

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 December 28, 2002

PepsiCo, Inc.

Incorporated in North Carolina
700 Anderson Hill Road
Purchase, New York 10577-1444
(914) 253-2000

13-1584302

(I.R.S. Employer Identification No.)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value 1-2/3 cents per share	New York and Chicago Stock Exchanges

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2)
.. Yes No

The number of shares of PepsiCo Common Stock outstanding as of February 22, 2003 was 1,718,625,330. The aggregate market value of PepsiCo Common Stock held by nonaffiliates of PepsiCo as of February 22, 2003 was \$67,111,973,597.

<u>Documents of Which Portions Are Incorporated by Reference</u>	<u>Parts of Form 10-K into Which Portion of Documents Are Incorporated</u>
Proxy Statement for PepsiCo's May 7, 2003 Annual Meeting of Shareholders	III

PepsiCo, Inc.
Form 10-K Annual Report
For the Fiscal Year Ended December 28, 2002

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PART I

Item 1. Business

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

Our Divisions

We are a leading, global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and noncarbonated beverages and foods. We are organized in six divisions:

- Frito-Lay North America,
- Frito-Lay International,
- Pepsi-Cola North America,
- Gatorade/Tropicana North America,
- PepsiCo Beverages International, and
- Quaker Foods North America.

Our North American divisions operate in the United States and Canada. Our international divisions operate in over 175 countries, with our largest operations in Mexico and the United Kingdom. Financial information concerning our divisions and geographic areas is presented in [Note 1](#) to our consolidated financial statements and additional information concerning our division operations, customers and distribution network is presented under the heading “[Our Business](#)” contained in “[Item 7. Management’s Discussion and Analysis](#).”

Beginning in 2003, we will combine the results of PCNA and GTNA as PepsiCo Beverages North America, and of our international food and beverage businesses as PepsiCo International to reflect operating and management changes.

Snacks

Frito-Lay North America (FLNA) manufactures, markets, sells and distributes branded snacks. These snacks include Lay’s potato chips, Doritos flavored tortilla chips, Cheetos cheese flavored snacks, Fritos corn chips, Tostitos tortilla chips, Ruffles potato chips, Rold Gold pretzels, branded dips, Quaker Chewy granola bars, SunChips multigrain snacks, Grandma’s cookies, Quaker Fruit & Oatmeal bars, Quaker Quakes corn and rice cakes, Quaker rice cakes, Cracker Jack treats and Go Snacks. These branded products are sold to independent distributors and retailers. FLNA’s net sales were \$8.6 billion in 2002, \$8.2 billion in 2001 and \$7.8 billion in 2000 and accounted for 34% of our total division net sales in each of those years.

In addition to many of the FLNA and Quaker branded snacks sold in North America, Frito-Lay International (FLI) also manufactures and sells a number of leading snack brands including Sabritas, Gamesa and Alegro brands in Mexico, Walkers and Wotsits brands in the United Kingdom and Smith’s brands in Australia. These products are manufactured by consolidated businesses, as well as by noncontrolled affiliates and are sold to independent distributors and retailers. FLI’s net sales were

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\$5.7 billion in 2002, \$5.5 billion in 2001 and \$5.2 billion in 2000 and accounted for 23% of our total division net sales in each of those years.

Beverages

Pepsi-Cola North America (PCNA) manufactures, markets, and sells beverage concentrates, and sells fountain syrups and finished goods, under the brands Pepsi, Mountain Dew, Sierra Mist, Mug, Slice, FruitWorks, SoBe and Dole. PCNA manufactures, markets and sells ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks. PCNA sells concentrate and finished goods for these brands to bottlers licensed by us. PCNA also licenses the Aquafina water brand to its bottlers. The franchise bottlers sell our brands as finished goods to independent distributors and retailers. PCNA's net sales were \$3.4 billion in 2002, \$3.2 billion in 2001 and \$2.7 billion in 2000 and accounted for 14% of our total division net sales in 2002, 13% of our total division net sales in 2001 and 12% of our total division net sales in 2000.

Gatorade/Tropicana North America (GTNA) manufactures, markets and sells Gatorade sports drinks, Tropicana Pure Premium, Dole, Tropicana Season's Best and Tropicana Twister juices and juice drinks and Propel fitness water. GTNA's net sales were \$3.8 billion in 2002, \$3.7 billion in 2001 and \$3.5 billion in 2000 and accounted for 15% of our total division net sales in 2002 and 16% of our total division net sales in 2001 and 2000. These branded products are sold to independent distributors and retailers.

PepsiCo Beverages International (PBI) manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Mountain Dew, Gatorade and Tropicana. Generally, PBI's brands are sold to franchise bottlers. However, in certain markets, PBI operates bottling plants and distribution facilities. PBI also licenses Aquafina water brand to certain of its franchise bottlers. PBI's net sales were \$2 billion in 2002, 2001 and 2000 and accounted for 8% of our total division net sales in 2002 and 2001 and 9% of our total division net sales in 2000.

Foods

Quaker Foods North America (QFNA) manufactures, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni, Pasta Roni and Near East side dishes, Aunt Jemima mixes and syrups and Quaker grits. QFNA's net sales were \$1.5 billion and accounted for 6% of our total division net sales in 2002, 2001 and 2000. These branded products are sold to independent distributors and retailers.

Our Distribution Network

Our products are brought to market through direct-store-delivery, broker-warehouse and foodservice and vending distribution networks. These distribution systems are described under the heading "[Our Distribution Network](#)" contained in "[Item 7. Management's Discussion and Analysis.](#)"

Ingredients and Other Supplies

The principal ingredients we use in our food and beverage businesses are almonds, aspartame, cocoa, corn, corn sweeteners, flavorings, flour, juice and juice concentrates, oats, oranges, grapefruits and other fruits, potatoes, rice, seasonings, sugar, vegetable and essential oils, wheat, and packaging

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materials. Our key packaging materials include P.E.T. resin used for plastic bottles and cardboard. Fuel and natural gas are also important commodities due to their use in our plants and in the trucks delivering our products. These products are purchased mainly in the open market. We employ specialists to secure adequate supplies of many of these items and have not experienced any significant continuous shortages. The prices we pay for such items are subject to fluctuation. When prices increase, we may or may not pass on such increases to our customers. When we have decided to pass along price increases in the past, we have done so successfully. However, there is no assurance that we will be able to do so in the future.

Our Brands

We own numerous valuable trademarks which are essential to our worldwide businesses, including Alegro, AMP, Aquafina, Aunt Jemima, Cap'n Crunch, Cheetos, Cracker Jack, Diet Pepsi, Doritos, Frito-Lay, Fritos, Fruitworks, Gamesa, Gatorade, Golden Grain, Grandma's, Lay's, Life, Mirinda, Mountain Dew, Mountain Dew Code Red, Mr. Green, Mug, Near East, Pasta Roni, Pepsi, Pepsi Blue, Pepsi Max, Pepsi One, Pepsi Twist, Pepsi-Cola, Propel, Quaker, Quaker Chewy, Quaker Quakes, Rice-A-Roni, Rold Gold, Ruffles, Sabritas, 7UP and Diet 7UP (outside the United States), Sierra Mist, Slice, Smith's, SoBe, SunChips, Tostitos, Tropicana, Tropicana Pure Premium, Tropicana Pure Tropics, Tropicana Season's Best, Tropicana Twister, Walkers, Wild Cherry Pepsi and Wotsits. Trademarks remain valid so long as they are used properly for identification purposes, and we emphasize correct use of our trademarks. We have authorized, through licensing arrangements, the use of many of our trademarks in such contexts as snack food joint ventures and beverage bottling appointments. In addition, we license the use of our trademarks on promotional items for the primary purpose of enhancing brand awareness.

We either own or have licenses to use a number of patents which relate to some of our products, 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 beverage and food divisions are subject to seasonal variations. Our beverage sales are higher during the warmer months and certain food sales are higher in the cooler months. However, taken as a whole, seasonality does not have a material impact on our business.

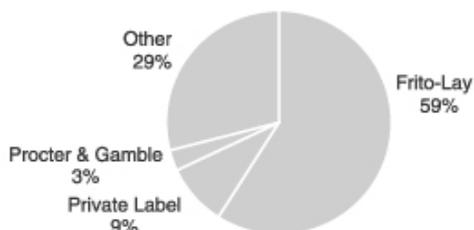
Our Customers

Our customers include retailers, distributors and franchise bottlers. No single customer represents more than 10% of our net sales. However, when considering both our volumes, and that of our bottlers, Wal-Mart Stores, Inc. is a significant customer. Additional information regarding our customers is provided under the heading "[Our Customers](#)" and "[Cautionary Statements](#)" contained in "[Item 7. Management's Discussion and Analysis.](#)"

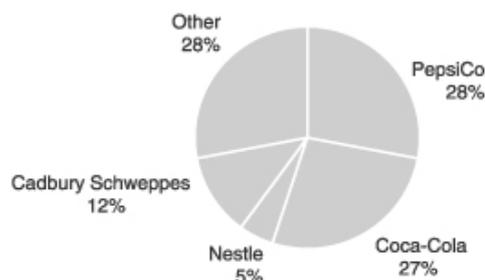
Our Competition

Our businesses operate in highly competitive markets. We compete against global companies and regional and private label manufacturers on the basis of price, quality, product variety and effective distribution. Success in this competitive environment is primarily achieved through effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with our quality products and flexible distribution network, allow us to effectively compete. The following charts highlight our estimated competitive position for our major product categories.

**U.S. Snack Chip Industry
% Volume in Supermarkets**
Includes potato chips, tortilla chips, extruded snacks and pretzels. Excludes Wal-Mart.



**U.S. Beverage Market Share
% Volume in Measured Channels**
Includes carbonated soft drinks, bottled water, ambient juices and juice drinks, chilled juices and juice drinks, sports drinks, energy drinks, ready-to-drink tea and ready-to-drink coffee.



Regulatory Environment

The conduct of our businesses, and the production, distribution and use of many of our products, are subject to various federal laws, such as the Food, Drug and Cosmetic Act and the Occupational Safety and Health Act. Our businesses in the United States are also subject to state and local laws.

We are also subject to the laws of the countries in which we conduct our businesses. We rely on local in-house and outside counsel to ensure compliance with foreign laws and regulations. The cost of compliance with foreign laws does not have a material financial impact on our international operations.

Employees

As of December 28, 2002, we employed, subject to seasonal variations, approximately 142,000 people worldwide, including approximately 61,000 people employed within the United States. We believe that relations with our employees are generally good.

Available Information

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 reports, are available free of charge on our internet website at <http://www.pepsico.com> as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission.

Item 2. Properties

We own our corporate headquarters building in Purchase, New York. Leases of plants in North America generally are on a long-term basis, expiring at various times, with options to renew for additional periods. Most international plants are leased for varying and usually shorter periods, with or without renewal options. We believe that our properties are in good operating condition and are suitable for the purposes for which they are being used.

Snacks

Frito-Lay North America owns or leases approximately 50 food manufacturing and processing plants and approximately 2,000 warehouses, distribution centers and offices, including its headquarters building and a research facility in Plano, Texas. Frito-Lay International owns or leases approximately 100 plants and approximately 1,200 distribution centers, warehouses and offices outside of North America.

Beverages

Pepsi-Cola North America owns or leases 2 concentrate plants and 7 warehouses throughout North America. Licensed bottlers in which we have an ownership interest own or lease approximately 70 bottling plants. Gatorade/Tropicana North America owns or leases approximately 10 manufacturing plants and approximately 20 distribution centers, warehouses and offices, including Tropicana's corporate office space in Bradenton, Florida. PepsiCo Beverages International owns or leases approximately 50 manufacturing and bottling plants and approximately 140 warehouses, distribution centers and offices outside of North America.

Foods

Quaker Foods North America owns or leases approximately 10 manufacturing plants and distribution centers in North America.

Shared Properties

Frito-Lay North America and Quaker Foods North America share 2 plants that manufacture oat-based foods and snacks. Frito-Lay North America, Quaker Foods North America and Gatorade/Tropicana North America share approximately 20 distribution centers, warehouses and offices in North America including a research and development laboratory in Barrington, Illinois, and corporate office space in downtown Chicago, Illinois.

Item 3. Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already recognized for such claims or contingencies is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

Item 4. Submission of Matters to a Vote of Stockholders

Not applicable.

Executive Officers of the Registrant

The following is a list of names, ages and background of our current executive officers:

Steven S Reinemund, 54, has been our Chairman and Chief Executive Officer since May 2001. Mr. Reinemund began his career with PepsiCo as Senior Operating Officer of Pizza Hut, Inc. (a former subsidiary of the Company) in 1984. He became President and Chief Executive Officer of Pizza Hut in 1986, President and Chief Executive Officer of Pizza Hut Worldwide in 1991, President and Chief Executive Officer of Frito-Lay in 1992 and Chairman and Chief Executive Officer of Frito-Lay in 1996. Mr. Reinemund served as PepsiCo's President and Chief Operating Officer from 1999 until 2001.

David R. Andrews, 61, became PepsiCo's Senior Vice President, Government Affairs, General Counsel and Secretary in February 2002. Before joining PepsiCo, Mr. Andrews was a partner in the law firm of McCutchen, Doyle, Brown & Enersen, LLP, a position he held from 2000 to 2002 and from 1981 to 1997. From 1997 to 2000, he served as the legal adviser to the U.S. Department of State and former Secretary of State Madeleine Albright.

Peter A. Bridgman, 50, has been our Senior Vice President and Controller since August 2000. Mr. Bridgman began his career with PepsiCo at Pepsi-Cola International in 1985 and became Chief Financial Officer for Central Europe in 1990. He became Senior Vice President and Controller for Pepsi-Cola North America in 1992 and Senior Vice President and Controller for The Pepsi Bottling Group, Inc. in 1999.

Abelardo E. Bru, 54, was appointed Chairman and Chief Executive Officer of Frito-Lay North America in February 2003. Mr. Bru served as President and Chief Executive Officer of Frito-Lay North America from 1999 to 2003 and as President and General Manager of PepsiCo's Sabritas snack unit from 1992 to 1999. Mr. Bru has served in various senior international positions with PepsiCo Foods International since joining PepsiCo in 1976.

Roger A. Enrico, 58, has been a member of our board since 1987. Mr. Enrico served as Chief Executive Officer and Chairman of the Board from 1996 to 2001. He was Vice Chairman from 1993 to 1996 and from 2001 to 2002. He joined PepsiCo in 1971, and became President and Chief Executive Officer of Pepsi-Cola USA in 1983, President and Chief Executive Officer of PepsiCo Worldwide Beverages in 1986, Chairman and Chief Executive Officer of Frito-Lay International in 1991 and Chairman and Chief Executive Officer of PepsiCo Worldwide Foods in 1992. In addition, he was Chairman and Chief Executive Officer, PepsiCo Worldwide Restaurants, from 1994 until the spin-off of PepsiCo's restaurant businesses in 1997.

Matthew M. McKenna, 52, has been our Senior Vice President of Finance since August 2001. Mr. McKenna began his career at PepsiCo as Vice President, Taxes in 1993. In 1998, he became Senior Vice President, Taxes and served as Senior Vice President and Treasurer from 1998 until 2001. Prior to joining PepsiCo, he was a partner with the law firm of Winthrop, Stimson, Putnam & Roberts in New York.

Margaret D. Moore, 55, is our Senior Vice President, Human Resources, a position she assumed at the end of 1999. From November 1998 to December 1999, she was Senior Vice President and Treasurer of The Pepsi Bottling Group, Inc. (PBG). Prior to joining PBG, Ms. Moore spent 25 years with PepsiCo in a number of senior financial and human resources positions.

Indra K. Nooyi, 47, was elected to our Board of Directors and became President and Chief Financial Officer in May 2001, after serving as Senior Vice President and Chief Financial Officer since 2000. Ms. Nooyi served as Senior Vice President Strategic Planning and Senior Vice President, Corporate Strategy and Development from 1994 until 2000. Prior to joining PepsiCo, she was Senior Vice President of Strategy, Planning and Strategic Markets for Asea Brown Boveri. She was also Vice President and Director of Corporate Strategy and Planning at Motorola.

Lionel L. Nowell III, 48, has been our Senior Vice President and Treasurer since August 2001. Mr. Nowell joined PepsiCo as Senior Vice President and Controller in 1999 and then became Senior Vice President and Chief Financial Officer of The Pepsi Bottling Group. Prior to joining PepsiCo, he was Senior Vice President, Strategy and Business Development for RJR Nabisco, Inc. From 1991 to 1998, he served as Chief Financial Officer of Pillsbury North America, and its Pillsbury Foodservice and Haagen Dazs units, serving as Vice President and Controller of the Pillsbury Company, Vice President of Food and International Retailing Audit, and Director of Internal Audit.

Gary M. Rodkin, 50, was appointed Chairman and Chief Executive Officer of PepsiCo Beverages and Foods North America in February 2003. Mr. Rodkin became President and Chief Executive Officer of PepsiCo Beverages and Foods North America in 2002. He served as President and Chief Executive Officer of Pepsi-Cola North America from 1999 to 2002. Mr. Rodkin was President of Tropicana North America from 1995 to 1998, and became President and Chief Executive Officer when PepsiCo acquired Tropicana in 1998.

Peter M. Thompson, 56, is President and Chief Executive Officer of PepsiCo Beverages International, a position he assumed in August 2001. Mr. Thompson was President and Chief Executive Officer of Pepsi-Cola International from 1998 to 2001 and its President and Chief Operating Officer from 1996 to 1998. Mr. Thompson worked at PepsiCo from 1980 to 1983, and returned in 1994, serving in several positions, including President of Snack Ventures Europe, our joint venture with General Mills, and President of Walkers Snack Foods in the U.K.

Michael D. White, 51, was appointed Chairman and Chief Executive Officer of PepsiCo International in February 2003, after serving as President and Chief Executive Officer of Frito-Lay's Europe/Africa/Middle East division since 2000. From 1998 to 2000, Mr. White was Senior Vice President and Chief Financial Officer of PepsiCo. Mr. White has also served as Executive Vice President and Chief Financial Officer of PepsiCo Foods International and Chief Financial Officer of Frito-Lay North America. He joined Frito-Lay in 1990 as Vice President of Planning.

Executive officers are elected by our Board of Directors, 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 and Related Stockholder Matters

Stock Trading Symbol—PEP

Stock Exchange Listings—The New York Stock Exchange is the principal market for our Common Stock, which is also listed on the Amsterdam, Chicago, Swiss and Tokyo Stock Exchanges.

Shareholders—At December 28, 2002, there were approximately 220,000 shareholders of record.

Dividend Policy—Our policy is to pay quarterly cash dividends at approximately one-third of our net income. Dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for these payments are December 6, 2002, March 14, June 13 and September 12, 2003. We have paid quarterly cash dividends since 1965. The quarterly dividends declared in 2002 and 2001 are contained in [Selected Financial Data—Quarterly](#).

Stock Prices—The composite quarterly high, low and closing prices for PepsiCo Common Stock for each fiscal quarter of 2002 and 2001 are contained in [Selected Financial Data—Quarterly](#).

Information on PepsiCo Common Stock authorized for issuance under equity compensation plans is contained in our Proxy Statement for our 2003 Annual Meeting of Shareholders under the captions “Equity Compensation Plan Information” and is incorporated herein by reference. See [Note 7](#) to our consolidated financial statements for a description of our employee stock option plans.

Item 6. Selected Financial Data

[Selected Financial Data-5-year summary](#) is included on page 71.

Item 7. Management’s Discussion and Analysis

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Our discussion and analysis is an integral part of understanding our financial results. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

OUR BUSINESS

Our Operations

We are a leading, global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and noncarbonated beverages and foods. We are organized in six divisions:

- Frito-Lay North America,
- Frito-Lay International,
- Pepsi-Cola North America,
- Gatorade/Tropicana North America,
- PepsiCo Beverages International, and
- Quaker Foods North America.

Net sales and operating profit contributions from each of our six divisions are as follows:



Our North American divisions operate in the United States and Canada. Our international divisions operate in over 175 countries, with our largest operations in Mexico and the United Kingdom. Additional information concerning our divisions and geographic areas is presented in [Note 1](#) to our consolidated financial statements.

Beginning in 2003, we will combine the results of PCNA and GTNA as PepsiCo Beverages North America and of our international food and beverage businesses as PepsiCo International to reflect operating and management changes.

Snacks

Frito-Lay North America (FLNA) manufactures, markets, sells and distributes branded snacks. These snacks include Lay's potato chips, Doritos flavored tortilla chips, Cheetos cheese flavored snacks, Fritos corn chips, Tostitos tortilla chips, Ruffles potato chips, Rold Gold pretzels, branded dips, Quaker Chewy granola bars, SunChips multigrain snacks, Grandma's cookies, Quaker Fruit & Oatmeal bars, Quaker Quakes corn and rice snacks, Quaker rice cakes, Cracker Jack treats and Go Snacks.

In addition to many of the FLNA and Quaker branded snacks sold in North America, Frito-Lay International (FLI) also manufactures and sells a number of leading snack brands including Sabritas, Gamesa and Alegro brands in Mexico, Walkers and Wotsits brands in the United Kingdom, and Smith's brand in Australia. These products are manufactured by consolidated businesses, as well as by noncontrolled affiliates.

FLNA and FLI branded products are sold to independent distributors and retailers. Our snacks businesses measure physical volume growth on a system-wide basis, which includes the volume sold by our noncontrolled affiliates.

Beverages

Pepsi-Cola North America (PCNA) manufactures, markets and sells beverage concentrates, and sells fountain syrups and finished goods, under the brands Pepsi, Mountain Dew, Sierra Mist, Mug, Slice, FruitWorks, SoBe and Dole. PCNA manufactures, markets and sells ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks. PCNA sells concentrate and finished goods for these brands to bottlers licensed by us. PCNA also licenses the Aquafina water brand to its bottlers. The franchise bottlers sell our brands as finished goods to independent distributors and retailers. PCNA reports two measures of volume performance. Concentrate shipments and equivalents (CSE) reflects PCNA's sales to its bottlers, as well as bottler Aquafina volume, and is reported on a fiscal year basis consistent with net sales. Bottler case sales (BCS) reflects the sales of beverages bearing our trademarks that franchise bottlers have sold to independent distributors and retailers and is reported on a monthly basis. CSE and BCS growth may vary due to differences in the reporting calendar and short-term changes in bottler inventory.

Gatorade/Tropicana North America (GTNA) manufactures, markets and sells Gatorade sports drinks, Tropicana Pure Premium, Dole, Tropicana Season's Best and Tropicana Twister juices and juice drinks and Propel fitness water. These branded products are sold to independent distributors and retailers.

PepsiCo Beverages International (PBI) manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Mountain Dew, Gatorade and Tropicana outside North America. Generally, PBI's brands are sold to franchise bottlers. However, in certain markets, PBI operates bottling plants and distribution facilities. PBI also licenses the Aquafina water brand to certain of its franchise bottlers. PBI reports two measures of volume. Concentrate shipments reflects PBI's sale of concentrate to franchise bottlers only and is reported on a monthly basis consistent with net sales. BCS reflects company-owned and franchise bottler sales of beverages bearing our trademarks and is also reported on a monthly basis. Concentrate shipments and the related BCS may differ due to short-term changes in bottler inventory.

Foods

Quaker Foods North America (QFNA) manufactures, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni, Pasta Roni and Near East side dishes, Aunt Jemima mixes and syrups and Quaker grits. These branded products are sold to independent distributors and retailers.

Our Customers

Our customers include franchise bottlers and independent distributors and retailers. We grant our bottlers exclusive contracts to manufacture and/or sell specified beverage products bearing our trademarks within a specific geographic area. These arrangements specify the amount to be paid by our bottlers for concentrate and full goods and for Aquafina royalties, as well as the manufacturing process required for product quality.

Since we do not sell directly to the consumer, we rely on, and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include volume-based rebates, promotions and displays. For our 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 consumer coupons, pricing discounts and consumer promotions, such as sweepstakes and other promotional offers. Advertising support is directed at advertising programs and supporting bottler media. New product funding includes targeted consumer and retailer incentives for these products and direct marketplace support, such as point-of-purchase materials, 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. The level of bottler funding is at our discretion because these incentives are not required by the terms of our bottling contracts.

No single customer represents more than 10% of our net sales. However, when considering both our volume and that of our bottlers, Wal-Mart Stores, Inc. is a significant customer. Retail consolidation has increased the importance of major customers and further consolidation is expected. Also see “ [Cautionary Statements](#).”

Our Related Party Bottlers

We have ownership interests in certain of our bottlers. Our ownership is generally less than fifty percent and since we do not control these bottlers, we do not consolidate their results. We include our share of their net income based on our percentage of ownership in our income statement as bottling equity income. We have designated three related party bottlers, The Pepsi Bottling Group (PBG), PepsiAmericas (PAS) and Pepsi Bottling Ventures (PBV), as our anchor bottlers. Our anchor bottlers distribute over 70% of our Pepsi-Cola North America case sales volume and approximately 14% of our PepsiCo Beverages International case sales volume. These bottlers participate in the bottler funding programs described above. Approximately 12% of our total sales incentives are paid to these bottlers. See [Note 8](#) to our consolidated financial statements for additional information on these related parties and related party commitments and guarantees.

Our Distribution Network

Our products are brought to market through direct-store-delivery, broker-warehouse and food service and vending distribution networks. The distribution system used depends on customer needs, product characteristics, and local trade practices.

Direct-Store-Delivery

We and our bottlers operate direct-store-delivery systems that deliver snacks and beverages directly to retail stores where the products are merchandised by our employees or our bottlers. Direct-store-delivery enables us to merchandise with maximum visibility and appeal. Direct-store-delivery is especially well-suited to products that have high retail turnover and respond to in-store promotion and merchandising.

Broker-Warehouse Systems

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

Foodservice and Vending

Our foodservice and vending sales force distributes snacks, foods and beverages to third-party foodservice and vending distributors and operators, and through our bottlers. This distribution system supplies our products to schools, businesses, stadiums, restaurants and similar locations.

Our Competition

Our businesses operate in highly competitive markets. We compete against global companies and regional and private label manufacturers on the basis of price, quality, product variety and effective distribution. Success in this competitive environment is primarily achieved through effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with our quality products and flexible distribution network, allow us to effectively compete.

Other Relationships

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Those 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 our anchor bottlers and other affiliated companies and do not receive incremental compensation for their board services.

Our Market Risks

We are exposed to the risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and fuel;
- foreign exchange rates;
- interest rates on our short-term investment and debt portfolios; and
- stock prices.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives designated as cash flow and fair value hedges. See [Note 10](#) to our consolidated financial statements for further discussion of these hedges and our hedging policies. The fair value of our hedges fluctuates based on market rates and prices. The sensitivity of our hedges to these market fluctuations is discussed below. See “[Our Critical Accounting Policies](#)” for a discussion of the exposure of our pension plan assets and liabilities to risks related to interest rates and stock prices.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products. See “[Cautionary Statements](#)” for further discussion.

Commodity Prices

Our commodity derivatives totaled \$70 million at December 28, 2002 and \$252 million at December 29, 2001. These derivatives resulted in a net unrealized gain of \$6 million at December 28, 2002 and a net unrealized loss of \$16 million at December 29, 2001. We estimate that a 10% decline in commodity prices would have resulted in an unrealized loss of \$2 million in 2002 and increased the unrealized loss by \$18 million in 2001.

Foreign Exchange

Our operations outside of the United States generate 34% of our net sales of which Mexico, the United Kingdom and Canada contribute 19%. As a result, we are exposed to foreign currency risks from unforeseen economic changes and political unrest. During 2002, the impact of declines in the Mexican peso were substantially offset by increases in the British pound and the euro. However, if future declines in the Mexican peso are not offset by increases in the British pound and the euro, our future results would be adversely impacted.

