The Directors may exercise all the powers of the Company (including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares).

Directors' indemnities and insurance

The Articles of Association of the Company permit it to indemnify the Directors of the Company or any Group company against liabilities arising from or in connection with the execution of their duties or powers to the extent permitted by law.

The Company has not given any specific indemnity in favour of the Directors during the year, but the Company has purchased Directors' and Officers' Liability Insurance, which provides cover for liabilities incurred by Directors in the performance of their duties or powers. No amount was paid under any Director's indemnity or the Directors' and Officers' Liability Insurance during the year.

Significant contracts

There were no contracts of significance during the year to which the Company, or any of its subsidiary undertakings, is a party and in which a Director is or was materially interested.

Branches outside the UK

Motion JVco Limited has no branches outside the UK.

Dividend

No dividends were paid or recommended during the current or prior financial year.

GOVERNANCE

DIRECTORS' REPORT

Going concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In making this statement the Directors have satisfied themselves that based on its current base case, the Group has access to sufficient cash funds and borrowing facilities and can reasonably expect those facilities to be available to meet the Group's foreseeable cash requirements.

For further details see note 1.1 to the financial statements.

Political donations

No entity in the Group made any political donations, or incurred any political expenditure (each as defined by the Companies Act 2006) in the 53 weeks ended 31 December 2022.

Auditors

As recommended by the Audit Committee, a resolution for the re-appointment of Ernst & Young LLP as auditors to the Company will be proposed. So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. The Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

Approval of Annual Report

The Strategic Report, Corporate Governance Report and the Directors' Report were approved by the Board on 17 March 2023.

For and on behalf of the Board

Søren Thorup Sørensen
Director
17 March 2023

Motion JVco Limited
Registered number 12057312

GOVERNANCE

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK adopted international accounting standards and applicable law, including FRS 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs and in respect of the parent Company financial statements, FRS 101, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- for the Group financial statements, state whether they have been prepared in accordance with UK adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

To the Members of Motion JVco Limited

Opinion

We have audited the financial statements of Motion JVco Limited (the Company) and its subsidiaries (the Group) for the 53 weeks ended 31 December 2022 (the period) which comprise of the consolidated income statement, the consolidated and Company statement of financial position, consolidated statement of cash flows, the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's profit for the 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for a period of 18 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT

To the Members of Motion JVco Limited

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Company and determined that the most significant which are directly relevant to specific assertions in the financial statements, are those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006, and FRS 101 and the Companies Act 2006), Health and Safety regulations and the relevant tax compliance regulations in the jurisdictions in which the Group operates.
- We understood how Motion JVco Limited is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our reading of Board and other relevant Committee minutes, discussions with the Audit Committee, review of whistleblowing reports and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group and Company's financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of the users of the financial statements.
- Based on this understanding we designed our audit procedures to identify irregularities including fraud. With support from relevant specialists, we performed audit procedures, including testing journal entries and other adjustments for appropriateness, which were designed to provide reasonable assurance the financial statements were free from material fraud or error. Our procedures involved reading of Board minutes and relevant reporting from the Company's legal counsel to identify non-compliance with such laws and regulations, reading reporting to the Audit Committee on compliance with regulations, enquiries of legal counsel, Group management, the Audit Committee, internal audit and subsidiary management at all full-scope components and review of any relevant investigations undertaken.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Rachel Savage (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

17 March 2023

PRIMARY STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the 53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

	Note	2022 Underlying trading £m	2022 Exceptional items [3] £m	2022 Total £m	2021 Underlying trading £m	2021 Exceptional items [3] £m	2021 Total £m
Revenue	2.1	2,006	-	2,006	1,261	-	1,261
Cost of sales	2.1	(359)	-	(359)	(226)	-	(226)
Gross profit		1,647	-	1,647	1,035	-	1,035
Staff expenses	2.1	(536)	-	(536)	(373)	(1)	(374)
Marketing		(74)	-	(74)	(30)	-	(30)
Other operating expenses		(366)	-	(366)	(253)	(2)	(255)
EBITDA[1]	2.1	671	-	671	379	(3)	376
Depreciation, amortisation and impairment	2.1	(256)	(29)	(285)	(247)	1	(246)
Operating profit		415	(29)	386	132	(2)	130
Finance income	2.3	29	-	29	2	-	2
Finance costs	2.3	(279)	-	(279)	(226)	-	(226)
Profit/(loss) before tax		165	(29)	136	(92)	(2)	(94)
Taxation	2.4	(51)	4	(47)	(46)	-	(46)
Profit/(loss) for the year[2]		**114**	**(25)**	**89**	**(138)**	**(2)**	**(140)**

(1) *EBITDA – this is defined as profit before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of attributable profit after tax of joint controlled entities (see note 6.1).*

(2) *Profit for the year for 2022 and loss for the year for 2021 are wholly attributable to the owners of the Company.*

(3) *Details of exceptional items are provided in note 2.2.*

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

	Note	2022 £m	2021 £m
Profit/(loss) for the year		89	(140)
Other comprehensive income			
Items that cannot be reclassified to the consolidated income statement			
Equity investments at FVOCI - net change in fair value	6.1	2	(1)
Defined benefit plan remeasurement gains	6.2	8	3
Income tax on items relating to components of other comprehensive income	2.4	(2)	-
		8	2
Items that may be reclassified to the consolidated income statement			
Exchange differences on the retranslation of net assets of foreign operations		(17)	47
Exchange differences relating to the net investment in foreign operations		4	(1)
Cash flow hedges - effective portion of changes in fair value		36	-
Cash flow hedges - reclassified to profit and loss		1	-
Income tax on items relating to components of other comprehensive income	2.4	(9)	-
		15	46
Other comprehensive income for the year net of income tax		23	48
Total comprehensive income for the year[1]		**112**	**(92)**

[1] *Total comprehensive income for the year for 2022 and 2021 is wholly attributable to the owners of the Company.*

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022 *(2021: 25 December 2021)*

	Note	2022 £m	2021 £m
Property, plant and equipment	4.1	2,664	2,507
Right-of-use assets	5.4	1,633	1,512
Goodwill and intangible assets	4.2	3,685	3,511
Investments	6.1	11	24
Employee benefits	6.2	2	-
Derivative financial assets		39	-
Other receivables	4.4	13	5
Tax receivable	2.4	31	29
Deferred tax assets	2.4	5	14
Non-current assets		8,083	7,602
Inventories	4.4	61	43
Trade and other receivables	4.4	165	113
Derivative financial assets		5	1
Tax receivable		32	23
Cash and cash equivalents	5.1	266	185
Current assets		529	365
Total assets		8,612	7,967
Interest-bearing loans and borrowings	5.2	22	37
Lease liabilities	5.4	42	34
Derivative financial liabilities		7	3
Trade and other payables	4.4	491	484
Tax payable		42	28
Provisions	4.5	23	8
Current liabilities		627	594
Interest-bearing loans and borrowings	5.2	3,785	3,517
Lease liabilities	5.4	1,570	1,424
Other payables	4.4	62	20
Provisions	4.5	128	116
Employee benefits	6.2	-	7
Deferred tax liabilities	2.4	440	403
Non-current liabilities		5,985	5,487
Total liabilities		6,612	6,081
Net assets		**2,000**	**1,886**
Issued capital and reserves attributable to owners of the Company		1,996	1,882
Non-controlling interest		4	4
Total equity	5.5	**2,000**	**1,886**

The financial statements were approved by the Board of Directors on 17 March 2023 and were signed on its behalf by:

Søren Thorup Sørensen
Director

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

	Note	Share capital £m	Share premium £m	Capital reserve £m	Translation reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 26 December 2020		29	2,956	6	(63)	-	-	(954)	1,974	4	1,978
Loss for the year		-	-	-	-	-	-	(140)	(140)	-	(140)
Other comprehensive income for the year net of income tax		-	-	-	46	-	-	2	48	-	48
Total comprehensive income for the year		-	-	-	46	-	-	(138)	(92)	-	(92)
Transfer to retained earnings	5.5	-	-	(6)	-	-	-	6	-	-	-
At 25 December 2021		**29**	**2,956**	**-**	**(17)**	**-**	**-**	**(1,086)**	**1,882**	**4**	**1,886**
Profit for the year		-	-	-	-	-	-	89	89	-	89
Other comprehensive income for the year net of income tax		-	-	-	(13)	(10)	38	8	23	-	23
Total comprehensive income for the year		-	-	-	(13)	(10)	38	97	112	-	112
Equity-settled share-based payments	5.6	-	-	-	-	-	-	2	2	-	2
At 31 December 2022	5.5	**29**	**2,956**	**-**	**(30)**	**(10)**	**38**	**(987)**	**1,996**	**4**	**2,000**

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit/(loss) for the year		89	(140)
Adjustments for:			
Depreciation, amortisation and impairment	2.1	285	246
Finance income	2.3	(29)	(2)
Finance costs	2.3	279	226
Taxation	2.4	47	46
		671	376
Loss on sale of property, plant and equipment		1	1
Movements in working capital		(69)	76
Changes in provisions and other non-current liabilities		39	1
		642	454
Tax (paid)/received		(20)	5
Net cash inflow from operating activities		622	459
Cash flows from investing activities			
Interest received		2	1
Acquisition of subsidiaries, net of cash acquired	3.1	(31)	-
Acquisition of investments		-	(7)
Purchase of property, plant and equipment		(195)	(291)
Disposal of property, plant and equipment		2	-
Net cash outflow from investing activities		(222)	(297)
Cash flows from financing activities			
Repayment of borrowings	5.2	(16)	(13)
Repayment of shareholder loans		-	(15)
Net capital repayment of lease liabilities[1]		(33)	(34)
Interest paid		(277)	(232)
Financing costs		-	(1)
Net cash outflow from financing activities		(326)	(295)
Net increase/(decrease) in cash and cash equivalents		74	(133)
Cash and cash equivalents at beginning of year	5.1	185	306
Effect of movements in foreign exchange		7	12
Cash and cash equivalents at end of year	5.1	**266**	**185**

(1) *Capital repayments of leases are stated net of £6 million received from the landlord as part of the lease modification at Heide Park Resort. In 2021 they are stated net of £25 million received from the landlord relating to the three UK Resort Theme Park locations (see note 5.4).*

NOTES TO THE ACCOUNTS

SECTION 1
BASIS OF PREPARATION

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

1.1 BASIS OF PREPARATION

Motion JVco Limited (the Company) is a private company limited by shares which is incorporated in the United Kingdom. Its registered office is Link House, 25 West Street, Poole, Dorset, BH15 1LD.

The consolidated financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards. The Company prepares its parent Company financial statements in accordance with UK adopted international accounting standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries and joint ventures.

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*.

The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value. The consolidated financial statements are presented in Sterling. All values are stated in £ million (£m) except where otherwise indicated.

Going concern

The Group reported a profit for the year of £89 million *(2021: loss of £140 million)* and generated operating cash inflows of £622 million *(2021: £459 million)*. The Board has assessed the Group and Company's ability to continue as a going concern to the end of Q3 2024 (being the 'going concern assessment period'). The financial statements have been prepared on a going concern basis, which the Directors consider to be appropriate for the reasons set out below.

Funding

The going concern assessment considers the Group's projected liquidity position and headroom over covenant thresholds from existing committed financing facilities throughout the going concern assessment period. As at 31 December 2022, the Group had a cash balance of £266 million and available undrawn facilities of £370 million relating to the Group's revolving credit facility (RCF), with no unexpected post balance sheet changes in liquidity. In line with our forecasts, we have seen cash outflows between the reporting date and the date of approval of the financial statements that reflect the normal seasonality of trading, combined with ongoing capital investment. The Group's sources of financing and its net debt at the reporting date are detailed in notes 5.1 and 5.2.

A financial covenant exists in relation to the Group's £400 million RCF, which applies when the RCF is drawn by 40% or more (net of cash and cash equivalents). It requires the Group to maintain adjusted consolidated senior secured leverage below 10x. With effect from June 2021, the Group agreed with its RCF lenders to waive the leverage covenant until Q3 2023. The terms of the waiver agreement require the Group to maintain a minimum liquidity of £75 million (to include amounts undrawn from the RCF, and cash and cash equivalents), over the period of the waiver. The Group has complied with all covenants and the terms of the waiver agreement throughout the year.

Base case

The projections and forecasts prepared for the going concern assessment period to the end of Q3 2024 are derived from the Group's 2023 budget, completed in Q4 2022, and its longer term strategic plan, both approved by the Merlin Board in December 2022. This period has been selected as the going concern assessment period to ensure that it includes the likely liquidity low point in the next trading cycle.

Our 'base case' forecast over the going concern assessment period is based on what we believe is a balanced approach. In this base case, we have made certain key assumptions:

- The base case includes the expected positive impact of continued revenue initiatives and management actions to mitigate inflationary cost pressures, while maintaining the customer experience. Utility costs modelled are based on contracted or forward rates where appropriate. Where contracted rates are not available, utility costs have been modelled using market rates, taking into account the significant inflation seen in this area.
- The impact of the rising cost of living on our guests has been considered, utilising data derived from trading periods overlapping with historic global recessions and considering any impact to current trading. We do not expect any significant impact to visitation numbers. Marketing strategies to stimulate visitation can be implemented as required.
- It is expected that the recovery of international tourism will continue. At the time of approving these financial statements the only elements of our portfolio that are significantly affected by restrictions on international travel are parts of the Asia Pacific region, primarily China.
- Expansionary capital expenditure on planned attractions will continue throughout the assessment period, alongside ongoing capital expenditure at existing attractions to ensure the health and safety of our guests and staff.
- The base case specifically excludes any potential acquisitions over the period, or any strategic initiatives yet to be approved by the Merlin Board.
- We assume that the covenant waiver remains in place until Q3 2023, after which the financial covenant applies should the RCF be drawn by 40% or more. Under the base case, the RCF is not forecast to be drawn to this extent during the assessment period.
- Interest rates modelled during the assessment period are based on forward market rates, and reflect the hedging arrangements in place (see note 5.3).

NOTES TO THE ACCOUNTS

SECTION 1

BASIS OF PREPARATION CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

1.1 BASIS OF PREPARATION (CONTINUED)

- We have assessed that the likelihood of any future COVID-19 related lockdowns and restrictions that would affect a significant part of our attractions portfolio is remote. Hence, no further closures or government related capacity constraints have been modelled within the going concern assessment period. During 2021 and 2022 the business demonstrated its ability to trade even while restrictions were in place.

The Directors have prepared cash flow forecasts for an 18-month period from the date of approval of these financial statements up to the end of Q3 2024 which indicate that, under the base case, the Group will have sufficient funds to meet its liabilities as they fall due.

In this base case, there would be no breach of lending facilities taking into account the terms of the covenant calculations. Adequate liquidity is maintained through the entire assessment period to Q3 2024. There are no significant restrictions on intra group liquidity transfers as required, and no material capital repayments of debt falling due within the going concern assessment period, with the next maturity of facilities being in respect of €500 million of 7.0% senior secured notes due 2025.

Downside scenarios

The Directors believe the base case scenario above is reasonable and appropriate. The potential impact of increasing inflationary costs and interest rates are inbuilt and the base case also considers slower recovery in the Asia Pacific portfolio from international tourism.

In addition to the wide range of factors already considered in the base case, the Directors have prepared a downside scenario considering other severe but plausible events. Examples include events leading to extended attraction closures occurring due to:

- Ride safety incidents;
- Severe weather incidents; and
- Security related incidents including acts of terrorism and/or the impact of the threat of terrorism on consumer behaviours.

The continuing war in Ukraine has been considered but not modelled in the downside scenario. Our trading operations are not directly affected by the war and to date the Group has not seen any significant impact on performance as a direct consequence of the ongoing conflict.

The diversification of the Group's attractions helps minimise the risk of serious business interruption potentially caused by the risks considered in the downside scenario. While not modelled in the downside scenario, there are numerous mitigating actions the Group could take to address both modelled and unmodelled adverse impacts. These mitigating measures are considered to be realistically available to the Group based on historical experience, enabling us to meet our liabilities as they fall due should this situation arise. Within the Group's control, significant cost cutting measures could be implemented across operations and the Group could delay uncommitted capital expenditure. This ability to manage the cost base and rephase or defer capital investment provides reasonable protection to the Group in the face of macro events or uncertainty not in the Group's control. While not in the direct control of the Group, we could also seek to further extend the waiver to financial covenants on its borrowing facilities, renew/replace existing facilities and/or raise further finance through cash injections from the consortium of investors in the Company. Given the Group's history of cash generation and the successful issue of debt securities including during the COVID-19 pandemic, we would expect to be able to raise such funds as required. However, there is no guarantee that such funds will be available.

In the modelled downside scenario, and not taking into account the impact of any mitigation measures, the Group's currently available liquidity would remain positive, albeit reduced, throughout the going concern assessment period. Consistent with the base case, under this scenario there would be no breach of lending facilities considering the terms of the covenant calculations, with leverage remaining within the required limits throughout.

Stress testing has been performed to model scenarios which would cause a liquidity shortfall or covenant breach within the going concern assessment period. These scenarios have been assessed and have been deemed remote. Our assessment indicates that the Group would still have sufficient funds to enable it to operate within its available facilities and settle its liabilities as they fall due through the going concern assessment period.

Conclusion

Considering the Group and Company's statement of financial position, available facilities, cash flow forecasts and the above modelled base case and downside scenarios, financial projections indicate that the Group will have sufficient funds and resources to continue in operational existence, operate within its available facilities and settle its liabilities as they fall due over the going concern assessment period. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated Group and Company financial statements.

NOTES TO THE ACCOUNTS

SECTION 1

BASIS OF PREPARATION CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

1.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements comprise the financial statements of Motion JVco Limited and its subsidiaries at the end of each reporting period (see note 6.6) and include its share of its joint ventures' results using the equity method.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated.

Whilst the Group operates in the hyperinflationary jurisdiction of Turkey, the operations are immaterial and as a result the application of IAS 29 'Financial Reporting in Hyperinflationary Economies' has not had a material impact to the Group's consolidated results.

Foreign currency

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

The results and financial position of those Group companies that do not have a Sterling functional currency are translated into Sterling as follows:

- Assets and liabilities are translated at the closing rate at the end of the reporting period.
- Income and expenses are translated at average exchange rates during the period.
- All resulting exchange differences are recognised in equity in the translation reserve.

The reporting date foreign exchange rates by major currency are provided in note 5.3.

Classification of financial instruments issued by the Group

Financial instruments are recognised on the statement of financial position when the Group becomes party to the contractual provisions of the instrument. The accounting policy for each type of financial instrument is included within the relevant notes.

Financial assets are initially measured at fair value, unless otherwise noted, and are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are initially measured at fair value, plus, in the case of other financial liabilities, directly attributable transaction costs. Other financial liabilities, primarily the Group's interest-bearing loans and borrowings are measured at amortised cost. Financial liabilities are measured at fair value through profit or loss and are held on the statement of financial position at fair value. A financial liability is derecognised when the Group's obligations are discharged, expire or are cancelled. Finance payments associated with financial liabilities are accounted for as part of finance costs.

An equity instrument is any contract that has a residual interest in the assets of the Group after deducting all of its liabilities. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity. The preference shares issued by the Company carry a fixed, cumulative, preferential dividend which accrues (but is not payable) on each preference share on a daily basis from the date of issue of the relevant preference share. Payment of these dividends is at the discretion of the Company and accordingly they have been classified as equity.

Where financial instruments consist of a combination of debt and equity, the Group will assess the substance of the arrangement in place and decide how to attribute values to each taking into consideration the policy definitions above.

Further information on equity instruments issued by the Group is set out in note 5.5.

New standards and interpretations

A full list of new accounting standards and interpretations that have been implemented in the year, including those which have had no significant impact, can be found in note 6.4.

NOTES TO THE ACCOUNTS

SECTION 1

BASIS OF PREPARATION CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

1.1 BASIS OF PREPARATION (CONTINUED)

Judgements and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Management considers the following areas to be the areas that have the most significant effect on the amounts recognised in the financial statements. They are explained in more detail in the related notes.

Judgements

Management considers the following areas to be the judgements that have the most significant effect on the amounts recognised in the financial statements.

- *Useful life of brands (note 4.2)* - where significant brands have been recognised as part of an acquisition, they have been assessed as having indefinite useful lives and management have considered that this judgement remains appropriate.
- *Goodwill impairment reviews (note 4.3)* - the level at which goodwill is initially allocated and thereafter monitored.
- *Lease obligations (note 5.4)* - IFRS 16 'Leases' defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, the Group makes a judgement at the reporting date as to whether it is reasonably certain that the option will be taken.

Estimates

The preparation of the Group's consolidated financial statements also includes the use of estimates and assumptions. Management considers the following to be the area which includes the use of estimates and assumptions and which could have a significant risk of a material change to the carrying value of assets and liabilities within the next year:

- *Valuation of LEGOLAND Parks (LLP) and Resort Theme Parks (RTP) Operating Groups' assets and impairment (note 4.3)* - the estimation of future cash flows together with the discount rates adopted when calculating the value in use of assets.

The consolidated financial statements also include other areas of judgement and accounting estimates. Management considers the following to be areas where the recognition and measurement of certain assets and liabilities are based on assumptions and/or are subject to longer term uncertainties, but that do not meet the definition under IAS 1 of significant accounting estimates or critical accounting judgements:

- *Taxation (note 2.4)* - recognition of deferred tax balances and accounting for tax risks.
- *Valuation of Midway Attractions Operating Group assets and impairment (note 4.3)* - the estimation of future cash flows together with the discount rates adopted when calculating the value in use of assets.
- *Provisions (note 4.5)* - estimated outflow to settle the obligations and, where relevant, the appropriate discount and inflation rates to apply.
- *Interest-bearing loans and borrowings (note 5.2)* - expected period of borrowings when calculating the effective interest rate on those borrowings.
- *Share-based payments (note 5.6)* - the implied enterprise value of Motion Topco Limited was calculated as at the reporting date in order to calculate share-based payment valuations for the three schemes. The valuation was performed using the Monte Carlo option pricing model, the inputs to which involve estimation uncertainty; these inputs are set out in note 5.6. Future valuation fluctuations could materially impact share-based payment expenses recognised in subsequent periods.
- *Share-based payments (note 5.6)* - using the Group's approved five year business plan and considering ongoing future strategies of both the Group and the Group's shareholders, the most likely vesting period for each scheme has been estimated, with the maximum length of award expected to be nine years.
- *Employee benefits (note 6.2)* - assumed discount rate, inflation rate and mortality when valuing defined benefit liabilities.

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.1 PROFIT BEFORE TAX

Segmental information

An operating segment, as defined by IFRS 8 'Operating segments', is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group is managed through its three Operating Groups, which form the operating segments on which the information shown below is prepared. The Group determines and presents operating segments based on the information that is provided internally to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker, and the Board. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance.

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m	Other items [3] £m	Exceptional items [4] £m	Total £m
2022							
Visitor revenue	604	665	361	1,630	-	-	1,630
Accommodation revenue	-	217	83	300	-	-	300
Other revenue	27	42	6	75	1	-	76
Revenue[1]	**631**	**924**	**450**	**2,005**	**1**	**-**	**2,006**
EBITDA[2]	**249**	**330**	**157**	**736**	**(65)**	**-**	**671**
Depreciation and amortisation (note 4.1, 4.2, 5.4)	(119)	(83)	(48)	(250)	(6)	-	(256)
Impairment (note 4.1, 5.4, 6.1)	-	-	-	-	-	(29)	(29)
Operating profit[2]	130	247	109	486	(71)	(29)	386
2021							
Visitor revenue	331	380	298	1,009	-	-	1,009
Accommodation revenue	-	124	70	194	-	-	194
Other revenue	13	33	6	52	6	-	58
Revenue[1]	**344**	**537**	**374**	**1,255**	**6**	**-**	**1,261**
EBITDA[2]	**102**	**172**	**148**	**422**	**(43)**	**(3)**	**376**
Depreciation and amortisation (note 4.1, 4.2, 5.4)	(112)	(66)	(61)	(239)	(8)	-	(247)
Impairment (note 5.4)	-	-	-	-	-	1	1
Operating profit[2]	(10)	106	87	183	(51)	(2)	130

(1) *Revenue is disaggregated into the three categories described below.*
(2) *Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included for information purposes.*
(3) *Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.*
(4) *Details of exceptional items are provided in note 2.2.*

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.1 PROFIT BEFORE TAX (CONTINUED)

Geographical areas

While each Operating Group is managed on a worldwide basis, part of our strategy is to diversify geographically across the four regions shown below. The information presented is based on the geographical locations of the visitor attractions concerned.

Geographical information

	Revenues 2022 £m	Non-current assets 2022 £m	Revenues 2021 £m	Non-current assets 2021 £m
United Kingdom	593	2,963	461	2,935
Continental Europe	468	1,694	256	1,526
North America	710	2,379	425	2,179
Asia Pacific	235	959	119	895
	2,006	7,995	1,261	7,535
Investments (note 6.1)		11		24
Employee benefits (note 6.2)		2		-
Derivative financial assets		39		-
Tax receivable		31		29
Deferred tax (note 2.4)		5		14
		8,083		7,602

Revenue

Revenue represents the amounts received (excluding VAT and similar taxes) in the areas set out below and which have been disaggregated in the segmental information presented above. When accounting for revenue, an assessment is made, considering the control principles of IFRS 15 'Revenue from Contracts with Customers', as to whether parties involved in providing goods or services to a customer are acting as a principal (if they control delivery to the customer) or, if they are arranging for those goods or services to be provided by the other party, as an agent. Where Merlin has outsourced the delivery of the service, for example such as in food and beverage operations, the Group accounts for these as an agent.

- *Visitor revenue* - represents admissions tickets, retail, food and beverage sales and other commercial offerings such as photos and games experiences inside an attraction. Tickets and other services can be bought in advance, generally online, in which case they are held in deferred revenue and recognised when the visitor uses those tickets or services, or the validity period expires. Revenue from annual passes and other tickets that entitle a customer to continued visits over a period of time is deferred and then recognised over the period that the pass is valid. Retail and food and beverage revenue, along with other similar commercial offerings, is recognised at point of sale.
- *Accommodation revenue* - represents overnight stay and conference room revenue along with food and beverage revenue earned within our hotels and other accommodation offerings. Accommodation revenue is recognised at the time when a customer stays at the accommodation.
- *Other revenue* - represents sponsorship, function, management and development contract revenue along with other sundry items. Sponsorship revenue is recognised over the relevant contract term. Function revenue is recognised at the time of the event. Management contract revenue is recognised as it is earned. Where the Group enters into contracts for attraction development, revenue is recognised over time as performance obligations under the contracts are met.

Cost of sales

Cost of sales of £359 million *(2021: £226 million)* represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activities. Retail inventory, food and beverage consumables and costs associated with the delivery of accommodation are the principal expenses included within this category.

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.1 PROFIT BEFORE TAX (CONTINUED)

Operating expenses

Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2022	2021
Operations	18,074	15,423
Attraction management and central administration	2,487	2,187
	20,561	17,610

The aggregate payroll costs of these persons were as follows:

	2022 £m	2021 £m
Wages and salaries	455	342
Share-based payments	21	-
Social security costs	49	40
Other pension costs	13	11
Government support	(2)	(19)
	536	374

The total charge for the year for share-based payments for 2021 was less than £1 million. Further details are provided in note 5.6.

The Group has accessed government support measures in the geographies in which it operates, including employee furlough schemes. This funding meets the definition of a government grant and the income recognised in the year in relation to these furlough schemes was £2 million *(2021: £19 million)*.

Government grants are recognised when there is reasonable assurance that the Group has complied with the relevant conditions within the agreement and that the grant will be received. For each grant, the Group assesses whether it relates to either capital or operational expenditure incurred. A grant relating to expenses already incurred is recognised in the period in which it becomes receivable, offsetting the expenses the grants are intended to compensate. The funding received is included within the cash flows from operating activities in the consolidated statement of cash flows.

Directors' remuneration

Directors' remuneration for the year was £0.3 million, being the remuneration of the highest paid Director *(2021: £0.3 million)*. There were no Company pension contributions payable.

Related party transactions with key management personnel

The remuneration of key management, comprising the members of the Executive Committee, was as follows:

	2022 £m	2021 £m
Key management emoluments including social security costs	7.9	7.3

In addition to the above, charges relating to share-based payments and other related payments totalled £12.6 million *(2021: £0.2 million)* in relation to the schemes described in note 5.6.

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.1 PROFIT BEFORE TAX (CONTINUED)

Auditor's remuneration

	2022 £m	2021 £m
Audit of these financial statements	2.4	1.9
Audit of financial statements of subsidiaries	0.5	0.5
	2.9	2.4

In 2022 additional costs of £0.3 million were incurred in respect of the audit of the financial statements for 2021.

Other operating expenses

In addition to the employee furlough schemes noted above, the Group has accessed a number of other support measures. These totalled £33 million *(2021: £19 million)* and were offset against other operating expenses in the income statement. They related to arrangements whereby the government funding provided support for operating costs. The funding received is included within the cash flows from operating activities in the consolidated statement of cash flows.

2.2 EXCEPTIONAL ITEMS

Accounting policy

Due to their nature, certain one-off and non-trading items can be classified separately as exceptional items in order to draw them to the attention of the reader. In the judgement of the Directors this presentation shows the underlying performance of the Group more accurately.

Exceptional items

The following items are exceptional and have been shown separately on the face of the consolidated income statement.

	2022 £m	2021 £m
Within staff expenses:		
Productivity and efficiency activities[1]	-	1
Within other operating expenses:		
Productivity and efficiency activities[2]	-	3
Transaction costs[3]	-	(1)
Exceptional items included within EBITDA	-	3
Within depreciation, amortisation and impairment:		
Impairment of property, plant and equipment and right-of-use assets[4]	22	(1)
Impairment of investment in joint venture undertaking[5]	7	-
Exceptional items before income tax	29	2
Income tax credit on exceptional items above	(4)	-
Exceptional items for the year	25	2

(1) *Certain one-off operational costs were incurred in 2021 as the Group's productivity and efficiency related activities that commenced in 2020 were completed. They were separately presented as they were not part of the Group's underlying operating expenses.*

(2) *In 2021 the Group changed its accounting policy related to the capitalisation of certain software assets following the IFRS Interpretations Committee's agenda decision published in April 2021. This change in accounting policy led to an increase in exceptional operating expenses relating to productivity and efficiency activities of £3 million in 2021. They were separately presented as they were not part of the Group's underlying operating expenses.*

(3) *In 2021 certain costs in respect of previous transactions were finalised leading to the release of amounts previously provided for of £1 million. They were separately presented as they were not part of the Group's underlying operating expenses.*

(4) *Impairment charges have been made in the year of £19 million in property, plant and equipment and £3 million in right-of-use assets, in respect of two of the Group's Midway attractions. These reflect latest estimates at the end of the reporting period of the future performance of these attractions, taking into account reviews of the market and economic conditions at those locations. In 2021 an impairment credit was recorded in the year of £1 million in respect of one Midway location that was subject to impairment in 2020. They are separately presented as they are not part of the Group's underlying depreciation charge.*

(5) *Impairment charges have been made in the year of £7 million in respect of the Group's investment in the company operating the LEGOLAND Dubai Hotel, which is part of the LEGOLAND Parks Operating Group. This reflects an assessment of market and economic conditions in that location.*

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.3 FINANCE INCOME AND COSTS

Accounting policies

Income and costs

Finance income comprises interest income from financial assets and investments, applicable foreign exchange gains and gains on hedging instruments that are recognised in the income statement. Finance costs comprise interest expense, finance charges on finance leases, applicable foreign exchange losses and losses on hedging instruments that are recognised in the income statement. Interest income and interest expense are recognised as they accrue, using the effective interest method.

Capitalisation of borrowing costs

Where assets take a substantial time to complete, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of those assets.

Finance income

	2022 £m	2021 £m
Interest income	2	2
Other		
Net foreign exchange gain	27	-
	29	2

Finance costs

	2022 £m	2021 £m
Interest expense on lease liabilities	76	52
Interest expense on financial liabilities measured at amortised cost	203	165
Other interest expense	-	7
Other		
Net foreign exchange loss	-	2
	279	226

Capitalised borrowing costs amounted to £3 million in 2022 *(2021: £8 million)*, with a capitalisation rate of 4.9% *(2021: 4.3%)*. Tax relief on capitalised borrowing costs amounted to £1 million in 2022 *(2021: £2 million)*.

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.4 TAXATION

Accounting policies

The tax charge for the year is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable on taxable income, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

Subject to the exceptions noted above, deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. This assessment is made after considering a number of factors, including the Group's future trading expectations.

Provisions for uncertain tax positions are recognised when the Group has a present obligation as a result of a past event and management judge that it is probable that there will be a future outflow of economic benefits to settle that obligation. Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions that we operate using management's estimate of the most likely outcome. A combination of in-house tax experts, previous experience and professional firms is used when assessing uncertain tax positions.

Recognised in the income statement

	2022 £m	2021 £m
Current tax		
Current year	31	5
Adjustment for prior periods	(5)	(7)
Total current income tax	26	(2)
Deferred tax		
Origination and reversal of temporary differences	14	(9)
Changes in tax rate	2	58
Adjustment for prior periods	5	(1)
Total deferred tax	21	48
Total tax expense in income statement	47	46

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.4 TAXATION (CONTINUED)

Reconciliation of effective tax rate

	2022 %	2022 £m	2021 %	2021 £m
Profit/(loss) before tax		136		(94)
Income tax using the UK domestic corporation tax rate	19.0%	26	19.0%	(18)
Effect of tax rates in foreign jurisdictions		21		(5)
Non-deductible expenses		7		4
Movement in uncertain tax provisions		(12)		-
Income not subject to tax		(1)		(1)
Effect of changes in tax rate		2		58
Effect of recognising deferred tax assets previously unrecognised		(5)		-
Unrecognised temporary differences		9		16
Adjustment for prior periods		-		(8)
Total tax expense in income statement	34.6%	47	(48.9%)	46

The reported effective tax rate (ETR) is 34.6%. The difference between the underlying ETR (excluding exceptionals) of 30.8% and the UK standard tax rate of 19.0% is primarily attributable to the effect of tax rates in foreign jurisdictions and certain non-deductible expenditure offset by movements in uncertain tax provisions. During the course of the year, the conclusion of tax authority enquiries has enabled certain provisions to be released or reassessed.

In 2021, the difference between the reported ETR of (48.9)% and the UK standard tax rate was primarily attributable to the revaluation of deferred tax liabilities due to the change in the UK tax rate from 19% to 25% from 1 April 2023, and the non-recognition of tax losses.

Significant factors impacting the Group's future ETR include the Group's geographic mix of profits, the timing of recognition of tax losses and changes to local or international tax laws. Unrecognised deferred tax assets include tax losses in various jurisdictions which may be recognised in future periods as the relevant business becomes profitable. In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge.