We may enter into derivatives to manage our exposure to foreign currency transaction risk. Our foreign currency derivatives had a total face value of \$329 million at December 28, 2002 and \$355 million at December 29, 2001. These contracts had a net unrealized loss of less than \$1 million at December 28, 2002 and a net unrealized gain of \$4 million at December 29, 2001. We estimate that an unfavorable 10% change in the exchange rates would have increased the unrealized loss by \$34 million in 2002 and would have resulted in an unrealized loss of \$31 million in 2001.

Interest Rates

Late in 2002, we terminated the majority of our interest rate swaps used to manage our interest rate risk. As a result, 12% of our debt is exposed to variable interest rates compared to approximately 45% in 2001. Assuming year-end variable rate debt and investment levels, a 1 percentage point increase in interest rates would have reduced net interest expense by \$11 million in 2002 and increased net interest expense by \$3 million in 2001. The impact of the 1 percentage point increase in rates at year-end 2002 reflects higher investment balances and lower variable debt balances. This sensitivity analysis includes the impact of existing interest rate swaps during these years.

Stock Prices

We manage the market risk related to our deferred compensation liability, which is indexed to certain market indices and our stock price, with mutual fund investments and prepaid forward contracts for the purchase of our stock. The combined losses on these investments are offset by changes in our deferred compensation liability which is included in Corporate selling, general and administrative expenses.

Cautionary Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These “forward-looking statements” are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations.

You should consider the following key factors when evaluating our trends and future results:

- continued demand for our products, which is dependent on successful product introductions and other innovations, effectiveness of our sales incentives, advertising campaigns and marketing programs, seasonal weather conditions, relationships with key customers (including our bottlers), and our response to consumer health concerns and changes in product category consumption;
- competitive product and pricing pressures;
- continued success from our productivity initiatives, which is dependent upon our ability to implement and leverage these programs;
- continued success of acquisition integrations, including our ability to achieve cost savings and revenue enhancement opportunities from the Quaker merger;
- unforeseen economic changes and political unrest, which may result in business interruption, foreign currency devaluation, inflation, deflation and decreased demand, particularly in areas outside North America, such as in Latin America and the Middle East;
- maintenance of our profit margin in the face of a consolidating retail environment;
- changes in laws and regulations, including changes in food and drug laws, accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations) and environmental laws; and
- fluctuations in manufacturing costs and the availability of raw materials.

The discussion of these risks and uncertainties is by no means all inclusive but is designed to highlight what we believe are important factors to consider.

OUR CRITICAL ACCOUNTING POLICIES

An understanding of our accounting policies is necessary to completely analyze our financial results. Our critical accounting policies require management to make difficult and subjective judgments regarding uncertainties. As a result, estimates are included in and 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 estimation methods consistently in all periods presented.

Our critical accounting policies arise in conjunction with the following:

- revenue recognition,
- brands and goodwill,
- income taxes, and
- pension and retiree medical plans.

Revenue Recognition

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 and may allow discounts for early payment. We recognize revenue upon delivery to our customers in accordance with written sales terms that do not allow for a right of return. However, our policy for direct-store-delivery and chilled products is to remove and replace out-of-date products from store shelves to ensure that consumers receive the product quality and freshness that they expect. Based on our historical experience with this practice, we have reserved for anticipated out-of-date product. Our bottlers have a similar replacement policy and are responsible for our products that they distribute.

We offer sales incentives through various programs to customers, consumers and, for PCNA, directly to certain retailers. Sales incentives are accounted for as a reduction of sales and totaled \$5.5 billion in 2002, \$4.7 billion in 2001 and \$4.3 billion in 2000. A number of these programs, such as bottler funding and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. The accruals are based on our previous experience with similar programs. The terms of most of our incentive arrangements do not exceed a year. However, we have arrangements, such as fountain pouring rights, which extend up to 12 years. Costs incurred to obtain these rights are recognized over the life of the contract as a reduction of sales, and the outstanding balance is included in other assets in our Consolidated Balance Sheet.

We estimate and reserve for our bad debt exposure from credit sales based on our experience. Our method of determining the reserves has not changed during the years presented in the consolidated financial statements. Bad debt expense is classified within selling, general and administrative expenses in our Consolidated Income Statement.

Brands and Goodwill

We sell products under a number of brand names around the world, many of which were developed by us. The brand development costs are expensed as incurred. We also purchase brands and goodwill in acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brands, based on estimated fair value, with any remaining purchase price recorded as goodwill. Goodwill and perpetual brands are not amortized.

We believe that a brand has an indefinite life if it has significant market share in a stable macroeconomic environment, and a history of strong revenue and cash flow performance that we expect to continue for the foreseeable future. If these perpetual brand criteria are not met, brands are amortized over their expected useful lives, which generally range from five to twenty years. Determining the expected life of a brand requires considerable management judgment and is based on an evaluation of a number of factors, including the competitive environment, market share, brand history and the macroeconomic environment of the country in which the brand is sold.

Perpetual brands and goodwill are assessed for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A perpetual brand is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its fair value. A reporting unit can be a division or business. If the fair value of an evaluated asset is less than its book value, the asset is written down based on its discounted future cash flows to fair value.

Amortizable brands are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

We did not recognize any impairment charges for perpetual brands or goodwill during 2002. As of December 28, 2002, we had over \$4 billion of perpetual brands and goodwill, of which 75% related to Tropicana and Walkers. In our most recent impairment evaluations for Tropicana and Walkers, no impairment charges would have resulted even if operating profit growth were assumed to be 5% lower.

Income Taxes

Our reported effective tax rate was 31.9% for 2002. Excluding the impact of nondeductible merger-related costs, our effective tax rate was 31.2%. For 2003, our effective tax rate, excluding the impact of nondeductible merger-related costs, is expected to be 30.5%. The decrease from 2002 primarily reflects the impact of our new concentrate plant.

Our effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective 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 likely to be challenged and that we may not succeed. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit. Our effective tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate, as well as related interest. This rate is then applied to our quarterly operating results. In the event that there is a significant unusual or one-time item recognized in our operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item. We consider the Quaker merger-related costs to be a significant one-time item.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, our effective tax rate reflected in our financial statements is different than that reported in our tax return. Some of these differences are permanent, such as expenses which are not deductible on our tax return, and some are timing differences, such as depreciation expense. Timing 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 return in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or expense for which we have already taken a deduction on our tax return, but have not yet recognized as expense in our financial statements. We have not recognized any United States tax expense on undistributed international earnings since we intend to reinvest the earnings outside the United States for the foreseeable future. These undistributed earnings are approximately \$7.5 billion at December 28, 2002.

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. In the United States, the audits for 1991 through 1993 remain open for certain items and the Internal Revenue Service is currently examining our tax returns for 1994 through 1997. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would require use of our cash. Favorable resolution would be recognized as a reduction to our effective tax rate in the year of resolution. Our tax reserves are presented in the balance sheet within other liabilities, except for amounts relating to items we expect to settle in the coming year which are classified as current.

Pension and Retiree Medical Plans

Our pension plans cover full-time U.S. employees and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. employees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements and qualify for retirement benefits. Generally, our retiree medical costs are capped at a specified dollar amount, with retirees contributing the remainder.

The expected benefit to be paid is expensed over the employees' expected service. Management must make many assumptions to determine the expected benefit and expected service, including:

- the interest rate used to determine the present value of liabilities (discount rate),
- the expected return on plan assets for plans funded by us,
- the rate of salary increases for plans where benefits are based on earnings,
- health care cost trend rates for retiree medical plans, and
- certain employee-related factors, such as turnover, retirement age and mortality.

We make contributions to trusts maintained to 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. We do not generally fund pension plans and retiree medical plans when our contributions would not be tax deductible or when the employee would be taxed prior to receipt of benefit. Pension plan investment guidelines are established based upon an evaluation of market conditions, risk tolerance and plan investment horizon.

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The assets, liabilities and assumptions used to measure pension and retiree medical expense are determined as of September 30 of the preceding year (measurement date). Since the liabilities are measured on a discounted basis, the discount rate is a significant assumption. It is based on interest rates for high-quality, long-term corporate debt at each measurement date. The expected return on pension plan assets is based on our historical experience and our expectations for long-term rates of return. To measure pension expense, we use a calculated value for plan assets which recognizes changes in fair value over five years rather than the current fair value at each measurement date. The other assumptions also reflect our historical experience and management's best judgment regarding future expectations.

Gains and losses resulting from actual experience differing from our assumptions are determined at each measurement date. If the net total gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion of the net gain or loss is included in expense for the next year. The cost or benefit of plan changes, such as increasing or decreasing benefits for prior employee service, is included in expense over the expected service of the employees.

Weighted-average assumptions for pension and retiree medical expense:

	2003	2002	2001	2000
Pension				
Expense discount rate	6.7%	7.4%	7.7%	7.7%
Expected rate of return on plan assets	8.2%	9.1%	9.8%	9.9%
Rate of salary increases	4.4%	4.4%	4.6%	4.5%
Retiree medical				
Expense discount rate	6.7%	7.5%	7.8%	7.8%

We review our assumptions at least at the annual measurement date. During 2002, we completed a review of our pension investment and funding strategy for our U.S. pension plans. As a result, we revised our U.S. investment allocation to a maximum of 65% equities with the balance in fixed income securities. As a result of the mid-year 2002 investment funding and strategy changes, we remeasured pension expense for our U.S. plans to incorporate a reduction in the rate of return on plan assets to 8.2%, as well as changes to employee-related assumptions based on current data. This mid-year valuation resulted in a weighted average expected return on plan assets for 2002 of 9.1% and increased the balance of year pension expense by \$29 million. This increase is reported in Corporate selling, general and administrative expenses.

Health care cost trend rates have an impact on the retiree medical plan expense. A 1 percentage point increase in the assumed health care trend rate would increase the service and interest costs by \$4 million for 2003 and a 1 percentage point decrease would reduce these costs by \$4 million.

Pension expense for 2003 is estimated to be approximately \$160 million and retiree medical expense is estimated to be approximately \$120 million compared to 2002 pension expense of \$111 million and retiree medical expense of \$88 million. These estimates incorporate the 2003 assumptions, as well as the impact of the increased pension plan assets resulting from our contributions to funded plans.

OUR FINANCIAL RESULTS**Consolidated Statement of Income**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions except per share amounts)

	2002	2001	2000
Net Sales	\$ 25,112	\$ 23,512	\$ 22,337
Cost of sales	11,497	10,750	10,226
Selling, general and administrative expenses	8,523	8,189	7,962
Amortization of intangible assets	138	165	147
Merger-related costs	224	356	—
Other impairment and restructuring charges	—	31	184
	<hr/>	<hr/>	<hr/>
Operating Profit	4,730	4,021	3,818
Bottling equity income	280	160	130
Interest expense	(178)	(219)	(272)
Interest income	36	67	85
	<hr/>	<hr/>	<hr/>
Income before Income Taxes	4,868	4,029	3,761
Provision for Income Taxes	1,555	1,367	1,218
	<hr/>	<hr/>	<hr/>
Net Income	\$ 3,313	\$ 2,662	\$ 2,543
	<hr/>	<hr/>	<hr/>
Net Income per Common Share			
Basic	\$1.89	\$1.51	\$1.45
Diluted	\$1.85	\$1.47	\$1.42

[See accompanying notes to consolidated financial statements.](#)

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following one-time items and accounting changes:

	2002	2001	2000
Net Sales			
SVE consolidation	–	\$706	\$648
53 rd week in 2000	–	–	\$(294)
Operating Profit			
Merger-related costs	\$224	\$356	–
SFAS 142 adoption	–	\$23	\$88
SVE consolidation	–	\$13	\$16
Other impairment and restructuring charges	–	\$31	\$184
53 rd week in 2000	–	–	\$(62)
Other	–	\$(2)	\$17
Bottling Equity Income			
SFAS 142 adoption	–	\$65	\$70
53 rd week in 2000	–	–	\$(5)
Net Income			
Merger-related costs	\$190	\$322	–
SFAS 142 adoption	–	\$102	\$151
Other impairment and restructuring charges	–	\$19	\$111
53 rd week in 2000	–	–	\$(44)
Net Income per Common Share – Diluted			
Merger-related costs	\$0.11	\$0.18	–
SFAS 142 adoption	–	\$0.06	\$0.08
Other impairment and restructuring charges	–	\$0.01	\$0.06
53 rd week in 2000	–	–	\$(0.02)

Merger-Related Costs

We incurred costs associated with our merger with Quaker. We expect to incur additional costs of approximately \$50 million in 2003 to complete the integration of the two companies. For additional information, see [Note 3](#) to our consolidated financial statements.

SFAS 142 Adoption

In 2002, we adopted SFAS 142, *Goodwill and Other Intangible Assets*, which eliminated amortization of goodwill and perpetual brands (our nonamortizable intangibles), and resulted in the acceleration of the amortization of certain of our other intangibles. The prior year adjustments in the above table reflect the impact that would have resulted if adoption had occurred at the beginning of 2000. For additional information, see “[Our Critical Accounting Policies](#)” and [Note 4](#) to our consolidated financial statements.

SVE Consolidation

As a result of changes in the operations of Snack Ventures Europe (SVE), we determined that consolidation was required, and we consolidated SVE in 2002. The prior year adjustments in the above table reflect the impact that would have resulted if consolidation had occurred at the beginning of 2000. For further information on our consolidation of SVE, see [Note 1](#) to our consolidated financial statements.

Other Impairment and Restructuring Charges

We incurred costs for Quaker's supply chain reconfiguration and manufacturing and distribution optimization project.

53rd Week in 2000

Our fiscal year ends on the last Saturday in December, and as a result, a 53rd week is added every five or six years. Comparisons of 2002 and 2001 to 2000 are affected by an additional week of results in 2000.

Other

This adjustment primarily reflects the reclassification of our prepaid forward contracts. Beginning in 2001, in connection with the adoption of the accounting standard on derivative instruments, gains or losses on prepaid forward contracts, which are used to hedge a portion of our deferred compensation liability, were reclassified to Corporate selling, general and administrative expenses. These amounts were previously reported in interest income. For more information on these prepaid forward contracts, see "[Our Market Risks](#)."

Pending Accounting Changes

Current pending accounting standards are not expected to have a material impact on our financial statements. For a description of these new accounting standards see [Note 2](#) to our consolidated financial statements.

RESULTS OF OPERATIONS

Consolidated Review

In the discussions of net sales 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.

Servings

Since our divisions each use different measures of physical unit volume (e.g., kilos, pounds, case sales, gallons, etc.), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

Total servings increased 4% in 2002 compared to 2001 due to volume gains across all divisions led by beverages. Total servings increased 4% in 2001 compared to 2000 primarily due to contributions from our international divisions and Pepsi-Cola North America.

Net Sales and Total Operating Profit

	2002	2001	2000	Change	
				2002	2001
Net sales	\$25,112	\$23,512	\$22,337	7%	5%
Operating profit	\$4,730	\$4,021	\$3,818	18%	5%
Operating profit margin	18.8%	17.1%	17.1%	1.7	–

2002

Net sales increased 7% and operating profit increased 18% driven by volume gains across all divisions, the consolidation of SVE, higher concentrate pricing and favorable mix. These gains were partially offset by increased promotional spending at Gatorade/Tropicana North America and Frito-Lay North America and net unfavorable foreign currency movement. The consolidation of SVE increased net sales growth by 3 percentage points and operating profit by 1 percentage point. In addition, operating profit growth improved 5 percentage points from the impact of lower merger-related costs, the absence of other impairment and restructuring costs and the adoption of SFAS 142.

The impact of net unfavorable foreign currency movements reduced net sales growth by 1 percentage point. Operating profit growth was not materially affected by foreign currency movements.

Our operating profit margin increased 1.7 percentage points primarily due to lower costs reflecting merger synergies of approximately \$250 million, lower merger costs and productivity. We expect our operating margins to continue to improve as a result of Quaker merger-related synergies that are expected to reach \$400 million a year by 2004 and by our ongoing productivity initiatives.

2001

Net sales and operating profit increased 5% primarily reflecting increased volume and higher effective net pricing of snacks and beverages, as well as the acquisition of South Beach Beverage Company, LLC (SoBe), which contributed nearly 1 percentage point to net sales growth. These gains were partially offset by the inclusion of the 53rd week in 2000, which reduced net sales growth by more than 1 percentage point and operating profit growth by 1.5 percentage points, and a net unfavorable foreign currency impact. In addition, operating profit was reduced by merger-related costs and higher general and administrative expenses, partially offset by lower costs for the Quaker supply chain project. Merger-related costs and lower supply chain costs reduced operating profit growth by approximately 5 percentage points.

The unfavorable foreign currency impact, primarily in Brazil and Europe, reduced net sales growth by more than 1 percentage point. Operating profit growth was reduced nearly 1 percentage point as a result of unfavorable foreign currency.

Bottling Equity Income

				% Change	
	2002	2001	2000	2002	2001
Bottling equity income	\$280	\$160	\$130	75	23

Bottling equity income includes our share of the net income or loss of our noncontrolled bottling affiliates as described in “[Our Customers](#).” Our interest in these bottling investments may change from time to time. Any gains or losses from these changes, as well as other transactions related to our bottling investments, are also included on a pre-tax basis.

2002

Bottling equity income increased 75%. This increase primarily reflects the adoption of SFAS 142. The impact of impairment charges of \$35 million related to a Latin American bottling investment was more than offset by the settlement of issues upon the sale of our investment in Pepsi-Gemex, our Mexican bottling affiliate, and the absence of one-time items discussed in 2001 below. Excluding these items, bottling equity income increased approximately 13% reflecting improved performance of our international bottling investments, and the contribution of our North American anchor bottlers.

2001

Bottling equity income increased 23%, primarily reflecting the strong performance of PBG. Results for 2001 also include a gain of \$59 million from the sale of approximately 2 million shares of PBG stock, and a net credit of \$23 million related to the resolution of issues for which a prior year accrual was established in connection with the creation of our anchor bottler system. Bottling equity income in 2001 also benefited from \$5 million of losses from the 53rd week in 2000. These increases were offset by impairment charges of \$62 million related to certain international bottling investments, primarily our equity investment in Turkey and a charge of \$27 million for our share of a charge recorded by PepsiAmericas for environmental liabilities related to discontinued operations.

Interest Expense, net

	2002	2001	2000	% Change	
				2002	2001
Interest expense, net	\$(142)	\$(152)	\$(187)	6	19

2002

Net interest expense declined 6% primarily due to lower average debt levels, partially offset by increased losses of \$10 million on investments used to hedge a portion of our deferred compensation liability. Decreases in borrowing rates were offset by decreases in investment rates.

2001

Net interest expense declined 19%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income declined as 2000 includes \$19 million in gains from prepaid forward contracts. Excluding the prepaid forward contracts, interest income increased slightly as the impact of higher average investment balances was largely offset by lower average interest rates and losses on the investments hedging a portion of our deferred compensation liability.

Effective Tax Rate

	2002	2001	2000
Effective tax rate	31.9%	33.9%	32.4%

2002

The effective tax rate decreased 2 percentage points compared to prior year. The adoption of SFAS 142 reduced the rate by 0.8 percentage points. The impact of nondeductible merger-related costs on the rate decreased from 1.9 percentage points in 2001 to 0.7 percentage points in 2002. Excluding the impact of nondeductible merger-related costs in 2002, our effective tax rate would have been 31.2%.

2001

The effective tax rate increased 1.5 percentage points primarily due to limited tax benefits associated with merger-related costs, partially offset by lower taxes on foreign results.

Net Income and Net Income per Common Share

	2002	2001	2000	% Change	
				2002	2001
Net income	\$3,313	\$2,662	\$2,543	24	5
Net income per common share – diluted	\$1.85	\$1.47	\$1.42	26	4

2002

Net income increased 24% and the related net income per common share increased 26%. These increases primarily reflect the solid operating profit growth, lower merger-related costs and the adoption of SFAS 142. Net income per common share also reflects the benefit of a reduction in average shares outstanding primarily as a result of increased share buyback activity. Merger-related costs reduced net income per common share by \$0.11 in 2002.

2001

Net income increased 5% and the related net income per common share increased 4%. These increases primarily reflect increased operating profit, reduced other impairment and restructuring costs, lower net interest expense, and a lower effective tax rate, partially offset by merger-related costs.

Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Prior year amounts reflect the adoption of SFAS 142 and consolidation of SVE and exclude the results of divested businesses. In addition, when our fiscal year contains a 53rd week, as occurred in 2000, our divisions are managed on a fifty-two week basis and, accordingly, the 53rd week is excluded from the results below. For additional information on these items and our divisions, see [Note 1](#) to our consolidated financial statements.

Frito-Lay North America

	2002	2001	2000	% Change	
				2002	2001
Net sales	\$8,565	\$8,216	\$7,769	4	6
Operating profit	\$2,216	\$2,056	\$1,875	8	10

2002

Pound volume grew 4% primarily due to new products, strong growth in branded snack mix, single-digit growth in Cheetos cheese flavored snacks, Doritos tortilla chips, branded dips and Quaker Chewy Granola bars, and double-digit growth in Rold Gold pretzels. Go Snacks significantly contributed to the new product growth and Munchies drove the branded snack mix growth. These gains were partially offset by a single-digit decline in Ruffles potato chips.

Growth in net sales of 4% and operating profit of 8% reflects the increased volume. Approximately half of the net sales growth came from new products. Increased promotional spending more than offset favorable mix and other pricing. Lower costs, particularly performance-based compensation and commodity prices for vegetable oils and natural gas, contributed 4 percentage points of the operating profit growth.

2001

Pound volume advanced 3%. This growth was led by single-digit growth in Lay's potato chips, Cheetos cheese flavored snacks, Doritos tortilla chips, Fritos corn chips and the introduction of our new Lay's Bistro Gourmet potato chips. These gains were partially offset by a double-digit decline in Ruffles potato chips.

Growth in net sales of 6% and operating profit of 10% primarily reflects higher effective net pricing and the increased volume. Lay's Bistro Gourmet potato chips contributed nearly 1 percentage point to the sales growth. Advertising and marketing expenses grew at a faster rate than sales, also negatively impacting operating profit growth.

Frito-Lay International

	2002	2001	2000	% Change	
				2002	2001
Net sales	\$5,713	\$5,492	\$5,172	4	6
Operating profit	\$781	\$651	\$577	20	13

2002

Volume grew 6% primarily reflecting 3% growth in salty snacks, 8% growth in sweet snacks and 6% growth in foods. Single-digit growth at Walkers and Sabritas contributed over 70% of the salty volume growth. Strong single-digit growth at Gamesa contributed nearly 80% of the sweet growth and the introduction of Chipita croissants in Russia contributed the remainder. Brazil drove the foods volume.

Unfavorable foreign currencies in Mexico, Argentina and Brazil reduced net sales growth by 4 percentage points. This impact was partially offset by the favorable 1 percentage point impact of the British pound and the euro. Foreign currency was not a factor in operating profit growth as the unfavorable Mexican peso offset the favorable impact of the British pound and, as a result of operating losses, the Argentinean peso.

Growth in net sales of 4% and operating profit of 20% primarily reflects solid results at Walkers, Gamesa and Sabritas. The impact of higher net effective pricing in Brazil and Argentina contributed 1 percentage point to net sales growth. These gains were partially offset by the impact of unfavorable foreign currencies. Walkers and Gamesa together contributed over 60% of the net sales growth and nearly half of the operating profit growth. Favorable advertising and marketing costs at Sabritas also contributed to operating profit growth.

2001

Volume increased 6%, reflecting growth in the salty and sweet categories. The salty volume grew 9% led by double-digit growth at SVE, in Brazil and in Poland, single-digit growth at Walkers and 2 percentage points of growth from acquisitions. Sweet volume grew 5% driven by growth at Gamesa.

Growth in net sales of 6% and operating profit of 13% primarily reflects solid results from Walkers, Gamesa and Poland, effective net pricing at Sabritas and Gamesa, and the impact of acquisitions. Macroeconomic conditions in Argentina negatively impacted operating profit growth. Unfavorable foreign currency movements in Brazil and the United Kingdom decreased net sales by 4 percentage points and operating profit growth by 2 percentage points.

Pepsi-Cola North America

				% Change	
	2002	2001	2000	2002	2001
Net sales	\$3,365	\$3,189	\$2,657	6	20
Operating profit	\$987	\$881	\$820	12	7

2002

Concentrate shipments and equivalents increased 2% driven by strong double-digit growth in Aquafina, the introductions of Lipton Brisk Lemonade and Pepsi Blue, and continued growth of Pepsi Twist, Code Red and Sierra Mist. Trademark Mountain Dew was flat compared to prior year reflecting the double-digit growth of Code Red offset by declines in base Mountain Dew. Trademark Pepsi was down slightly compared to prior year as gains from Pepsi Twist and Pepsi Blue were more than offset by declines in base Pepsi. BCS increased 2% over the prior year.

Net sales increased 6% and operating profit increased 12%. These increases reflect higher concentrate pricing contributing 3 percentage points to net sales growth and substantially all of the operating profit growth. These increases also reflect volume from the new product introductions, increased Aquafina royalties and higher national fountain pricing, partially offset by lower concentrate volume, costs associated with litigation, increased inventory costs and increased advertising and marketing expenses related to our new products. New products contributed approximately 2 percentage points to the net sales growth. Advertising and marketing costs, costs of sales and general and administrative expenses grew at a slower rate than sales.

As in 2002, we expect concentrate pricing to favorably impact our results due to the 2% price increase effective in the first quarter of 2003. In addition, our carbonated soft drink volume will be favorably impacted by the expanded distribution of Sierra Mist by many of our U.S. bottlers as these bottlers distribute Sierra Mist as their exclusive lemon-lime brand.

2001

Concentrate shipments and equivalents increased 4%. This increase was primarily driven by high single-digit growth in Mountain Dew reflecting the introduction of Code Red, strong growth in Sierra Mist and Aquafina, the acquisition of SoBe and the launch of Dole. These gains were partially offset by a low single-digit decline in trademark Pepsi, which was mitigated by the successful launch of Pepsi Twist, and a double-digit decline in Slice as a result of the introduction of Sierra Mist. Bottler case sales volume increased 4%. The carbonated soft drink portfolio and the acquisition of SoBe each contributed 1 percentage point to both concentrate shipments and equivalents and bottler case sales growth.

Growth in net sales of 20% and operating profit of 7% primarily reflects the increased volume and higher effective net pricing. The acquisition of SoBe and our new products Dole, Mountain Dew Code Red, Sierra Mist and Pepsi Twist, accounted for the majority of the revenue growth. SoBe and Dole are sold as finished product to our bottlers. Accordingly, net sales growth was accelerated due to their significantly higher price per unit for these products. The SoBe acquisition contributed 7 percentage points to net sales growth. These gains were partially offset by increased customer support.

Operating profit growth was slowed by the increased advertising and marketing expenses and general and administrative expenses. General and administrative expenses grew at a significantly faster rate than sales. The SoBe acquisition reduced operating profit growth by 4 percentage points primarily due to brand amortization.

Gatorade/Tropicana North America

	2002	2001	2000	% Change	
				2002	2001
Net sales	\$3,835	\$3,699	\$3,514	4	5
Operating profit	\$590	\$585	\$554	1	6

2002

Overall volume grew 8% reflecting strong 17% growth in Gatorade products and a 1% decline in Tropicana products. The Gatorade volume growth resulted from new product introductions and the national launch of Propel. Excluding the loss of the single serve Pure Premium business at Burger King, Tropicana volume growth was nearly 1% as gains in Tropicana chilled products, driven by Pure Premium nutritionals and Dole blends, were offset by declines in Tropicana ambient products led by Twister.

Net sales increased 4% and operating profit increased 1% primarily due to the volume gains and favorable product mix. The volume gains contributed over 7 percentage points to the net sales growth which were greatly offset by increased promotional spending. The increased promotional spending reflects the competitive marketplace and chilled juice and juice drink category softness. Operating profit benefited from lower costs driven by merger-related synergies.

2001

Overall volume grew 4%. This growth was led by three new Gatorade flavors and double-digit growth in Tropicana Pure Premium nutritionals, offset by low double-digit declines in Tropicana Season's Best.