In April 2019 the European Commission (EC) announced its final decision that certain elements of the UK's Controlled Foreign Company rules partially represent State Aid and in February 2021, the Group received charging notices from HMRC for £28 million, which have been paid. The UK Government made an annulment application against the EC decision, however in June 2022 the EU General Court dismissed the UK's application. The UK has subsequently lodged an appeal to the Court of Justice of the European Union. The Group expects the appeal will ultimately be successful and accordingly the payments are held as a receivable in non-current assets. If the appeal is ultimately unsuccessful then this could result in an increase in the Group's future effective tax rate.

Recognised through the statement of other comprehensive income

	2022 £m	2021 £m
Effective portion of changes in fair value of cash flow hedges	9	-
Remeasurement gains on defined benefit plans	2	-
Total tax expense in statement of other comprehensive income	11	-

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.4 TAXATION (CONTINUED)

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Property, plant and equipment	24	22	(244)	(205)	(220)	(183)
Right-of-use assets / lease liabilities	55	41	(87)	(78)	(32)	(37)
Other short term temporary differences	61	55	(24)	(3)	37	52
Corporate interest restriction	72	56	-	-	72	56
Intangible assets	7	22	(351)	(362)	(344)	(340)
Tax value of loss carry-forwards	52	63	-	-	52	63
Tax assets/(liabilities)	271	259	(706)	(648)	(435)	(389)
Set-off tax	(266)	(245)	266	245	-	-
Net tax assets/(liabilities)	5	14	(440)	(403)	(435)	(389)

Other short term temporary differences primarily relate to financial assets and liabilities and various accruals and prepayments.

Set-off tax is separately presented to show deferred tax assets and liabilities by category before the effect of offsetting these amounts in the statement of financial position where the Group has the right and intention to offset these amounts.

Movement in deferred tax during the current year

	26 December 2021 £m	Acquisitions through business combinations £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	31 December 2022 £m
Property, plant and equipment	(183)	(1)	(22)	-	(14)	(220)
Right-of-use assets / lease liabilities	(37)	-	8	-	(3)	(32)
Other short term temporary differences	52	(1)	(8)	(11)	5	37
Corporate interest restriction	56	-	16	-	-	72
Intangible assets	(340)	-	(1)	-	(3)	(344)
Tax value of loss carry-forwards	63	1	(14)	-	2	52
Net tax assets/(liabilities)	(389)	(1)	(21)	(11)	(13)	(435)

In 2022 movements recognised in income were principally due to tax allowances in the UK and US exceeding depreciation and the use of brought forward losses. This is partially offset by interest disallowances in the UK.

NOTES TO THE ACCOUNTS

SECTION 2
RESULTS FOR THE YEAR CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

2.4 TAXATION (CONTINUED)

Movement in deferred tax during the previous year

	27 December 2020 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	25 December 2021 £m
Property, plant and equipment	(151)	(35)	-	3	(183)
Right-of-use assets / lease liabilities	(42)	4	-	1	(37)
Other short term temporary differences	38	15	-	(1)	52
Corporate interest restriction	21	35	-	-	56
Intangible assets	(277)	(66)	-	3	(340)
Tax value of loss carry-forwards	65	(1)	-	(1)	63
Net tax assets/(liabilities)	(346)	(48)	-	5	(389)

In 2021 movements recognised in income were principally due to the revaluation of deferred tax liabilities due to the change in the UK tax rate offset by interest disallowances in the UK and USA.

Unrecognised deferred tax assets

	2022 £m	2021 £m
Property, plant and equipment	5	1
Right-of-use assets / lease liabilities	18	23
Other short term temporary differences	20	21
Tax value of loss carry-forwards	86	87
Net unrecognised tax assets	129	132

The unrecognised deferred tax assets relating to loss carry-forwards include £15 million *(2021: £6 million)* expiring in 0-5 years and £23 million *(2021: £28 million)* expiring in 6-10 years. The remaining losses and other timing differences do not expire under current tax legislation.

The nature and location of the tax losses carried forward are such that there is currently no expectation that the majority of the losses will be utilised.

NOTES TO THE ACCOUNTS

SECTION 3
BUSINESS COMBINATIONS

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

3.1 BUSINESS COMBINATIONS

Accounting policies

When a business combination takes place, the Directors consider the rights and intentions of the directors of both entities and the overall controlling parties before and after acquisition to determine who the acquiring party is, and then account for business combinations by applying the purchase method. Having determined the acquiring party, any individually identifiable assets, liabilities and contingent liabilities acquired are valued. These include the property, plant and equipment and any intangible assets which can be sold separately or which arise from legal rights regardless of whether those rights are separable, with any remaining balance being assigned to goodwill.

2022

The COEX Aquarium

In April the Group completed the acquisition of the COEX Aquarium in Seoul, South Korea. The Group acquired 100% of the issued share capital of Seoul Ocean Aquarium Co., Ltd. for £31 million, net of cash acquired. This acquisition added a further significant attraction to the SEA LIFE portfolio.

Cadbury World

In January 2022 the Group entered into an agreement to take over the operations of the Cadbury World attraction in the UK. The transaction completed in December 2022. No consideration was paid in the year. Consideration of £8 million has been recognised which, subject to the performance of the attraction, is expected to be payable in 2024.

These acquisitions had the following effect on the Group's assets and liabilities:

	The COEX Aquarium £m	Cadbury World £m	Fair values at acquisition £m
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	8	2	10
Right-of-use assets	12	4	16
Inventories	-	1	1
Cash and cash equivalents	1	-	1
Lease liabilities	(9)	(1)	(10)
Trade and other payables	(1)	-	(1)
Provisions	(2)	-	(2)
Current tax liabilities	(1)	-	(1)
Deferred tax assets and liabilities	(1)	-	(1)
Net identifiable assets and liabilities	7	6	13
Goodwill	25	2	27
Consideration	32	8	40

Analysis of net cash outflow

	The COEX Aquarium £m	Cadbury World £m	Total £m
Cash acquired	(1)	-	(1)
Cash paid at acquisition	32	-	32
Net cash outflow	31	-	31

Goodwill of £27 million has been allocated to the Midway Attractions Operating Group. The goodwill arose on these transactions as they support the Group's wider strategy to build clusters of Midway indoor attractions in key gateway cities. The goodwill is not deductible for tax purposes.

In the year to 31 December 2022 these acquisitions contributed £8 million to consolidated revenue and a profit of £2 million to the consolidated underlying operating profit of the Group.

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.1 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses.

Where components of an item of PPE have different useful lives, they are accounted for separately.

The initial cost of PPE includes all costs incurred in bringing the asset into use and includes external costs for the acquisition, construction and commissioning of the asset, internal project costs (primarily staff expenses) and capitalised borrowing costs.

Assets acquired through business combinations

At the time of a business combination PPE is separately recognised and valued. Given the specialised nature of the PPE acquired, fair values are calculated on a depreciated replacement cost basis. The key estimates are the replacement cost, where industry specific indices are used to restate original historic cost; and depreciation, where the total and remaining economic useful lives are considered, together with the residual value of each asset. The total estimated lives applied are consistent with those set out below. Residual values are based on industry specific indices. Freehold land is valued using a market approach.

New sites

Capital expenditure on new attractions includes all the costs of bringing the items of PPE within that attraction into use ready for the opening of the attraction. Pre-opening costs are only capitalised to the extent they are required to bring PPE into its working condition. Other pre-opening costs are expensed as incurred.

Existing sites

Subsequent expenditure on items of PPE in our existing estate can be broadly split into two categories:

- Capital expenditure which adds new items of PPE to an attraction, or which extends the operational life, or enhances existing items of PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and useable state and to maintain the useful life of items of PPE is charged to the income statement as incurred. Examples of such expenditure include regular servicing and maintenance of buildings, rides and displays and ongoing repairs to items of PPE.

Government grants

Government grants are recognised when there is reasonable assurance that the Group has complied with the relevant conditions within the agreement and that the grant will be received. For each grant, the Group assesses whether it relates to either capital or operational expenditure incurred. The Group has elected to deduct grants related to capital expenditure from the total project costs within property, plant and equipment and amortise them systematically over the useful life of the assets.

Depreciation

Land is not depreciated. Assets under construction are not depreciated until they come into use, when they are transferred to buildings or plant and equipment as appropriate. Depreciation is then charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Asset lives for plant and equipment vary depending on the nature of the asset, from short life assets such as IT assets, up to long term infrastructure assets. No residual values are typically considered.

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold/long leasehold buildings	50 years
Leasehold buildings	20 – 50 years (dependent on life of lease)
Plant and equipment	5 – 30 years

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Cost				
At 27 December 2020	1,269	895	627	2,791
Additions	1	18	201	220
Disposals	-	(2)	(1)	(3)
Transfers	293	284	(577)	-
Effect of movements in foreign exchange	(19)	(19)	(18)	(56)
Balance at 25 December 2021	1,544	1,176	232	2,952
Acquisitions through business combinations (note 3.1)	6	4	-	10
Additions	4	14	184	202
Disposals	(1)	(3)	-	(4)
Transfers	263	33	(296)	-
Effect of movements in foreign exchange	114	57	4	175
Balance at 31 December 2022	1,930	1,281	124	3,335
Depreciation				
At 27 December 2020	77	154	55	286
Depreciation for the year	55	110	-	165
Disposals	-	(2)	-	(2)
Transfers	53	2	(55)	-
Effect of movements in foreign exchange	(1)	(3)	-	(4)
Balance at 25 December 2021	184	261	-	445
Depreciation for the year	67	113	-	180
Impairment	13	6	-	19
Disposals	-	(1)	-	(1)
Effect of movements in foreign exchange	15	13	-	28
Balance at 31 December 2022	279	392	-	671
Carrying amounts				
At 26 December 2020	1,192	741	572	2,505
At 25 December 2021	1,360	915	232	2,507
At 31 December 2022	1,651	889	124	2,664

Depreciation is calculated in line with the policy stated previously.

During the year the Group reviews useful economic lives and tests PPE for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. Impairment charges have been made in the year of £19 million *(2021: £nil)*, in respect of two of the Group's Midway attractions, arising from a review of market and economic conditions at those locations where the carrying value exceeded the recoverable amount. No reasonable change in the assumptions would materially change the impairments recognised.

One attraction within the Group's LEGOLAND Parks Operating Group is sensitive to changes in assumptions, where an increase of 45 basis points in the pre-tax discount rate would absorb the headroom of £25 million.

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capital commitments

At the year end the Group had a number of outstanding capital commitments in respect of capital expenditure at its existing attractions (including accommodation), as well as for Midway attractions that are under construction. These commitments are expected to be settled within two financial years of the reporting date. These amount to £62 million *(2021: £70 million)* for which no provision has been made.

4.2 GOODWILL AND INTANGIBLE ASSETS

Accounting policies

Goodwill represents the difference between the cost of an acquisition and the fair value of the identifiable net assets acquired less any contingent liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to groups of cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Where they arise on acquisition, brands are valued using the excess earnings method. All the significant brands acquired are assessed as having indefinite useful economic lives. This assessment is based upon the strong historical performance of the brands over a number of economic cycles, the ability to roll out the brands, and the Directors' intentions regarding the future use of brands. The Directors feel this is a suitable policy for a brands business which invests in and maintains the brands, and foresee no technological developments or competitor actions which would put a finite life on the brands. The brands are tested annually for impairment. Other brands are amortised over a period of fifteen years.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets comprise software licences deemed to be controlled by the Group, sponsorship rights and other contract or relationship based intangible assets. They are amortised on a straight-line basis from the date they are available for use. They are stated at cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets are as follows:

Asset class	Estimated useful life
Licences	Life of licence (up to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Goodwill and intangible assets

		Intangible assets		
	Goodwill £m	Brands £m	Other £m	Total £m
Cost				
At 27 December 2020	2,460	1,325	33	3,818
Additions	-	-	2	2
Effect of movements in foreign exchange	(28)	(13)	-	(41)
Balance at 25 December 2021	2,432	1,312	35	3,779
Acquisitions through business combinations (note 3.1)	27	-	-	27
Additions	-	-	1	1
Transfer to right-of-use assets (note 5.4)	-	-	(4)	(4)
Effect of movements in foreign exchange	164	9	1	174
Balance at 31 December 2022	2,623	1,321	33	3,977
Amortisation				
At 27 December 2020	260	1	4	265
Amortisation for the year	-	-	5	5
Effects of movements in foreign exchange	(2)	-	-	(2)
Balance at 25 December 2021	258	1	9	268
Amortisation for the year	-	1	5	6
Transfer to right-of-use assets (note 5.4)	-	-	(1)	(1)
Effect of movements in foreign exchange	19	-	-	19
Balance at 31 December 2022	277	2	13	292
Carrying amounts				
At 26 December 2020	2,200	1,324	29	3,553
At 25 December 2021	2,174	1,311	26	3,511
At 31 December 2022	2,346	1,319	20	3,685

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. As a result of these tests, no impairment charges have been made in the year *(2021: £nil)*.

Goodwill

Goodwill is allocated to the Group's operating segments which represent the lowest level at which it is monitored and tested for impairment. It is denominated in the relevant local currencies and therefore the carrying value is subject to movements in foreign exchange rates.

	2022 £m	2021 £m
Midway Attractions	364	323
LEGOLAND Parks	1,852	1,724
Resort Theme Parks	130	127
	2,346	2,174

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Brands

The Group has valued the following brands at the time of those brands being acquired. Certain brands are denominated in their relevant local currencies and therefore the carrying value is subject to movements in foreign exchange rates.

	2022 £m	2021 £m
Midway Attractions		
Madame Tussauds	428	428
SEA LIFE	205	205
London Eye	213	213
Dungeons	92	92
Other	6	7
	944	945
Resort Theme Parks		
Gardaland Resort	175	168
Alton Towers Resort	92	92
THORPE PARK Resort	30	30
Heide Park Resort	32	30
Chessington World of Adventures Resort	28	28
Warwick Castle	18	18
	375	366
	1,319	1,311

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.3 IMPAIRMENT TESTING

Accounting policies

The carrying amount of the Group's goodwill is tested for impairment on an annual basis. Intangible assets, PPE and right-of-use (ROU) assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists or if the asset has an indefinite life, the asset's recoverable amount is estimated.

The process of impairment testing is to estimate the recoverable amount of the assets concerned, and recognise an impairment loss whenever the carrying amount of those assets exceeds the recoverable amount. Impairment testing is performed first at the individual cash-generating unit (CGU) level without goodwill, with any impairment loss recognised as required. Impairment testing for goodwill is then applied to the collection of CGUs to which the goodwill relates.

The level at which the assets concerned are reviewed varies as follows:

Asset	
Goodwill	Goodwill is reviewed at an Operating Group level, being the relevant grouping of CGUs at which the benefit of such goodwill arises. A CGU is the smallest identifiable group of assets that generates largely independent cash inflows, being the Group's individual attractions.
Brands	Brands are reviewed at an individual CGU level.
PPE	PPE is reviewed at an individual CGU level, being the Group's individual attractions.
ROU assets	ROU assets are reviewed at an individual CGU level, being the Group's individual attractions. In doing so, the associated lease liability is considered against the value of the ROU asset as a sale of a CGU would necessitate that a buyer takes on the lease liability.

For assets that are in continuing use but do not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the assets belong.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of goodwill, and then to reduce the carrying amount of other intangible assets and other assets on a pro rata basis.

Calculation of recoverable amount

In accordance with accounting standards the recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows have been discounted to their present value using pre-tax discount rates, each appropriate to the Operating Group concerned. The Group's internally approved five year business plans, where the first year is based on latest budgets, are used as the basis for these calculations, with cash flows beyond the five year outlook period then extrapolated using long term growth rates.

The key assumptions and estimates used when calculating the net present value of future cash flows from the Group's businesses are as follows:

Estimate	
Future cash flows	Assumed to be equivalent to the operating cash flows of the businesses less the cash flows in respect of capital expenditure and repayments of lease liabilities. The Group uses EBITDA less an allocation of central costs, in line with other recharges which occur in the business, as a proxy for the operating cash flows of its attractions as they are not significantly impacted by movements in working capital.
Growth in EBITDA	EBITDA is forecast by an analysis of both projected revenues and costs. Visitor numbers and revenue projections are based on market analysis, including the total available market, historic trends, competition and site development activity, both in terms of capital expenditure on rides and attractions as well as marketing activity. Projections of operating costs are based on historical data, adjusted for variations in visitor numbers and planned expansion of site activities as well as general market conditions.
Timing and quantum of future capital and maintenance expenditure	Projections are based on the attractions' long term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the attractions' assets.
Long term growth rate	A growth rate of 2.5% *(2021: 2.5%)* was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.3 IMPAIRMENT TESTING (CONTINUED)

Estimate	
Discount rates to reflect the risks involved	Based on the estimated weighted average cost of capital of a 'market participant' within the main geographical regions where the Group operates, these are drawn from market data and businesses in similar sectors, and adjusted for asset specific risks. The key assumptions of the 'market participant' include the ratio of debt to equity financing, risk free rates and the medium term risks associated with equity investments. Average figures are used where appropriate to reduce the impact of any short term volatility. Net present values are calculated using pre-tax discount rates derived from this post-tax weighted average cost of capital.

	Pre-tax discount rates		Post-tax discount rates	
	2022	2021	2022	2021
Midway Attractions	10.7%	10.3%	8.6%	8.3%
LEGOLAND Parks	10.7%	10.3%	8.5%	8.4%
Resort Theme Parks	10.9%	10.4%	8.6%	8.3%

Sensitivity analysis

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis has therefore been performed on the calculated recoverable amounts considering incremental changes in the key assumptions.