Net sales increased 5% and operating profit increased 6% due to the volume gains and higher effective net pricing for Gatorade. Operating profit also benefited from lower general and administrative expenses, partially offset by higher advertising and marketing expenses and higher Tropicana manufacturing costs as a result of lower fruit yields, higher energy costs and lower production leverage.

PepsiCo Beverages International

				% Change	
	2002	2001	2000	2002	2001
Net sales	\$2,036	\$2,012	\$1,981	1	2
Operating profit	\$261	\$212	\$161	23	32

2002

BCS increased 5% reflecting broad-based increases led by strong double-digit growth in China, India, Turkey and Russia. These advances were partially offset by declines in Argentina due to poor macroeconomic conditions. For the year, total concentrate shipments to franchisees grew 6%, while their BCS grew at a slower rate.

Unfavorable foreign currency movements reduced net sales growth by 2 percentage points and operating profit by 7 percentage points as currency weaknesses in Latin America and Egypt were partially offset by stronger currencies in Europe.

Net sales increased 1% and operating profit increased 23% due to the volume gains partially offset by the unfavorable effect of foreign currency movements. We franchised our Gatorade business in certain countries and, as a result, we now sell concentrate as opposed to full goods to bottlers in these countries. The impact of the franchising reduced net sales growth by 2 percentage points. The Gatorade franchising increased operating profit growth by 13 percentage points as a result of prior year operating losses. This growth was partially offset by increases in general and administrative and advertising and marketing expenses.

2001

BCS increased 4.5% due to broad-based increases led by Russia, China and Brazil. These increases were partially offset by pricing-related declines in Mexico and Saudi Arabia coupled with a macroeconomic decline in Turkey. For the year, total concentrate shipments to franchisees grew 3%, while their BCS grew at about the same rate.

Net sales increased 2% and operating profit increased 32% primarily due to the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced net sales growth by 4.5 percentage points, primarily in Europe, Brazil and Egypt, and reduced operating profit growth by 11 percentage points, primarily in Europe. Overall margin improvements contributed to operating profit growth.

Quaker Foods North America

				% Change	
	2002	2001	2000	2002	2001
Net sales	\$1,491	\$1,466	\$1,453	2	1
Operating profit	\$481	\$399	\$369	21	8

2002

Pound volume increased 2%. Hot cereals and ready-to-eat cereals each contributed 1 percentage point of volume growth driven by new product introductions and product news.

Growth in net sales of 2% and operating profit of 21% was due to increased cereal volume. In addition, the benefit of productivity, merger-related synergies and lower advertising and marketing expense, partially offset by higher oat prices, contributed more than 15 percentage points of the operating profit growth.

2001

Pound volume decreased 1% driven by declines in ready-to-eat cereals and bulk cornmeal and oats products, largely offset by growth in hot cereals. The hot cereals growth resulted primarily from new products and flavor varieties.

Growth in net sales of 1% and operating profit of 8% was primarily due to higher effective net pricing, reflecting a mix shift to higher priced products, and the price increases for cereals which more than offset lower overall volume.

[Table of Contents](#)**Consolidated Statement of Cash Flows**

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions)

	2002	2001	2000
Operating Activities			
Net income	\$ 3,313	\$ 2,662	\$ 2,543
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,112	1,082	1,093
Merger-related costs	224	356	–
Other impairment and restructuring charges	–	31	184
Cash payments for merger-related costs and other restructuring charges	(123)	(273)	(38)
Pension plan contributions	(820)	(446)	(103)
Bottling equity income, net of dividends	(222)	(103)	(74)
Deferred income taxes	288	162	33
Deferred compensation – ESOP	–	48	36
Other noncash charges and credits, net	263	209	303
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable	(260)	7	(52)
Inventories	(53)	(75)	(51)
Prepaid expenses and other current assets	(78)	(6)	(35)
Accounts payable and other current liabilities	426	(236)	219
Income taxes payable	278	394	335
Net change in operating working capital	313	84	416
Other	279	8	(215)
Net Cash Provided by Operating Activities	4,627	3,820	4,178
Investing Activities			
Capital spending	(1,437)	(1,324)	(1,352)
Sales of property, plant and equipment	89	–	57
Acquisitions and investments in noncontrolled affiliates	(351)	(432)	(98)
Divestitures	376	–	33
Short-term investments, by original maturity			
More than three months – purchases	(62)	(2,537)	(4,950)
More than three months – maturities	833	2,078	4,585
Three months or less, net	(14)	(41)	(9)
Snack Ventures Europe consolidation	39	–	–
Net Cash Used for Investing Activities	(527)	(2,256)	(1,734)

(Continued on following page)

[Table of Contents](#)**Consolidated Statement of Cash Flows (continued)**

PepsiCo, Inc. and Subsidiaries

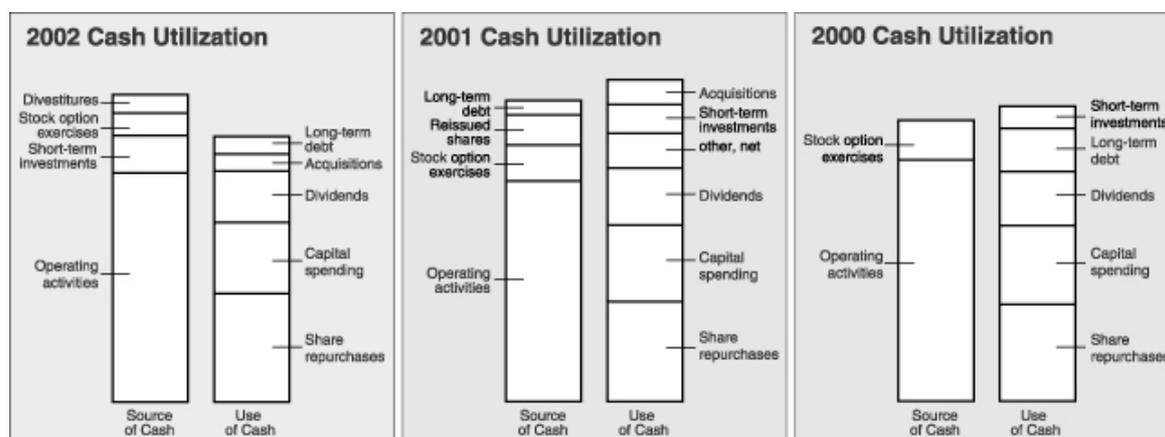
Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions)	2002	2001	2000
Financing Activities			
Proceeds from issuances of long-term debt	11	324	130
Payments of long-term debt	(353)	(573)	(879)
Short-term borrowings, by original maturity			
More than three months – proceeds	707	788	198
More than three months – payments	(809)	(483)	(155)
Three months or less, net	40	(397)	1
Cash dividends paid	(1,041)	(994)	(949)
Share repurchases – common	(2,158)	(1,716)	(1,430)
Share repurchases – preferred	(32)	(10)	–
Quaker share repurchases	–	(5)	(254)
Proceeds from reissuance of shares	–	524	–
Proceeds from exercises of stock options	456	623	690
Net Cash Used for Financing Activities	(3,179)	(1,919)	(2,648)
Effect of exchange rate changes on cash and cash equivalents	34	–	(4)
Net Increase/(Decrease) in Cash and Cash Equivalents	955	(355)	(208)
Cash and Cash Equivalents, Beginning of Year	683	1,038	1,246
Cash and Cash Equivalents, End of Year	\$ 1,638	\$ 683	\$ 1,038

[See accompanying notes to consolidated financial statements.](#)

OUR LIQUIDITY AND CAPITAL RESOURCES

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world. Our principal source of liquidity is operating cash flows, which are derived from net income. This cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating, investing and financing needs. We focus on management operating cash flow as a key element in achieving maximum shareholder value.



Operating Activities

In 2002, net cash provided by operating activities of \$4.6 billion primarily reflects our solid business results and our emphasis on working capital efficiencies. Net cash provided by operating activities includes pension plan contributions of \$820 million and a net tax refund of approximately \$250 million in 2002. We expect pension plan contributions to be at a significantly lower level in 2003.

In 2001, net cash provided by operating activities of \$3.8 billion primarily reflects our solid business results less cash paid for merger-related costs and other restructuring charges.

Investing Activities

In 2002, net cash used in investing activities of \$0.5 billion primarily reflects capital spending and acquisitions, primarily the Wotsits brand in the United Kingdom, partially offset by maturities of short-term investments of \$0.8 billion, and proceeds from the Pepsi-Gemex transaction.

In 2001, net cash used in investing activities of \$2.3 billion primarily reflects capital spending, the acquisition of SoBe and purchases of short-term investments of \$0.5 billion.

Capital spending was \$1.4 billion in 2002, \$1.3 billion in 2001 and \$1.4 billion in 2000. We expect capital spending to continue at a rate of approximately 5.5% to 6% of net sales.

Financing Activities

In 2002, cash used for financing activities of \$3.2 billion primarily reflects share repurchases of \$2.2 billion and dividend payments of \$1 billion. Our policy is to pay dividends equal to approximately one-third of our previous year's net income.

In 2001, cash used for financing activities of \$1.9 billion primarily reflects share repurchases of \$1.7 billion and dividend payments of \$1.0 billion. These payments were partially offset by the net proceeds of \$524 million from the issuance of 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment in connection with the merger with Quaker.

In 2002, our Board of Directors authorized a share repurchase program of up to \$5 billion over a three-year period. In 2003, we expect share repurchases to continue at a level consistent with the years presented. In 2001, subsequent to our merger with Quaker, we repurchased shares of our common stock, as permitted by the emergency and exemptive orders from the Securities and Exchange Commission aimed at facilitating the reopening of the United States equities market on September 17, 2001, following the events of September 11th. Our Board of Directors authorized the repurchase of up to \$2 billion worth of our common stock during the terms of these orders. Repurchases under these orders did not compromise our accounting for the Quaker merger. All prior authorizations for share repurchases had been rescinded as a result of the PepsiCo and Quaker merger.

Management Operating Cash Flow

Management operating cash flow is the primary measure management uses to monitor cash flow performance. It is not a measure calculated under United States generally accepted accounting principles. We believe capital spending is a recurring and essential use of cash necessary to maintain our operating capabilities. The table below reconciles net cash provided by operating activities as reflected in our Consolidated Statement of Cash Flows to our management operating cash flow.

	2002	2001	2000
Net cash provided by operating activities	\$ 4,627	\$ 3,820	\$ 4,178
Capital spending	(1,437)	(1,324)	(1,352)
Sales of property, plant and equipment	89	–	57
After-tax interest and forex	10	87	116
Management operating cash flow	\$ 3,289	\$ 2,583	\$ 2,999

Management operating cash flow was used primarily to fund share repurchases and dividend payments. In 2000, management operating cash flow was also used to reduce long-term debt. We expect management operating cash flow for fiscal year 2003 to remain strong and at levels consistent with the years presented above. However, see “[Cautionary Statements](#)” for certain factors that may impact our operating cash flows.

Credit Ratings

Our debt ratings of A1 from Moody’s and A from Standard & Poor’s contribute to our ability to access global capital markets. Each rating is considered a strong investment grade bond rating with strong debt protection measures. These ratings reflect the third highest rankings out of nine-tier ranking systems. They reflect our strong operating cash flows and include the impact of the cash flows and debt of our anchor bottlers. We have maintained these healthy ratings since 1989, demonstrating the stability of our operating cash flows.

Credit Facilities and Long-Term Contractual Commitments

See [Note 9](#) to our consolidated financial statements for a description of our credit facilities and long-term contractual commitments.

Off-Balance Sheet Arrangements

It is not our business practice to enter into off-balance sheet arrangements nor is it our policy to issue guarantees to our bottlers, noncontrolled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. As of year-end 2002, we believe it is remote that these guarantees would require any cash payment. See [Note 9](#) to our consolidated financial statements for a description of our off-balance sheet arrangements.

[Table of Contents](#)**Consolidated Balance Sheet**

PepsiCo, Inc. and Subsidiaries

December 28, 2002 and December 29, 2001

(in millions except per share amounts)

	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,638	\$ 683
Short-term investments, at cost	207	966
	<u>1,845</u>	<u>1,649</u>
Accounts and notes receivable, net	2,531	2,142
Inventories	1,342	1,310
Prepaid expenses and other current assets	695	752
	<u>6,413</u>	<u>5,853</u>
Total Current Assets	6,413	5,853
Property, Plant and Equipment, net	7,390	6,876
Amortizable Intangible Assets, net	801	875
Nonamortizable Intangible Assets	4,418	3,966
Investments in Noncontrolled Affiliates	2,611	2,871
Other Assets	1,841	1,254
	<u>1,841</u>	<u>1,254</u>
Total Assets	\$ 23,474	\$ 21,695
	<u>\$ 23,474</u>	<u>\$ 21,695</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term obligations	\$ 562	\$ 354
Accounts payable and other current liabilities	4,998	4,461
Income taxes payable	492	183
	<u>6,052</u>	<u>4,998</u>
Total Current Liabilities	6,052	4,998
Long-Term Debt Obligations	2,187	2,651
Other Liabilities	4,226	3,876
Deferred Income Taxes	1,718	1,496
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(48)	(15)
Common Shareholders' Equity		
Common stock, par value 1 ² / ₃ ¢ per share (issued 1,782 shares)	30	30
Capital in excess of par value	-	13
Retained earnings	13,464	11,519
Accumulated other comprehensive loss	(1,672)	(1,646)
	<u>11,822</u>	<u>9,916</u>
Less: repurchased common stock, at cost (60 and 26 shares, respectively)	(2,524)	(1,268)
	<u>9,298</u>	<u>8,648</u>
Total Common Shareholders' Equity	9,298	8,648
	<u>9,298</u>	<u>8,648</u>
Total Liabilities and Shareholders' Equity	\$ 23,474	\$ 21,695
	<u>\$ 23,474</u>	<u>\$ 21,695</u>

[See accompanying notes to consolidated financial statements.](#)

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Consolidated Statement of Common Shareholders' Equity

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions)

	2002		2001		2000	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance, beginning of year	1,782	\$ 30	2,029	\$ 34	2,030	\$ 34
Quaker share repurchases	-	-	-	-	(9)	-
Stock option exercises	-	-	6	-	-	-
Quaker stock option exercises	-	-	3	-	8	-
Shares issued to effect merger	-	-	(256)	(4)	-	-
Balance, end of year	1,782	30	1,782	30	2,029	34
Capital in Excess of Par Value						
Balance, beginning of year		13		375		559
Quaker share repurchases		-		-		(236)
Stock option exercises ^(a)		(9)		82		52
Reissued shares		-		150		-
Shares issued to effect merger		-		(595)		-
Other		(4)		1		-
Balance, end of year		-		13		375
Deferred Compensation						
Balance, beginning of year		-		(21)		(45)
Net activity		-		21		24
Balance, end of year		-		-		(21)
Retained Earnings						
Balance, beginning of year		11,519		16,510		14,921
Net income ^(b)		3,313		2,662		2,543
Shares issued to effect merger		-		(6,644)		-
Cash dividends declared – common		(1,042)		(1,005)		(950)
Cash dividends declared – preferred		(4)		(4)		(4)
Stock option exercises ^(a)		(322)		-		-
Balance, end of year		13,464		11,519		16,510
Accumulated Other Comprehensive Loss						
Balance, beginning of year		(1,646)		(1,374)		(1,085)
Currency translation adjustment ^(b)		56		(218)		(289)
Cash flow hedges, net of tax ^(b)		18		(18)		-
Minimum pension liability adjustment, net of tax ^(b)		(99)		(38)		(2)
Other ^(b)		(1)		2		2
Balance, end of year		(1,672)		(1,646)		(1,374)
Repurchased Common Stock						
Balance, beginning of year	(26)	(1,268)	(280)	(7,920)	(271)	(7,306)
Share repurchases	(53)	(2,192)	(35)	(1,716)	(38)	(1,430)
Stock option exercises	19	931	20	751	29	816
Reissued shares	-	-	13	374	-	-
Shares issued to effect merger	-	-	256	7,243	-	-
Other	-	5	-	-	-	-
Balance, end of year	(60)	(2,524)	(26)	(1,268)	(280)	(7,920)
Total Common Shareholders' Equity		\$ 9,298		\$ 8,648		\$ 7,604

(a) Includes total tax benefit of \$143 million in 2002, \$212 million in 2001 and \$177 million in 2000.

(b) Combined these amounts represent total comprehensive income of \$3,287 million in 2002, \$2,390 million in 2001 and \$2,254 million in 2000.

[See accompanying notes to consolidated financial statements.](#)

Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation and Our Divisions

Basis of Presentation

Our financial statements 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 based on our ownership interest. We do not control these other affiliates as our ownership in these other affiliates is generally less than fifty percent. Our share of the net income of noncontrolled bottling affiliates is reported in our income statement as bottling equity income. See [Note 8](#) for additional information on our noncontrolled bottling affiliates. Our share of other noncontrolled affiliates is included in division operating profit. As a result of changes in the operations of our European snack joint venture, Snack Ventures Europe (SVE), we determined that effective in 2002, consolidation was required. Therefore, SVE's results of operations are consolidated with PepsiCo in 2002. Intercompany balances and transactions are eliminated.

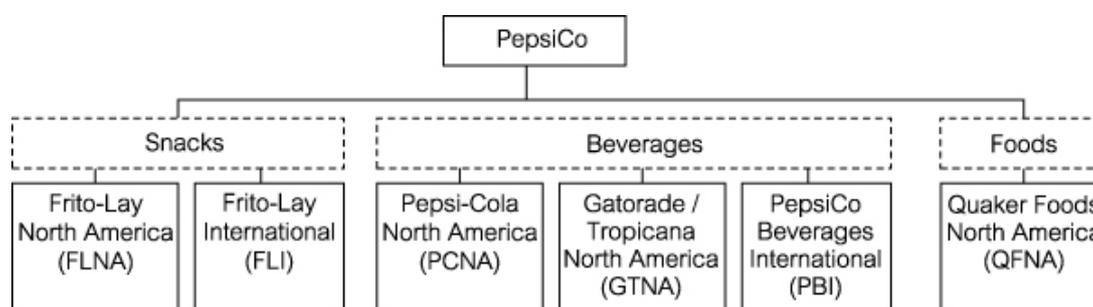
The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every fifth or sixth year. The fiscal year ended December 30, 2000 consisted of fifty-three weeks.

The impact of the 53rd week and certain other items, such as merger-related costs (described in [Note 3](#)), the adoption of SFAS 142 (described in [Note 4](#)) and the SVE consolidation affect the comparability of our consolidated results. For additional unaudited information on these items, see “[Our Divisions](#)” below and “[Items Affecting Comparability](#)” in Management's Discussion and Analysis.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior year amounts to conform to the 2002 presentation.

Our Divisions

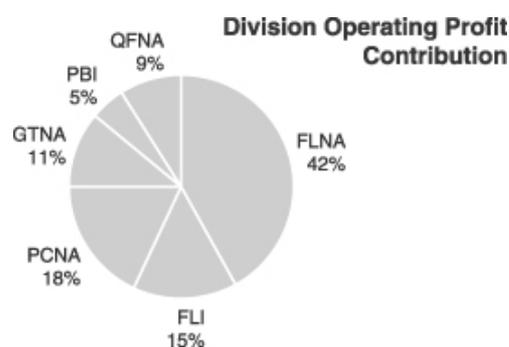
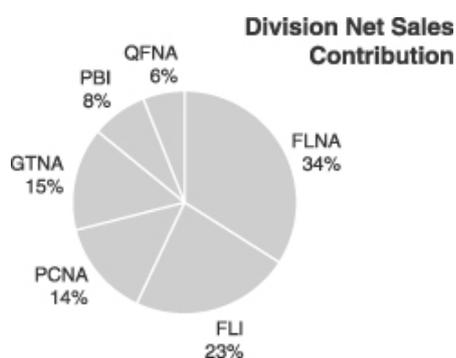


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We manufacture, market and sell a variety of salty, sweet and grain-based snacks, carbonated and noncarbonated beverages, and foods through our North American and international business divisions. Our North American divisions include the United States and Canada. The accounting policies for the divisions are the same as those described in [Note 2](#).

Division results are based on how our Chief Executive Officer manages our divisions. Beginning in 2003, we will combine our North American beverage businesses as PepsiCo Beverages North America and our international food and beverage businesses as PepsiCo International to reflect operating and management changes. Merger-related costs and significant other impairment and restructuring charges are not included in division results. In addition, prior year division results are adjusted to reflect the adoption of SFAS 142 and consolidation of SVE, and exclude divested businesses. For additional unaudited information on our divisions, see “[Our Operations](#)” in Management’s Discussion and Analysis.

	2002	2001	2000	2002	2001	2000
	<i>Net Sales</i>			<i>Operating Profit</i>		
Snacks						
– FLNA	\$ 8,565	\$ 8,216	\$ 7,769	\$2,216	\$2,056	\$1,875
– FLI	5,713	5,492	5,172	781	651	577
Beverages						
– PCNA	3,365	3,189	2,657	987	881	820
– GTNA	3,835	3,699	3,514	590	585	554
– PBI	2,036	2,012	1,981	261	212	161
QFNA	1,491	1,466	1,453	481	399	369
Total division	25,005	24,074	22,546	5,316	4,784	4,356
Divested businesses	107	144	145	15	29	36
Corporate				(377)	(371)	(331)
	25,112	24,218	22,691	4,954	4,442	4,061
Merger-related costs	–	–	–	(224)	(356)	–
Other impairment and restructuring charges	–	–	–	–	(31)	(184)
Other	–	–	–	–	2	(17)
SVE consolidation	–	(706)	(648)	–	(13)	(16)
SFAS 142 adoption	–	–	–	–	(23)	(88)
53 rd week in 2000	–	–	294	–	–	62
Total	\$25,112	\$23,512	\$22,337	\$4,730	\$4,021	\$3,818



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Divested Businesses – During 2002, we sold our Quaker Foods North America bagged cereal business and our Frito-Lay International food businesses in Colombia and Venezuela. A net loss of \$5 million was recorded on the sale of these businesses. The net loss and results prior to the divestitures are presented as divested businesses. Prior year division operating results have been reclassified as follows:

	2001	2000	2001	2000
	Net Sales		Operating Profit	
Frito-Lay International	\$ 44	\$ 41	\$ 6	\$ 6
Quaker Foods North America	100	104	23	30
	<u>\$144</u>	<u>\$145</u>	<u>\$29</u>	<u>\$36</u>

Corporate – Corporate includes costs of our corporate headquarters, centrally managed initiatives, unallocated insurance and benefit programs, foreign exchange transaction gains and losses and certain one-time charges.

Merger-Related Costs – See [Note 3](#).

Other Impairment and Restructuring Charges – We incurred other impairment and restructuring costs for Quaker’s supply chain reconfiguration and manufacturing and distribution optimization project initiated in 1999. Approximately \$14 million of these costs remain payable at December 28, 2002 and \$23 million was payable at December 29, 2001.

Other – This adjustment primarily reflects the reclassification of our prepaid forward contracts. For more unaudited information on these prepaid forward contracts, see “[Items Affecting Comparability](#)” in Management’s Discussion and Analysis.

The following items are necessary to reconcile division results to consolidated results since, as noted above, division results are presented as managed.

SVE Consolidation – We have consolidated SVE in 2002. As a result, prior period amounts were adjusted to include SVE for planning and performance measurement purposes as follows:

	2001	2000
Frito-Lay International net sales	\$706	\$648
Frito-Lay International operating profit	\$14	\$17
Corporate	\$(1)	\$(1)

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SFAS 142 Adoption – In 2002, we adopted SFAS 142, *Goodwill and Other Intangible Assets*, which eliminated amortization of goodwill and perpetual brands, and resulted in an acceleration of the amortization of certain of our other intangibles. See [Note 4](#) for additional information, and the after-tax impact. After adoption, prior period division results were adjusted for planning and performance measurement purposes as follows:

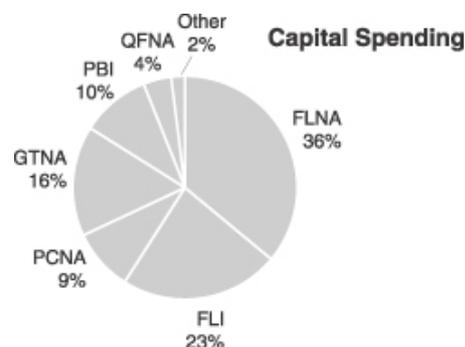
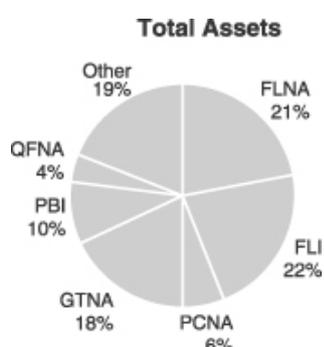
	2001	2000
Frito-Lay International	\$ 18	\$ 32
Pepsi-Cola North America	(50)	–
PepsiCo Beverages International	(21)	(20)
Gatorade/Tropicana North America	69	69
Quaker Foods North America	7	7
	<u>\$ 23</u>	<u>\$ 88</u>

53rd Week in 2000 – Since we manage our results on a fifty-two week basis, the impact of the 53rd week in 2000 is excluded as follows:

	Net Sales	Operating Profit
Frito-Lay North America	\$164	\$40
Frito-Lay International	61	10
Pepsi-Cola North America	36	13
Gatorade/Tropicana North America	33	5
	<u>\$294</u>	<u>68</u>
Corporate		(6)
		<u>\$62</u>

Other Division Information

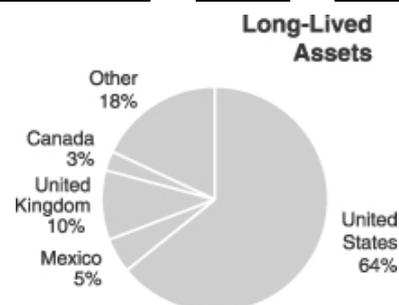
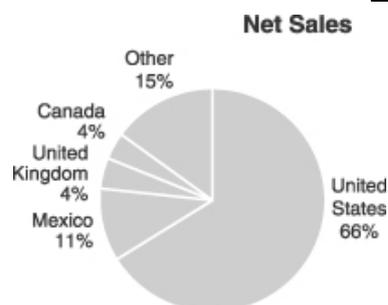
	2002	2001	2000	2002	2001	2000
	Total Assets			Capital Spending		
Snacks						
– FLNA	\$ 5,099	\$ 4,623	\$ 4,282	\$ 523	\$ 514	\$ 524
– FLI ^(a)	5,131	4,321	4,278	337	290	276
Beverages						
– PCNA	1,380	1,325	836	135	70	59
– GTNA	4,311	4,078	3,893	232	289	261
– PBI	2,144	2,038	2,202	136	95	98
QFNA	1,001	878	917	50	55	95
Total division	19,066	17,263	16,408	1,413	1,313	1,313
Divested businesses	–	58	80	1	3	3
Corporate ^(b)	2,072	1,927	1,737	23	8	36
Investments in bottling affiliates	2,336	2,447	2,532	–	–	–
	\$23,474	\$21,695	\$20,757	\$1,437	\$1,324	\$1,352



2002 2001 2000 2002 2001 2000

	Amortization of Intangible Assets			Depreciation and Other Amortization		
Snacks						
– FLNA	\$ 3	\$ 7	\$ 7	\$399	\$377	\$374
– FLI	27	31	13	219	211	206
Beverages						
– PCNA	70	69	2	69	64	94
– GTNA	–	–	–	137	129	118
– PBI	37	37	36	81	99	111
QFNA	1	1	1	37	41	49
Total division	138	145	59	942	921	952
Divested businesses	–	–	–	3	4	3
Corporate	–	–	–	29	18	16
SVE consolidation	–	(3)	–	–	(26)	(25)
SFAS 142 adoption	–	23	88	–	–	–
	\$138	\$165	\$147	\$974	\$917	\$946

	2002	2001	2000	2002	2001	2000
	<i>Net Sales</i>			<i>Long-Lived Assets^(c)</i>		
United States	\$16,588	\$15,976	\$15,076	\$ 9,767	\$ 9,439	\$ 9,035
Mexico	2,686	2,609	2,404	764	1,065	934
United Kingdom	1,106	954	946	1,529	1,104	1,156
Canada	967	896	866	410	375	367
All other countries	3,765	3,077	3,045	2,750	2,605	2,759
	\$25,112	\$23,512	\$22,337	\$15,220	\$14,588	\$14,251



- (a) Frito-Lay International assets include investments in noncontrolled affiliates, principally Productos SAS, of \$145 million in 2002 and \$155 million in 2001.
- (b) Corporate assets consist principally of cash and cash equivalents, short-term investments primarily held outside the United States and property, plant and equipment.
- (c) Long-lived assets represent net property, plant and equipment, nonamortizable and net amortizable intangible assets and investments in noncontrolled affiliates.