Particular focus is given to material amounts where headroom is more limited. This relates to goodwill attributed to the LEGOLAND Parks Operating Group, where the headroom is £550 million *(2021: £87 million)* and the Resort Theme Parks Operating Group where the headroom is £173 million *(2021: £22 million)*. The Midway Attractions Operating Group and the individual brands show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

In undertaking sensitivity analysis consideration has been given to movements in forecast EBITDA, increases in discount rates and reductions in long term growth rates:

- At the reporting date the Directors consider that the forecasts used reflect the best estimate of future trading. It is noted, however, that the calculations are inherently sensitive to the level of growth which can depend on a number of factors. While in the short term slower growth would be highly unlikely to affect valuations by a substantial amount, longer term shortfalls that affect the outlook for the fifth year of the plan (which drives the terminal value) would have a more significant impact.
- Discount rates have been derived from market data. As these rates are intended to be long term in nature they are expected to be reasonably stable in the short term, however market discount rates could increase in future.
- The long term growth rate, which is applied to the cash flows of the final year in the business plan (2027), was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.

LEGOLAND Parks (LLP)

- If EBITDA for LLP as a whole was forecast to be 14% lower than currently anticipated for 2027, headroom would be absorbed in full.
- If the pre-tax discount rate used across LLP had been higher by a factor of 13% to 12.1%, headroom would have been absorbed in full.
- If circumstances caused the long term growth rate to lower from 2.5% to 0.7%, headroom would be absorbed in full.

Resort Theme Parks (RTP)

- If EBITDA for RTP as a whole was forecast to be 11% lower than currently anticipated for 2027, headroom would be absorbed in full.
- If the pre-tax discount rate used across RTP had been higher by a factor of 15% to 12.6%, headroom would have been absorbed in full.
- If circumstances caused the long term growth rate to lower from 2.5% to 0.2%, headroom would be absorbed in full.

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.4 WORKING CAPITAL

Accounting policies

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is measured using the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. In a business combination the goods for resale held by the acquired Group are 'stepped-up' to a value that takes into account an estimation of the level of future sales proceeds to be generated by the acquiring Group, less estimated costs necessary to sell the inventory.

Trade and other receivables

Trade and other receivables are recognised and carried at the original invoice amount less a loss allowance calculated using the simplified expected credit loss (ECL) model approach. Trade receivables are written off when there is no reasonable expectation of recovery. Other receivables are stated at their amortised cost less any impairment losses. Estimated ECLs are calculated using both actual credit loss experience and forward looking projections.

Inventories

	2022 £m	2021 £m
Maintenance inventory	13	11
Work in progress	6	1
Goods for resale	42	31
	61	43

Trade and other receivables

	Current assets		Non-current assets	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade receivables	52	21	-	-
Other receivables	65	53	2	3
Prepayments	34	30	1	2
Contract assets	14	9	10	-
	165	113	13	5

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.4 WORKING CAPITAL (CONTINUED)

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for non-recoverable amounts, is as follows:

	2022 £m	2021 £m
Neither past due nor impaired	34	10
Up to 30 days overdue	11	5
Between 30 and 60 days overdue	3	1
Between 60 and 90 days overdue	1	1
Over 90 days overdue	3	4
	52	21

Information about the Group's exposure to credit risk is included in note 5.3.

Trade and other payables

	Current liabilities		Non-current liabilities	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade payables	73	60	-	-
Accruals	179	202	-	-
Deferred income	194	190	15	-
Other payables	45	32	47	20
	491	484	62	20

Accruals

Accruals comprise balances in relation to both operating and capital costs incurred at the reporting date but for which an invoice has not been received and payment has not yet been made.

Deferred income

Deferred income comprises revenues received or invoiced at the reporting date which relate to future periods. The main components of deferred income relate to advanced ticket revenues in respect of online bookings and annual pass purchases; pre-booked accommodation; and certain sponsorship and similar arrangements.

In 2022, at year end exchange rates, this also includes £52 million *(2021: £50 million)* received in respect of funding and infrastructure support for the development of LEGOLAND Korea. Further details are provided in note 6.3.

£106 million of the deferred income at 25 December 2021 was recognised in revenue in 2022.

Other payables

Non-current other payables includes £20 million in respect of share-based payment transactions *(2021: less than £1 million)*. Further details are provided in note 5.6.

NOTES TO THE ACCOUNTS

SECTION 4 OPERATING ASSETS AND LIABILITIES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

4.5 PROVISIONS

Accounting policy

Provisions are recognised when the Group has legal or constructive obligations as a result of past events and it is probable that expenditure will be required to settle those obligations. They are measured at the Directors' best estimates, after taking account of information available and different possible outcomes.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions

	Asset retirement provisions £m	Other £m	Total £m
Balance at 26 December 2021	83	41	124
Acquisitions through business combinations (note 3.1)	2	-	2
Provisions made during the year	3	28	31
Utilised during the year	(1)	(3)	(4)
Unused amounts reversed	(1)	(7)	(8)
Unwinding of discount	2	-	2
Effect of movements in foreign exchange	4	-	4
Balance at 31 December 2022	92	59	151
2022			
Current	-	23	23
Non-current	92	36	128
	92	59	151
2021			
Current	-	8	8
Non-current	83	33	116
	83	41	124

Asset retirement provisions

Certain attractions operate on leasehold sites and these provisions relate to the anticipated costs of removing assets and restoring the sites concerned at the end of the lease term. These leases are typically of a duration of between 10 and 60 years.

They are established on inception and reviewed annually. The provisions are discounted back to present value with the discount then being unwound through the income statement as part of finance costs. The cost of establishing these provisions together with the impact of any changes in the discount rate is capitalised within the cost of the related asset.

Other

Other provisions include future regulatory payments in connection with the modification of the UK Resort Theme Parks leases and agreements that were entered into to secure their tenure until 2077 (see note 5.4) that may become payable at the start of the additional 35 year period. Remaining balances relate to the estimated cost arising from open insurance claims, tax matters and legal issues.

There are no anticipated future events that would be expected to cause a material change in the timing or amount of outflows associated with the provisions.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.1 NET DEBT

Analysis of net debt

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	26 December 2021 £m	Acquisitions through business combinations £m	Net cash flows [1] £m	Non-cash movements [2] £m	Effect of movements in foreign exchange [3] £m	31 December 2022 £m
Cash and cash equivalents	185	1	73	-	7	266
Interest-bearing loans and borrowings	(3,554)	-	228	(209)	(272)	(3,807)
Lease liabilities	(1,458)	(10)	98	(223)	(19)	(1,612)
Net debt	(4,827)	(9)	399	(432)	(284)	(5,153)

	27 December 2020 £m	Net cash flows [1] £m	Non-cash movements [2] £m	Effect of movements in foreign exchange [3] £m	25 December 2021 £m
Cash and cash equivalents	306	(133)	-	12	185
Interest-bearing loans and borrowings	(3,677)	189	(173)	107	(3,554)
Lease liabilities	(1,364)	106	(228)	28	(1,458)
Net debt	(4,735)	162	(401)	147	(4,827)

(1) *Net cash flows include the drawdown and repayment of loans and borrowings, interest paid relating to loans and borrowings and interest paid and capital repayments relating to leases.*
(2) *Non-cash movements include the finance costs relating to loans and borrowings and leases from the income statement, together with lease additions and disposals.*
(3) *A substantial proportion of the Group's net debt is denominated in non Sterling currencies.*

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.2 INTEREST-BEARING LOANS AND BORROWINGS

Accounting policy

Interest-bearing loans and borrowings are initially recognised at fair value less attributable fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate). If the Group's estimate of the expected life based on repayment subsequently changes, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement, in accordance with IFRS 9 'Financial Instruments'.

Interest-bearing loans and borrowings

	Current liabilities		Non-current liabilities		Total	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
£400 million floating rate revolving credit facility due 2026	-	-	-	-	-	-
Floating rate bank facilities due 2026	11	10	2,352	2,186	2,363	2,196
€500 million fixed rate notes due 2025	-	-	440	418	440	418
$400 million fixed rate notes due 2026	-	-	340	311	340	311
€370 million fixed rate notes due 2027	-	-	321	304	321	304
$410 million fixed rate notes due 2027	-	-	332	297	332	297
Other loans	1	2	-	1	1	3
Interest payable	10	25	-	-	10	25
	22	37	3,785	3,517	3,807	3,554

Interest-bearing loans and borrowings are initially recognised at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is amortised through the income statement over the period of the borrowings using the effective interest method.

At 31 December 2022, the Group's senior facilities are the following:

Senior secured debt

- €1,460 million and $1,342 million drawn facilities to mature in November 2026 entered into by the Company's subsidiary Motion Finco S.à r.l. The margins on these facilities are dependent on the Group's adjusted leverage ratio and at 31 December 2022 were at a margin of 3.0% *(2021: 3.0%)* for EUR borrowings and 3.25% *(2021: 3.25%)* for USD borrowings over the floating interest rates when drawn. The relevant floating interest rates are USD LIBOR, which was 4.73% at 31 December 2022 *(0.13% at 25 December 2021)*, and EURIBOR, which was 2.20% at 31 December 2022 *(nil% at 25 December 2021)*.
- €500 million of 7.0% senior secured notes due 2025 entered into by the Company's subsidiary Motion Finco S.à r.l. The notes are listed on The International Stock Exchange.
- $400 million 5.75% senior notes due 2026 entered into by the Company's subsidiary Merlin Entertainments Limited. The notes are listed on The International Stock Exchange.
- A £400 million revolving credit facility to mature in May 2026. £30 million was utilised by way of establishing certain ancillary facilities, including letters of credit. The relevant floating rate used for the facility was amended on 1 January 2022 from GBP LIBOR to the Sterling Overnight Index Average (SONIA).

Other senior debt

- €370 million 4.5% senior notes due 2027 and $410 million 6.625% senior notes due 2027 entered into by the Company's subsidiary Motion Bondco DAC. The notes are listed on The International Stock Exchange.

The terms of the floating rate debt facility require a repayment of 0.25% of the outstanding principal amount of the USD borrowings every three months.

Other loans of £1 million *(2021: £3 million)* have been taken out in respect of specific capital projects.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.2 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Covenants

A financial covenant has existed from 30 September 2020 but is only required when the revolving credit facility is drawn by 40% or more (net of cash and cash equivalents). The covenant requires the Group to maintain adjusted consolidated senior secured leverage below 10x.

Effective June 2021, the Group agreed with its revolving facility lenders to waive the leverage covenant until Q3 2023. As part of this agreement the Group is required to maintain a minimum liquidity of £75 million (to include amounts undrawn from the revolving credit facility, and cash and cash equivalents), over the period of the waiver.

The Group complied with the financial covenants in the year. The Group is also required to comply with certain non-financial covenants in these bank facilities and notes, and these requirements were satisfied throughout the year.

5.3 FINANCIAL RISK MANAGEMENT

Liquidity risk

Liquidity risk is the risk that the Group would not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury department produces short term and long term cash forecasts to identify liquidity requirements and headroom, which are reviewed by the Group's Chief Financial Officer. Surplus cash is actively managed across Group bank accounts to cover local shortfalls or invested in bank deposits or other short term liquid investments such as money market funds. In some countries bank cash pooling arrangements are in place to optimise the use of cash. As at 31 December 2022 the Group had £266 million of cash and cash equivalents *(2021: £185 million)* and access to a £400 million revolving credit facility, of which £30 million was utilised in 2022 *(2021: £28 million)* by way of establishing certain ancillary facilities, including letters of credit, in order to meet its obligations and commitments that will fall due.

The following table sets out the contractual maturities of financial liabilities, including interest payments. This analysis assumes that interest rates prevailing at the reporting date remain constant.

	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 to <10 years £m	10 to <20 years £m	20 years and over £m	Contractual cash flows £m
2022							
Floating rate bank facilities due 2026	(169)	(129)	(2,789)	-	-	-	(3,087)
€500 million fixed rate notes due 2025	(31)	(32)	(458)	-	-	-	(521)
$400 million fixed rate notes due 2026	(19)	(19)	(360)	-	-	-	(398)
€370 million fixed rate notes due 2027	(15)	(15)	(372)	-	-	-	(402)
$410 million fixed rate notes due 2027	(23)	(23)	(408)	-	-	-	(454)
Other loans	(1)	-	-	-	-	-	(1)
Lease liabilities	(110)	(111)	(311)	(470)	(841)	(2,682)	(4,525)
Derviatives	6	5	17	-	-	-	28
Trade payables	(73)	-	-	-	-	-	(73)
	(435)	(324)	(4,681)	(470)	(841)	(2,682)	(9,433)

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 to <10 years £m	10 to <20 years £m	20 years and over £m	Contractual cash flows £m
2021							
Floating rate bank facilities due 2026	(82)	(82)	(2,541)	-	-	-	(2,705)
€500 million fixed rate notes due 2025	(27)	(27)	(413)	-	-	-	(467)
$400 million fixed rate notes due 2026	(17)	(17)	(343)	-	-	-	(377)
€370 million fixed rate notes due 2027	(14)	(14)	(43)	(327)	-	-	(398)
$410 million fixed rate notes due 2027	(21)	(21)	(62)	(326)	-	-	(430)
Other loans	(2)	(1)	-	-	-	-	(3)
Lease liabilities	(107)	(129)	(289)	(453)	(799)	(1,573)	(3,350)
Trade payables	(60)	-	-	-	-	-	(60)
	(330)	(291)	(3,691)	(1,106)	(799)	(1,573)	(7,790)

Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and liabilities. The Group has a policy of actively managing its interest rate risk exposure using a combination of fixed rate debt, interest rate swaps, and interest rate caps.

At 31 December 2022 the Group had £1,441 million of fixed rate debt comprising:

- €500 million of 7.0% notes to mature in 2025;
- $400 million of 5.75% notes to mature in 2026;
- €370 million 4.5% notes to mature in 2027; and
- $410 million 6.625% notes to mature in 2027.

If required, to achieve the desired balance of fixed and floating interest rates across currencies, the Group may use floating to fixed interest rate swaps and caps (which are part of cash flow hedging relationships) and fixed to floating interest rate swaps and caps (which are part of fair value hedging relationships).

In 2022, the Group entered into hedging arrangements on USD 600 million of floating rate USD debt to swap the floating interest rate to a fixed rate and on EUR 700 million of floating rate EUR debt to cap the floating interest rate to a capped rate on the drawn floating rate facilities.

In aggregate, at the end of the reporting period, 67% *(2021: 37%)* of the Group's interest-bearing loans and borrowings is at a fixed/capped rate for a weighted average period of 4 years *(2021: 5 years)*. At 31 December 2022 the fair value of interest rate derivative assets was £39 million *(2021: £nil)*. These interest rate derivatives are designated as cash flow hedges.

Interest rate swaps and caps are recognised at fair value which is determined by reference to market rates. The fair value is the estimated amount that the Group would receive or pay to exit the instrument, taking into account current interest rates, credit risks and bid/ask spreads. Following initial recognition, changes in fair value are recognised immediately in profit or loss, except where the Group adopts hedge accounting.

When hedge accounting, the Group formally documents the relationship between the hedging instruments and hedged items. It makes an assessment, at inception and on an ongoing basis, as to whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the life of the hedge.

Changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity. Any ineffective portion of changes in fair value is recognised immediately in profit or loss. Cumulative gains and losses would remain in equity until either the hedged transaction is no longer expected to occur, or until the hedged transaction occurs, at which point they will be reclassified to profit or loss.

Fair value changes in interest rate caps attributable to changes in the intrinsic value are accumulated in the cash flow hedge reserve, and reclassified from the cash flow hedge reserve to the income statement as a reclassification adjustment in the same period or periods during which the hedged future cash flows affect profit or loss. Changes in the time value of interest rate caps are accumulated in the cost of hedging reserve and recycled to the income statement on a systematic basis over the life of the instrument.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

Based on the net debt position as at 31 December 2022 a 100 basis points rise in market interest rates would result in an increase in net interest paid of £10 million *(2021: £14 million)* and a 100 basis points fall in market interest rates would result in a decrease in net interest paid of £14 million *(2021: increase of £1 million)*. This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

Foreign currency risk

As the Group operates internationally, the performance of the business is sensitive to movements in foreign exchange rates. The Group's potential currency exposures comprise transaction and translation exposures. The Group ensures that its net exposure to foreign currency balances is kept to a minimal level by using foreign currency swaps to exchange balances back into Sterling or by buying and selling foreign currencies at spot rates when necessary. The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates. At 31 December 2022 the fair value of foreign currency swap assets was £5 million *(2021: £1 million)* and of foreign currency swap liabilities was £7 million *(2021: £3 million)*, none of which are hedge accounted.

Transaction exposures

The revenue and costs of the Group's operations are denominated primarily in the currencies of the relevant local territories. Any significant cross-border trading exposures would be hedged by the use of forward foreign exchange contracts.

Translation exposures

The Group's results, as presented in Sterling, are subject to fluctuations as a result of exchange rate movements. The Group does not hedge this translation exposure to its earnings but, where material, may carry out net asset hedging by borrowing in the same currencies as the currencies of its operating units or by using forward foreign exchange contracts. The Group's debt facilities (excluding lease liabilities) are therefore denominated in Euros, US Dollars and Sterling and at 31 December 2022 the amounts drawn consisted of €2,330 million and $2,152 million. There are forward foreign exchange contracts in place in respect of JPY 16,065 million *(2021: JPY 14,900 million)*.