Note 2 – Our Significant Accounting Policies

Revenue Recognition

We recognize revenue upon delivery to our customers in accordance with written sales terms that do not allow for a right of return. However, our policy for direct-store-delivery and chilled products is to remove and replace out-of-date products from store shelves to ensure that our consumers receive the product quality and freshness that they expect. Based on our historical experience with this practice, we have reserved for anticipated out-of-date product. For additional unaudited information on our revenue recognition and related policies, see “[Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.

Sales Incentives and Other Marketplace Spending

We offer sales incentives through various programs to our customers, consumers and, for PCNA, directly to certain retailers. Sales incentives are accounted for as a reduction to sales and totaled \$5.5 billion in 2002, \$4.7 billion in 2001 and \$4.3 billion in 2000. These sales incentives include the impact of adopting EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor’s Products*, which reduced

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our net sales by \$3.4 billion in 2001 and \$3.1 billion in 2000, with selling, general and administrative expenses reduced by the same amounts. Most of these incentive arrangements have terms of no more than one year. However, we have arrangements, such as fountain pouring rights, which extend up to twelve years. Costs incurred to obtain these rights are expensed over the contract period and the remaining balance of \$349 million at December 28, 2002 and \$374 million at December 29, 2001 is primarily reported in other assets in the Consolidated Balance Sheet. For additional unaudited information on our sales incentives, see “[Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.

Other marketplace spending includes the costs of advertising and other marketing activities and is reported as selling, general and administrative expenses. Advertising expenses were \$1.5 billion in 2002 and \$1.7 billion in 2001 and 2000. 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 \$147 million at year-end 2002 and \$111 million at year-end 2001 are classified as prepaid expenses in the Consolidated Balance Sheet.

Distribution Costs

Distribution costs, including the costs of shipping and handling activities, are reported as selling, general and administrative expenses for direct-store-delivery distribution systems. For our other distribution systems, these costs are reported in cost of sales. Shipping and handling expenses classified as selling, general and administrative expenses were \$2.8 billion in 2002, \$2.6 billion in 2001 and \$2.5 billion in 2000.

Cash Equivalents

Cash equivalents are investments with original maturities of three months or less.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, 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. For additional information on our commitments and other contractual and commercial obligations, see [Note 9](#).

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- *Income Taxes* – [Note 5](#) and, for additional unaudited information, see “[Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.
- *Pension and Retiree Medical Plans* – [Note 6](#) and, for additional unaudited information, see “[Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.
- *Employee Stock Options* – [Note 7](#).
- *Risk Management* – [Note 10](#) and, for additional unaudited information, see “[Our Market Risks](#)” in Management’s Discussion and Analysis.
- *Property, Plant and Equipment and Intangible Assets* – [Note 4](#) and, for additional unaudited information on brands and goodwill, see “[Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.

Pending Accounting Changes

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We currently have no significant asset retirement obligations, and therefore, adoption will have no impact on our consolidated financial statements.

In June 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 addresses the accounting and reporting for costs associated with restructuring activities. This new standard changes the timing of the recognition of restructuring charges. Liabilities for restructuring costs will be required to be recognized when the liability is incurred rather than when we commit to the plan. SFAS 146 is effective for restructuring activity initiated after December 31, 2002.

Note 3 – Our Merger with Quaker

On August 2, 2001, we completed our merger with Quaker. Under the terms of the merger agreement, we issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

The merger was accounted for as a tax-free transaction and as a pooling-of-interests. As a result, all prior period consolidated financial statements presented have been restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presentation of the financial statements, and the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

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We have recognized the following costs associated with our merger with Quaker:

	2002	2001
Transaction costs	\$ –	\$117
Integration and restructuring costs	224	239
Total merger-related costs	\$224	\$356
After-tax	\$190	\$322
Per share	\$0.11	\$0.18

Transaction costs were incurred to complete the merger and consist primarily of fees and expenses for investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges.

Integration and restructuring costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, employee-related costs, information system integration costs, asset impairments and other costs related to the integration of Quaker. Employee-related costs include retirement benefit and severance costs and expenses related to change-in-control provisions of pre-merger employment contracts. As of December 28, 2002, an accrual has been recorded for costs associated with the termination of approximately 1,100 corporate, sales, distribution, manufacturing, research, information technology and marketing employees, a majority of which have occurred. We expect to incur additional costs in 2003 to integrate the two companies.

Merger-related integration and restructuring reserves are included within accounts payable and other current liabilities in the Consolidated Balance Sheet.

Merger-related integration and restructuring reserves:

	Integration	Employee Related	Asset Impairment	Facility and Other Exit	Total
2001 costs	\$124	\$106	\$ 1	\$ 8	\$ 239
Cash payments	(80)	(33)	–	(2)	(115)
Reclassification to retiree medical/postemployment liabilities	–	(22)	–	–	(22)
Other noncash utilization	(22)	–	(1)	(2)	(25)
Reserves, December 29, 2001	22	51	–	4	77
2002 costs	90	53	56	25	224
Cash payments	(62)	(43)	–	(13)	(118)
Reclassification to retiree medical/postemployment liabilities	(7)	(9)	–	–	(16)
Other noncash utilization	–	(4)	(56)	(10)	(70)
Reserves, December 28, 2002	\$ 43	\$ 48	\$ –	\$ 6	\$ 97

Note 4 – Property, Plant and Equipment and Intangible Assets

	Useful Life	2002	2001	2000
<i>Property, plant and equipment, net</i>				
Land and improvements		\$ 504	\$ 464	
Buildings and improvements	20 – 40	3,119	2,846	
Machinery and equipment, including fleet	5 – 15	9,005	8,135	
Construction in progress		767	735	
		<u>13,395</u>	<u>12,180</u>	
Accumulated depreciation		<u>(6,005)</u>	<u>(5,304)</u>	
		<u>\$ 7,390</u>	<u>\$ 6,876</u>	
Depreciation expense		<u>\$929</u>	<u>\$843</u>	<u>\$840</u>
<i>Amortizable intangible assets, net</i>				
Brands	5 – 40	\$ 938	\$ 869	
Other identifiable intangibles	3 – 15	203	207	
		<u>1,141</u>	<u>1,076</u>	
Accumulated amortization		<u>(340)</u>	<u>(201)</u>	
		<u>\$ 801</u>	<u>\$ 875</u>	
Amortization expense		<u>\$138</u>	<u>\$165</u>	<u>\$147</u>

Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service. Amortization for each of the next five years, based on existing intangible assets and 2002 foreign exchange rates, is expected to be \$138 million in 2003, \$129 million in 2004 and 2005 and \$19 million thereafter.

No impairment charges resulted from the adoption of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Depreciable and amortizable assets are only 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 generally based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need to revise the useful lives. For additional unaudited information on our amortizable brand policies, see "[Our Critical Accounting Policies](#)" in Management's Discussion and Analysis.

Nonamortizable Intangible Assets

Perpetual brands and goodwill are assessed for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A perpetual brand is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit

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exceeds its fair value. A reporting unit can be a division or business. If the fair value of an evaluated asset is less than its book value, the asset is written down based on its discounted future cash flows to fair value. No impairment charges resulted from the required impairment evaluations in 2002. The change in the book value of nonamortizable intangible assets during 2002 is as follows:

	Balance, Beginning of Year	Acquisitions	Translation and Other	Balance, End of Year
<i>Frito-Lay North America</i>				
Goodwill	\$ 107	\$ –	\$ 2	\$ 109
<i>Frito-Lay International</i> ^(a)				
Goodwill	788	39	109	936
Brands	427	248	45	720
	<u>1,215</u>	<u>287</u>	<u>154</u>	<u>1,656</u>
<i>Gatorade/Tropicana North America</i>				
Goodwill	2,148	–	1	2,149
Brands	59	–	–	59
	<u>2,207</u>	<u>–</u>	<u>1</u>	<u>2,208</u>
<i>PepsiCo Beverages International</i>				
Goodwill	250	–	–	250
<i>Quaker Foods North America</i>				
Goodwill	187	–	–	187
<i>Corporate</i>				
Pension intangible	–	–	8	8
Total goodwill	3,480	39	112	3,631
Total brands	486	248	45	779
Total pension intangible	–	–	8	8
	<u>\$3,966</u>	<u>\$287</u>	<u>\$165</u>	<u>\$4,418</u>

(a) Beginning of year balance includes the impact of consolidating Snack Ventures Europe in 2002 for Frito-Lay International.

We adopted SFAS 142, *Goodwill and Other Intangible Assets*, in 2002. Prior to the adoption of SFAS 142, our nonamortizable intangible assets had useful lives ranging from 20 to 40 years. The following table provides pro forma disclosure of the elimination of goodwill and perpetual brands amortization and the acceleration of certain other amortization as if SFAS 142 had been adopted in 2000:

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	2001	2000
Reported net income	\$2,662	\$2,543
Cease goodwill amortization	112	112
Adjust brands amortization	(67)	(22)
Cease equity investee goodwill amortization	57	61
Adjusted net income	<u>\$2,764</u>	<u>\$2,694</u>
Reported earnings per common share – basic	\$ 1.51	\$ 1.45
Cease goodwill amortization	0.06	0.06
Adjust brands amortization	(0.03)	(0.01)
Cease equity investee goodwill amortization	0.03	0.03
Adjusted earnings per common share – basic	<u>\$ 1.57</u>	<u>\$ 1.53</u>
Reported earnings per common share – diluted	\$ 1.47	\$ 1.42
Cease goodwill amortization	0.06	0.06
Adjust brands amortization	(0.03)	(0.01)
Cease equity investee goodwill amortization	0.03	0.03
Adjusted earnings per common share – diluted	<u>\$ 1.53</u>	<u>\$ 1.50</u>

For additional unaudited information on our goodwill and nonamortizable brand policies, see “ [Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.

Note 5 – Income Taxes

	2002	2001	2000
<i>Income before income taxes</i>			
U.S.	\$3,516	\$2,922	\$2,574
Foreign	1,352	1,107	1,187
	<u>\$4,868</u>	<u>\$4,029</u>	<u>\$3,761</u>
<i>Provision for income taxes</i>			
Current: U.S. Federal	\$ 956	\$ 926	\$ 958
Foreign	256	226	165
State	55	53	62
	<u>1,267</u>	<u>1,205</u>	<u>1,185</u>
Deferred: U.S. Federal	255	159	31
Foreign	11	(8)	(7)
State	22	11	9
	<u>288</u>	<u>162</u>	<u>33</u>
	<u>\$1,555</u>	<u>\$1,367</u>	<u>\$1,218</u>

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	2002	2001	2000
Tax rate reconciliation			
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit	1.0	1.0	1.2
Lower taxes on foreign results	(3.9)	(4.3)	(2.9)
Merger-related costs and other impairment and restructuring charges	0.9	2.3	(0.2)
Other, net	(1.1)	(0.1)	(0.7)
Effective tax rate	<u>31.9%</u>	<u>33.9%</u>	<u>32.4%</u>
Deferred tax liabilities			
Investments in noncontrolled affiliates	\$ 753	\$ 702	
Property, plant and equipment	746	804	
Safe harbor leases	57	82	
Zero coupon notes	61	68	
Intangible assets other than nondeductible goodwill	127	121	
Other	669	480	
Gross deferred tax liabilities	<u>2,413</u>	<u>2,257</u>	
Deferred tax assets			
Net carryforwards	504	538	
Retiree medical benefits	315	320	
Various current and noncurrent liabilities	642	805	
Gross deferred tax assets	<u>1,461</u>	<u>1,663</u>	
Valuation allowances	(487)	(511)	
Deferred tax assets, net	<u>974</u>	<u>1,152</u>	
Net deferred tax liabilities	<u>\$1,439</u>	<u>\$1,105</u>	
Included within:			
Prepaid expenses and other current assets	\$279	\$391	
Deferred income taxes	\$1,718	\$1,496	

Operating loss carryforwards totaling \$3.3 billion at year-end 2002 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: \$0.1 billion in 2003, \$2.9 billion between 2004 and 2018 and \$0.3 billion may be carried forward indefinitely. In addition, certain tax credits generated in prior periods of approximately \$72 million are available to reduce certain foreign tax liabilities through 2011. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit.

We have not recognized any United States tax expense on undistributed international earnings since we have the intention to reinvest the earnings outside the United States for the foreseeable future. These undistributed earnings are approximately \$7.5 billion at December 28, 2002.

Analysis of valuation allowances:

	2002	2001	2000
Balance, beginning of year	\$511	\$813	\$804
(Benefit)/provision	(22)	(300)	7
Other (deductions)/additions	(2)	(2)	2
Balance, end of year	\$487	\$511	\$813

For additional unaudited information on our income tax policies, see “ [Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.

Note 6 – Pension and Retiree Medical Plans

Our pension plans cover full-time U.S. employees and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. employees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements and qualify for retirement benefits. We use a September 30 measurement date. Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see “ [Our Critical Accounting Policies](#)” in Management’s Discussion and Analysis.

	2002	2001	2000
Weighted average pension assumptions			
Liability discount rate	6.7%	7.4%	7.7%
Expected return on plan assets	9.1%	9.8%	9.9%
Rate of salary increases	4.4%	4.6%	4.5%
Components of pension expense			
Service cost	\$ 156	\$ 127	\$ 120
Interest cost	265	233	221
Expected return on plan assets	(329)	(301)	(277)
Amortization of transition asset	(1)	(2)	(3)
Amortization of prior service costs	6	8	13
Amortization of experience loss/(gain)	5	(9)	(18)
Pension expense	102	56	56
Curtailment/settlement loss	–	1	6
Special termination benefits	9	26	–
Total	\$ 111	\$ 83	\$ 62

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	2002	2001	2000
Liability discount rate	6.7%	7.5%	7.8%
Components of retiree medical expense			
Service cost	\$25	\$ 20	\$ 22
Interest cost	66	63	58
Amortization of prior service costs	(7)	(12)	(12)
Amortization of experience loss/(gain)	3	–	(1)
Retiree medical expense	87	71	67
Curtailement loss	–	–	2
Special termination benefits	1	1	–
Total	\$88	\$ 72	\$ 69

	2002	2001	2002	2001
	Pension		Retiree Medical	
Change in benefit liability				
Liability at beginning of year	\$3,556	\$3,170	\$ 911	\$834
Service cost	156	127	25	20
Interest cost	265	233	66	63
Plan amendments	12	10	(25)	1
Participant contributions	6	5	–	–
Experience loss	514	170	205	50
Benefit payments	(234)	(170)	(63)	(58)
Curtailement loss	–	2	–	–
Special termination benefits	9	26	1	1
Foreign currency adjustment	40	(17)	–	–
Liability at end of year	\$4,324	\$3,556	\$1,120	\$911
Change in fair value of plan assets				
Fair value at beginning of year	\$3,129	\$3,251	\$ –	\$ –
Actual loss on plan assets	(221)	(382)	–	–
Employer contributions	820	446	63	58
Participant contributions	6	5	–	–
Benefit payments	(234)	(170)	(63)	(58)
Foreign currency adjustment	37	(21)	–	–
Fair value at end of year	\$3,537	\$3,129	\$ –	\$ –
Funded status as recognized in the Consolidated Balance Sheet				
Funded status at end of year	\$ (787)	\$ (427)	\$ (1,120)	\$ (911)
Unrecognized prior service cost	44	38	(23)	(5)
Unrecognized experience loss	1,631	548	294	91
Unrecognized transition asset	(1)	(2)	–	–
Net amounts recognized	\$ 887	\$ 157	\$ (849)	\$ (825)

	2002	2001	2002	2001
	Pension		Retiree Medical	
Net amounts as recognized in the Consolidated Balance Sheet				
Other assets	\$1,097	\$ 396	\$ –	\$ –
Intangible assets	8	–	–	–
Accrued benefit liability	(283)	(261)	(849)	(825)
Accumulated other comprehensive income	65	22	–	–
Net amounts recognized	\$ 887	\$ 157	\$(849)	\$(825)
Selected information for plans with liability to date in excess of plan assets				
Liability for service to date	\$(419)	\$(252)	\$(1,120)	\$(911)
Projected benefit liability	\$(656)	\$(419)	\$(1,120)	\$(911)
Fair value of plan assets	\$182	\$ 51	–	–

Of the total projected pension benefit liability at year-end 2002, \$416 million relates to plans that we do not fund because of unfavorable tax treatment.

Pension Assets

Pension assets include approximately 5.5 million shares of PepsiCo common stock with a market value of \$202 million in 2002, and 4.7 million shares with a market value of \$227 million in 2001. Our investment policy limits the investment in PepsiCo stock to 10% of the fair value of plan assets.

Retiree Medical Cost Trend Rates

An average increase of 10% in the cost of covered retiree medical benefits is assumed for 2003. This average increase is then projected to decline gradually to 4.5% in 2007 and thereafter. Generally, our costs are capped at a specified dollar amount, with retirees contributing the remainder. These assumed health care cost trend rates have a significant impact on the retiree medical plan expense and liability. A 1 percentage point change in the assumed health care trend rate would have the following effects:

	1% Increase	1% Decrease
2002 service and interest cost components	\$7	\$(6)
2002 benefit liability	\$37	\$(34)

Note 7 – Employee Stock Options

Our stock option program is a broad-based program designed to attract and retain talent while creating alignment with the interests of our shareholders. Employees at all levels participate in our stock option program. In addition, members of our Board of Directors receive stock options for their service on our Board. Stock options are granted to employees under the following active plans.

SharePower Stock Option Plan (SharePower)

SharePower options are awarded to all eligible employees based on annual earnings and tenure, become exercisable after three years and have a 10-year term. SharePower options represent approximately 20% of our annual employee option grants. At year-end 2002, 35.1 million shares were available for future awards under SharePower.

Long-Term Incentive Plan (LTIP)

All senior management and certain middle management are awarded LTIP grants, generally based on a multiple of base salary. LTIP options generally become exercisable at the end of three years and have a 10-year term. Beginning in 2001, the entire award was made in stock options. Prior to 2001, two-thirds of the award consisted of stock options with the balance in stock options or paid in cash based on the employee's selection. Amounts expensed for expected cash payments were \$18 million in 2002 and \$37 million in 2001 and 2000. At year-end 2002, 36.6 million shares were available for future awards under the LTIP.

Stock Option Incentive Plan (SOIP)

SOIP options are available to middle management employees based on a multiple of base salary. SOIP options generally become exercisable at the end of three years and have a 10-year term. At year-end 2002, 29.3 million shares were available for future awards under the SOIP.

Accounting Policy

We account for employee stock options using the intrinsic value method rather than the fair value method. Under the intrinsic value method, compensation expense is measured as the excess, if any, of the market value of PepsiCo common stock at the award date over the amount the employee must pay for the stock (exercise price). Our policy is to award stock options with an exercise price equal to the market value at the date of award, and accordingly, no compensation expense is recognized. If the fair value method of accounting had been used, compensation expense would have been recognized over the vesting period of the awards resulting in lower net income and net income per common share as shown below. We have no current plans to change our intrinsic value accounting.

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We believe there are a number of valuation issues with the fair value method that still need to be resolved as well as potential changes necessary to reconcile international and United States standards. Upon resolution of these matters, we will be better able to consider implementation of the fair value method.

	2002	2001	2000
Pro forma impact of fair value method			
Reported net income	\$3,313	\$2,662	\$2,543
Less: fair value impact of employee stock compensation	(360)	(306)	(200)
Pro forma net income	<u>\$2,953</u>	<u>\$2,356</u>	<u>\$2,343</u>
Earnings per common share			
Basic – as reported	\$1.89	\$1.51	\$1.45
Diluted – as reported	\$1.85	\$1.47	\$1.42
Basic – pro forma	\$1.68	\$1.33	\$1.34
Diluted – pro forma	\$1.65	\$1.30	\$1.31
Weighted average Black-Scholes fair value assumptions			
Risk free interest rate	4.4%	4.8%	6.7%
Expected life	6 yrs.	5 yrs.	5 yrs.
Expected volatility	27%	29%	29%
Expected dividend yield	1.14%	0.98%	1.08%

Stock option activity ^(a) :	2002		2001		2000	
	Options	Average Price ^(b)	Options	Average Price ^(b)	Options	Average Price ^(b)
Outstanding at beginning of year	176,922	\$32.35	170,640	\$28.08	188,661	\$25.82
Granted	37,376	48.75	40,432	43.53	28,660	31.92
Exercised	(19,558)	23.32	(29,064)	21.59	(37,039)	18.40
Forfeited/expired	(4,308)	39.01	(5,086)	34.83	(9,642)	33.93
Outstanding at end of year	<u>190,432</u>	<u>36.45</u>	<u>176,922</u>	<u>32.35</u>	<u>170,640</u>	<u>28.08</u>
Exercisable at end of year	<u>82,620</u>	<u>\$30.14</u>	<u>83,521</u>	<u>\$26.32</u>	<u>75,129</u>	<u>\$21.27</u>
Weighted average fair value of options granted		<u>\$15.20</u>		<u>\$13.53</u>		<u>\$12.04</u>

Stock options outstanding and exercisable at December 28, 2002 ^(a):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options	Average Life ^(c)	Average Price ^(b)	Options	Average Price ^(b)
\$ 5.95 to \$18.37	8,867	1.39 yrs.	\$14.78	8,867	\$14.78
\$18.58 to \$35.53	77,856	5.30	29.32	38,278	25.55
\$36.50 to \$51.50	103,709	7.84	43.69	35,475	39.04
	190,432	6.46	36.45	82,620	30.14

(a) Options in thousands and include options granted under Quaker plans.

(b) Weighted average exercise price.

(c) Weighted average contractual life remaining in years.

Note 8 – Noncontrolled Bottling Affiliates

Our most significant noncontrolled bottling affiliates are The Pepsi Bottling Group (PBG) and PepsiAmericas (PAS). These affiliates account for over 40% of our worldwide bottler case sales.

The Pepsi Bottling Group

In addition to approximately 38% of PBG's outstanding common stock that we own at year-end 2002, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 42% of PBG's combined operations. PBG's summarized financial information is as follows:

	2002	2001	
Current assets	\$ 1,737	\$1,548	
Noncurrent assets	8,290	6,309	
Total assets	\$10,027	\$7,857	
Current liabilities	\$1,248	\$1,081	
Noncurrent liabilities	6,607	4,856	
Minority interest	348	319	
Total liabilities	\$8,203	\$6,256	
Our investment	\$1,107	\$962	
	2002	2001	2000
Net sales	\$9,216	\$8,443	\$7,982
Gross profit	\$4,215	\$3,863	\$3,577
Operating profit	\$898	\$676	\$590
Net income	\$428	\$305	\$229

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In December 2002, PBG acquired Pepsi-Gemex, a franchise bottler in Mexico, in which we previously held a 34% ownership interest. Under the terms of the agreement, we received the cash tender price for our Pepsi-Gemex shares, net of a payment of \$17 million to PBG. Including the gain from our net investment hedge, the transaction resulted in an after-tax loss of approximately \$8 million. The table above includes the results of Pepsi-Gemex from the transaction date forward.

Our investment in PBG was \$118 million higher than our ownership interest in their net assets at year-end 2002. Based upon the quoted closing price of PBG shares at year-end 2002, the calculated market value of our shares in PBG, excluding our investment in Bottling Group, LLC, exceeded our investment balance by approximately \$1.9 billion.

PepsiAmericas

PepsiAmericas was formed in December 2000 when two of our bottling affiliates, Whitman and PepsiAmericas, merged. At year-end 2002, we owned approximately 39% of the combined company. PepsiAmericas' summarized financial information is as follows:

	2002	2001	
Current assets	\$ 550	\$ 481	
Noncurrent assets	3,013	2,938	
Total assets	\$3,563	\$3,419	
Current liabilities	\$ 698	\$ 643	
Noncurrent liabilities	1,416	1,346	
Total liabilities	\$2,114	\$1,989	
Our investment	\$782	\$746	
	2002	2001	2000
Net sales	\$3,240	\$3,144	\$2,511
Gross profit	\$1,272	\$1,232	\$1,017
Operating profit	\$301	\$268	\$223
Income from continuing operations	\$136	\$90	\$72
Net income	\$130	\$19	\$80

The above financial information for 2000 includes the results of the former PepsiAmericas after the date of the merger with Whitman.

Our investment in PAS was \$215 million higher than our ownership interest in their net assets at year-end 2002. Based upon the quoted closing price of PAS shares at year-end 2002, the calculated market value of our shares in PepsiAmericas was less than our investment balance by approximately \$27 million.

Related Party Transactions

Our significant related party transactions involve our noncontrolled bottling affiliates. We sell concentrate to these affiliates that is used in the production of carbonated soft drinks and noncarbonated beverages. The sale of concentrate is reported net of bottler funding. We also sell certain finished goods to these affiliates and we receive royalties for the use of our trademark for certain products. For further unaudited information on these bottlers, see “[Our Customers](#)” in Management’s Discussion and Analysis. These transactions with our bottling affiliates are reflected in the Consolidated Statement of Income as follows:

	2002	2001	2000
Net sales	\$3,455	\$2,262	\$1,978
Selling, general and administrative expenses	\$83	\$57	\$5

As of December 28, 2002, the receivables from these bottling affiliates were \$126 million and payables to these affiliates were \$122 million. As of December 29, 2001, the receivables from these bottling affiliates were \$119 million and payables to these affiliates were \$108 million. Such amounts are settled on terms consistent with other trade receivables and payables. See [Note 9](#) regarding our guarantee of certain PBG debt.

In addition, we coordinate, on an aggregate basis, the negotiation and purchase of sweeteners and other raw materials requirements for certain of our bottlers with suppliers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, these transactions are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our anchor bottlers, but we consider this exposure to be remote.

Note 9 – Debt Obligations and Commitments

	2002	2001
Short-term debt obligations		
Current maturities of long-term debt	\$ 485	\$ 319
Other borrowings (5.7% and 6.4%)	452	410
Amounts reclassified to long-term debt	(375)	(375)
	<u>\$ 562</u>	<u>\$ 354</u>
Long-term debt obligations		
Short-term borrowings, reclassified	\$ 375	\$ 375
Notes due 2003-2026 (4.0% and 4.1%)	1,716	1,986
Zero coupon notes, \$625 million due 2003-2012 (12.6%)	338	356
Other, due 2003-2015 (7.6% and 6.9%)	243	253
	<u>2,672</u>	<u>2,970</u>
Less: current maturities of long-term debt obligations	(485)	(319)
	<u>\$2,187</u>	<u>\$2,651</u>

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Short-term borrowings are reclassified to long-term when we have the intent and ability, through the existence of the unused lines of credit, to refinance these borrowings on a long-term basis. The weighted average interest rates in the above table include the impact of outstanding interest rate swaps at year-end. See [Note 10](#) for additional information on our interest rate swaps.

At year-end 2002, we maintained \$750 million in corporate lines of credit subject to normal banking terms and conditions. These credit facilities support short-term debt issuances and remained unused at year-end 2002. Of the \$750 million, \$375 million expires in June 2003 with the remaining \$375 million expiring in June 2007. Upon consent of PepsiCo and the lenders, these facilities can be extended an additional year. In addition, \$270 million of our debt was outstanding on various lines of credit maintained for our international divisions. These lines of credit are subject to normal banking terms and conditions and are committed to the extent of our borrowings.