Gains or losses arise on the retranslation of the net assets of foreign operations at different reporting dates and are recognised within the consolidated statement of comprehensive income. They will predominantly relate to the retranslation of opening net assets at closing foreign exchange rates, together with the retranslation of retained foreign profits for the year (that have been accounted for in the consolidated income statement at average rates) at closing rates. Exchange rates for major currencies are set out below.

Gains or losses also arise on the retranslation of foreign currency denominated borrowings designated as effective net investment hedges of overseas net assets. These are offset in equity by corresponding gains or losses arising on the retranslation of the related hedged foreign currency net assets. The Group also treats specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

The following exchange rates have been used in the translation of the results of foreign operations:

	Closing rate for 2020	Weighted average rate for 2021	Closing rate for 2021	Weighted average rate for 2022	Closing rate for 2022
US Dollar	1.36	1.38	1.34	1.25	1.21
Euro	1.11	1.17	1.18	1.18	1.13

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies were:

	Carrying value				
	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
2022					
Cash and cash equivalents	157	16	29	64	266
Floating rate bank facilities due 2026	5	(1,274)	(1,094)	-	(2,363)
€500 million fixed rate notes due 2025	-	(440)	-	-	(440)
$400 million fixed rate notes due 2026	-	-	(340)	-	(340)
€370 million fixed rate notes due 2027	-	(321)	-	-	(321)
$410 million fixed rate notes due 2027	-	-	(332)	-	(332)
Other loans	-	(1)	-		(1)
Lease liabilities	(993)	(288)	(92)	(239)	(1,612)
	(831)	(2,308)	(1,829)	(175)	(5,143)
2021					
Cash and cash equivalents	133	12	11	29	185
Floating rate bank facilities due 2026	7	(1,209)	(994)	-	(2,196)
€500 million fixed rate notes due 2025	-	(418)	-	-	(418)
$400 million fixed rate notes due 2026	-	-	(311)	-	(311)
€370 million fixed rate notes due 2027	-	(304)	-	-	(304)
$410 million fixed rate notes due 2027	-	-	(297)	-	(297)
Other loans	-	(3)	-	-	(3)
Lease liabilities	(953)	(172)	(93)	(240)	(1,458)
	(813)	(2,094)	(1,684)	(211)	(4,802)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £383 million *(2021: £359 million)*. As described above, gains or losses in the income statement and equity are offset by the retranslation of the related foreign currency net assets or specific intercompany loan balances.

A 10% strengthening of all currencies against Sterling would reduce the fair value of foreign exchange contracts and result in a charge to the income statement of £5 million *(2021: £13 million)*.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is limited to the carrying value of the Group's monetary assets. The Group has limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit. There are credit policies in place with regard to its trade receivables with credit evaluations performed on customers requiring credit over a certain amount.

The Group manages credit exposures in connection with financing and treasury activities including exposures arising from bank deposits, cash held at banks and derivative transactions, by appraisal, formal approval and ongoing monitoring of the credit position of counterparties. Counterparty exposures are measured against a formal transaction limit appropriate to that counterparty's credit position. The Group robustly appraises investments before they are made to ensure the associated credit risk is acceptable. Performance of investments are closely monitored, in some cases through Board participation, to ensure returns are in line with expectations and credit risk remains acceptable. There were no overdue amounts in respect of investments and no impairments have been recorded *(2021: £nil)*.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values

Fair value hierarchy

The Group analyses financial instruments in the following ways:

- Level 1: uses unadjusted quoted prices in active markets.
- Level 2: uses inputs that are derived directly or indirectly from observable prices (other than quoted prices).
- Level 3: uses inputs that are not based on observable market data.

Fair value versus carrying amounts

The fair values of financial assets and liabilities are presented in the table below, together with the carrying amounts shown in the statement of financial position. Short term receivables, payables and cash and cash equivalents have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

		2022		2021	
	Fair value hierarchy	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Held at amortised cost					
Floating rate bank facilities due 2026	Level 2	(2,363)	(2,277)	(2,196)	(2,200)
€500 million fixed rate notes due 2025	Level 1	(440)	(443)	(418)	(443)
$400 million fixed rate notes due 2026	Level 1	(340)	(310)	(311)	(313)
€370 million fixed rate notes due 2027	Level 1	(321)	(272)	(304)	(300)
$410 million fixed rate notes due 2027	Level 1	(332)	(293)	(297)	(310)
Other loans	Level 3	(1)	(1)	(3)	(3)
Held at fair value					
Derivative financial instruments	Level 2	37	37	(2)	(2)
Minority equity investments	Level 3	11	11	14	14
		(3,749)	(3,548)	(3,517)	(3,557)

The fair values shown above for the bank facilities and fixed rate notes have been calculated using market values. There is no difference between the carrying value and the fair value of minority equity investments. These are accounted for as 'fair value through other comprehensive income' and are valued by reference to EBITDA multiples or discounted cash flows, as appropriate to each investment.

There have been no transfers between levels in 2022 or 2021.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.4 LEASE OBLIGATIONS

Accounting policy

Where a contract provides the right to control the use of an asset for a period of time in exchange for consideration, the contract is accounted for as a lease. In order for lease accounting to apply, an assessment is made at the inception of the contract that considers whether:

- the Group has the use of an identified asset, which entitles it to the right to obtain substantially all of the economic benefits that arise from the use of the asset; and
- the right to direct the use of the asset, either through the right to operate the asset or by predetermining how the asset is used.

Measurement at lease inception

At the lease commencement date the Group, as the lessee, will recognise:

- a lease liability representing its obligation to make lease payments, and:
- an asset representing its right to use the underlying leased asset (ROU asset).

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease, or if not available an incremental borrowing rate. Future lease payments will include fixed payments, variable lease payments that depend on an index or rate (initially measured at the rate at the commencement date, and subsequently modified as subsequent index or rates changes occur) and amounts expected to be payable by the lessee under residual value guarantees. In relation to variable lease payments that depend on an index or rate, the total lease liability recognised in the statement of financial position includes the impact of any index or rate changes that have already occurred, but does not include the impact of any future index or rate changes that have not yet taken place.

The ROU asset is initially measured at cost, which comprises the amount initially recognised as the lease liability, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and the estimated costs to be incurred at the end of the lease to restore the site to the required condition stipulated in the lease.

In a business combination the ROU assets and lease liabilities for those leases accounted for under IFRS 16 'Leases' are aligned, except where it is assessed that the cost of the acquired historic lease commitments taken on are greater or lower than a market participant would expect to pay were equivalent leases being entered into at the time of the transaction. Where a current market rental is estimated to be higher than that currently paid by the acquired Group, there is an upward adjustment to the right-of-use asset, or vice-versa if the opposite applies.

On inception of a lease for a new site, where required, the estimated cost of decommissioning any additions is included within ROU assets and depreciated over the lease term. A corresponding provision is set up as disclosed in note 4.5.

Depreciation (and any subsequent impairment) on the ROU asset, interest on the lease liability and any variable lease payments are all recognised in the income statement.

Ongoing measurement

After the commencement date the Group measures the ROU asset using a cost model, reducing the cost through depreciation and any impairment losses. Adjustments will be made to the ROU asset to reflect the changes in the lease liability as a result of changes to lease payments or modifications to the lease.

The lease liability is adjusted for interest on the liability, contractual lease repayments and any reassessment of the lease as a result of a contract modification, such as changes to the contractual rent amounts, or changes to the term of the lease.

Upon lease modification, the discount rates used in the present value calculations are adjusted to reflect the appropriate rates at the date of modification for the remaining term of the lease, with resulting adjustments to the liability and ROU asset balances. Discount rates are then not revisited during the remaining life of the lease.

When a lease is terminated earlier than the contractual end date within the lease agreement, the remaining balances on the lease liability after any final payments due, the ROU asset gross cost and the ROU asset accumulated depreciation are removed. Any difference between the liability balance removed and the net ROU asset balance removed are reflected in the income statement.

Short term and low-value leases

The Group has taken the recognition exemptions for short term leases and leases of low-value items. Leases which fall within the Group's defined parameters for these exemptions are excluded from the IFRS 16 lease accounting requirements and are accounted for on a straight-line basis over the lease term.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.4 LEASE OBLIGATIONS (CONTINUED)

Rent reductions and deferrals

In response to the COVID-19 pandemic, in 2020 the International Accounting Standards Board (IASB) issued amendments to IFRS 16 'Leases' to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. On 31 March 2021 the IASB extended their amendments to IFRS 16 beyond 30 June 2021. Therefore, as a lessee we have applied the practical expedient for the whole of the financial year and are not required to assess whether eligible rent concessions are lease modifications. Accordingly, where the Group has agreed concessions in the form of a one-off reduction in rent, they have been accounted for as a variable lease payment and have been recognised in profit or loss. The total recognised in the income statement was £1 million *(2021: £1 million)*.

Lease arrangements

The Group's most significant lease arrangements are set out below.

There is a portfolio of leases that relate to the United Kingdom attractions within the Resort Theme Parks Operating Group, and Heide Park Resort in Germany. Each of these lease agreements was initially for a period of 35 years from inception until 2042, and allowed for annual rent increases based on the inflationary index in the United Kingdom and fixed increases in Germany. The Group had the option, but was not contractually required, to extend each agreement individually for two further terms of 35 years, to 2077 and then to 2102, subject to an adjustment to market rates at that time. At the end of 2021 the agreements were modified and new agreements were entered into to secure tenure for an additional 35 years from 2042 to 2077. The second extension option from 2077 to 2102 still remains available for the Group to exercise in the future for each site.

For the United Kingdom sites the modification was completed before the end of the 2021 reporting period and the relevant balances were adjusted accordingly in the 2021 financial statements. The transaction was treated as a lease modification. It did not meet the criteria to be treated as a separate lease. The Group did not exercise the lease option unilaterally; instead the Group and the lessor entered into a binding agreement to extend the leases in 2042, and agreed certain lease changes. As part of these changes the United Kingdom sites are now subject to annual rent increases from 2022 linked to CPI +0.5% (with a floor of 1%, and a maximum increase of 4%). Under the previous agreement the sites were subject to RPI based annual upwards only increases without any maximum. The minimum 1% per annum was reflected in the modification calculation. As part of the transaction the Group received a cash payment of £25 million from the landlord in 2021. A further £3 million was received in 2023, after the reporting date. The modification and securing of tenure of the UK sites resulted in an increase to the lease liability of £149 million in 2021.

For the Heide Park Resort, the terms of the modification were agreed and completed at the start of the 2022 reporting period. Under the extension agreement the park and hotel leases at this site will continue to be subject to fixed annual rent increases, and these have been reflected in the modification calculation. The extension resulted in a modification to the associated leases, with an increase to the lease liability of £98 million recognised in 2022. As part of the transaction the Group received a payment of £6 million from the landlord during 2022.

At the time of the acquisition of the Merlin Group by the investor consortium in November 2019, it was determined that the implicit rate of interest for the leases noted above was not readily determinable, and accordingly an incremental borrowing rate (IBR) was used that reflected the Group's financing arrangements at that time. For the modifications above the IBR was calculated by reference to the mid yield on a composite index of debt at an appropriate duration and the same (or similar) long term credit rating as the Company, adjusted where relevant for the sovereign yield for a similar duration to the index being used in the country/geography of that index.

LEGOLAND Japan was opened during 2017. The park was developed under an 'operated and leased' model whereby a local operating company leases the site and park infrastructure from a development partner. The development partners are related parties, being KIRKBI Invest A/S and LLJ Investco K.K, a subsidiary of KIRKBI Invest A/S. KIRKBI Invest A/S holds KIRKBI's investment as a shareholder of the Group. The lease is for a period of 50 years to 2067. The Group does not have any right to request the renewal of the lease agreement, however it may be extended subject to agreement of terms with the lessor. For further details see note 6.3.

In addition to the above leases, the Group also enters into other leasing arrangements for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between 10 and 60 years, with rent increases determined based on local market practice. In addition to a fixed rental element, rents within the Midway Attractions Operating Group can also contain a performance related element, typically based on turnover at the site concerned. The key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term. The potential impact on rent charges of future performance or increases based on inflationary indices are each excluded from these calculations. Options to renew leases will vary from site to site in line with local market practice in the territories concerned. Not all of these leases will necessarily have extension options available to them.

On certain leases the Group is required to make variable lease payments in addition to, or instead of, any fixed or minimum rent amounts, usually in the form of rent based on a percentage of the turnover generated by the relevant attraction. These payments are charged directly to the income statement and do not result in any adjustment to the lease liabilities or ROU assets as they are contingent on performance. As such there is no future obligation until that performance occurs. As noted below, the expense relating to these variable lease payments was £23 million in 2022 *(2021: £12 million)*.

There are no significant operating restrictions placed on the Group as a result of its lease arrangements.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.4 LEASE OBLIGATIONS (CONTINUED)

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 27 December 2020	1,405	114	1,519
Additions	185	16	201
Movements in asset retirement provisions	12	(11)	1
Disposals	(7)	(1)	(8)
Effect of movements in foreign exchange	(21)	(4)	(25)
Balance at 25 December 2021	1,574	114	1,688
Acqisitions through business combinations (note 3.1)	16	-	16
Additions	146	2	148
Movements in asset retirement provisions (note 4.5)	2	-	2
Disposals	(4)	-	(4)
Transfer from other intangible assets (note 4.2)	4	-	4
Effect of movements in foreign exchange	31	1	32
Balance at 31 December 2022	1,769	117	1,886
Depreciation			
At 27 December 2020	99	6	105
Depreciation for the year	72	5	77
Impairment	(1)	-	(1)
Disposals	(3)	(1)	(4)
Effect of movements in foreign exchange	(1)	-	(1)
Balance at 25 December 2021	166	10	176
Depreciation for the year	67	3	70
Impairment	3	-	3
Disposals	(2)	-	(2)
Transfer from other intangible assets (note 4.2)	1	-	1
Effect of movements in foreign exchange	5	-	5
Balance at 31 December 2022	240	13	253
Carrying amounts			
At 26 December 2020	1,306	108	1,414
At 25 December 2021	1,408	104	1,512
At 31 December 2022	1,529	104	1,633

During the year the Group reviews useful economic lives and tests ROU assets for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. Impairment charges have been made in the period of £3 million, in respect of two of the Group's Midway attractions, arising from a review of market and economic conditions at those locations where the carrying value exceeded the recoverable amount. An impairment credit was recorded in 2021 of £1 million in respect of one Midway location that was subject to impairment in 2020.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.4 LEASE OBLIGATIONS (CONTINUED)

Lease liabilities

	2022 £m	2021 £m
Current	42	34
Non-current	1,570	1,424
	1,612	1,458

The maturity analysis of lease liabilities is disclosed within note 5.3. The cash outflow for leases is disclosed within note 5.1.

Amounts recognised in the income statement

	2022 £m	2021 £m
Expense relating to variable lease payments	23	12
Depreciation expense of right-of-use assets	70	77
Interest expense on lease liabilities	76	52
	169	141

5.5 EQUITY AND CAPITAL MANAGEMENT

Capital management

The capital structure of the Group consists of debt and equity. The Group's objective when managing capital is to: maintain a strong capital base so as to ensure shareholder and creditor confidence and to sustain future development of the business; to provide returns for shareholders; and to optimise the capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Group.

To enable the Group to meet its objective, the Merlin Board monitor returns on capital through constant review of earnings generated from the Group's capital investment programme and through regular budgeting and planning processes, manage capital in a manner so as to ensure that sufficient funds for capital investment and working capital are available, and ensure that the requirements of the Group's debt covenants are met.

Share capital and reserves

Share capital

	2022 Number	2022 £m	2021 Number	2021 £m
Ordinary shares of £0.01 each	28,759,359	-	28,759,359	-
Preference shares of £0.01 each	2,847,137,139	29	2,847,137,139	29
On issue and fully paid at end of year	2,875,896,498	29	2,875,896,498	29

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.5 EQUITY AND CAPITAL MANAGEMENT (CONTINUED)

Issue of shares
The nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Each ordinary share entitles the holder of that ordinary share to receive notice of and to attend and to speak and to vote at general meetings of the Company (on the basis of one vote per ordinary share), or on any resolution proposed to members as a written resolution. Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

Preference shares
The preference shares earn a fixed, cumulative, preferential dividend at the rate of 6% per annum on the issue price of the preference shares, which accrues (but is not payable) on each preference share on a daily basis from the date of issue of the relevant preference share, and ends on the day preceding the redemption date, compounding annually on each anniversary of the compounding date.

The preference shares rank ahead of the ordinary shares for all purposes and no dividend, distribution, return of capital and/or reduction of capital is paid on the ordinary shares until the preference shares have been redeemed in full.

Each preference share entitles the holder of that preference share to receive notice of and to attend and to speak and to vote at general meetings of the Company (on the basis of one vote per preference share), or on any resolution proposed to members as a written resolution.

Capital reserve
During 2019, the Group issued £156 million 0% subordinated unsecured shareholder loan notes due 31 October 2020. In accordance with the accounting policy as set out in note 1.1, these were classed as financial liabilities. Reflecting the off-market interest rate attached to these loan notes, these were initially recognised at fair value of £150 million with the difference of £6 million treated as a capital contribution. The capital reserve was eliminated through retained earnings in 2021.

Dividends
Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment. The Directors of the Company have declared their intention not to pay a dividend for the year ended 31 December 2022 *(2021: £nil)*.

Translation reserve
The translation reserve of £(30) million *(2021: £(17) million)* comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reporting date foreign exchange rates by major currency are provided in note 5.3.

Cost of hedging reserve
The cost of hedging reserve of £(10) million *(2021: £nil)* comprises accumulated changes in the time value of interest rate caps.

Cash flow hedge reserve
The cash flow hedge reserve of £38 million *(2021: £nil)* comprises accumulated changes in the intrinsic value of interest rate caps and the fair value of interest rate swaps. They are reclassified from the cash flow hedge reserve to the income statement as a reclassification adjustment in the same period or periods during which the hedged future cash flows affect profit or loss.

Reserve for own shares
The Group has made share grants under three employee share incentive plans relating to the Company's subsidiary Motion TopCo Limited (see note 5.6). Preference B shares, ordinary B shares and ordinary C shares of the subsidiary were issued to senior management and other employees in exchange for consideration. The total employee investment is £4,545,262 *(2021: £4,362,865)* with the nominal value of the shares subscribed for as at the reporting date being £117,793 *(2021: £108,019)*. Upon the vesting date of the incentive plans, employees will hold a non-controlling interest in Motion TopCo Limited of 0.16% *(2021: 0.16%)*. Until vesting, Motion TopCo Limited recognises these as treasury shares that result in a reduction to equity; this reduction is eliminated on consolidation.

3,929,200 *(2021: 3,650,900)* of the shares issued to employees as part of the share incentive plans are held in an employee benefit trust, with a nominal value of £39,292 *(2021: £36,509)*.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.6 SHARE-BASED PAYMENT TRANSACTIONS

Accounting policy

The fair value of share plans is recognised as an expense over the expected vesting period with a corresponding entry to either share-based payment liabilities for cash-settled plans and cash-settled elements relating to compound instruments, or retained earnings for equity-settled plans and equity-settled elements relating to compound instruments. All entries are net of deferred tax. The fair value of share plans is determined at the date of grant. The fair value of awards granted is measured based on observable market data, taking into account the terms and conditions upon which awards were granted. For all cash-settled awards and cash-settled elements relating to compound instruments, the fair value is re-measured at each accounting date up to the vesting date by applying an option pricing model. Non-market based performance conditions (including most likely exit events) are taken into account for all plans in estimating the number of awards likely to vest, which is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

Share awards

The Group operates three employee share incentive plans:

- Senior Management Long Term Bonus plan (LTB)
- Senior Management Equity Investment (EI)
- Management Share Scheme (MSS)

The Group has issued share awards to employees, with all plans being in respect of the Company's subsidiary entity Motion Topco Limited. Some of these share awards issued are held in an employee benefit trust (see note 5.5).

Analysis of share-based payment charge

The total charge for the year for all plans is £21 million *(2021: less than £1 million)*, and at the reporting date, liabilities in respect of share-based payment transactions in the year were £20 million *(2021: less than £1 million)*. The Group has not directly measured the fair value of services received from individuals within the plans in the year, as it cannot be reliably estimated.

Plan	2022 £m	2021 £m
LTB	5	-
EI	-	-
MSS	16	-
	21	-

Analysis of awards

	LTB	EI	MSS
Performance condition[1]	Y	Y	Y
Method of settlement accounting	Cash-settled	Compound instrument	Part compound instrument, part equity-settled, part cash-settled
Number of allocated awards	-	4,970,113[2]	7,696,425[3],[4]
Date of grant	11 November 2021	November 2021-July 2022	November 2021-July 2022
Weighted average award life (years)[1]	3.0	3.0	4.7

A reconciliation of award movements during the year is shown below. The exercise price for all plans is £nil and hence no weighted average exercise prices are presented.

	EI Number	MSS Number
At 26 December 2021	4,770,951	6,547,400
Granted during the year	199,162	1,890,025
Forfeited during the year	-	(741,000)
At 31 December 2022	4,970,113[2]	7,696,425[3],[4]

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(1) *Weighted average award life / performance conditions – the Group has exercised its judgement to conclude there is sufficient parity between all MSS awards granted to both senior management and other employees to account for all MSS awards in the same manner, and accordingly have concluded that for all awards there is a non-market based performance condition that the awards will vest on the earlier of a defined interim trigger event or exit. Using the Group's approved five-year business plan and considering ongoing future strategies of both the Group and the Group's shareholders, the most likely vesting period for each scheme has been estimated, with the maximum length of award expected to be nine years. The blend of compound, cash-settled or equity-settled instruments within each scheme therefore impacts the calculated weighted average award life.*

(2) *Comprising 4,823,468 preference B shares and 146,645 ordinary B shares (2021: 4,630,182 preference B shares and 140,769 ordinary B shares).*

(3) *Ordinary C shares.*

(4) *Inclusive of 1,619,225 awards entitling the employee to a cash bonus equivalent in value to a notional number of shares and 6,077,200 allocated shares (2021: 516,500 awards and 6,030,900 allocated shares).*

Senior Management Long Term Bonus plan (LTB)

The LTB plan was granted on 11 November 2021 to eligible employees. The designated individuals of the plan are entitled to a gross cash bonus corresponding to a percentage of the equity value of Motion Topco Limited upon vesting, which is expected to occur upon an interim trigger event. Executive retirements occurring in the period ended 31 December 2022 have resulted in the reduction of this maximum percentage since the prior year to 0.55%. The cash payment is based on the value of equity instruments of Motion Topco Limited (there are no equity settlement alternatives) and continuity of service, and hence falls in scope to be cash-settled.

The fair value of this award is estimated at £14 million following consideration of future uncertainties and the potential volatility of business values, and it could change in future years should the value of the Group rise over time. As the award is cash-settled, valuations calculating the expected fair value of awards are reperformed on an annual basis.

Senior Management Equity Investment (EI)

The Senior Management Equity Investment (EI) plan was granted from Motion Topco Limited on 11 November 2021 and 22 July 2022 following eligible employee investment, resulting in 4,823,468 preference B shares and 146,645 ordinary B shares being issued. The eligible employee investment for the EI plan varies in comparison to the Management Share Schemes (MSS) as the awards are a different share category (B shares versus ordinary C shares awarded in MSS schemes). The preference shares carry a right to a discretionary fixed, cumulative preferential dividend, which accrues (but is not payable) on each preference share on a daily basis from 1 April 2021. Payment of these dividends is at the discretion of the Board of Motion Topco Limited. Accordingly, these awards have been classified as equity and hence fall under the scope of IFRS 2 'Share-based Payment'.

There is a put option for cash on up to 100% of the shares at fair market value, exercisable at the expected vesting date, which is the earlier of the interim trigger event or exit. As the interim trigger event is expected to occur prior to an exit event, this has been used to estimate the vesting period of the plan. The option is subject to non-market based performance conditions, being exit events which create obligations on the Group, and continuity of employment. Individuals with continued employment until exit will retain shares to the extent the put option is not exercised; hence, the potential appreciation of value of the EI plan is treated as a compound instrument.

Management Share Scheme (MSS)

The MSS's are accounted for as part equity-settled, part cash-settled and part compound instruments. MSS plans were granted for senior management and other employees on several dates from 11 November 2021 to 14 November 2022. The plans can be subdivided into two tranches. The first tranche includes 5,577,200 ordinary C shares following eligible employee investment in Motion Topco Limited, and 1,619,225 awards which entitle the employee to a cash payment equivalent to the fair value of a notional number of shares upon vesting. All such awards are classified as cash-settled. 2,803,575 awards remain unissued and unallocated. Prior to an exit event all unallocated awards must be allocated; the Group has exercised its judgement and assumed that all awards will be allocated before an interim trigger event. Hence, the total value of this tranche of MSS awards will always be equal to 10,000,000 shares regardless of staff attrition over the vesting period. The value of 10,000,000 share awards has therefore been considered when calculating the fair value of the MSS plans.

The second tranche relates to 500,000 ordinary C shares issued on 22 July 2022 following conversion of ordinary A shares of Motion Topco Limited. This tranche remains separate to the 10,000,000 share awards described above, but the terms of the awards are otherwise identical. Whilst in the case of the senior management issues, the Board has retained some flexibility on the terms of settlement, the Group has exercised its judgement to conclude there is sufficient parity between MSS awards granted to both senior management and other employees to account for all MSS awards in the same manner.

For MSS share awards, from December 2021 onwards, 12% per annum of the total award becomes eligible for cash-settlement at the expected vesting date, with the maximum cash-settlement crystallising at 60% in December 2025 of the total value of the MSS share awards. For the purposes of calculating the accounting entries, the full 60% is assumed to become eligible for cash-settlement ('the cash settlement option'). Should the vesting event occur at an earlier date than estimated, the number of MSS share awards eligible for cash settlement decreases.

The 60% of MSS share awards which have a cash settlement option are subject to a put option; this option requires Motion JVco Limited to purchase the shares at fair market value for cash upon exercise at an interim trigger event. If the put option is not exercised, ordinary C shares in Motion Topco Limited would be retained by the employee and hence 60% of MSS share awards issued are treated as compound instruments. The equity component of the instrument is deemed to have an expected value of £nil at vesting (as the expected benefit relating to this portion of the award is identical to the expected cash benefit), and hence the entire share-based payment expense relating to 60% of MSS share awards issued relates to expected cash-settlement.

NOTES TO THE ACCOUNTS

SECTION 5 CAPITAL STRUCTURE AND FINANCING CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

5.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

For the remaining 40% of MSS share awards issued, should the put option requiring Motion JVco Limited to purchase the other 60% at fair market value for cash be exercised, the employee's ordinary C shares would automatically convert to EI ordinary and preference B shares in quantities equivalent to fair market value at the point of exercise. If the put option is not exercised, ordinary C shares in Motion Topco Limited would be retained by the employee and would no longer be the obligation of the Group to settle. The awards are therefore treated as equity-settled and employees would receive the benefit of these shares at a final exit event following an interim trigger event, assuming continuity of service. Amounts due to tax authorities in respect of shares issued are the obligation of the employee to settle. Taxes due on cash bonus awards, equivalent to the value of a notional number of shares, will be settled via payroll.

Should the employee leave service after an interim trigger event but prior to a final exit event, they will receive a cash-settlement equivalent to the fair market value of their converted EI shares at the date of leaving (or the lower of cost and fair market value if the individual is a competing leaver). Historic attrition data for all levels of management has been reviewed in approximating the proportions of the 40% MSS awards that will be either equity or cash settled.

Fair value calculation

The fair value per award granted and the assumptions used in the calculations are as follows:

Plan	Settlement accounting	Number of awards	Date of grant	Exercise price (£)	Weighted average share price at grant date (£)	Weighted average fair value per award at measurement date (£)	Expected dividend yield (%)	Expected volatility (%)	Risk free rate (%)
LTB	Cash-settled	n/a	11/11/2021	-	n/a	13,873,021	0.0%	54.9%	3.2%
EI	Compound	4,970,113[1]	11/11/2021 22/07/2022	-	0.824	-	0.0%	54.9%	3.2%
MSS	Compound	3,346,320[2]	11/11/2021 23/12/2021 21/02/2022 22/07/2022	-	0.072	9.63	0.0%	54.9%	3.2%
MSS	Equity-settled	1,743,704[2]	11/11/2021 23/12/2021 21/02/2022 22/07/2022	-	0.072	5.19	0.0%	37.7%	3.2%
MSS	Cash-settled	487,176[2]	11/11/2021 23/12/2021 21/02/2022	-	0.072	8.37	0.0%	46.3%	3.2%
MSS	Cash-settled (other)	1,619,225[2],[3]	23/12/2021 21/02/2022 14/11/2022	-	n/a	11.21	0.0%	54.9%	3.2%

(1) *Comprising 4,823,468 preference B shares and 146,645 ordinary B shares (2021: 4,630,182 preference B shares and 140,769 ordinary B shares).*
(2) *Ordinary C shares. 2,803,575 MSS awards remain unallocated as at 31 December 2022.*
(3) *These awards entitle the employee to a cash bonus equivalent in value to a notional number of shares.*

The key assumptions in calculating the share-based payments were as follows:

- The Monte-Carlo option pricing model was used to value all plans at the date of grant.
- The expected volatility is based on broadly comparable quoted companies and takes into account the expected life of the relevant award.
- The risk-free rate is equal to the prevailing UK Gilts rate at grant date, which is commensurate with the expected term.
- Expected dividend yield assumes that preference shares will roll forward any accrued dividend on the basis that distributions are discretionary. Therefore, dividend yield is assumed to be 0.0%.
- The grant date has been determined for each plan following consideration of when there was mutual understanding between the Group and the employee on the plan's key terms; this date has been deemed to be the date of share issuance.
- The Group has exercised its judgement to conclude there is sufficient parity between MSS awards granted to both senior management and other employees to account for all awards in the same manner.

NOTES TO THE ACCOUNTS

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OTHER NOTES

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.1 INVESTMENTS

Accounting policy

The Group holds investments in two forms.

Minority equity investments are accounted for as 'fair value through other comprehensive income' (FVOCI), having taken the election available under IFRS 9 'Financial instruments'. This applies to the investments in IDR Resorts Sdn. Bhd., Gangwon Jungdo Development Corporation Ltd, Shanghai LEGOLAND Co., Ltd and Big Bus Tours Group Holdings Limited.

Associates and joint ventures are those entities over whose activities the Group has joint control or significant influence, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expenses on an equity accounted basis, from the date that joint control or influence commences until the date that it ceases.

	IDR Resorts £m	Gangwon Jungdo Development Corporation £m	Shanghai LEGOLAND Co £m	LL Dubai Hotel £m	Total £m
Balance at 26 December 2021	4	3	7	10	24
Net change in fair value - included in OCI	2	-	-	-	2
Transfer to non-current other receivables	-	-	(5)	-	(5)
Share of reserves in joint ventures	-	-	-	(3)	(3)
Impairment	-	-	-	(7)	(7)
At 31 December 2022	6	3	2	-	11

Minority equity investments

IDR Resorts

The Group has a minority equity investment in IDR Resorts Sdn. Bhd. (IDR). IDR and its subsidiaries are deemed to be related parties as together they own LEGOLAND Malaysia (see note 6.3).

Gangwon Jungdo Development Corporation

The Group has a minority equity investment in Gangwon Jungdo Development Corporation Ltd, the local company that has provided funding and infrastructure support to the development of LEGOLAND Korea (see note 6.3).

Shanghai LEGOLAND Co.

The Group has a minority equity investment in Shanghai LEGOLAND Co., Ltd., the company developing the LEGOLAND Shanghai Resort. This is being developed under the Group's management contract model, where we manage the resort under a management contract. During 2022 £5 million of the investment made in 2021 was reallocated to non-current other receivables.

Big Bus Tours

The Group has an investment in Big Bus Tours Group Holdings Limited (BIG BUS), held substantially all in the form of loan notes. The value of the investment was adjusted to £nil in 2020, when the BIG BUS city tour business was severely impacted by the COVID-19 pandemic, and a capital restructuring exercise took place whereby the priority of the Group's investment reduced compared to other investors. The investment is valued adopting a market-based approach (based on EBITDA multiples). Following a review of the value at the reporting date, the value has been retained at £nil *(2021: £nil)*. Positive value adjustments could occur in the future.

The Group also holds a minority equity investment valued at £nil *(2021: £nil)*.

Investments in associates and joint ventures

LL Dubai Hotel

The Group holds a 40% equity interest in LL Dubai Hotel LLC. This is the company that developed the hotel at LEGOLAND Dubai, which opened in January 2022. The negative share of reserves of £3 million reflects the Group's share of that company's retained losses for the period. Impairment charges have been made in the year of £7 million, reflecting an assessment of market and economic conditions in that location.

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SECTION 6

OTHER NOTES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.1 INVESTMENTS (CONTINUED)

Summarised financial information in respect of LL Dubai Hotel LLC is set out below and is based on 100% of their results.

	2022 £m	2021 £m
Non-current assets	64	62
Current assets	9	8
Total assets	73	70
Non-current liabilities	45	41
Current liabilities	10	6
Total liabilities	55	47
Revenue	8	-
Expenses	17	1
Loss for the year	(9)	(1)

6.2 EMPLOYEE BENEFITS

Accounting policies

Defined contribution pension schemes

In the case of defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to them. The risks and rewards associated with this type of scheme are assumed by the members rather than the employer. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

Defined benefit pension schemes

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The Group's net obligation is calculated for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and offset by the fair value of any scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method. All actuarial gains and losses are recognised in the period they occur directly in equity, through other comprehensive income.

Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £13 million *(2021: £11 million)*.

Defined benefit pension schemes

The principal scheme that the Group operates is a closed scheme for certain former UK employees of The Tussauds Group, which was acquired by the Merlin Group in 2007. The scheme entitles retired employees to receive an annual payment based on a percentage of final salary for each year of service that the employee provided. The pension schemes have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

The most recent full actuarial valuation of the scheme was carried out as at 31 December 2021 and updated to 30 September 2022 due to material changes in market conditions. As a result, it was agreed to pay annual deficit reduction contributions of £544,000, increasing at 3% per annum, payable monthly from 1 January 2023 to 30 November 2028.

The Group expects £1 million in ongoing contributions to be paid to its defined benefit schemes in 2023. The weighted average duration of the defined benefit obligation at 31 December 2022 was 10 years *(2021: 17 years)*.