Long-Term Contractual Commitments and Off-Balance Sheet Arrangements

	Payments Due by Year				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term contractual commitments^(a)					
Long-term debt obligations ^(b)	\$2,187	\$ –	\$ 603	\$ 699	\$ 885
Non-cancelable operating leases	526	129	169	91	137
Purchasing commitments	3,307	773	1,006	569	959
Capital equipment commitments	34	34	–	–	–
Marketing commitments	251	75	115	52	9
Other commitments	31	23	8	–	–
	\$6,336	\$1,034	\$1,901	\$1,411	\$1,990

(a) Reflects non-cancelable commitments as of December 28, 2002 based on year-end foreign exchange rates

(b) Excludes current maturities of long-term debt of \$485 million which are classified within current liabilities.

Long-term contractual commitments, except for our long-term debt obligations, are not recorded in our Consolidated Balance Sheet. Non-cancelable purchasing, capital equipment and marketing commitments are in the normal course of our business for our projected needs. Our non-cancelable capital equipment commitments primarily relate to our new concentrate plant in Ireland. As bottler funding is negotiated on an annual basis, these commitments are not reflected in our long-term contractual commitments. See [Note 8](#) regarding our commitments to noncontrolled bottling affiliates.

Off-Balance Sheet Arrangements

It is not our business practice to enter into off-balance sheet arrangements nor is it our policy to issue guarantees to our bottlers, noncontrolled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. In connection with these transactions, we have guaranteed \$2.3 billion of Bottling Group, LLC's long-term debt through 2012 and \$68 million of YUM! Brand's, Inc. (YUM) outstanding obligations, primarily property leases. The terms of our Bottling Group, LLC debt guarantee are intended to preserve the structure of PBG's separation from us and our payment obligation would be triggered if Bottling Group, LLC failed to perform under these debt obligations or the structure significantly changed. Our guarantees of certain obligations ensured YUM's continued use of these properties. These guarantees would require our cash payment if YUM failed to perform under these lease obligations.

Note 10 – Risk Management

We are exposed to the risk of loss arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and fuel;
- foreign exchange risks;
- interest rates on our debt and short-term investment portfolios; and
- stock prices.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivative instruments designated as cash flow and fair value hedges. See “[Our Market Risks](#)” in Management's Discussion and Analysis for further unaudited information on our hedges.

For cash flow hedges, changes in fair value are generally deferred in accumulated other comprehensive loss within shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. We do not use derivative instruments for trading or speculative purposes and, to manage credit risk, we limit our exposure to individual counterparties.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and cash flow hedges. We use cash flow hedges, with terms of no more than two years, to hedge price fluctuations in a portion of our anticipated commodity purchases, primarily for corn, natural gas, oats, packaging materials and wheat. Any ineffectiveness is recorded immediately. However, our commodity hedges have not had any material ineffectiveness. We classify both the earnings and cash flow impact from these hedges consistent with the underlying hedged item.

During the next 12 months, we expect to reclassify gains of approximately \$4 million from accumulated other comprehensive loss into net income.

Foreign Exchange

Our operations outside of the United States generated 34% of our net sales of which Mexico, the United Kingdom and Canada contributed 19%. As a result, we are exposed to foreign currency risks from unforeseen economic changes and political unrest. On occasion, we enter into fair value hedges, primarily forward contracts, to reduce the effect of foreign exchange rates. Ineffectiveness resulting from our fair value hedges was not material to our results of operations.

In 2002, we hedged 2.1 billion Mexican pesos related to our net investment in Pepsi-Gemex which resulted in a \$5 million gain upon our disposal of Pepsi-Gemex described in [Note 8](#).

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We have used interest rate swaps to effectively change the interest rate of specific debt issuances, with the objective of reducing our overall borrowing costs.

Late in 2002, we terminated the majority of our interest rate swaps resulting in a gain of approximately \$23 million which will be amortized over the remaining term of the related debt. As a result, 12% of our debt at year-end 2002 is exposed to variable interest rates compared to approximately 45% at year-end 2001.

Stock Prices

The portion of our deferred compensation liability that is based on our stock price is subject to market risk. We hold prepaid forward contracts to manage this risk. Changes in the fair value of these contracts are recognized immediately in earnings and are offset by changes in the related compensation liability.

Fair Value

All derivative instruments are recognized in our Consolidated Balance Sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices. Book and fair values of our derivative and financial instruments are as follows:

	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash and cash equivalents	\$1,638	\$1,638	\$683	\$683
Short-term investments ^(a)	\$207	\$207	\$966	\$966
Forward exchange contracts ^(b)	\$2	\$2	\$6	\$6
Commodity contracts ^(b)	\$6	\$6	\$1	\$1
Prepaid forward contracts ^(b)	\$96	\$96	\$65	\$65
Interest rate swaps ^(b)	\$1	\$1	\$32	\$32
Liabilities				
Forward exchange contracts ^(c)	\$3	\$3	\$2	\$2
Commodity contracts ^(c)	\$2	\$2	\$17	\$17
Debt obligations	\$2,749	\$3,134	\$3,005	\$3,270

Included in the Consolidated Balance Sheet under the captions noted above or as indicated below.

(a) Includes \$82 million at December 28, 2002 and \$89 million at December 29, 2001 of mutual fund investments used to manage a portion of market risk arising from our deferred compensation liability.

(b) Included within prepaid expenses and other current assets.

(c) Included within accounts payable and other current liabilities.

This table excludes guarantees, including our guarantee of \$2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of \$35 million at December 28, 2002 and \$59 million at December 29, 2001 based on an external estimate of the cost to us of transferring the liability to an independent financial institution. See [Note 9](#) for additional information on our guarantees.

Note 11 – Net Income per Common Share

Basic net income per common share is net income available to common shareholders divided by the weighted average of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted average of common shares outstanding adjusted to include the effect that would occur if in-the-money employee stock options were exercised and preferred shares were converted into common shares. Options to purchase 69.4 million shares in 2002, 0.4 million shares in 2001 and 0.1 million shares in 2000 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money.

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

	2002		2001		2000	
	Income	Shares ^(a)	Income	Shares ^(a)	Income	Shares ^(a)
Net income	\$3,313		\$2,662		\$2,543	
Preferred shares:						
Dividends	(4)		(4)		(4)	
Redemption	–		(1)		–	
Net income available for common shareholders	\$3,309	1,753	\$2,657	1,763	\$2,539	1,748
Basic net income per common share	\$1.89		\$1.51		\$1.45	
Net income available for common shareholders	\$3,309	1,753	\$2,657	1,763	\$2,539	1,748
Dilutive securities:						
Stock options	–	32	–	39	–	38
ESOP convertible preferred stock	3	3	3	4	2	4
Unvested stock awards	–	1	–	1	–	1
Diluted	\$3,312	1,789	\$2,660	1,807	\$2,541	1,791
Diluted net income per common share	\$1.85		\$1.47		\$1.42	

(a) Weighted average common shares outstanding.

Note 12 – Preferred and Common Stock

As of December 28, 2002, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized. The preferred stock was issued only for an employee stock ownership plan (ESOP) established by Quaker and these shares are redeemable by the ESOP participants. The preferred stock accrues dividends at an annual rate of \$5.46 per share. At year-end 2002, there are 803,953 preferred shares issued and 602,353 shares outstanding. Each share is

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convertible at the option of the holder into 4.9625 shares of common stock. The preferred shares may be called by us upon written notice at \$78 per share plus accrued and unpaid dividends.

As of December 28, 2002, 0.6 million outstanding shares of preferred stock with a fair value of \$127 million and 20 million shares of common stock were held in the accounts of ESOP participants. Quaker made the final award to its ESOP plan in June 2001.

Preferred stock activity:

	2002		2001		2000	
	Shares	Amount	Shares	Amount	Shares	Amount
Preferred stock						
Balance, beginning of year	0.8	\$41	1.3	\$100	1.3	\$100
Adjustment to effect merger	–	–	(0.5)	(59)	–	–
Balance, end of year	0.8	\$41	0.8	\$ 41	1.3	\$100
Repurchased preferred stock						
Balance, beginning of year	0.1	\$15	0.5	\$ 51	0.4	\$39
Redemptions	0.1	33	0.1	23	0.1	12
Adjustment to effect merger	–	–	(0.5)	(59)	–	–
Balance, end of year	0.2	\$48	0.1	\$ 15	0.5	\$51

Note 13 – Accumulated Other Comprehensive Loss

Comprehensive income is a measure of income which includes both net income and other comprehensive loss. Other comprehensive loss results from items deferred on the balance sheet in shareholders' equity. Other comprehensive loss was \$26 million in 2002, \$272 million in 2001 and \$289 million in 2000. The accumulated balances for each component of other comprehensive loss were as follows:

	2002	2001	2000
Currency translation adjustment	\$ (1,531)	\$ (1,587)	\$ (1,369)
Cash flow hedges, net of tax ^(a)	–	(18)	–
Minimum pension liability adjustment ^(b)	(142)	(43)	(5)
Other	1	2	–
Accumulated other comprehensive loss	\$ (1,672)	\$ (1,646)	\$ (1,374)

(a) Includes \$4 million in 2002 and \$7 million in 2001 for our share of our equity investees' accumulated derivative losses. In addition, 2001 includes \$3 million related to the cumulative effect of adopting SFAS 133.

(b) Net of taxes of \$72 million in 2002, \$22 million in 2001 and \$3 million in 2000. Also, includes \$99 million in 2002 and \$29 million in 2001 for our share of our equity investees' minimum pension liability adjustments.

Note 14 – Supplemental Financial Information

	2002	2001	2000
Accounts receivable			
Trade receivables	\$1,924	\$1,663	
Other receivables	723	600	
	<u>2,647</u>	<u>2,263</u>	
Allowance, beginning of year	121	126	\$109
Charged to expense	38	41	42
Other additions ^(a)	3	2	8
Deductions ^(b)	(46)	(48)	(33)
Allowance, end of year	<u>116</u>	<u>121</u>	<u>\$126</u>
Net receivables	<u>\$2,531</u>	<u>\$2,142</u>	
Inventory ^(c)			
Raw materials	\$ 525	\$ 535	
Work-in-process	214	205	
Finished goods	603	570	
	<u>\$1,342</u>	<u>\$1,310</u>	
Accounts payable and other liabilities			
Accounts payable	\$1,543	\$1,238	
Accrued selling, advertising and marketing	716	861	
Accrued compensation and benefits	806	789	
Dividends payable	259	255	
Insurance accruals	168	158	
Other current liabilities	1,506	1,160	
	<u>\$4,998</u>	<u>\$4,461</u>	
Other liabilities ^(d)	<u>\$4,226</u>	<u>\$3,876</u>	
Other supplemental information			
Rent expense	\$194	\$165	\$171
Interest paid	\$119	\$159	\$226
Income taxes paid	\$1,056	\$857	\$876
Acquisitions ^(e)			
Fair value of assets acquired	\$ 626	\$ 604	\$ 80
Cash paid and debt issued	(351)	(432)	(98)
Liabilities assumed	<u>\$ 275</u>	<u>\$ 172</u>	<u>\$ (18)</u>

(a) Includes acquisitions and currency translation effects.

(b) Includes accounts written off and currency translation effects.

(c) Inventories are valued at the lower of cost or market. Cost is determined using the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. Approximately 19% in 2002 and 20% in 2001 of the inventory cost was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories are not material.

(d) Includes reserves for tax positions when, despite our belief that our position is fully supportable, we believe that our position is likely to be challenged and that we may not succeed.

(e) Includes our acquisition of the Wotsits brand in the United Kingdom for \$228 million in 2002 and the SoBe brand in the United States for \$337 million in 2001.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes. The financial statements were prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that our representations to the independent auditors are valid and appropriate.

Management maintains a system of internal controls designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors consists solely of directors who are not salaried employees and who are, in the opinion of the Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member. The Committee meets during the year with representatives of management, including internal auditors and the independent auditors to review our financial reporting process and our controls to safeguard assets. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 28, 2002 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

/S/ PETER A. BRIDGMAN

Peter A. Bridgman
Senior Vice President and Controller

/S/ INDRA K. NOOYI

Indra K. Nooyi
President and Chief Financial Officer

/S/ STEVEN S REINEMUND

Steven S Reinemund
Chairman of the Board and Chief
Executive Officer

Independent Auditors' Report

Board of Directors and Shareholders
PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001 and the related Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 28, 2002 appearing on pages 20, 32, 33 and 37 through 66. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 28, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, PepsiCo, Inc. in 2002 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets."

KPMG LLP

New York, New York
February 6, 2003

Selected Financial Data

(in millions except per share amounts, unaudited)

Quarterly	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales				
2002	\$5,101	\$6,178	\$6,376	\$7,457
2001 ^(a)	\$4,700	\$5,865	\$5,981	\$6,966
Gross profit				
2002	\$2,783	\$3,366	\$3,469	\$3,997
2001	\$2,556	\$3,197	\$3,254	\$3,755
Merger-related costs^(b)				
2002	\$36	\$65	\$33	\$90
2001	–	–	\$235	\$121
Net income				
2002	\$651	\$888	\$969	\$805
2001	\$570	\$798	\$627	\$667
Net income per common share – basic				
2002	\$0.37	\$0.50	\$0.55	\$0.46
2001 ^(c)	\$0.33	\$0.45	\$0.35	\$0.38
Net income per common share – diluted				
2002	\$0.36	\$0.49	\$0.54	\$0.46
2001 ^(c)	\$0.32	\$0.44	\$0.34	\$0.37
Cash dividends declared per common share				
2002	\$0.145	\$0.15	\$0.15	\$0.15
2001 ^(d)	\$0.14	\$0.145	\$0.145	\$0.145
2002 Stock price per share^(e)				
High	\$51.48	\$53.50	\$52.00	\$45.30
Low	\$47.43	\$49.88	\$35.01	\$34.00
Close	\$50.90	\$50.90	\$37.99	\$41.67
2001 Stock price per share^(e)				
High	\$49.50	\$46.61	\$47.99	\$50.46
Low	\$40.25	\$40.90	\$43.12	\$45.76
Close	\$43.85	\$43.26	\$47.40	\$49.05

As a result of the adoption of SFAS 142 and the consolidation of SVE in 2002, the data provided above is not comparable.

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(a) Restated to reflect the adoption of EITF 01-9 in 2002 which reduced net sales and selling, general and administrative expenses by \$630 million in the first quarter, \$848 million in the second quarter, \$925 million in the third quarter and \$1 billion in the fourth quarter.

(b) Merger-related costs ([Note 3](#)):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Pre-tax	\$36	\$65	\$33	\$90
After-tax	\$30	\$52	\$27	\$81
Per share	\$0.02	\$0.02	\$0.02	\$0.05
2001				
Pre-tax	—	—	\$235	\$121
After-tax	—	—	\$231	\$91
Per share	—	—	\$0.13	\$0.05

(c) In 2001, the net income per common share amounts prior to the effective date of the merger are calculated by (1) combining the weighted average of pre-merger PepsiCo and Quaker common stock after adjusting the number of shares of Quaker common stock, to reflect the exchange ratio of 2.3 shares of PepsiCo common stock for each share of Quaker common; and (2) dividing the combined net income by the result in (1) above.

(d) Cash dividends declared per common share are those of PepsiCo prior to the effective date of the merger.

(e) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo common stock. Pre-merger amounts are those of PepsiCo prior to the effective date of the merger.

5-Year Summary

	2002	2001	2000
Net sales	\$25,112	\$23,512	\$22,337
Net income	\$3,313	\$2,662	\$2,543
Income per common share – basic	\$1.89	\$1.51	\$1.45
Income per common share – diluted	\$1.85	\$1.47	\$1.42
Cash dividends declared per common share	\$0.595	\$0.575	\$0.555
Total assets	\$23,474	\$21,695	\$20,757
Long-term debt	\$2,187	\$2,651	\$3,009
	1999	1998	
Net sales	\$22,183	\$24,605	
Net income	\$2,505	\$2,278	
Income per common share – basic	\$1.41	\$1.27	
Income per common share – diluted	\$1.38	\$1.23	
Cash dividends declared per common share	\$0.535	\$0.515	
Total assets	\$19,948	\$25,170	
Long-term debt	\$3,527	\$4,823	

As a result of the adoption of SFAS 142 and the consolidation of SVE in 2002, the bottling deconsolidation in 1999, the Tropicana acquisition late in 1998 and items identified below, the data provided above is not comparable.

- Net sales have been restated to reflect the adoption of EITF 01-9 in 2002 which reduced net sales and selling, general and administrative expenses by \$3.4 billion in 2001, \$3.1 billion in 2000, \$2.9 billion in 1999 and \$2.6 billion in 1998.
- Includes merger-related costs of:

	2002	2001
Pre-tax	\$224	\$356
After-tax	\$190	\$322
Per share	\$0.11	\$0.18

- Includes other impairment and restructuring charges of:

	2001	2000	1999	1998
Pre-tax	\$31	\$184	\$73	\$482
After-tax	\$19	\$111	\$45	\$379
Per share	\$0.01	\$0.06	\$0.02	\$0.21

- The 2000 fiscal year consisted of fifty-three weeks compared to fifty-two weeks in our normal fiscal year. The 53rd week increased 2000 net sales by an estimated \$294 million and net income by an estimated \$44 million (or \$0.02 per share).
- In 1999, includes a net gain on bottling transactions of \$1.0 billion (\$270 million after-tax or \$0.15 per share) and a tax provision related to the PepCom transaction of \$25 million (\$0.01 per share), and a Quaker favorable tax adjustment of \$59 million (or \$0.03 per share).
- In 1998, includes a tax benefit of \$494 million (or \$0.27 per share) related to final agreement with the IRS to settle a case related to concentrate operations in Puerto Rico.
- Cash dividends per common share are those of pre-merger PepsiCo prior to the effective date of the merger.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Included in Item 7. Management's Discussion and Analysis – [Market Risk](#) beginning on page 13.

Item 8. Financial Statements and Supplementary Data

See [Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K](#).

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The name, age and background of each of our directors nominated for election are contained under the caption "Election of Directors" in our Proxy Statement for our 2003 Annual Meeting of Shareholders and are incorporated herein by reference. Pursuant to Item 401(b) of Regulation S-K, our executive officers are reported under the caption "Executive Officers of the Registrant" in Part I of this report.

Information on the beneficial ownership reporting for our directors and executive officers is contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

Information on our audit committee financial experts is contained in our Proxy Statement for our 2003 Annual Meeting of Shareholders under the caption "Corporate Governance at PepsiCo" and is incorporated herein by reference.

We have a written code of conduct that applies to all of our employees, including our directors, chief executive officer, chief financial officer and controller. Our Worldwide Code of Conduct was distributed to all employees, is available free of charge on our website at <http://www.pepsico.com> and is included as Exhibit 14 to this report.

Item 11. Executive Compensation

Information on compensation of our directors and executive officers is contained in our Proxy Statement for our 2003 Annual Meeting of Shareholders under the captions "Directors' Compensation" and "Executive Compensation", respectively, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

Information on PepsiCo Common Stock authorized for issuance under equity compensation plans is contained in our Proxy Statement for our 2003 Annual Meeting of Shareholders under the captions “Equity Compensation Plan Information” and is incorporated herein by reference. See [Note 7](#) to our consolidated financial statements for a description of our employee stock option plans.

Information on the number of shares of PepsiCo Common Stock beneficially owned by each director and by all directors and officers as a group is contained under the caption “Ownership of Common Stock by Directors and Executive Officers” in our Proxy Statement for our 2003 Annual Meeting of Shareholders and is incorporated herein by reference. As far as we know, no person beneficially owns more than 5% of the outstanding shares of PepsiCo Common or Convertible Preferred Stock.

Item 13. Certain Relationships and Related Transactions

Not applicable.

PART IV

Item 14. Control Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. However, no cost-effective internal control system will preclude all errors and irregularities, and management is necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities that we do not control or manage. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our chief executive officer and chief financial officer, within 90 days prior to the filing date of this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls or other factors that could significantly effect these controls subsequent to the date of their evaluation.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements

The following consolidated financial statements of PepsiCo, Inc. and its affiliates are included here by reference to Management's Discussions and Analysis for the year ended December 28, 2002, included as [Item 7](#), at the pages indicated on the [index](#) appearing on page 9:

[Consolidated Statement of Income](#) – Fiscal years ended December 28, 2002, December 29, 2001, and December 30, 2000,

[Consolidated Statement of Cash Flows](#) – Fiscal years ended December 28, 2002, December 29, 2001, and December 30, 2000,

[Consolidated Balance Sheet](#) – December 28, 2002 and December 29, 2001,

[Consolidated Statement of Changes in Shareholders' Equity](#) – Fiscal years ended December 28, 2002, December 29, 2001, and December 30, 2000,

[Notes to the Consolidated Financial Statements](#), and

[Independent Auditors' Report](#)

2. Exhibits

See [Index to Exhibits](#) on page E-1.

(b) Reports on Form 8-K.

1. On October 8, 2002, we filed a Current Report on Form 8-K attaching a press release announcing our earnings for the 12 and 36 weeks ended September 7, 2002.
2. On October 15, 2002, we filed a Current Report on Form 8-K attaching the Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and the Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
3. On October 16, 2002, we filed a Current Report on Form 8-K/A to amend Item 9 – Regulation FD Disclosure of our Current Report on Form 8-K filed October 15, 2002.
4. On December 3, 2002, we filed a Current Report on Form 8-K attaching a press release reaffirming fourth quarter and year-end 2002 earnings per share targets and announcing the sale of Quaker's bagged cereal business.

Item 16. Principal Accountant Fees and Services

Information on our principal accountant fees and services is contained in our Proxy Statement for our 2003 Annual Meeting of Shareholders under the captions “Audit Committee Report,” and is incorporated herein by reference.

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: March 6, 2003

PEPSICO, INC.

By: /s/ STEVEN S REINEMUND

Steven S Reinemund
*Chairman of the Board 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.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ STEVEN S REINEMUND</u> Steven S Reinemund	Chairman of the Board and Chief Executive Officer	March 6, 2003
<u>/s/ INDRA K. NOOYI</u> Indra K. Nooyi	President and Chief Financial Officer	March 6, 2003
<u>/s/ PETER A. BRIDGMAN</u> Peter A. Bridgman	Senior Vice President and Controller (Principal Accounting Officer)	March 6, 2003
<u>/s/ JOHN F. AKERS</u> John F. Akers	Director	March 6, 2003
<u>/s/ ROBERT E. ALLEN</u> Robert E. Allen	Director	March 6, 2003
<u>/s/ ROGER A. ENRICO</u> Roger A. Enrico	Director	March 6, 2003

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<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
/s/ PETER FOY _____ Peter Foy	Director	March 6, 2003
/s/ RAY L. HUNT _____ Ray L. Hunt	Director	March 6, 2003
/s/ ARTHUR C. MARTINEZ _____ Arthur C. Martinez	Director	March 6, 2003
/s/ FRANKLIN D. RAINES _____ Franklin D. Raines	Director	March 6, 2003
/s/ SHARON PERCY ROCKEFELLER _____ Sharon Percy Rockefeller	Director	March 6, 2003
/s/ FRANKLIN A. THOMAS _____ Franklin A. Thomas	Director	March 6, 2003
/s/ CYNTHIA M. TRUDELL _____ Cynthia M. Trudell	Director	March 6, 2003
/s/ SOLOMON D. TRUJILLO _____ Solomon D. Trujillo	Director	March 6, 2003
/s/ DANIEL VASELLA _____ Daniel Vasella	Director	March 6, 2003

CERTIFICATION

I, **Steven S Reinemund** certify that:

1. I have reviewed this annual report on Form 10-K of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this annual report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for PepsiCo and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation, to PepsiCo's auditors and audit committee of PepsiCo's Board of Directors (or persons performing equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect PepsiCo's ability to record, process, summarize and report financial data and have identified for PepsiCo's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal controls; and
6. PepsiCo's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 6, 2003

/s/ Steven S Reinemund

Steven S Reinemund
Chairman and Chief Executive Officer

CERTIFICATION

I, **Indra K. Nooyi** certify that:

1. I have reviewed this annual report on Form 10-K of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this annual report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for PepsiCo and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation, to PepsiCo's auditors and audit committee of PepsiCo's Board of Directors (or persons performing equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect PepsiCo's ability to record, process, summarize and report financial data and have identified for PepsiCo's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal controls; and
6. PepsiCo's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 6, 2003

/s/ Indra K. Nooyi

Indra K. Nooyi
President and Chief Financial Officer

INDEX TO EXHIBITS
ITEM 14(a)(3)

EXHIBIT

- | | |
|------|---|
| 3.1 | Amended and Restated Articles of Incorporation of PepsiCo, Inc., which are incorporated herein by reference to Exhibit 4.1 to PepsiCo, Inc.'s Registration Statement on Form S-8 (Registration No. 333-66632) |
| 3.2 | By-laws of PepsiCo, Inc., as amended on August 2, 2001, which are incorporated herein by reference to Exhibit 4.2 to PepsiCo, Inc.'s Registration Statement on Form S-8 (Registration No. 333-66632). |
| 4 | PepsiCo, Inc. agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument defining the rights of holders of long-term debt of PepsiCo, Inc. and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Securities and Exchange Commission. |
| 10.1 | Description of PepsiCo, Inc. 1988 Director Stock Plan, which is incorporated herein by reference to Post-Effective Amendment No. 6 to PepsiCo's Registration Statement on Form S-8 (Registration No. 33-22970). |
| 10.2 | PepsiCo, Inc. 1987 Incentive Plan (the "1987 Plan"), as amended and restated, effective as of October 1, 1999, which is incorporated herein by reference to Exhibit 10.2 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 25, 1999. |
| 10.3 | Operating Guideline No. 1 under the 1987 Plan, as amended through July 25, 1991, which is incorporated by reference to Exhibit 10(d) to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 28, 1991. |
| 10.4 | Operating Guideline No. 2 under the 1987 Plan and the Plan, as amended through January 22, 1987, which is incorporated herein by reference to Exhibit 28(b) to PepsiCo's Registration Statement on Form S-8 (Registration No. 33-19539). |
| 10.6 | PepsiCo, Inc. 1994 Long-Term Incentive Plan, as amended and restated, effective as of October 1, 1999, which is incorporated herein by reference to Exhibit 10.6 to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 25, 1999. |
| 10.7 | PepsiCo, Inc. Executive Incentive Compensation Plan, which is incorporated herein by reference to Exhibit B to PepsiCo's Proxy Statement for its 1994 Annual Meeting of Shareholders. |
| 10.8 | Amended and Restated PepsiCo Executive Income Deferral Program which is incorporated herein by reference to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 27, 1997. |
| 10.9 | Restated PepsiCo Pension Equalization Plan, which is incorporated herein by reference to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 27, 1997. |

EXHIBIT

10.10	Agreement and Plan of Merger dated as of December 2, 2000 among PepsiCo, Inc., BeverageCo, Inc., a wholly owned subsidiary of PepsiCo, and The Quaker Oats Company (Schedules and Exhibits omitted), which is incorporated herein by reference to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2000.
10.11	Stock Option Agreement dated as of December 2, 2000 between PepsiCo, Inc. and The Quaker Oats Company, which is incorporated herein by reference to PepsiCo's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2000.
10.12	Employment Agreement dated as of December 2, 2000 between The Quaker Oats Company, PepsiCo, Inc. and Robert S. Morrison, which is incorporated herein by reference to PepsiCo's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 20, 2002.
10.13	PepsiCo SharePower Stock Option Plan (as amended and restated, effective August 3, 2001)
10.14	PepsiCo, Inc. 1995 Stock Option Incentive Plan (as amended and restated, effective August 2, 2003)
10.15	The PepsiCo Share Award Plan (effective May 1, 2002) which is incorporated herein by reference to PepsiCo's Form S-8 (Registration No. 333-87526) filed with the Securities and Exchange Commission on May 3, 2002.
10.16	The Quaker Long Term Incentive of 1990.
10.17	The Quaker Long Term Incentive of 1999.
12	Computation of Ratio of Earnings to Fixed Charges.
14	Worldwide Code of Conduct
21	Subsidiaries of PepsiCo, Inc.
23	Report and Consent of KPMG LLP.
24	Power of Attorney executed by Steven S Reinemund, Indra K. Nooyi, Peter A. Bridgman, John F. Akers, Robert E. Allen, Peter Foy, Ray L. Hunt, Arthur C. Martinez, Franklin D. Raines, Sharon Percy Rockefeller, James J. Shiro, Franklin A. Thomas, Cynthia M. Trudell, Solomon D. Trujillo and Daniel Vasella.