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SECTION 6

OTHER NOTES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.2 EMPLOYEE BENEFITS (CONTINUED)

The assets and liabilities of the schemes are:

	2022 £m	2021 £m
Equities	12	19
Corporate bonds	17	13
Cash	1	4
Pooled investment funds (property)	2	2
Fair value of scheme assets	32	38
Present value of defined benefit obligations	(30)	(45)
Net pension surplus/(liability)	2	(7)

Movement in the net pension surplus/(liability)

	Present value of scheme assets £m	Present value of defined benefit obligations £m	Net pension surplus/ (liability) £m
At 27 December 2020	35	(46)	(11)
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement gain	3	-	3
At 25 December 2021	38	(45)	(7)
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement (loss)/gain	(6)	14	8
At 31 December 2022	32	(30)	2

The amount recognised in the income statement was £nil *(2021: £nil)*. The amount recognised in the statement of other comprehensive income was a profit of £8 million *(2021: £3 million)*.

Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) at the year end were:

	2022	2021
Discount rate	5.0%	1.8%
Rate of price inflation	3.3%	3.5%

The scheme is closed to future accrual for active members and therefore there is no link to future salary increases.

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is S3PxA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 87 and a female would have a life expectancy to age 89.

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.3 RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has related party relationships with its shareholders (and their connected parties), key management personnel, joint ventures, and other co-investors.

The defined benefit pension scheme for certain former UK employees of The Tussauds Group is also a related party (see note 6.2).

Transactions with shareholders (and connected parties)

Goods and services

Transactions including the purchase and sale of goods, the payment of fees and royalties, and trading balances outstanding at 31 December 2022 and 25 December 2021 were as follows:

	Goods and services			
	Sales £m	Amount owed by related party £m	Purchases and royalties £m	Amount owed to related party £m
2022				
KIRKBI Invest A/S	4	-	20	7
LEGO Group	-	3	92	2
	4	3	112	9
2021				
KIRKBI Invest A/S	1	1	14	4
LEGO Group	-	2	59	4
	1	3	73	8

Loans and borrowings

Certain shareholders (or other parties related to those shareholders), are owners of elements of the Group's bank facilities as described in note 5.2. Balances outstanding at 31 December 2022 are KIRKBI Invest A/S £479 million *(2021: £451 million)* and funds advised by parties related to Blackstone £32 million *(2021: £26 million)*. Interest is paid and accrued on the same terms as described in note 5.2.

Lease arrangements

As set out in note 5.4 the Group has entered into a lease with LLJ Investco K.K (a subsidiary of KIRKBI Invest A/S). The term of this lease is 50 years, with 44 years remaining at the reporting date. The Group's annual obligations consist of fixed rental payments, turnover rent and service charges totalling £6 million *(2021: £6 million)*. The total undiscounted commitment relating to fixed rental payments is £245 million over the remaining lease term *(2021: £259 million)*.

The Group leases land, buildings and car parking areas from KIRKBI Invest A/S (a shareholder). The term of this lease is 25 years, with 17 years remaining at the reporting date. The Group's annual obligations consist of fixed rental payments, turnover rent and service charges totalling £1 million *(2021: less than £1 million)*. The total undiscounted commitment relating to fixed rental payments is £6 million over the remaining lease term *(2021: £6 million)*.

The Group leases land and buildings from Koldingvej 2 Billund A/S (which has a 25% shareholding in the LEGO Group). The term of this lease is 29 years, with 19 years remaining at the reporting date. The Group's annual obligations consist of fixed rental payments, turnover rent and service charges totalling less than £1 million *(2021: less than £1 million)*. The total undiscounted commitment relating to fixed rental payments is £8 million over the remaining lease term *(2021: £8 million)*.

The Group also previously entered into lease agreements with parties that are related parties of the Blackstone Investment Funds, who are shareholders in the Company. These are as follows:

- Multi Corporation B.V. in relation to SEA LIFE and LEGOLAND Discovery Centre Istanbul;
- Shopcore in relation to LEGOLAND Discovery Centre Chicago; and
- NEC Group Ltd, in relation to The Bear Grylls Adventure and LEGOLAND Discovery Centre attractions in Birmingham.

The Group's annual obligations for these agreements consist of fixed rental payments, turnover rent and service charges totalling £2 million *(2021: £2 million)*. The total undiscounted commitment relating to fixed rental payments on these leases is £22 million over the remaining terms of each lease *(2021: £27 million)*.

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.3 RELATED PARTY TRANSACTIONS (CONTINUED)

Other transactions

Included in deferred income is an amount of less than £1 million *(2021: £2 million)* received from a KIRKBI Group company (LEGO Juris A/S) in 2020 to support certain development activities. A further £6 million was received in 2022 to support development activities, of which less than £1 million remains to be spent in future periods.

During 2022 the Group contracted payroll services in North America from UKG, a related party of the Blackstone Investment Funds that are shareholders in the Group. The total paid to this company in the year was less than £1 million.

Transactions with key management personnel

Key management of the Group, being the Directors of the Board, the members of the Merlin Executive Committee and their immediate relatives control nil% *(2021: nil%)* of the Company. The remuneration of key management is disclosed in note 2.1.

As at 25 December 2021 two members of key management were provided with loans from the Group equalling £120,000 in aggregate, for use by the individuals in investing in the Senior Management Equity Investment share-based payment plan (see note 5.6). The loans were repaid during 2022. No interest was payable on the loans. As at 31 December 2022, the Company held funds of £38,000 on behalf of KIRKBI Invest A/S relating to the transfer and conversion of 505,876 ordinary A shares in Motion TopCo Limited. Please see note 5.6 for further details.

Transactions with other related parties

LEGOLAND Malaysia

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park (see note 6.1). On this basis, IDR and its subsidiaries are deemed to be related parties.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 31 December 2022 and 25 December 2021, are as follows:

	2022 £m	2021 £m
Sales to related party	3	2
Amounts owed by related party	2	2

LEGOLAND Korea

The Group has a minority equity investment in and has entered into transactions with Gangwon Jungdo Development Corporation Ltd, a Korean company which acts under the direction of the Gangwon Province and has provided funding and infrastructure support of KRW 80 billion (£52 million at year end exchange rates) to the development of LEGOLAND Korea. As required under the terms of the funding agreement, the Group has spent this support on costs associated with the project. The conditions of the funding require that following the completion of the park's construction, the Group operates the park for a period of time post-opening.

All of these funds had been received by 25 December 2021 and at the reporting date are recorded within deferred income. Once agreed with Gangwon Jungdo Development Corporation Ltd, this amount will be accounted for as a capital grant and offset against the total project costs, within property, plant and equipment.

6.4 NEW STANDARDS AND INTERPRETATIONS

The following amendments to standards and interpretations have been implemented in the year with no significant impact to the Group:

- Amendments to IAS 37 'Onerous contracts – cost of fulfilling a contract'
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IAS 16 'Property, plant and equipment – proceeds before intended use'
- Amendments to IFRS 3 'Reference to Conceptual Framework'

The IASB has also issued the following amendments to standards that will be effective for the Group for the 2023 reporting period. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- Amendments to IAS 12 'Income taxes – deferred tax related to assets and liabilities arising from a single transaction'
- Amendments to IAS 1 'Presentation of financial statements – disclosure of accounting policies'
- Amendments to IAS 8 'Accounting policies, changes in accounting estimates and errors – definition of accounting estimates'

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.5 ULTIMATE PARENT COMPANY INFORMATION

The largest group in which the results of the Company are consolidated is that headed by the Company, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

The consolidated financial statements of the Company and its subsidiaries are available to the public by visiting the Merlin corporate website at **www.merlinentertainments.biz**.

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2022	Ownership 2021
AAE Unit Trust	Australia [1]	-	100.0%	100.0%
AQDEV Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
Illawarra Tree Topps Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Living and Leisure Australia Limited	Australia [1]	Ordinary	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia [1]	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia [1]	-	100.0%	100.0%
Living and Leisure Finance Trust	Australia [1]	-	100.0%	100.0%
LLA Aquariums Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia [1]	-	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia [1]	-	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia [2]	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia [1]	-	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia [1]	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia [1]	-	100.0%	100.0%
Oceanis NB Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia [1]	-	100.0%	100.0%
Oceanis Unit Trust	Australia [1]	-	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia [1]	-	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
US Fly Trust	Australia [1]	-	100.0%	100.0%
Madame Tussauds Austria GmbH	Austria [3]	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria [3]	Ordinary	100.0%	100.0%
Merlin Entertainments Belgium N.V.	Belgium [4]	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	British Virgin Islands [5]	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada [6]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China [7]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China [8]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China [9]	Ordinary	100.0%	100.0%
Merlin Entertainments Hong Kong Limited	China [10]	Ordinary	100.0%	100.0%

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2022	Ownership 2021
Merlin Entertainments (Shanghai) Company Limited	China [11]	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China [12]	Ordinary	100.0%	100.0%
Merlin Exhibition (Shenyang) Company Limited	China [13]	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China [14]	Ordinary	100.0%	100.0%
Merlin (Shanghai) Management Advisory Company Limited	China [15]	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China [16]	Ordinary	100.0%	100.0%
Shanghai LEGOLAND Management Co., Ltd	China [17]	Ordinary	85.0%	85.0%
LEGOLAND ApS	Denmark [18]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark [18]	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy	Finland [19]	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France [20]	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany [21]	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany [22]	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany [23]	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany [23]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany [21]	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany [23]	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany [23]	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany [23]	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany [21]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany [21]	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany [21]	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany [21]	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany [22]	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany [22]	Ordinary	100.0%	100.0%
Merlin Entertainments India Private Limited	India [24]	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 1 Limited [a]	Ireland	Ordinary	-	100.0%
Merlin Entertainments Ireland 2 Limited [a]	Ireland	Ordinary	-	100.0%
Motion Bondco Designated Activity Company	Ireland [25]	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland [26]	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy [27]	Ordinary	99.9%	99.9%
Gardaland Holidays S.r.l.	Italy [27]	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy [27]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy [27]	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy [27]	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy [28]	Ordinary	[b] 49.4%	[b] 49.4%
Ronchi S.p.A.	Italy [27]	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan [29]	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan [30]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Luxembourg [31]	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l. [a]	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l. [a]	Luxembourg	Ordinary	100.0%	100.0%
Motion Finco S.à r.l.	Luxembourg [31]	Ordinary	100.0%	100.0%

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2022	Ownership 2021
Motion Finco 2 S.à r.l.	Luxembourg [31]	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia [32]	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia [32]	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia [32]	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands [33]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Scheveningen B.V.	Netherlands [34]	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands [35]	Ordinary	100.0%	100.0%
Merlin Entertainments Den Haag B.V.	Netherlands [36]	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands [33]	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands [37]	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand [38]	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand [38]	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal [39]	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore [40]	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea [41]	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Limited	South Korea [42]	Ordinary	100.0%	100.0%
Seoul Ocean Aquarium Co., Ltd.	South Korea [43]	Ordinary	100.0%	-
SLCS SEA LIFE Centre Spain S.A.	Spain [44]	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand [45]	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand [46]	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey [47]	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE [48]	-	[c] 48.0%	[c] 48.0%
Merlin Holdings Limited	UAE [49]	Ordinary	[c] 1.0%	[c] 1.0%
Alton Towers Limited	UK [50]	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK [50]	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited *(company limited by guarantee)*	UK [50]	-	100.0%	100.0%
Charcoal CLG 2 Limited *(company limited by guarantee)*	UK [50]	-	100.0%	100.0%
Charcoal Holdco Limited	UK [50]	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK [50]	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK [50]	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK [50]	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK [50]	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK [50]	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK [50]	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK [50]	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK [50]	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK [50]	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK [50]	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK [50]	Ordinary	100.0%	100.0%
London Dungeon Limited	UK [50]	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK [50]	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK [50]	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK [50]	Ordinary	100.0%	100.0%

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2022	Ownership 2021
Madame Tussauds Touring Exhibition Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Magic Making Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Holidays Limited *(formerly Tussauds Attractions Limited)*	UK [50]	Ordinary	100.0%	100.0%
Merlin Entertainments Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin UK Finance 1A Limited [a]	UK	Ordinary	-	100.0%
Merlin UK Finance 2A Limited [a]	UK	Ordinary	-	100.0%
Merlin UK Finco 1 Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK [50]	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK [50]	Ordinary	100.0%	100.0%
Motion Topco Limited [d]	UK [50]	Ordinary	99.8%	99.8%
Motion Midco Limited	UK [50]	Ordinary	100.0%	100.0%
Motion Acquisition Limited	UK [50]	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK [50]	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK [50]	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK [50]	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK [50]	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK [50]	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK [50]	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK [50]	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK [50]	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK [50]	Ordinary	100.0%	100.0%
Tussauds Limited	UK [50]	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK [50]	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA [51]	-	100.0%	100.0%
LEGO Discovery Center Washington D.C. LLC	USA [52]	-	100.0%	-
LEGOLAND California LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Center Columbus LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA [52]	-	100.0%	100.0%

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53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2022	Ownership 2021
LEGOLAND Discovery Center Michigan LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Center San Antonio LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Center San Jose LLC	USA [52]	-	100.0%	100.0%
LEGOLAND Discovery Centre US LLC	USA [52]	-	100.0%	100.0%
LEGOLAND New York LLC	USA [52]	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA [52]	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA [52]	-	100.0%	100.0%
Madame Tussauds Nashville LLC	USA [52]	-	100.0%	100.0%
Madame Tussaud's New York LLC	USA [52]	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA [52]	-	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA [52]	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments Chicago LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA [52]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA [52]	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments North America LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA [52]	-	100.0%	100.0%
Merlin Entertainments Theme Parks LLC	USA [52]	-	100.0%	-
Merlin Entertainments US NewCo LLC	USA [52]	-	100.0%	100.0%
Motion Finco LLC	USA [53]	-	100.0%	100.0%
San Francisco Dungeon LLC	USA [52]	-	100.0%	100.0%
SEA LIFE Center San Antonio LLC	USA [52]	-	100.0%	100.0%
SEA LIFE Charlotte LLC	USA [52]	-	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA [52]	-	100.0%	100.0%
SEA LIFE Michigan LLC	USA [52]	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA [52]	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA [52]	-	100.0%	100.0%
SEA LIFE US LLC	USA [52]	-	100.0%	100.0%
The Tussauds Group LLC	USA [52]	-	100.0%	100.0%

Joint venture undertaking	Country of incorporation	Class of share held	Ownership 2022	Ownership 2021
LL Dubai Hotel LLC	UAE [54]	Ordinary	40.0%	40.0%

(a) *Companies were dissolved in 2022.*
(b) *Motion JVco Limited has control over this entity via control of the immediate parent entity and the control that the immediate parent entity has over the subsidiary entity.*
(c) *Motion JVco Limited has 100% of the beneficial ownership of these entities.*
(d) *Motion Topco Limited is held by the Company. All other subsidiaries are held by intermediate subsidiaries. Upon the vesting date of the share incentive plans, employees will hold a non-controlling interest in Motion TopCo Limited of 0.16% (see note 5.5).*

NOTES TO THE ACCOUNTS

SECTION 6

OTHER NOTES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Registered offices

(1) Suite 1, Level 11, 66-68 Goulburn Street, Sydney, New South Wales, 2000, Australia
(2) Unit 501, 370 St Kilda Road, Melbourne, Victoria, Australia
(3) Riesenradplatz 5-6, 1020 Wien, Vienna, Austria
(4) Koning Albert I Laan 116, 8370, Blankenberge, Belgium
(5) P.O. Box 3340, Road Town, Tortola, British Virgin Islands
(6) Suite 5300 Commerce Court West, 199 Bay Street, Toronto, ON, M5L 1B9, Canada
(7) No. 4, 6, 8, 10, 12, 14, 16, 18 Qianmen Avenue, Dongcheng District, Beijing, China
(8) 10/F New World Building, No 2-68 Nanjing Xi Road, Shanghai 200003, China
(9) 21, Han Street, Wuchang District, (Shops 40/41/42) Building 5, Lot J2, Wuhan, China
(10) Shops B131, B132 & B133 of Level B1, K11 Musea Victoria Dockside, 12 Salisbury Road Tsim Sha Tsui, Kowloon Hong Kong
(11) Room No.3F-01b&32&K1, L3 Floor, Zhihuixuhui Plaza, No.1-2 of 2389 Alley, Zhangyang Road, Shanghai Pilot Free Trade Zone, China
(12) 4-11, Fu 9, No. 133, Nanpin Road, Nan'an District, Chongqing, China
(13) No. 2 Jia-1, Bolan Road, Heping District, Shenyang, China
(14) L2-25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China
(15) Room 10-1, 10th Floor, No 2-68 Nanjing West Rd, Huangpu District, Shanghai, China
(16) 189, Daduhe Road, Pu Tuo District, Shanghai, 200062, China
(17) Room 5668, No. 19, Cao Li Road 38 Lane, Feng Jing Town, Jinshan District, Shanghai, China
(18) Aastvej 10, 7190 Billund, Denmark
(19) Tivolitie 10, Helsinki 00510, Finland
(20) Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 7711 Marne-La-Vallée, France
(21) Kehrwieder 5, 20457 Hamburg, Germany
(22) Heidenhof 1, 29614 Soltau, Germany
(23) Legoland Allee, 89312, Gunzburg, Germany
(24) 606 Suryakiran Building, 19 Kasturba Gandhi Marg, Connaught Place, New Delhi 110001, India
(25) 2nd Floor, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland
(26) 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
(27) Via Derna 4, Castelnuovo del Garda, 37014, Verona, Italy
(28) Loc Ronchi, Castel del Garda Verona, 37014, Verona, Italy
(29) 2-2-1, Kinjoufutou Minato-ku, Nagoya-shi, Japan
(30) Island Mall, Decks Tokyo Beach, 1-6-1 Daiba, Minato-ku, Tokyo, Japan
(31) 2-4, Rue Eugène Ruppert, L-2453, Luxembourg
(32) Level 13A-6, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia
(33) Rokin 78, 1012 KW Amsterdam, Netherlands
(34) Gevers Deynootweg 970, 2586 BW Den Haag, Netherlands
(35) Dam 20 GEBOUW P&C, 1012 NP Amsterdam, Netherlands
(36) Jasmijn 13, Leidschendam, 2262AN, Netherlands
(37) Strandweg 13, 2586 JK Den Haag, Netherlands
(38) Level 11, 41 Shortland Street, Auckland 1010, New Zealand
(39) No. 1 Rua Particular do Castelo de Queijo, 4100-379, Porto, Portugal
(40) 12 Marina View, #11-01 Asia Square, Tower 2, 018961, Singapore
(41) Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea
(42) 266 Haeundaehaebyun-ro, Haenudee-Gu, Busan, Republic of Korea
(43) 513, Yeongdong-daero, Gangnam-gu, Seoul, Republic of Korea
(44) Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain
(45) 989 Siam Discovery, #401 4 Flr., #501 5 Flr., #601 6 Flr., #701 7 Flr., Rama I Road, Pathumwan, Bangkok 10330, Thailand
(46) B1-B2 Floor Siam Paragon, 991 Rama I Road, Khweng Patumwan, Bangkok 10330, Thailand
(47) Kocatepe Mah, Pasa Cad, Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
(48) Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates
(49) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates
(50) Link House, 25 West Street, Poole, Dorset, BH15 1LD, United Kingdom
(51) 80 State Street, Albany, New York 12207-2543, United States
(52) 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States
(53) 200 Bellvue Parkway Suite 210, Wilmington, New Castle County, Delaware, 19809, United States
(54) Office 301, Building I, Emaar Square, Burj Khalifa, Sheikh Zayed Road, PO Box 123311, Dubai, United Arab Emirates

NOTES TO THE ACCOUNTS

SECTION 6

OTHER NOTES CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

6.6 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

UK registered subsidiaries exempt from audit

The following subsidiaries are taking advantage of an exemption from audit under section 479A of the Companies Act 2006. Motion JVco Limited is providing a statutory guarantee for any outstanding liabilities of these subsidiaries. All subsidiary undertakings have been included in the consolidated financial statements of Motion JVco Limited as at 31 December 2022.