PepsiCo SharePower Stock Option Plan
(as amended and restated, effective August 3, 2001)

1. **Purposes.** The principal purposes of the PepsiCo SharePower Stock Option Plan (the “Plan”) are: (a) to improve individual employee performance by providing long-term incentives and rewards to employees of the Company; (b) to assist the Company in attracting, retaining and motivating employees with experience and ability; and (c) to associate the interests of such employees with those of PepsiCo’s shareholders.

2. **Definitions.** Unless the context clearly indicates otherwise, the following terms, when used in this Plan, shall have the meanings set forth below:

(a) “Board” means the Board of Directors of PepsiCo, Inc.

(b) “Change in Control” means the occurrence of any of the following events: (i) acquisition of 20% or more of the outstanding voting securities of PepsiCo, Inc. by another entity or group; excluding, however, the following (A) any acquisition by PepsiCo, Inc., or (B) any acquisition by an employee benefit plan or related trust sponsored or maintained by PepsiCo, Inc.; (ii) during any consecutive two-year period, persons who constitute the Board at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period); (iii) PepsiCo, Inc. shareholders approve a merger or consolidation of PepsiCo, Inc. with another company, and PepsiCo, Inc. is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of PepsiCo, Inc.; (iv) PepsiCo, Inc. shareholders approve a plan of complete liquidation of PepsiCo, Inc. or the sale or disposition of all or substantially all of PepsiCo, Inc.’s assets; or (v) any other event, circumstance, offer or proposal occurs or is made, which is intended to effect a change in the control of PepsiCo, Inc., and which results in the occurrence of one or more of the events set forth in clauses (i) through (iv) of this Section 2(b).

(c) “Committee” means the Compensation Committee of the Board of Directors of PepsiCo, as appointed from time to time by the Board, consisting of three or more members of the Board who are not eligible to participate in the Plan and who have not, within one year prior to their appointment to the Committee, participated in the Plan.

(d) “Common Stock” or “Stock” means PepsiCo Common Stock, par value 1-2/3¢ per share.

(e) “Company” means PepsiCo, Inc., its divisions, direct and indirect subsidiaries and affiliates, and any other corporation or other entity that has adopted a PepsiCo approved SharePower plan authorizing the grant of options to purchase PepsiCo Common Stock on terms and conditions similar to those in the Plan.

(f) “Fair Market Value” means an amount equal to the average of the high and low sales prices for Common Stock as reported on the composite tape for securities listed on The New

York Stock Exchange, Inc. on the date in question (or, if no sales of Stock were made on said Exchange on such date, on the next preceding day on which sales were made on such Exchange), except that such average price shall be rounded up to the nearest one-fourth.

(g) "Grant Date" means the date an Option is granted under the Plan. The date of grant of an Option shall be the date as of which the Committee determines that such Option shall become effective.

(h) "Option" or "Stock Option" means a right granted under the Plan to an Optionee to purchase a share of PepsiCo Common Stock at a fixed price for a specified period of time.

(i) "Option Exercise Price" means the price at which a share of Common Stock covered by an Option granted hereunder may be purchased.

(j) "Optionee" means an eligible employee of the Company who has received a Stock Option granted under the Plan.

(k) "PepsiCo" means PepsiCo, Inc., a North Carolina corporation.

(l) "Predecessor Entity" means any unrelated entity, which has been acquired by or has been merged with or into the Company before the Grant Date.

(m) "Related Entity" means any entity as to which the Company directly or indirectly owns 20% or more of the entity's voting securities, general partnership interests, or other voting or management rights.

(n) "Retirement" means termination from employment by the Company for reasons other than death after the employee has (1) attained age 55 with ten years of service (or age 65 with five years of service) with the Company; (2) fulfilled the requirements for either an early retirement window or disability retirement pension, as defined under the Company's retirement program applicable to such employee at the date of termination of employment or under an individual agreement; or (3) in the case of a non-U.S. employee, fulfilled the requirements for early, normal or disability retirement under the Company's retirement program applicable to such employee at the date of termination of employment.

(o) "Totally Disabled" shall have the meaning set forth in the Company's long term disability program applicable to such employee.

(p) "Years of Continuous Service" means years of continuous service during the period commencing on the eligible employee's date of hire or rehire with the Company or a Predecessor Entity and ending on December 31 of the year preceding the Grant Date, as determined by the Company in its sole discretion.

3. Administration. The Plan shall be administered by the Committee, which shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations,

agreements, guidelines and instruments for the administration of the Plan as the Committee deems necessary or advisable. The Committee's powers include, but are not limited to (subject to the specific limitations described herein), authority to determine the employees to be granted Options under the Plan, to determine the size and applicable terms and conditions of grants to be made to such employees, to determine the time when Options will be granted and to authorize grants to eligible employees.

The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee concerning any matter arising under or with respect to the Plan or any Options granted hereunder, shall be final, binding and conclusive on all interested parties, including PepsiCo, its shareholders and all former, present and future employees of the Company. The Committee may delegate some or all of its power and authority hereunder to the Chairman and Chief Executive Officer of PepsiCo, such delegation to be subject to such terms and conditions as the Committee in its discretion shall determine. The Committee may as to all questions of accounting rely conclusively upon any determinations made by the independent public accountants of PepsiCo, Inc.

4. Stock Available for Options. The shares that may be delivered or purchased under the Plan shall not exceed an aggregate number of shares of Common Stock to be determined from time to time by the Committee, subject to any adjustments which may be made pursuant to Section 11 hereof. Shares of Stock used for purposes of the Plan may be either shares of authorized but unissued Common Stock or treasury shares or both. Stock covered by Options, which have terminated or expired prior to exercise or have been surrendered or canceled shall be available for further option hereunder.

5. Eligibility. All those employees of the Company who shall be determined from time to time by the Committee to be eligible, shall participate in the Plan; provided, however, any individual who signs a written agreement pursuant to which he or she waives the right to participate in the Plan (either generally or with respect to certain grants of Options) shall not be eligible to participate in the Plan. The term "employee" as used herein does not include any individual who is not, as of the Grant Date, classified by the Company as an employee on its corporate books and records even if that individual is later reclassified (by the Company, any court or any governmental or regulatory agency) as an employee as of the Grant Date. No employee may be granted Options in the aggregate which, if exercised, would result in that employee receiving more than 10% of the maximum number of shares available for issuance under the Plan.

6. Terms and Conditions of Options. Each Option granted hereunder shall be in writing and shall contain such terms and conditions as the Committee may determine, subject to the following:

(a) Option Exercise Price. The Option Exercise Price shall be equal to the Fair Market Value of a share of Common Stock on the Grant Date.

(b) Term and Exercise Dates. Options granted hereunder shall have a term of no longer than fifteen years from the Grant Date and shall become exercisable in accordance with the terms of their grant. A grant of Options may become exercisable in installments, however, Stock Options must be exercised for full shares of Common Stock. To the extent that Stock Options are not exercised when they become initially exercisable, they shall be carried forward and be exercisable until the expiration of the term of such Stock Options, subject to the provisions of Sections 6(e) and (f) hereof.

(c) Exercise of Option. To exercise an Option, the holder thereof shall give notice of his or her exercise to PepsiCo, or its agent, specifying the number of shares of Common Stock to be purchased and identifying the specific Options that are being exercised. From time to time the Committee or PepsiCo may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option. An Option is exercisable during an Optionee's lifetime only by the Optionee; provided, however, that in the event the Optionee is incapacitated and unable to exercise Options, such Options may be exercised by such Optionee's legal guardian, legal representative, fiduciary or other representative whom the Committee deems appropriate based on applicable facts and circumstances.

(d) Payment of Option Exercise Price. The Option Exercise Price for the Options being exercised must be paid in full at time of issuance of the Common Stock. In addition, in order to enable the Company to meet any applicable foreign, federal (including FICA), state and local withholding tax requirements, an Optionee shall also be required to pay the amount of tax to be withheld at the time of exercise. No share of Stock will be delivered to any Optionee until all such amounts have been paid.

(e) Effect of Termination of Employment, Disability, Retirement, Death or Certain Transfer of Employment. No Option may be exercised by an Optionee after the termination of his or her employment with the Company, except that:

(i) if such termination occurs by reason of the Optionee's death, all Options then held by the Optionee shall become immediately exercisable as of the date of death, shall remain exercisable until they expire in accordance with their terms and may be exercised by such Optionee's executor (or, if none, his or her legal representative) prior to the date such Options are transferred in accordance with Section 6(g) hereof, and after such date, by the applicable transferee of such Options;

(ii) if such termination occurs by reason of the Optionee's becoming Totally Disabled, all Options then held by the Optionee shall continue to become exercisable and shall be able to be exercised by the Optionee in accordance with their terms;

(iii) if such termination occurs by reason of the Optionee's Retirement, all Options then held by the Optionee shall become immediately exercisable as of the date of such Retirement and may be exercised by the Optionee until the expiration of such Options in accordance with their terms;

(iv) if such termination occurs by reason of the Optionee's transfer to a Related Entity, and such transfer occurs as a result of actions by PepsiCo, all Options shall become immediately exercisable as of the date of such transfer and shall otherwise remain outstanding and be exercisable in accordance with their terms; after the date of such transfer, a termination of employment from the Related Entity shall constitute a termination of employment under the Plan; and

(v) subject to the foregoing clauses (i) through (iv), if such termination is voluntary by the employee or is by action of the Company (except as described in Section 6(f) hereof), all Options then held by the Optionee which are exercisable at the date of termination shall continue to be exercisable by the Optionee until the earlier of 90 calendar days after such date or the expiration of such Options in accordance with their terms. Unless the Committee shall determine otherwise, all Options which are not exercisable at such date of termination shall automatically terminate and lapse 90 calendar days after such date of termination; provided, however, that such Options which are not exercisable on the date of termination shall in no event become exercisable unless the registered owner is re-employed by the Company prior to the date on which such Options terminate and lapse.

(f) Misconduct. In the event that an Optionee has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, (iii) engaged in unlawful trading in the securities of PepsiCo or of another company based on information gained as a result of that Optionee's employment with the Company, or (iv) committed a felony or other serious crime, then that Optionee shall forfeit all rights to any unexercised Options granted under the Plan and all of that Optionee's outstanding Options shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(g) Nontransferability of Options. During an Optionee's lifetime, his or her Options shall not be transferable and shall only be exercisable by the Optionee, and any purported transfer shall be null and void. No Option shall be transferable other than by will or the laws of descent and distribution.

(h) Effect of a Change in Control. Notwithstanding anything to the contrary in this Plan, at the date of a Change in Control, all outstanding and unvested Options granted under the Plan shall immediately vest and become exercisable, and all Options then outstanding under the Plan shall remain outstanding in accordance with their terms. In the event that any Option granted under the Plan becomes unexercisable during its term on or after a Change in Control because: (i) the individual who holds such Option is involuntarily terminated (other than for cause) within two (2) years after the Change in Control; (ii) such Option is terminated or adversely modified; or (iii) PepsiCo Common Stock is no longer issued and outstanding, or no longer traded on a national securities exchange, then the holder of such Option shall immediately be entitled to receive a lump sum cash payment equal to the greater of (x) the gain on such Option or (y) the Black-Scholes value of such Option (as determined by a nationally recognized independent investment banker chosen by PepsiCo), in either case calculated on the date such Option becomes unexercisable. For purposes of the preceding sentence, the gain on an Option shall be

calculated as the difference between the closing price per share of PepsiCo Common Stock as of the date such Option becomes unexercisable less the Option Exercise Price of such Option. Any amount required to be paid pursuant to this Section 6(h) shall be paid within twenty (20) days after the date such amount becomes payable.

7. Amendment. The Committee (or the Chairman and Chief Executive Officer of PepsiCo, if a delegation of authority is in effect) may, at any time, amend, suspend or terminate the Plan, in whole or in part, provided that no such action shall adversely affect any rights or obligations with respect to any grants theretofore made hereunder. The Committee may amend the terms and conditions of outstanding Options, provided, however, that (i) no such amendment shall be adverse to the holders of the Options, (ii) no such amendment shall extend the period for exercise of an Option, and (iii) the amended terms of the Option would be permitted under this Plan.

8. Foreign Employees. Without amending the Plan, the Committee may grant Options to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes the Committee may make such modifications, amendments, procedures, subplans and the like as may be necessary or advisable to comply with provisions of laws in other countries in which the Company operates or has employees.

9. Registration, Listing and Qualification of Shares. Each Option shall be subject to the requirement that if at any time the Committee shall determine that the registration, listing or qualification of the shares covered thereby upon any securities exchange or under any foreign, federal, state or local law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option or the purchase of shares thereunder, no such Option may be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Committee. Any person exercising an Option shall make such representations and agreements and furnish such information as the Committee may request to assure compliance with the foregoing or any other applicable legal requirements.

10. Buy Out of Option Gains. At any time after any Stock Option becomes exercisable, the Committee shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option and to cause PepsiCo to pay to the Optionee the excess of the Fair Market Value of the shares of Common Stock covered by such Option over the Option Exercise Price of such Option at the date the Committee provides written notice (the "Buy Out Notice") of its intention to exercise such right. Buy outs pursuant to this provision shall be effected by PepsiCo as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts may be made in cash, in shares of Common Stock, or partly in cash and partly in Common Stock, as the Committee deems advisable. To the extent payment is made in shares of Common Stock, the number of shares shall be determined by dividing the amount of the payment to be made by the Fair Market Value of a share of Common Stock at the date of the Buy Out Notice. In no event shall PepsiCo be required to deliver a fractional share of Common Stock

in satisfaction of this buy out provision. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes.

11. Adjustment for Change in Stock Subject to Plan. In the event of any change in the outstanding shares of Common Stock by reason of any stock split, stock dividend, recapitalization, spin-off, merger, consolidation, combination or exchange of shares or other similar corporate change, such equitable adjustments may be made in the Plan and the Options granted hereunder as the Committee determines are necessary or appropriate, including, if necessary, an adjustment in the number of shares and Option Exercise Prices per share applicable to Options then outstanding and in the number of shares which are reserved for issuance under the Plan. Any such adjustment shall be conclusive and binding for all purposes of the Plan.

12. No Rights to Options or Employment. No employee or other person shall have any claim or right to be granted an Option under the Plan. Having received an Option under the Plan shall not give an employee any right to receive any other grant under the Plan. An Optionee shall have no rights to or interest in any Option except as set forth herein. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company.

13. Rights as Shareholder. An Optionee under the Plan shall have no rights as a holder of Common Stock with respect to Options granted hereunder, unless and until certificates for shares of Common Stock are issued to such Optionee.

14. Other Actions. This Plan shall not restrict the authority of the Committee or of PepsiCo, for proper corporate purposes, to grant or assume stock options, other than under the Plan, to or with respect to any employee or other person.

15. Costs and Expenses. Except as provided in Sections 6 and 10 hereof with respect to taxes and except for certain other fees and commissions related to the exercise of options, the costs and expenses of administering the Plan shall be borne by PepsiCo and shall not be charged to any grant nor to any employee receiving a grant.

16. Plan Unfunded. The Plan shall be unfunded. Except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, PepsiCo shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the delivery of PepsiCo Common Stock upon exercise of any Option granted under the Plan.

17. Governing Law. This Plan shall be governed by and construed in accordance with the laws of the State of North Carolina.

18. Effectiveness and Duration of the Plan. This Plan was initially effective on July 1, 1989 and was last amended and restated effective as of August 3, 2001. No Option shall be granted hereunder after December 31, 2008.

PEPSICO, INC.
1995 Stock Option Incentive Plan
(as amended and restated, effective August 2, 2001)

1. Purposes. The principal purposes of the 1995 Stock Option Incentive Plan (the “Plan”) are to provide long-term incentives in the form of stock options to those persons with significant responsibility for the success and growth of PepsiCo, Inc. and its subsidiaries, affiliates, divisions and other businesses in which it has a substantial financial interest, to assist the Company in attracting and retaining key employees on a competitive basis, and to associate the interests of such employees with those of PepsiCo’s shareholders.

2. Definitions. Unless the context clearly indicates otherwise, the following terms, when used in this Plan, shall have the meanings set forth below:

(a) “Change in Control” means the occurrence of any of the following events: (i) acquisition of 20% or more of the outstanding voting securities of PepsiCo, Inc. by another entity or group; excluding, however, the following (A) any acquisition by PepsiCo, Inc., or (B) any acquisition by an employee benefit plan or related trust sponsored or maintained by PepsiCo, Inc.; (ii) during any consecutive two-year period, persons who constitute the Board of Directors of PepsiCo, Inc. (the “Board”) at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period); (iii) PepsiCo, Inc. shareholders approve a merger or consolidation of PepsiCo, Inc. with another company, and PepsiCo, Inc. is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of PepsiCo, Inc.; (iv) PepsiCo, Inc. shareholders approve a plan of complete liquidation of PepsiCo, Inc. or the sale or disposition of all or substantially all of PepsiCo, Inc.’s assets; or (v) any other event, circumstance, offer or proposal occurs or is made, which is intended to effect a change in the control of PepsiCo, Inc., and which results in the occurrence of one or more of the events set forth in clauses (i) through (iv) of this paragraph.

(b) “Committee” means the Compensation Committee of the Board of Directors of PepsiCo, as appointed from time to time by the Board, consisting of two or more outside disinterested members of the Board.

(c) “Common Stock” or “Stock” means PepsiCo Common Stock, par value 1 ²/₃ cents per share.

(d) “Company” means PepsiCo, Inc., its divisions, direct and indirect subsidiaries, affiliates and other businesses in which it has a substantial financial interest.

(e) "Fair Market Value" means an amount equal to the mean of the high and low sales prices for Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, on the date in question (or, if no sales of Stock were made on said Exchange on such date, on the next preceding day on which sales were made on such Exchange), carried out to four decimal places.

(f) "Grant Date" means the date an Option is granted under the Plan. The date of grant of an Option shall be the date as of which the Committee determines that such Option shall become effective.

(g) "Option" or "Stock Option" means a right granted under the Plan to purchase a share of PepsiCo Common Stock at a fixed price for a specified period of time.

(h) "Option Exercise Price" means the price at which a share of Common Stock covered by an Option granted hereunder may be purchased.

(i) "Optionee" means an eligible employee of the Company who has received a Stock Option granted under the Plan.

(j) "PepsiCo" means PepsiCo, Inc., a North Carolina corporation.

(k) "Retirement" means termination from employment by the Company for reasons other than death after the employee has fulfilled the requirements for either a normal, early or disability retirement pension, as defined under the Company's retirement program applicable to such employee at the date of termination of employment.

(l) "Totally Disabled" shall have the meaning set forth in the Company's long term disability program applicable to U.S. salaried employees.

(m) "Variable Awards" are rights to receive grants of either cash payments or Stock Options based upon the performance of PepsiCo business units during a three-year performance period. The election to receive cash or Stock Options is made by the participant at the beginning of the three-year performance period.

3. Administration of the Plan. The Plan shall be administered by the Committee, which shall have all the powers vested in it by the terms of the Plan, including, but not limited to, authority to determine the persons to be granted Options under the Plan, to determine the size and applicable terms and conditions of grants to be made to such persons, to determine the time when Options will be granted and any conditions which must be satisfied by employees before an award is made, to determine when Options may be exercised and

whether they may be deferred, to determine whether an award should be reduced or eliminated, and to authorize grants to eligible persons.

The Committee shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan as the Committee deems necessary or advisable. The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee concerning any matter arising under or with respect to the Plan or any Options granted hereunder shall be final, binding and conclusive on all parties concerned, including, without limitation, Optionees, the Company, its employees, PepsiCo and its shareholders.

4. Eligibility. All Company employees who hold positions graded at Band I or Band II, or the equivalent, on a Grant Date are eligible to be granted Options under the Plan. Employees who are hired at or promoted to an eligible level after a Grant Date are eligible to receive a pro-rated grant at such time and on such terms and conditions as may be determined by the Committee in its discretion. Notwithstanding the foregoing, no employee may be granted Options which, if exercised in the aggregate, would result in that employee receiving more than 10% of the maximum number of shares available for issuance under the Plan.

5. Awards. Unless otherwise determined by the Committee, regular grants of Stock Options will generally be made annually in amounts determined from time to time by the Committee. The Committee may also approve special or pro-rata grants of Options in its discretion. The Committee may also grant Options in connection with Variable Awards. All Options granted under the Plan shall be evidenced by agreements containing such terms and conditions (not inconsistent with the Plan) as the Committee may determine. Unless otherwise determined by the Committee, Options will be subject to the following terms and conditions:

(a) Option Exercise Price. The Option Exercise Price shall be equal to the Fair Market Value of a share of Common Stock on the Grant Date.

(b) Term. Options shall be granted with a term of ten (10) years.

(c) Exercisability. Regular grants of Options generally become 100% vested and exercisable on the third anniversary of the Grant Date. Special or pro-rata grants of Options shall become vested and exercisable at such times as may be determined by the Committee at the time of grant. Options granted in connection with Variable Awards shall be exercisable immediately. Once exercisable, Options may be exercised until the expiration of their term. Fractional Options may not be exercised and no fractional shares shall be purchasable or deliverable under the Plan.

(d) Termination of Employment, Death, Total Disability or Retirement. All Options shall automatically expire upon, and no Option may be exercised after, the termination of the Optionee's employment with the Company; provided, however, that if such termination occurs by reason of the Optionee's death, Total Disability or Retirement, then the Optionee's designated beneficiary (or, if none, his or her legal representative), in the event of death, or the Optionee, in the event of Retirement or Total Disability, shall be vested in the following: (i) if such termination occurs after the first anniversary of the Grant Date, all of the Options; and (ii) if such termination occurs prior to the first anniversary of the Grant Date, a pro-rated portion of the Options based on the Optionee's active service during the first year following the Grant Date. Any Options that become vested under this paragraph may be exercised from the date on which such Options would have vested had the Optionee's employment continued through the date on which the term of the Options expires.

(e) Buy-out of Option Gains. The Committee shall have the right, at any time, in its sole discretion and without the consent of the holder thereof, to cancel a Stock Option and pay to the holder the excess of the Fair Market Value of the shares covered by such Option over the Option Exercise Price for such Option as of the date the Committee provides written notice of its intention to exercise this right. Payments of buy out amounts may be made in cash, in shares of Common Stock, or partly in cash and partly in Common Stock as the Committee deems advisable. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes.

(f) Misconduct. The Committee shall determine the terms and conditions relating to an Optionee's misconduct and such terms and conditions shall be set out in the option agreement. Unless the Committee determines otherwise at the time of grant, in the event that an Optionee has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, (iii) engaged in unlawful trading in the securities of PepsiCo or of another company based on information gained as a result of that Optionee's employment with the Company, or (iv) committed a felony or other serious crime, then that Optionee may, at the option of the Company, forfeit all rights to any unexercised Options granted under the Plan and in such event all of that Optionee's outstanding Options shall automatically terminate and lapse.

(g) Assignment or Transfer. Unless the Committee determines otherwise, during an Optionee's lifetime, his or her Options shall not be transferable and shall only be exercisable by the Optionee and any purported transfer shall be null and void. No Option, nor any rights or interests therein, shall be assignable or transferable except by will or the laws of descent and distribution.

6. Foreign Employees. Without amending the Plan, the Committee may grant Options to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes the Committee may make such modifications, amendments, procedures, subplans and the like as may be necessary or advisable to comply with provisions of laws in other countries in which the Company operates or has employees.

7. Exercising Options. To exercise an Option, the holder thereof shall give notice of his or her exercise to PepsiCo, or its agent, specifying the number of shares of Common Stock to be purchased and identifying the specific Options that are being exercised. From time to time the Committee may establish procedures relating to effecting such exercises. An Option is exercisable during an Optionee's lifetime only by the Optionee; provided, however, that in the event the Optionee is incapacitated and unable to exercise Options, such Options may be exercised by such Optionee's legal guardian, legal representative, fiduciary or other representative whom the Committee deems appropriate based on applicable facts and circumstances.

8. Payment of Option Exercise Price. The Option Exercise Price for the Options being exercised must be paid in full at time of issuance of the Common Stock. In addition, in order to enable the Company to meet any applicable foreign, federal (including FICA), state and local withholding tax requirements, an Optionee shall also be required to pay the amount of tax to be withheld at the time of exercise. No share of Stock will be delivered to any Optionee until all such amounts have been paid by the Optionee. The obligation of PepsiCo to deliver cash or Common Stock shall be subject to currency or other restrictions imposed by any government.

9. Shares of Stock Subject to the Plan. The shares that may be delivered or purchased under the Plan shall not exceed an aggregate of 52,800,000 shares of Common Stock, which has been adjusted from the initial authorized amount of 25,000,000 and which is subject to any further adjustments which may be made pursuant to Section 10 hereof. Shares of Stock used for purposes of the Plan may be either shares of authorized but unissued Common Stock or treasury shares or both. Stock covered by Options which have terminated or expired prior to exercise or have been surrendered or cancelled shall be available for further option hereunder.

10. Dilution and Other Adjustments. In the event of any change in the outstanding shares of Common Stock by reason of any stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, such equitable adjustments may be made in the Plan and the Options granted hereunder as the Committee

determines are necessary or appropriate, including if necessary, an adjustment in the number of shares and Option Exercise Prices per share applicable to Options then outstanding and in the number of shares which are reserved for issuance under the Plan. Any such adjustment shall be conclusive and binding for all purposes of the Plan.

11. Change in Control. Notwithstanding anything to the contrary herein, at the date of a Change in Control, all outstanding and unvested Options granted under the Plan shall immediately vest and become exercisable, and all Options then outstanding under the Plan shall remain outstanding in accordance with their terms. In the event that any Option granted under the Plan becomes unexercisable during its term on or after a Change in Control because: (i) the individual who holds such Option is involuntarily terminated (other than for cause) within two (2) years after the Change in Control; (ii) such Option is terminated or adversely modified; or (iii) PepsiCo Common Stock is no longer issued and outstanding, or no longer traded on a national securities exchange, then the holder of such Option shall immediately be entitled to receive a lump sum cash payment equal to the greater of (x) the gain on such Option or (y) the Black-Scholes value of such Option (as determined by a nationally recognized independent investment banker chosen by PepsiCo), in either case calculated on the date such Option becomes unexercisable. For purposes of the preceding sentence, the gain on an Option shall be calculated as the difference between the closing price per share of PepsiCo Common Stock as of the date such Option becomes unexercisable less the Option Exercise Price of such Option.

Any amount required to be paid pursuant to this Section 11 shall be paid within twenty (20) days after the date such amount becomes payable.

12. Registration, Listing and Qualification of Shares. Each Option shall be subject to the requirement that if at any time the registration, listing or qualification of the shares covered thereby upon any securities exchange or under any foreign, federal, state or local law, or the consent or approval of any governmental regulatory body, is determined to be necessary or desirable as a condition of, or in connection with, the granting of such Option or the purchase of shares thereunder, no such Option may be delivered or exercised, as the case may be, unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Committee. Any person exercising an Option shall make such representations and agreements and furnish such information as the Committee may request to assure compliance with the foregoing or any other applicable legal requirements.

13. No Rights to Options or Employment. No employee or other person shall have any claim or right to be granted an Option under the Plan. Having received an Option under the Plan shall not give an employee any right to receive any other grant under the Plan. An Optionee shall have no rights to or

interest in any Option except as set forth herein or in the terms and conditions of the Option. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company.

14. Rights as Shareholder. An Optionee under the Plan shall have no rights as a holder of Common Stock with respect to Options granted hereunder, unless and until certificates for shares of Common Stock are issued to such Optionee.

15. Costs and Expenses. Except as provided in Sections 5 and 8 hereof with respect to taxes, the costs and expenses of administering the Plan shall be borne by PepsiCo and shall not be charged to any grant nor to any employee receiving a grant.

16. Plan Unfunded. The Plan shall be unfunded. Except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, PepsiCo shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the delivery of PepsiCo Common Stock upon exercise of any Option granted under the Plan.

17. Amendments. The Committee may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any awards theretofore made under the Plan and no such action shall be valid if such action requires shareholder approval under applicable law to be valid. With the consent of affected Optionees, the Committee may amend outstanding agreements evidencing awards under the Plan in a manner not inconsistent with the terms of the Plan.

18. Other Actions. This Plan shall not restrict the authority of the Committee or of PepsiCo, for proper corporate purposes, to grant or assume stock options, other than under the Plan, to or with respect to any employee or other person.

19. Governing Law. This Plan shall be governed by and construed in accordance with the laws of the State of North Carolina.

20. Effectiveness of the Plan. This Plan shall become effective on July 27, 1995.

**SECOND AMENDMENT
TO THE
QUAKER LONG TERM INCENTIVE PLAN OF 1990
(As Amended and Restated Effective as of September 1, 1996)**

WHEREAS, The Quaker Long Term Incentive Plan of 1990, as amended and restated effective as of September 1, 1996 (the "Plan"), was established by The Quaker Oats Company (the "Company") for the benefit of its eligible employees; and

WHEREAS, amendment of the Plan is desirable to eliminate the cancellation and payment of cash in connection with any change in control transaction which would preclude pooling of interests accounting, if such treatment would otherwise apply to the transaction, but otherwise retain the full effect and benefit of the plan provisions, including the elimination of further service requirements as a condition of the options or restricted stock;

NOW, THEREFORE, pursuant to the authority delegated to the undersigned by resolution of the Board of Directors, the Plan is hereby amended as of the 21st day of November, 2000, by adding a new paragraph 9.1(h) immediately following paragraph 9.1(g) as follows:

(h) Pooling of Interests. Notwithstanding any other provision of the Plan, Options outstanding on the date of a Change in Control which is intended to qualify as a pooling of interests transaction, which would otherwise be cancelled and cashed out in accordance with paragraph (a) above, after application of the limitations set forth in paragraph (g) above, shall not be subject to any additional service requirement as a condition of exercise but shall not otherwise be subject to the provisions of such paragraph (a), and the Restricted Period with respect to Restricted Stock, which would otherwise be cancelled and cashed out in accordance with paragraph (c) above, after application of the limitations of paragraph (g) above, shall lapse on the date of any such Change in Control but such Restricted Stock shall not otherwise be subject to the provisions of such paragraph (c).

IN WITNESS WHEREOF, this Amendment is executed below by a duly authorized officer of the Company.

The Quaker Oats Company

By: /s/ Robert S. Morrison

Its: Chairman of the Board, President
and Chief Executive Officer

FIRST AMENDMENT
TO THE
QUAKER LONG TERM INCENTIVE PLAN OF 1990
(As Amended and Restated Effective as of September 1, 1996).

WHEREAS, The Quaker Long Term Incentive Plan of 1990, as amended and restated effective as of September 1, 1996 (the "Plan"), was established by the Quaker Oats Company (the "Company") for the benefit of its eligible employees; and

WHEREAS, amendment of the Plan is desirable;

NOW, THEREFORE, the Plan is hereby amended effective as of May 13, 1998, by substituting the following for Section 9.2 of the Plan:

"9.2 Change in Control. A 'Change in Control' shall be deemed to have occurred if:

(a) any 'Person,' which shall mean a 'person' as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the 'Exchange Act') (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the 'beneficial owner' (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding voting securities;

(b) during any period of 24 consecutive months (not including any period prior to May 13, 1998), individuals, who at the beginning of such period constitute the Board, and any new director (other than a director designated by a Person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) (2) or (d) of this Section) whose election by the Board, or whose nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds (2/3) of the directors before the beginning of the period cease for any reason to constitute at least a majority thereof;

(c) the stockholders of the Company approve (1) a plan of complete liquidation of the Company or (2) the sale or disposition by the Company of all or substantially all of the Company's assets unless the acquirer of the assets or its directors shall meet the conditions for a merger or consolidation in subparagraphs (d) (1) or (d) (2) of this Section; or

(d) the stockholders of the Company approve a merger or consolidation of the Company with any other company other than:

(1) such a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by

remaining outstanding or by being converted into voting securities of the surviving entity) more than 70% of the combined voting power of the Company's or such surviving entity's outstanding voting securities immediately after such merger or consolidation; or

(2) such a merger or consolidation which would result in the directors of the Company who were directors immediately prior thereto continuing to constitute at least 50% of the directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (d), 'surviving entity' shall mean only an entity in which all of the Company's stockholders immediately before such merger or consolidation become stockholders by the terms of such merger or consolidation, and the phrase 'directors of the Company who were directors immediately prior thereto' shall include only individuals who were directors of the Company at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation, or who were new directors (other than any director designated by a Person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) (2), (d) (1) or (d) (2) of this Section) whose election by the Board, or whose nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds (2/3) of the directors before the beginning of such period."

IN WITNESS WHEREOF, this Amendment is executed below by a duly authorized officer of the Company.

The Quaker Oats Company

Date: August 30, 1999

By: /s/ Pamela S. Hewitt

Its: Senior Vice President

THE QUAKER LONG TERM INCENTIVE PLAN OF 1990
(As Amended and Restated Effective as of September 1, 1996)

ARTICLE I
NAME AND PURPOSE

1.1 Name. The Quaker Long Term Incentive Plan of 1990 (the “Plan”) is established by The Quaker Oats Company (the “Company”).

1.2 Purpose. The Company has established the Plan to promote the interests of the Company and its shareholders by providing officers and other key employees of the Company and its related affiliates with additional incentive and the opportunity, through stock ownership, to increase their proprietary interest in the Company and their personal interest in its continued success and progress.

ARTICLE II
DEFINITIONS

2.1 General Definitions. The following words and phrases, when used herein, unless otherwise specifically defined or unless the context clearly indicates otherwise, shall have the following meanings:

- (a) Affiliate. Any trade or business entity, or a predecessor of such entity, if any, which is a member of a controlled group of business entities of which the Company is also a member.
- (b) Agreement. The document which evidences the grant of any Benefit under the Plan and which sets forth the Benefit and the terms, conditions and provisions of, and restrictions relating to, such Benefit.
- (c) Benefit. Any benefit granted to a Participant under the Plan.
- (d) Board. The Board of Directors of the Company.
- (e) Change in Control. Occurrence upon events described in Section 9.2.
- (f) Code. The Internal Revenue Code of 1986, as amended, and including the regulations promulgated pursuant thereto.
- (g) Committee. The Committee described in Section 5.1.
- (h) Common Stock. The Company’s \$5.00 par value common stock.
- (i) Company. The Quaker Oats Company.

(j) Effective Date. The date that the Plan is approved by the shareholders of the Company, which must occur within one year before or after original adoption by the Board. Any grants of Benefits prior to the approval by the shareholders of the Company shall be void if such approval is not obtained.

(k) Employee. Any person employed by the Employer as an officer or key employee.

(l) Employer. The Company and all Affiliates.

(m) Exchange Act. The Securities Exchange Act of 1934, as amended.

(n) Fair Market Value. The mean between the high and low sales price of shares on the New York Stock Exchange (composite transactions) on a given date, or, in the absence of sales on a given date, the closing price (as so reported) on the New York Stock Exchange on the last previous day on which a sale occurred prior to such date.

(o) ISO. An Option that meets the requirements of Section 422A of the Code.

(p) NSO. An Option that does not qualify as an ISO.

(q) Option. An option to purchase Shares granted under ARTICLE XIII of the Plan.

(r) Other Stock Based Award. An award under ARTICLE XVIII that is valued in whole or in part by reference to, or is otherwise based on, Common Stock.

(s) Participant. An individual who is granted a Benefit under the Plan. Benefits may be granted only to Employees.

(t) Performance Share. A Share awarded to a Participant under ARTICLE XVI of the Plan.

(u) Performance Units. A Benefit awarded to a Participant under ARTICLE XVII of the Plan.

(v) Plan. The Quaker Long Term Incentive Plan of 1990 and all amendments and supplements thereto.

(w) Restricted Stock. Shares issued under ARTICLE XV of the Plan.

(x) Rule 16b-3. Rule 16b-3 promulgated by the SEC, as amended, or any successor rule in effect from time to time.

- (y) SEC. The Securities and Exchange Commission.
- (z) Share. A share of Common Stock.
- (aa) Stock Appreciation Right. A Benefit awarded to a Participant under ARTICLE XIV of the Plan.

2.2 Other Definitions. In addition to the above definitions, certain words and phrases used in the Plan and any Agreement may be defined elsewhere in the Plan or in such Agreement.

ARTICLE III COMMON STOCK

3.1 Number of Shares. The number of Shares which may be issued or sold or for which Options, Stock Appreciation Rights, or Performance Shares may be granted under the Plan shall be 26,000,000 Shares (after adjustment for the 1994 2-for-1 stock split), subject to the provisions of Sections 3.2 and 3.3 of the Plan. Such Shares may be authorized but unissued Shares, Shares held in the treasury, or both.

3.2 Reusage. If an Option or Stock Appreciation Right expires or is terminated, surrendered, or canceled without having been fully exercised, if Restricted Stock or Performance Shares are forfeited, or if any other grant results in any Shares not being issued, the Shares covered by such Option or Stock Appreciation Right, grant of Restricted Stock, Performance Shares or other grant, as the case may be, shall again be available for use under the Plan.

3.3 Adjustments. If there is any change in the Common Stock of the Company by reason of any stock dividend, spin-off, split-up, spin-out, recapitalization, merger, consolidation, reorganization, combination or exchange of Shares, the number of Stock Appreciation Rights and number and class of shares available for Options and grants of Restricted Stock, Performance Shares and Other Stock Based Awards and the number of Shares subject to outstanding Options, Stock Appreciation Rights, grants of Restricted Stock and Performance Shares, and Other Stock Based Awards, and the price thereof, as applicable, shall be appropriately adjusted by the Committee.

ARTICLE IV ELIGIBILITY

The Participants and the Benefits they receive under the Plan shall be determined solely by the Committee. In making its determinations, the Committee shall consider past, present and expected future contributions of Employees and Participants to the Employer.

ARTICLE V
ADMINISTRATION

5.1 Committee. The Plan shall be administered by the Committee (also known as the Compensation Committee of the Board). The Committee shall consist of members of the Board, who shall not be eligible to participate in the Plan. The members of the Committee shall be appointed by and shall serve at the pleasure of the Board, which may from time to time appoint members in substitution for members previously appointed and fill vacancies, however caused, in the Committee.

5.2 Authority. Subject to the terms of the Plan, the Committee shall have complete authority to:

- (a) determine the individuals to whom Benefits are granted, the type and amounts of Benefits to be granted and the time of all such grants;
- (b) determine the terms, conditions and provisions of, and restrictions relating to, each Benefit granted;
- (c) interpret and construe the Plan and all Agreements;
- (d) prescribe, amend and rescind rules and regulations relating to the Plan;
- (e) determine the content and form of all Agreements;
- (f) determine all questions relating to Benefits under the Plan;
- (g) maintain accounts, records and ledgers relating to Benefits;
- (h) maintain records concerning its decisions and proceedings;
- (i) employ agents, attorneys, accountants or other persons for such purposes as the Committee considers necessary or desirable;
- (j) take, at anytime, any action permitted by Section 9.1 irrespective of whether any Change in Control has occurred or is imminent; and
- (k) do and perform all acts which it may deem necessary or appropriate for the administration of the Plan and carry out the purposes of the Plan.

5.3 Determinations. All determinations of the Committee shall be final.

5.4 Delegation. Except as required by Rule 16b-3 with respect to Benefits to individuals who are subject to Section 16 of the Exchange Act or as otherwise required for compliance with Rule 16b-3 or other applicable law, the Committee may delegate all or any part of its authority under the Plan to any Employee, Employees or committee.

ARTICLE VI
AMENDMENT

6.1 Power of Board. Except as hereinafter provided, the Board shall have the sole right and power to amend the Plan at any time and from time to time.

6.2 Limitation. The Board may not amend the Plan, without approval of the shareholders of the Company:

- (a) in a manner which would increase the number of Shares which may be issued or sold or for which Options, Stock Appreciation Rights, or Performance Shares may be granted under the plan; or
- (b) in a manner which would violate applicable law.

ARTICLE VII
TERM AND TERMINATION

7.1 Term. The Plan shall commence as of the Effective Date and, subject to the terms of the Plan, including those requiring approval by the shareholders of the Company and those limiting the period over ISOs or any other Benefits may be granted, shall continue in full force and effect until December 31, 1998.

7.2 Termination. The Plan may be terminated at any time by the Board.

ARTICLE VIII
MODIFICATION OR TERMINATION OF BENEFITS

8.1 General. Subject to the provisions of Section 8.2, the amendment or termination of the Plan shall not adversely affect a Participant's right to any Benefit granted prior to such amendment or termination.

8.2 Committee's Right. Any Benefit granted may be converted, modified, forfeited or canceled, in whole or in part, by the Committee if and to the extent permitted in the Plan or applicable Agreement or with the consent of the Participant to whom such Benefit was granted.

ARTICLE IX
CHANGE IN CONTROL

9.1 Benefit Cancellation and Payment.

(a) Options. Upon the occurrence of a Change in Control, Options outstanding on the date on which the Change in Control occurs shall be canceled, and an immediate lump sum cash payment shall be paid to the Participant equal to the product of (1) the higher of (i) the closing price of the Common Stock as reported on the New York Stock Exchange Composite Index on or nearest the date of payment (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in the Common Stock is highest), or (ii) the highest per Share price for the Common Stock actually paid in connection with the Change in Control, over the per Share Option price of each such Option held (whether or not then fully exercisable), and (2) the number of Shares covered by each such Option.

(b) Stock Appreciation Rights. Upon the occurrence of a Change in Control, Stock Appreciation Rights outstanding on the date on which the Change in Control occurs shall be canceled, and an immediate lump sum cash payment shall be paid to the Participant equal to the product of (1) the higher of (i) the closing price of the Common Stock as reported on the New York Stock Exchange Composite Index on or nearest the date of payment (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in the Common Stock is highest), or (ii) the highest per Share price for the Common Stock actually paid in connection with the Change in Control, over the Fair Market Value of one Share on the date on which the Stock Appreciation Right was granted, and (2) the number of such Stock Appreciation Rights held.

(c) Restricted Stock. Upon the occurrence of a Change in Control, Restricted Stock outstanding on the date on which the Change in Control occurs shall be canceled and an immediate lump sum cash payment shall be paid to the Participant equal to the product of (1) the higher (i) the closing price of Common Stock as reported on the New York Stock Exchange Composite Index on or nearest the date of payment (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in the Common Stock is highest) or (ii) the highest per share price for Common Stock actually paid in connection with the Change in Control and (2) the number of Shares of such Restricted Stock; plus the value of any related Cash Award relating to such Restricted Stock.

(d) Performance Shares. Upon the occurrence of a Change in Control, any Performance Shares previously granted, but still considered outstanding (as a right to received Shares or cash equal to the Fair Market Value of such Shares at a future date), shall be canceled and any profit and/or performance objectives with

respect to such Performance Shares shall be deemed to have been attained to the full and maximum extent; and an immediate lump sum cash payment shall be paid to the Participant in an amount determined in accordance with the terms and conditions set forth in the applicable Agreement.

(e) Performance Units. Upon the occurrence of a Change in Control, any Performance Units previously granted, but still considered outstanding (as a right to receive cash at a future date), shall be canceled and any profit and/or performance objectives with respect to such Performance Units shall be deemed to have been attained to the full and maximum extent; and an immediate lump sum cash payment shall be paid to the Participant in an amount determined in accordance with the terms and conditions set forth in the applicable Agreement.

(f) Other Stock Based Awards and other Benefits. Upon the occurrence of a Change in Control, Other Stock Based Awards or other Benefits previously granted under the Plan, but still considered outstanding, shall be canceled and an immediate lump sum cash payment shall be paid to the Participant in an amount determined in accordance with the terms and conditions set forth in the applicable Agreement.

(g) Tax Penalties. If the making of payments pursuant to the foregoing paragraphs of this Section 9.1 would subject the Participant to an excise tax under Section 4999 of the Code, or would result in the Company's loss of a federal income tax deduction for those payments (either of these consequences is referred to individually herein as a "Tax Penalty"), then the Company shall reduce the amount of Benefits to be canceled to the extent necessary to avoid the imposition of such Tax Penalty, and shall establish procedures necessary to maintain for the Participants any form of benefit which may be provided under the Plan so that such Participant will be in the same financial position with respect to those Benefits not canceled as he would have been in the ordinary course, absent a Change in Control and assuming his continued employment; except that the foregoing provisions of this paragraph (g), with respect to the cancellation of Benefits, shall not apply if such Participant (i) is entitled to a tax reimbursement for such Tax Penalty under any other agreement, plan or program of the Company, or (ii) may disclaim any portion of or all payments to be made pursuant to or under any other agreement, plan or program of the Company in order to avoid such Tax Penalty. Disagreements as to whether payments pursuant to the foregoing would result in the imposition of a Tax Penalty shall be resolved by an opinion of counsel chosen by the Participant and reasonably satisfactory to the Company.

9.2 Change in Control. A "Change in Control" shall be deemed to have occurred if:

(a) any "Person," which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any

trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities; provided, however, that this paragraph (a) shall not apply to any Person who becomes such a beneficial owner of such Company securities pursuant to an agreement with the Company approved by the Board, entered into before such Person has become such a beneficial owner of Company securities representing 5% or more of the combined voting power of the Company's then outstanding voting securities;

(b) during any period of 24 consecutive months (not including any period prior to September 11, 1996), individuals, who at the beginning of such period constitute the Board, and any new director (other than a director designated by a Person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) (2) or (d) of this Section) whose election by the Board, or whose nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds (2/3) of the directors before the beginning of the period cease for any reason to constitute at least a majority thereof;

(c) the stockholders of the Company approve (1) a plan of complete liquidation of the Company or (2) the sale or disposition by the Company of all or substantially all of the Company's assets unless the acquirer of the assets or its directors shall meet the conditions for a merger or consolidation in subparagraphs (d) (1) or (d) (2) ; or

(d) the stockholders of the Company approve a merger or consolidation of the Company with any other company other than:

- (1) such a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 70% of the combined voting power of the Company's or such surviving entity's outstanding voting securities immediately after such merger or consolidation; or
- (2) such a merger or consolidation which would result in the directors of the Company who were directors immediately prior thereto continuing to constitute at least 50% of the directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (d), “surviving entity” shall mean only an entity in which all of the Company’s stockholders immediately before such merger or consolidation become stockholders by the terms of such merger or consolidation, and the phrase “directors of the Company who were directors immediately prior thereto” shall include only individuals who were directors of the Company at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation, or who were new directors (other than any director designated by a Person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) (2), (d) (1) or (d) (2) of this Section) whose election by the Board, or whose nomination for election by the Company’s stockholders, was approved by a vote of at least two-thirds (2/3) of the directors before the beginning of such period.

ARTICLE X
AGREEMENTS AND CERTAIN BENEFITS

10.1 Grant Evidenced by Agreement. The grant of any Benefit under the Plan may be evidenced by an Agreement which shall describe the specific Benefit granted and the terms and conditions of the Benefit. The granting of any Benefit may be subject to, and conditioned upon, the recipient’s execution of any Agreement required by the Committee. Except as otherwise provided in an Agreement, all capitalized terms used in the Agreement shall have the same meaning as in the Plan, and the Agreement shall be subject to all of the terms of the Plan.

10.2 Provisions of Agreement. Each Agreement shall contain such provisions that the Committee shall determine to be necessary, desirable and appropriate for the Benefit granted. Each Agreement may include, but shall not be limited to, the following with respect to any Benefit: description of the type of Benefit; the Benefit’s duration; its transferability; if an Option, the exercise price, the exercise period and the person or persons who may exercise the Option; the effect upon such Benefit of the Participant’s death or termination of employment; the Benefit’s conditions; when, if and how any Benefit may be forfeited, converted into another Benefit, modified, exchanged for another Benefit, or replaced; and the restrictions on any Shares purchased or granted under the Plan.

10.3 Certain Benefits. Any Benefit granted to an individual who is subject to Section 16 of the Exchange Act shall not be transferable other than by will or the laws of descent and distribution and shall be exercisable during his lifetime only by him, his guardian or his legal representative.

ARTICLE XI
REPLACEMENT AND TANDEM AWARDS

11.1 Replacement. The Committee may permit a Participant to elect to surrender a Benefit in exchange for a new Benefit.

11.2 Tandem Awards. Benefits may be granted by the Committee in tandem. However, no Benefit may be granted in tandem with an ISO except a Stock Appreciation Right.

ARTICLE XII
PAYMENT, DIVIDENDS, DEFERRAL AND WITHHOLDING

12.1 Payment. Upon the exercise of an Option or in the case of any other Benefit that requires a payment to the Company, the amount due the Company is to be paid:

(a) in cash;

(b) by the tender to the Company of Shares owned by the Participant and registered his name having a Fair Market Value equal to the amount due to the Company;

(c) in other property, rights and credits, including the Participant's promissory note; or

(d) by any combination of the payment methods specified in (a), (b) and (c) above.

Notwithstanding the foregoing, any method of payment other than (a) may be used only with the consent of the Committee, or if and to the extent so provided in the applicable Agreement.

12.2 Dividend Equivalents. Grants of Benefits in Shares or Share equivalents may include dividend equivalent payments or dividend credit rights.

12.3 Deferral. The right to receive any Benefit under the Plan may, at the request of the Participant, be deferred for such period and upon such terms as the Committee shall determine, which may include crediting of interest on deferrals of cash and crediting of dividends on deferrals denominated in Shares.

12.4 Withholding. The Company, at the time any distribution is made under the Plan, whether in cash or in Shares, may withhold from such distribution any amount necessary to satisfy federal, state and local tax withholding requirements with respect to such distribution. Such withholding may be in cash or in Shares.

ARTICLE XIII
OPTIONS

13.1 Types of Options. It is intended that both ISOs and NSOs may be granted by the Committee under the Plan.

13.2 Shares for ISOs. The number of Shares for which ISOs may be granted on or after the Effective Date shall not exceed 26,000,000 Shares, subject to the overall Plan limitations, permitted reuse and adjustments provided for in ARTICLE III.

13.3 Grant of Options and Option Price. Each Option must be granted to an Employee and must be granted no later than December 31, 1998. No single employee may be granted more than 1,000,000 Options (after adjustment for the 1994 2-for-1 stock split) during any Fiscal Year of the Company. The purchase price for Shares under any Option shall be no less than the Fair Market Value of the Shares at the time the Option is granted.

13.4 Early Termination of Option.

(a) Termination of Employment. All rights to exercise an Option terminate when the Participant's employment terminates for any reason other than his death or retirement. Transfer from the Company to an Affiliate, or vice versa, or from one Affiliate to another, shall not be deemed termination of employment. The Committee shall have the authority to determine in each case whether an authorized leave of absence or absence on military or government service shall be deemed a termination of employment for purpose of this paragraph (a).

(b) Death or Retirement. Effective for Options granted after November 9, 1994, if a Participant dies while an Employee or his employment is terminated because of retirement, his Option shall terminate within a period not exceeding five years following his death or retirement, but not later than the date the Option expires pursuant to its terms. The terms of Options outstanding, except for those Options intended to qualify as an ISO, may also be amended at anytime by the Committee or the Board to extend the Option's duration period following a Participant's death or retirement, subject to the limitations stated in the preceding sentence. In the meantime, subject to the limitations in the applicable Agreement, it may be exercised by the Participant, the executors or administrators of his estate, or by his legatee or heirs. "Retirement" shall mean termination of employment at age 55 for older for reasons other than death.

13.5 Other Requirements. The terms of each Option which is intended to qualify as an ISO shall meet all requirements of Section 422 of the Code. The terms of each NSO shall provide that such Option will not be treated as an ISO.

13.6 Determination by Committee. Except as otherwise provided in Section 13.2 through Section 13.5, the terms of all Options shall be determined by the Committee.

ARTICLE XIV
STOCK APPRECIATION RIGHTS

14.1 Description. The Committee may from time to time grant Stock Appreciation Rights. Upon electing to receive payment of a Stock Appreciation Right, a Participant shall receive an amount in cash, in Common Stock or in any combination thereof, as the Committee shall determine, equal to the amount, if any, by which the Fair Market Value of one Share on the date on which such election is made exceeds the Fair Market Value of one Share on the date on which the Stock Appreciation Right was granted.

14.2 Grant of Tandem Award. The Committee may grant a Stock Appreciation Right in tandem with another Benefit, in which case: the exercise of the other Benefit shall cause a correlative reduction in Stock Appreciation Rights standing to a Participant's credit which were granted in tandem with the other Benefit, and the payment of a Stock Appreciation Right shall cause a correlative reduction of the Shares under such other Benefit.

14.3 ISO Tandem Award. When a Stock Appreciation Right is granted in tandem with ISO, it shall have such terms and conditions as shall be required for the ISO with which it is granted in tandem to qualify as an ISO.

14.4 Payment of Award. A Stock Appreciation Right shall be paid, to the extent payment is elected by the Participant (and is otherwise due and payable), as soon as practicable after the date on which such election is made.

ARTICLE XV
RESTRICTED STOCK

15.1 Description. The Committee may grant Benefits in Shares available under ARTICLE III of the Plan as Restricted Stock. Shares of Restricted Stock shall be issued at the time of the grant but shall be subject to forfeiture until provided otherwise in the applicable Agreement or the Plan.

15.2 Terms and Conditions of Restricted Stock Awards. All Shares of Restricted Stock shall be subject to the following terms and conditions, and to such other terms and conditions as may be provided under the Agreements described in paragraph (f) next below:

(a) Payment of Par Value. The Committee, in its discretion, may condition any grant of Shares of Restricted Stock on payment by the Participant to the Company of an amount not in excess of the par value of such Shares. If any such shares are subsequently forfeited by the Participant, the Company shall pay an equivalent amount to the Participant as soon as practicable after the forfeiture.

(b) Restricted Period. Shares of Restricted Stock granted to a Participant may not be sold, assigned, transferred, pledged or otherwise encumbered during a "Restricted Period" commencing on the date of the grant and ending on such date as the Committee may designate, subject to the following:

(1) The Committee may, at any time and in its sole discretion, reduce or terminate the Restricted Period with respect to any outstanding Shares of Restricted Stock, any accrued dividends in accordance with paragraph (g) below, and any corresponding Cash Award pursuant to Section 15.3.

(2) The Restricted Period applicable to any Participant's Shares of Restricted Stock shall end as of the date on which the Participant's employment with the Company and its Affiliates is terminated by reason of the Participant's death, physical or mental disability (as determined by the Committee), or for such other reasons as the Committee may provide.

(3) The Committee may, at any time, and in its sole discretion, allow a Participant to use his Restricted Stock during the Restricted Period as payment of the Option price (in accordance with Section 12.1) for Options which he has been granted. In such an event, a number of the Shares issued upon the exercise of the Option, equal to the number of Shares of Restricted Stock used as payment therefore, shall be subject to the same restrictions as the Restricted Stock so used, plus any additional restrictions that may be imposed by the Committee. Such terms and conditions relating to such use of Restricted Stock shall be provided under the Agreements described in paragraph (f) of this Section.

(c) Transfer of Restricted Stock. At the end of the Restricted Period applicable to any Restricted Stock, such Shares, any accrued dividends and any corresponding Cash Award, will be transferred free of all restrictions to the Participant (or, to the Participant's legal representative, beneficiary or heir).