Subsidiary undertaking	Company number	Subsidiary undertaking	Company number
Alton Towers Resort Operations Limited	06127441	Merlin Entertainments (Blackpool) Limited	02429776
Charcoal CLG 1 Limited	06128422	Merlin Entertainments (Dungeons) Limited	03671067
Charcoal Midco 1 Limited	06125930	Merlin Entertainments (NBD) Limited	05010879
Charcoal Newco 1 Limited	06128686	Merlin Entertainments (SEA LIFE) Limited	02182098
Charcoal Newco 1a Limited	06130062	Merlin Entertainments Crown (UK) Limited	09679586
Chessington Hotel Limited	05686193	Merlin Entertainments Group Limited	05022287
Chessington World of Adventures Operations Limited	06128521	Merlin Entertainments Group Operations Limited	03671093
LEGOLAND US Holdings Limited	06273037	Merlin Magic Making Limited	03663168
LEGOLAND Windsor Park Limited	02721728	Merlin UK Finco 1 Limited	08753258
London Aquarium (South Bank) Limited	06553877	Merlin UK Finco 2 Limited	08753263
London Eye Holdings Limited	05686179	Merlin US Holdings Limited	06273035
London Eye Management Services Limited	02896849	SEA LIFE Centre (Blackpool) Limited	02407713
Merlin Entertainments (Asia Pacific) Limited	03767102	Thorpe Park Operations Limited	06127478

MOTION JVCO LIMITED

COMPANY FINANCIAL STATEMENTS

Company statement of financial position at 31 December 2022 *(2021: 25 December 2021)*

	Note	2022 £m	2021 £m
Non-current assets			
Investments	iii	3,005	2,985
Deferred tax assets		-	1
		3,005	2,986
Current assets			
Amounts owed by Group undertakings		1	-
Total assets		3,006	2,986
Non-current liabilities			
Other payables	iii	20	-
Total liabilities		20	-
Net assets		**2,986**	**2,986**
Issued capital and reserves attributable to owners of the Company	iv	2,986	2,986
Total equity		**2,986**	**2,986**

The notes on pages 99 to 102 form part of these financial statements.

The Company has elected to take the exemption available under s408 of the Companies Act 2006 not to present the Company statement of comprehensive income. The Company recorded a profit for the year of £nil *(2021: profit for the year of £nil)*.

The parent Company financial statements were approved by the Board of Directors on 17 March 2023 and were signed on its behalf by:

Søren Thorup Sørensen
Director

MOTION JVCO LIMITED

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity at 31 December 2022 *(2021: 25 December 2021)*

	Note	Share capital £m	Share premium £m	Capital reserve £m	Retained earnings £m	Total equity £m
At 27 December 2020		29	2,956	6	(5)	2,986
Profit for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-
Transfer to retained earnings	iv	-	-	(6)	6	-
At 25 December 2021		**29**	**2,956**	**-**	**1**	**2,986**
Profit for the year		-	-	-	-	-
At 31 December 2022	iv	**29**	**2,956**	**-**	**1**	**2,986**

NOTES TO MOTION JVCO LIMITED

COMPANY FINANCIAL STATEMENTS

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

i ACCOUNTING POLICIES

Motion JVco Limited (the Company) is a private company limited by shares which is incorporated in the United Kingdom. Its registered office is Link House, 25 West Street, Poole, Dorset, BH15 1LD.

The principal activity of the Company is to act as a holding company.

These financial statements were prepared in accordance with UK adopted international accounting standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements of Motion JVco Limited are prepared in accordance UK adopted international accounting standards and are available to the public and may be obtained by visiting the Merlin corporate website at **www.merlinentertainments.biz**. Company financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Motion JVco Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instrument disclosures'.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared for the 53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*.

A summary of the Company's significant accounting policies is set out below.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less provision for impairment. The carrying amount of the Company's investments in subsidiaries is reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the investment's recoverable amount is estimated. If the carrying value of the investment exceeds the recoverable amount, the investment is considered to be impaired and is written down to the recoverable amount. The impairment loss is recognised in the income statement.

Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised directly in equity, or when it relates to items recognised in other comprehensive income, when it is recognised through the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised.

NOTES TO MOTION JVCO LIMITED

COMPANY FINANCIAL STATEMENTS CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

i ACCOUNTING POLICIES (CONTINUED)

Classification of financial instruments issued by the Company

Financial instruments are recognised on the statement of financial position when the Company becomes party to the contractual provisions of the instrument. The accounting policy for each type of financial instrument is included within the relevant note.

Financial assets are initially measured at fair value, unless otherwise noted, and are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are initially measured at fair value, plus, in the case of other financial liabilities, directly attributable transaction costs. Other financial liabilities, primarily the Company's interest-bearing loans and borrowings, are measured at amortised cost. Financial liabilities are measured at fair value through profit or loss and are held on the statement of financial position at fair value. A financial liability is derecognised when the Company's obligations are discharged, expire or are cancelled. Finance payments associated with financial liabilities are dealt with as part of finance costs.

An equity instrument is any contract that has a residual interest in the assets of the Company after deducting all of its liabilities. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity. The preference shares issued by the Company carry a fixed, cumulative, preferential dividend which accrues (but is not payable) on each preference share on a daily basis from the date of issue of the relevant preference share. Payment of these dividends is at the discretion of the Company and accordingly they have been classified as equity.

Where financial instruments consist of a combination of debt and equity, the Company will assess the substance of the arrangement in place and decide how to attribute values to each taking into consideration the policy definitions above.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

Judgements and estimates

The preparation of financial statements requires management to exercise judgement in applying the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management considers the area of estimation that has the most significant effect on the amounts recognised in the financial statements to be the estimation of the value in use of the Merlin Entertainments Group of companies, which underpins the annual review of the carrying amount of the Company's investment in subsidiaries (see note iii).

ii OPERATING EXPENSES

Staff numbers and costs

The average number of persons employed by the Company during the year was seven *(2021: seven)*, being the Directors of the Company.

The employment costs of the Directors of the Company have been borne by other Group companies for their services to the Group as a whole. The costs related to these Directors are included within note 2.1 of the consolidated financial statements.

Auditor's remuneration

Fees paid to Ernst & Young LLP for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis (note 2.1 of the consolidated financial statements).

NOTES TO MOTION JVCO LIMITED

COMPANY FINANCIAL STATEMENTS CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

iii INVESTMENT IN SUBSIDIARY UNDERTAKING

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 27 December 2020	2,835
Additions	150
At 25 December 2021	2,985
Additions	20
At 31 December 2022	3,005

The subsidiary undertaking at the year end is as follows:

Company	Activity	Country of incorporation	Shareholding	Description of shares held
Motion Topco Limited	Holding company	UK	99.8%	Ordinary

A full list of Group companies is included in note 6.6 of the consolidated financial statements on pages 90 to 95.

Upon the vesting date of the share incentive plans, employees of the Group will hold a non-controlling interest in Motion Topco Limited of 0.16% (see note 5.5 of the consolidated financial statements). Cash settlements occurring upon vesting of the schemes are the obligation of the Company to settle. Additional investments of £20 million have been recognised in the year with a corresponding liability in other payables (see note 5.6 of the consolidated financial statements).

The carrying amount of the Company's investments in subsidiaries has been reviewed to determine whether there is any indication of impairment.

The approach to impairment testing within the consolidated accounts is set out in note 4.3 to the consolidated accounts which includes details on the key assumptions and estimates used when calculating the net present value of future cash flows from the Group's businesses. A consistent approach is taken for testing the Company's investment in its subsidiary, with this assessment also including value for new business development that is excluded from the goodwill impairment testing until such time as new sites become operational. The approach adopted therefore applies consistent judgements and estimates as set out in the impairment testing note 4.3, other than for new business development.

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis is therefore performed on the calculated recoverable amounts considering incremental changes in the key assumptions, where the balance being tested is material and headroom is limited.

In 2022 there is sufficient headroom such that the valuation is not sensitive to even significant changes in any of the key assumptions. Headroom would remain if pre-tax discount rates used had been higher by a factor of 10%, combined with the long term growth rate used being 2.25% instead of 2.5%.

NOTES TO MOTION JVCO LIMITED

COMPANY FINANCIAL STATEMENTS CONTINUED

53 weeks ended 31 December 2022 *(2021: 52 weeks ended 25 December 2021)*

iv EQUITY

Share capital

	2022 Number	2022 £m	2021 Number	2021 £m
Ordinary shares of £0.01 each	28,759,359	-	28,759,359	-
Preference shares of £0.01 each	2,847,137,139	29	2,847,137,139	29
On issue and fully paid at end of year	2,875,896,498	29	2,875,896,498	29

Issue of shares
The nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Each ordinary share entitles the holder of that ordinary share to receive notice of and to attend and to speak and to vote at general meetings of the Company (on the basis of one vote per ordinary share), or on any resolution proposed to members as a written resolution. Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

Preference shares
The preference shares earn a fixed, cumulative, preferential dividend at the rate of 6% per annum on the issue price of the preference shares, which accrues (but is not payable) on each preference share on a daily basis from the date of issue of the relevant preference share, and ends on the day preceding the redemption date, compounding annually on each anniversary of the compounding date.

The preference shares rank ahead of the ordinary shares for all purposes and no dividend, distribution, return of capital and/or reduction of capital is paid on the ordinary shares until the preference shares have been redeemed in full.

Each preference share entitles the holder of that preference share to receive notice of and to attend and to speak and to vote at general meetings of the Company (on the basis of one vote per preference share), or on any resolution proposed to members as a written resolution.

Capital reserve
During 2019 the Company issued £156 million 0% subordinated unsecured shareholder loan notes due 31 October 2020. In accordance with the accounting policy as set out in note i, these were classed as financial liabilities. Reflecting the off-market interest rate attached to these loan notes, these were initially recognised at fair value of £150 million with the difference treated as a capital contribution. During 2020 the shareholder loans were repaid and the proceeds reinvested in a further issue of new ordinary and preference shares to the existing shareholders. The capital reserve was eliminated through retained earnings in 2021.

Dividends
Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment. The Directors of the Company have declared their intention not to pay a dividend for the year ended 31 December 2022 *(2021: £nil)*.

Retained earnings
The profit after tax for the year in the accounts of Motion JVco Limited is £nil *(2021: £nil)*.

v RELATED PARTY TRANSACTIONS

For full details of transactions and arrangements with the Company's ultimate shareholders, see note 6.3 of the consolidated financial statements.

GLOSSARY

Board	Board of Directors of the Company.
Capex	Capital expenditure.
Cluster	A group of attractions located in a city close to one another.
Constant currency	Using 2021 exchange rates.
CWE	Conservation, Welfare and Engagement. The SEA LIFE team that focuses on delivering world class animal welfare throughout our animal care network and developing new guest experiences.
EBITDA	Profit before finance income and costs, taxation, depreciation, amortisation and impairment and after taking account of attributable profit after tax of joint ventures.
Exceptional items	Due to their nature, certain one-off and non-trading items can be classified as exceptional in order to draw them to the attention of the reader and to show the underlying business performance more accurately.
Existing estate (EE)	EE comprises all attractions other than new openings.
GDPR	General Data Protection Regulation.
IP	Intellectual Property.
Group	Motion JVco Limited group of companies.
IPO	Initial Public Offering.
KPI	Key Performance Indicator.
LBC	Little BIG City attractions. These are part of the Midway Attractions Operating Group.
LCA	Licence and Co-operation agreement. This agreement sets out the rights granted to the Group to use the LEGO and LEGOLAND brands.
LDC	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
Like for like (LFL)	2022 LFL growth refers to the growth between 2021 and 2022 on a constant currency basis using 2021 exchange rates and includes all businesses owned and operated before the start of 2021.
Listing	Listing on the London Stock Exchange.
LLP	LEGOLAND Parks Operating Group.
Merlin Board	The Board of Directors of Merlin Entertainments Limited.
Merlin Magic Making (MMM)	MMM is the unique resource that sits at the heart of everything Merlin does. It is our specialist in-house site-search and business development; creative design; production; and project management team. MMM also pursues acquisition and investment opportunities.
Merlin's Magic Wand (MMW)	MMW forms a key element of Merlin's Corporate Social Responsibility commitment. Our partner children's charity delivers magical experiences around the world to children who are facing challenges of serious illness, disability or adversity.
Midway or Midway attractions	The Midway Attractions Operating Group and/or the Midway attractions within it. Midway attractions are typically smaller, indoor attractions located in city centres, resorts or shopping malls.
MT	Madame Tussauds attractions. These are part of the Midway Attractions Operating Group.
'Net Promoter' score	How we measure the propensity of our customers to recommend our attractions.
New Business Development (NBD)	NBD relates to attractions that are newly opened or under development for future opening, together with the addition of new accommodation at existing sites. New openings can include both Midway attractions and new theme parks. NBD combines with the existing estate to give the full estate of attractions.
Non-core	Attractions which Merlin has ceased the operation of during the period.

GLOSSARY

Operating free cash flow	Underlying EBITDA less existing estate capex.
Peppa Pig	We have a multi-territory exclusivity arrangement to develop a range of attractions based on the Peppa Pig brand, one of the most well-known pre-school IPs in the world.
Peppa Pig Theme Park	A standalone theme park based on the Peppa Pig brand. When located at a Merlin theme park as a second gate attraction the results are reported within the associated Operating Group.
Rooms	A single accommodation unit at one of our theme parks, for example a hotel room, lodge or glamping tent.
RPC	Revenue per capita, defined as visitor revenue divided by number of visitors.
RTP	Resort Theme Parks Operating Group.
SEA LIFE TRUST	The SEA LIFE TRUST forms a key element of Merlin's Corporate Social Responsibility commitment. Our partner marine conservation charity works to protect the marine environment.
Second gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
The Merlin Way	The culture of the Group which encompasses our vision and values.
Top Box	The highest level of customer satisfaction that we record in our customer surveys from touchscreen data at our attractions.
Underlying	Underlying information presented excludes exceptional items that are classified separately within the financial statements.
Visitors	Represents all individual visits to Merlin owned or operated attractions.
Wizard Wants to Know (WWTK)	WWTK is our annual online employee survey.
Yext	A platform we used to monitor online guest reviews and help inform how we improve our attractions.

Terms used

Unless otherwise stated, the terms 'Merlin', 'Merlin Entertainments', 'the Group', 'We' and 'Us' refer to the Company (Motion JVco Limited) and, as applicable, its subsidiaries and/or interests in joint ventures.

Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

OTHER FINANCIAL INFORMATION

Foreign exchange rate sensitivity

The Group's income statement is exposed to fluctuations in foreign currency exchange rates principally on the translation of our non Sterling earnings. The tables below show the impact on 2022 52 week revenues and underlying EBITDA of re-translating them at 2021 foreign exchange (FX) rates. The calculation for weighted average EBITDA rates can be affected where foreign currency earnings move between months from being positive or negative.

Currency	2021 average FX rates	2022 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.38	1.25	(9.8)%	(67)
EUR	1.17	1.18	0.7%	4
Other				4
Decrease in 2022 revenues at 2021 FX rates				(59)

Currency	2021 average FX rates	2022 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.38	1.25	(9.4)%	(25)
EUR	1.18	1.17	(0.2)%	1
Other				1
Decrease in 2022 underlying EBITDA at 2021 FX rates				(23)