(d) Forfeitures. Subject to paragraph 15.2(b), a Participant whose employment with the Company and its Affiliates is terminated prior to the last day of the applicable Restricted Period shall forfeit all shares of Restricted Stock, and any accrued dividends, and any corresponding Cash Award.

(e) Certificate Deposited With Company. Each certificate issued in respect of Shares of Restricted Stock granted to a Participant under the Plan shall be registered in the name of the Participant and deposited, together with a stock power endorsed in blank, with the Company. At the discretion of the Committee, any such certificates may be deposited in a bank designated by the Committee. Each such certificate shall bear the following (or a similar) legend:

“The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeitures) contained in The Quaker Long Term Incentive Plan of 1990 and an Agreement entered into between the registered owner and The Quaker Oats Company. A copy of the Plan and Agreement is on file in the office of the Secretary of The Quaker Oats Company, 321 North Clark Street, Chicago, Illinois 60610.”

(f) Restricted Stock Agreement. The Participant shall enter into an Agreement with the Company in a form specified by the Committee and containing such additional terms and conditions, if any, as the Committee in its sole discretion shall determine, which are not inconsistent with the provisions of the Plan.

(g) Dividends. Regular cash dividends payable with respect to shares of Restricted Stock shall, in accordance with the terms of the applicable Agreement, be paid to the Participant currently or accrued. If dividends are accrued, interest may be payable on such dividends at such rate, if any, as is established from time to time by the Committee.

(h) Substitution of Rights. Prior to the end of the Restricted Period with respect to any Shares of Restricted Stock awarded to a Participant, the Committee may, with the consent of the Participant, substitute an unsecured obligation of the Company to pay cash or stock (on such reasonable terms and conditions as the Committee may, in its sole discretion, determine) in lieu of its obligations under this ARTICLE XV to deliver unrestricted Shares plus accrued dividends.

(i) Stockholder Rights. Subject to the foregoing restrictions, each Participant shall have all the rights of a stockholder with respect to Shares of Restricted Stock including, but not limited to, the right to vote such Shares.

15.3 Cash Awards and Restricted Stock. The Committee, at the time it grants Restricted Stock to a Participant or at any time thereafter may grant a corresponding Cash Award which will entitle the Participant to receive cash as of the date as of which the Restricted Stock is transferred to him pursuant to paragraph 15.2(c), in an amount which is not in excess of 200 percent of the Fair Market Value of the Restricted Stock as of that

date. Any such Cash Award shall be in addition to the Participant's rights to the Shares of Restricted Stock and shall be subject to such additional terms and conditions, if any, as the Committee determines which are not inconsistent with the terms and conditions of the Plan. The Committee may, at any time, grant unrestricted Shares (in lieu of such a Cash Award and subject to the limitations thereof) to any participant under the Plan subject to such terms and conditions as the Committee may determine.

ARTICLE XVI
PERFORMANCE SHARES

16.1 Description. Performance Shares are the right of an individual to whom a grant of such Shares is made to receive Shares or cash equal to the Fair Market Value of such Shares at a future date in accordance with the terms of such grant. Generally, such right shall be based upon the attainment of profit and/or performance objectives.

16.2 Grant. The Committee may grant an award of Performance Shares. The number of Performance Shares and the terms and conditions of the grant shall be set forth in the applicable Agreement.

ARTICLE XVII
PERFORMANCE UNITS

17.1 Description. Performance Units are the right of an individual to whom a grant of such Units is made to receive cash at a future date in accordance with the terms of such grant. Generally, such right shall be based upon the attainment of profit and/or performance objectives.

17.2 Grant. The Committee may grant an award of Performance Units. The number of Performance Units and the terms and conditions of the grant shall be set forth in the applicable Agreement.

ARTICLE XVIII
OTHER STOCK BASED AWARDS AND OTHER BENEFITS

18.1 Other Stock Based Awards. The Committee shall have the right to grant Other Stock Based Awards which may include, without limitation, the grant of Shares based on certain conditions, the payment of cash based on the performance of the Common Stock, and the grant of securities convertible into Shares.

18.2 Other Benefits. The Committee shall have the right to provide types of Benefits under the Plan in addition to those specifically listed, if the Committee believes that such Benefits would further the purposes for which the Plan was established.

ARTICLE XIX
MISCELLANEOUS PROVISIONS

19.1 Underscored References. The underscored references contained in the Plan are included only for convenience, and they shall not be construed as a part of the Plan or in any respect affecting or modifying its provisions.

19.2 Number and Gender. The masculine and neuter, wherever used in the Plan, shall refer to either the masculine, neuter or feminine; and, unless the context otherwise requires, the singular shall include the plural and the plural the singular.

19.3 Governing Law. This Plan shall be construed and administered in accordance with the laws of the State of Illinois.

19.4 Purchase for Investment. The Committee may require each person purchasing Shares pursuant to an Option or other award under the Plan to represent to and agree with the Company in writing that such person is acquiring the Shares for investment and without a view to distribution or resale. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under all applicable laws, rules and regulations, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

19.5 No Employment Contract. The adoption of the Plan or the granting of a Benefit shall not confer upon any Employee any right to continued employment nor shall it interfere in any way with the right of the Employer to terminate the employment of any of its Employees at any time.

19.6 No Effect on Other Benefits. The receipt of Benefits under the Plan shall have no effect on any benefits to which a Participant may be entitled from the Employer, under another plan or otherwise, or preclude a Participant from receiving any such benefits.

IN WITNESS WHEREOF, this Program is executed by a duly authorized officer of the Company.

THE QUAKER OATS COMPANY

October 14, 1996

By: /s/ Doug Ralston

Its _____
Senior Vice President

**FIRST AMENDMENT
TO THE
QUAKER LONG TERM INCENTIVE PLAN OF 1999**

WHEREAS, The Quaker Long Term Incentive Plan of 1999 (the "Plan"), was established by The Quaker Oats Company (the "Company") for the benefit of its eligible employees; and

WHEREAS, amendment of the Plan is desirable to eliminate the cancellation and payment of cash in connection with any change in control transaction which would preclude pooling of interests accounting, if such treatment would otherwise apply to the transaction, but otherwise retain the full effect and benefit of the plan provisions, including the elimination of further service requirements as a condition of the options or restricted stock;

NOW, THEREFORE, pursuant to the authority delegated to the undersigned by resolution of the Board of Directors of the Company, the Plan is hereby amended as of the 21st day of November, 2000, by adding a new paragraph 9.1(f) immediately following paragraph 9.1(e) as follows:

(f) Pooling of Interests. Notwithstanding any other provision of the Plan, Options outstanding on the date of a Change in Control which is intended to qualify as a pooling of interests transaction which would otherwise be cancelled and cashed out in accordance with paragraph (a) above, after application of the limitations set forth in paragraph (e) above, shall not be subject to any additional service requirement as a condition of exercise but otherwise shall not be subject to the provisions of such paragraph (a), and the Restricted Period with respect to Restricted Stock, which would otherwise be cancelled and cashed out in accordance with paragraph (b) above, after application of the limitations of paragraph (e) above, shall lapse on the date of any such Change in Control but such Restricted Stock shall not otherwise be subject to the provisions of such paragraph (b).

IN WITNESS WHEREOF, this Amendment is executed below by a duly authorized officer of the Company.

The Quaker Oats Company

By: /s/ ROBERT S. MORRISON

Its: Chairman of the Board, President
and Chief Executive Officer

THE QUAKER LONG TERM INCENTIVE PLAN OF 1999

ARTICLE I NAME AND PURPOSE

1.1 Name. The Quaker Long Term Incentive Plan of 1999 (the “Plan”) is established by The Quaker Oats Company (the “Company”).

1.2 Purpose. The Company has established the Plan to promote the interests of the Company and its shareholders by providing designated employees of the Company and its related affiliates with additional incentive and the opportunity, through stock ownership, to increase their proprietary interest in the Company and their personal interest in its continued success and progress.

ARTICLE II DEFINITIONS

2.1 General Definitions. The following words and phrases, when used herein, unless otherwise specifically defined or unless the context clearly indicates otherwise, shall have the following meanings:

- (a) Affiliate. Any trade or business entity, or a predecessor of such entity, if any, which is a member of a controlled group of business entities of which the Company is also a member.
- (b) Agreement. The document which evidences the grant of any Benefit under the Plan and which sets forth the Benefit and the terms, conditions and provisions of, and restrictions relating to, such Benefit.
- (c) Benefit. Any benefit granted to a Participant under the Plan.
- (d) Board. The Board of Directors of the Company.
- (e) Change in Control. Occurrence upon events describe in Section 9.2.
- (f) Code. The Internal Revenue Code of 1986, as amended, and including the regulations promulgated pursuant thereto.
- (g) Committee. The Committee described in Section 5.1.
- (h) Common Stock. The Company’s \$5.00 par value common stock.
- (i) Company. The Quaker Oats Company.

- (j) Effective Date. The date that the Plan is approved by the shareholders of the Company, which must occur within one year before or after original adoption by the Board. Any grants of Benefits prior to the approval by the shareholders of the Company shall be void if such approval is not obtained.
- (k) Employee. Any person employed by the Employer.
- (l) Employer. The Company and all Affiliates.
- (m) Exchange Act. The Securities Exchange Act of 1934, as amended.
- (n) Fair Market Value. The average of the high and low sales price of shares on the New York Stock Exchange (composite transactions) on a given date, or, in the absence of sales on a given date, the closing price (as so reported) on the New York Stock Exchange on the last previous day on which a sale occurred prior to such date.
- (o) ISO. An Option that meets the requirements of Section 422 of the Code.
- (p) NSO. An Option that does not qualify as an ISO.
- (q) Option. An option to purchase Shares granted under ARTICLE XIII of the Plan.
- (r) Other Stock Based Award. An award under ARTICLE XVI that is valued in whole or in part by reference to, or is otherwise based on, Common Stock.
- (s) Participant. An individual who is granted a Benefit under the Plan. Benefits may be granted only to Employees.
- (t) Performance Goals. The goals described under Article XVII of the Plan that may be applied by the Committee with respect to Performance Shares and Other Stock Based Awards.
- (u) Performance Share. A Share awarded to a Participant under ARTICLE XV of the Plan.
- (v) Plan. The Quaker Long Term Incentive Plan of 1999 and all amendments and supplements thereto.
- (w) 1990 Plan. The Quaker Long Term Incentive Plan of 1990 and all amendments and supplements thereto.
- (x) Restricted Stock. Shares issued under ARTICLE XIV of the Plan.

- (y) Rule 16b-3. Rule 16b-3 promulgated by the SEC, as amended, or any successor rule in effect from time to time.
- (z) SEC. The Securities and Exchange Commission.
- (aa) Share. A share of Common Stock.

2.2 Other Definitions. In addition to the above definitions, certain words and phrases used in the Plan and any Agreement may be defined elsewhere in the Plan or in such Agreement.

ARTICLE III COMMON STOCK

3.1 Number of Shares. The maximum number of Shares that may be delivered to Participants under the Plan shall be equal to the sum of: (a) 8,000,000 Shares; (b) any Shares available for future awards under the 1990 Plan as of the Effective Date; and (c) any Shares represented by awards granted under the 1990 Plan, which are forfeited, expire, or are canceled without delivery of the Shares after the Effective Date or which result in the forfeiture of Shares back to the Company, subject to the provisions of Sections 3.2 and 3.3. Such Shares may be authorized but unissued Shares, Shares held in the treasury, or both.

3.2 Reusage. If an Option expires or is terminated, surrendered, or canceled without having been fully exercised; if Restricted Stock or Performance Shares are forfeited; or if any other grant results in any Shares not being issued, the Shares covered by such Option, grant of Restricted Stock, Performance Shares or other grant, as the case may be, shall again be available for use under the Plan. If an Option is exercised by tendering Shares to the Company as full or partial payment in connection with the exercise of an Option, only the number of Shares issued net of the Shares tendered shall be deemed delivered for purposes of determining the maximum number of Shares available for delivery under the Plan.

3.3 Adjustments. If there is any change in the Common Stock by reason of any stock dividend, spin-off, split-up, spin-out, recapitalization, merger, consolidation, reorganization, combination or exchange of Shares, the limitations on the number of Shares specified under Section 3.4, the number of Shares then available under Section 3.1 of the Plan for Options and grants of Restricted Stock, Performance Shares and Other Stock Based Awards, the number of Shares subject to outstanding Options, Restricted Stock, Performance Shares and Other Stock Based Awards, and the price thereof, as applicable, shall be appropriately adjusted by the Committee. Shares issued under the Plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards as a condition of the Company acquiring another entity shall not reduce the maximum number of Shares available for delivery under the Plan.

3.4 Limitations.

(a) Options. The total number of Options (ISOs and NSOs combined) which may be granted to a single Participant shall not exceed 1,000,000 during any calendar year, subject to the adjustments provided under Section 3.3.

(b) ISOs. The total number of Shares for which ISOs may be granted on or after the Effective Date shall not exceed 8,000,000 Shares, subject to the limitations, reuse and adjustments provided in ARTICLE III of the Plan.

(c) Restricted Stock, Performance Shares and Other Stock Based Awards. The total number of Shares which may be granted as Restricted Stock, Performance Shares and Other Stock Based Awards shall not exceed 3,000,000 during the term of the Plan, subject to the adjustments provided in Section 3.3. The total number of Shares which may be granted as Performance Shares to a single Participant shall not exceed 350,000 during any calendar year, subject to the adjustments under Section 3.3. The total number of Shares which may be granted as Other Stock Based Awards to a single Participant shall not exceed 350,000 during any calendar year, subject to the adjustments under Section 3.3.

ARTICLE IV
ELIGIBILITY

The Participants and the Benefits they receive under the Plan shall be determined solely by the Committee. In making its determinations, the Committee shall consider past, present and expected future contributions of Employees and Participants to the Employer.

ARTICLE V
ADMINISTRATION

5.1 Committee. The Plan shall be administered by the Committee (also known as the Compensation Committee of the Board). The Committee shall consist of no less than three members of the Board, all of whom shall not be (nor formerly have been) employees of the Company and who shall not be eligible to participate in the Plan. The members of the Committee shall be appointed by and shall serve at the pleasure of the Board, which may from time to time appoint members in substitution for members previously appointed and fill vacancies, however caused, in the Committee.

5.2 Authority. Subject to the terms of the Plan, the Committee shall have complete authority to:

(a) determine the Employees to whom Benefits are granted, the type and amounts of Benefits to be granted and the time of all such grants;

(b) determine the terms, conditions and provisions of, and restrictions relating to, each Benefit granted;

- (c) interpret and construe the Plan and all Agreements;
- (d) prescribe, amend and rescind rules and regulations relating to the Plan;
- (e) determine the content and form of all Agreements;
- (f) determine all questions relating to Benefits under the Plan;
- (g) maintain accounts, records and ledgers relating to Benefits;
- (h) maintain records concerning its decisions and proceedings;
- (i) employ agents, attorneys, accountants or other persons for such purposes as the Committee considers necessary or desirable;
- (j) take, at anytime, any action permitted by Section 9.1 irrespective of whether any Change in Control has occurred or is imminent; and
- (k) do and perform all acts which it may deem necessary or appropriate for the administration of the Plan and carry out the purposes of the Plan.

5.3 Determinations. All determinations of the Committee shall be final.

5.4 Delegation. Except as required by Rule 16b-3 with respect to Benefits to individuals who are subject to Section 16 of the Exchange Act or as otherwise required for compliance with Rule 16b-3 or other applicable law, the Committee may delegate all or any part of its authority under the Plan to any Employee, Employees or committee.

ARTICLE VI AMENDMENT

6.1 Power of Board. Except as hereinafter provided, the Board shall have the sole right and power to amend the Plan at any time and from time to time.

6.2 Limitation. The Board may not amend the Plan without approval of the shareholders of the Company:

- (a) in a manner which would increase the number of Shares which may be issued or sold or for which Options, Performance Shares, or Other Stock Based awards may be granted under the plan; or
- (b) in a manner which would violate applicable law.

ARTICLE VII
TERM AND TERMINATION

7.1 Term. The Plan shall commence as of the Effective Date and, subject to the terms of the Plan, including those requiring approval by the shareholders of the Company and those limiting the period over ISOs or any other Benefits may be granted, shall continue in full force and effect until December 31, 2007.

7.2 Termination. The Plan may be terminated at any time by the Board.

ARTICLE VIII
MODIFICATION OR TERMINATION OF BENEFITS

8.1 General. Subject to the provisions of Section 8.2, the amendment or termination of the Plan shall not adversely affect a Participant's right to any Benefit granted prior to such amendment or termination.

8.2 Committee's Right. Except as hereinafter provided, any Benefit granted may be converted, modified, forfeited or canceled, in whole or in part, by the Committee if and to the extent permitted in the Plan or applicable Agreement or with the consent of the Participant to whom such Benefit was granted. The Committee may not cancel or permit the surrender of Options and reissue new Options, or reprice Options, at a lower purchase price.

ARTICLE IX
CHANGE IN CONTROL

9.1 Benefit Cancellation and Payment.

(a) Options. Upon the occurrence of a Change in Control, Options outstanding on the date on which the Change in Control occurs shall be canceled, and an immediate lump sum cash payment shall be paid to the Participant equal to the product of (1) the higher of (i) the closing price of the Common Stock as reported on the New York Stock Exchange Composite Index on or nearest the date of payment (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in the Common Stock is highest), or (ii) the highest per Share price for the Common Stock actually paid in connection with the Change in Control, over the per Share Option price of each such Option held (whether or not then fully exercisable), and (2) the number of Shares covered by each such Option.

(b) Restricted Stock. Upon the occurrence of a Change in Control, Restricted Stock outstanding on the date on which the Change in Control occurs shall be canceled and an immediate lump sum cash payment shall be paid to the Participant equal to the product of (1) the higher (i) the closing price of Common Stock as reported on the New York Stock Exchange Composite Index on or nearest the date of payment (or, if not listed

on such exchange, on a nationally recognized exchange or quotation system on which trading volume in the Common Stock is highest) or (ii) the highest per share price for Common Stock actually paid in connection with the Change in Control and (2) the number of Shares of such Restricted Stock; plus the value of any related Cash Award relating to such Restricted Stock.

(c) Performance Shares. Upon the occurrence of a Change in Control, any Performance Shares previously granted, but still considered outstanding (as a right to received Shares or cash equal to the Fair Market Value of such Shares at a future date), shall be canceled and any profit and/or performance objectives with respect to such Performance Shares shall be deemed to have been attained to the full and maximum extent; and an immediate lump sum cash payment shall be paid to the Participant in an amount determined in accordance with the terms and conditions set forth in the applicable Agreement.

(d) Other Stock Based Awards. Upon the occurrence of a Change in Control, Other Stock Based Awards previously granted under the Plan, but still considered outstanding, shall be canceled and an immediate lump sum cash payment shall be paid to the Participant in an amount determined in accordance with the terms and conditions set forth in the applicable Agreement.

(e) Tax Penalties. If the making of payments pursuant to the foregoing paragraphs of this Section 9.1 would subject the Participant to an excise tax under Section 4999 of the Code, or would result in the Company's loss of a federal income tax deduction for those payments (either of these consequences is referred to individually herein as a "Tax Penalty"), then the Company shall reduce the amount of Benefits to be canceled to the extent necessary to avoid the imposition of such Tax Penalty, and shall establish procedures necessary to maintain for the Participants any form of benefit which may be provided under the Plan so that such Participant will be in the same financial position with respect to those Benefits not canceled as he would have been in the ordinary course, absent a Change in Control and assuming his continued employment; except that the foregoing provisions of this paragraph (e), with respect to the cancellation of Benefits, shall not apply if such Participant (i) is entitled to a tax reimbursement for such Tax Penalty under any other agreement, plan or program of the Company, or (ii) may disclaim any portion of or all payments to be made pursuant to or under any other agreement, plan or program of the Company in order to avoid such Tax Penalty. Disagreements as to whether payments pursuant to the foregoing would result in the imposition of a Tax Penalty shall be resolved by an opinion of counsel chosen by the Participant and reasonably satisfactory to the Company.

9.2 Change in Control. A Change in Control shall be deemed to have occurred if:

(a) any "Person," which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or

other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company’s then outstanding voting securities; provided, however, that in determining whether any Person owns 25% or more of such voting power, shares owned by such Person which were acquired by that Person directly from the Company shall be treated as not owned by such Person;

(b) during any period of 24 consecutive months (not including any period prior to May 13, 1998), individuals, who at the beginning of such period constitute the Board, and any new director (other than a director designated by a Person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) (2) or (d) of this Section) whose election by the Board, or whose nomination for election by the Company’s shareholders, was approved by a vote of at least two-thirds (2/3) of the directors before the beginning of the period cease for any reason to constitute at least a majority thereof;

(c) the shareholders of the Company approve (1) a plan of complete liquidation of the Company or (2) the sale or disposition by the Company of all or substantially all of the Company’s assets unless the acquirer of the assets or its directors shall meet the conditions for a merger or consolidation in subparagraphs (d) (1) or (d) (2); or

(d) the shareholders of the Company approve a merger or consolidation of the Company with any other company other than:

(1) such a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 70% of the combined voting power of the Company’s or such surviving entity’s outstanding voting securities immediately after such merger or consolidation; or

(2) such a merger or consolidation which would result in the directors of the Company who were directors immediately prior thereto continuing to constitute at least 50% of the directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (d), “surviving entity” shall mean only an entity in which all of the Company’s stockholders immediately before such merger or consolidation become shareholders by the terms of such merger or consolidation, and the phrase “directors of the Company who were directors immediately prior thereto” shall include only individuals who were directors of the Company at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation, or who were new directors (other than any director designated by a Person who

has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c)(2), (d)(1) or (d)(2) of this Section) whose election by the Board, or whose nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds (2/3) of the directors before the beginning of such period.

ARTICLE X
AGREEMENTS AND CERTAIN BENEFITS

10.1 Grant Evidenced by Agreement. The grant of any Benefit under the Plan may be evidenced by an Agreement which shall describe the specific Benefit granted and the terms and conditions of the Benefit. The granting of any Benefit may be subject to, and conditioned upon, the recipient's execution of any Agreement required by the Committee. Except as otherwise provided in an Agreement, all capitalized terms used in the Agreement shall have the same meaning as in the Plan, and the Agreement shall be subject to all of the terms of the Plan.

10.2 Provisions of Agreement. Each Agreement shall contain such provisions that the Committee shall determine to be necessary, desirable and appropriate for the Benefit granted. Each Agreement may include, but shall not be limited to, the following with respect to any Benefit: description of the type of Benefit; the Benefit's duration; its transferability; if an Option, the exercise price, the exercise period and the person or persons who may exercise the Option; the effect upon such Benefit of the Participant's death or termination of employment; the Benefit's conditions; when, if and how any Benefit may be forfeited, converted into another Benefit, modified, exchanged for another Benefit, or replaced; and the restrictions on any Shares purchased or granted under the Plan.

ARTICLE XI
REPLACEMENT AND TANDEM AWARDS

11.1 Replacement. Subject to Section 8.2, the Committee may permit a Participant to elect to surrender a Benefit in exchange for a new Benefit.

11.2 Tandem Awards. Benefits may be granted by the Committee in tandem. However, no Benefit may be granted in tandem with an ISO.

ARTICLE XII
PAYMENT, DIVIDENDS, DEFERRAL AND WITHHOLDING

12.1 Payment. Upon the exercise of an Option or in the case of any other Benefit that requires a payment to the Company, the amount due the Company is to be paid:

- (a) in cash;

(b) by the tender to the Company of Shares owned by the Participant and registered his name having a Fair Market Value equal to the amount due to the Company;

(c) in other property, rights and credits, including the Participant's promissory note; or

(d) by any combination of the payment methods specified in (a), (b) and (c) above.

Notwithstanding the foregoing, any method of payment other than (a) may be used only with the consent of the Committee, or if and to the extent so provided in the applicable Agreement.

12.2 Dividend Equivalents. Grants of Benefits in Shares or Share equivalents may include dividend equivalent payments or dividend credit rights.

12.3 Deferral. The right to receive any Benefit under the Plan may, at the request of the Participant, be deferred for such period and upon such terms as the Committee shall determine, which may include crediting of interest on deferrals of cash and crediting of dividends on deferrals denominated in Shares.

12.4 Withholding. The Company, at the time any distribution is made under the Plan, whether in cash or in Shares, may withhold from such distribution any amount necessary to satisfy federal, state and local tax withholding requirements with respect to such distribution. Such withholding may be in cash or in Shares.

ARTICLE XIII OPTIONS

13.1 Types of Options. It is intended that both ISOs and NSOs may be granted by the Committee under the Plan.

13.2 Grant of Options and Option Price. Each Option may not have a term that exceeds 10 years from the date of grant, must be granted to an Employee and must be granted no later than December 31, 2007. The purchase price for Shares under any Option shall be no less than the Fair Market Value of the Shares at the time the Option is granted.

13.3 Early Termination of Option.

(a) Termination of Employment. All rights to exercise an Option terminate when the Participant's employment terminates for any reason other than his death or retirement. Transfer from the Company to an Affiliate, or vice versa, or from one Affiliate to another, shall not be deemed termination of employment. The Committee shall have the authority to determine in each case whether an authorized leave of absence or absence on military or government service shall be deemed a termination of employment for purpose of this paragraph (a).

(b) Death or Retirement. If a Participant dies while an Employee or his employment is terminated because of retirement, his Option shall terminate within a period not exceeding five years following his death or retirement, but not later than the date the Option expires pursuant to its terms. The terms of Options outstanding, except for those Options intended to qualify as an ISO, may also be amended at anytime by the Committee or the Board to extend the Option's duration period following a Participant's death or retirement, subject to the limitations stated in the preceding sentence. In the meantime, subject to the limitations in the applicable Agreement, it may be exercised by the Participant, the executors or administrators of his estate, or by his legatee or heirs. "Retirement" shall mean termination of employment at age 55 for older for reasons other than death.

13.4 Other Requirements. The terms of each Option which is intended to qualify as an ISO shall meet all requirements of Section 422 of the Code. The terms of each NSO shall provide that such Option will not be treated as an ISO.

13.5 Determination by Committee. Except as otherwise provided in Section 13.2 through Section 13.4, the terms of all Options shall be determined by the Committee.

ARTICLE XIV RESTRICTED STOCK

14.1 Description. The Committee may grant Benefits in Shares available under ARTICLE III of the Plan as Restricted Stock. Shares of Restricted Stock shall be issued at the time of the grant but shall be subject to forfeiture until provided otherwise in the applicable Agreement or the Plan.

14.2 Terms and Conditions of Restricted Stock Awards. All Shares of Restricted Stock shall be subject to the following terms and conditions, and to such other terms and conditions as may be provided under the Agreements described in paragraph (f) next below:

(a) Payment of Par Value. The Committee, in its discretion, may condition any grant of Shares of Restricted Stock on payment by the Participant to the Company of an amount not in excess of the par value of such Shares. If any such shares are subsequently forfeited by the Participant, the Company shall pay an equivalent amount to the Participant as soon as practicable after the forfeiture.

(b) Restricted Period. Shares of Restricted Stock granted to a Participant may not be sold, assigned, transferred, pledged or otherwise encumbered during a "Restricted Period" commencing on the date of the grant and ending on such date as the Committee may designate, subject to the following:

(1) The Committee may, at any time and in its sole discretion, reduce or terminate the Restricted Period with respect to any outstanding Shares of

Restricted Stock and any accrued dividends in accordance with paragraph (g) below.

(2) The Restricted Period applicable to any Participant's Shares of Restricted Stock shall end as of the date on which the Participant's employment with the Company and its Affiliates is terminated by reason of the Participant's death, physical or mental disability (as determined by the Committee), or for such other reasons as the Committee may provide.

(3) The Committee may, at any time, and in its sole discretion, allow a Participant to use his Restricted Stock during the Restricted Period as payment of the Option purchase price (in accordance with Section 12.1) for Options which he has been granted. In such an event, a number of the Shares issued upon the exercise of the Option, equal to the number of Shares of Restricted Stock used as payment therefore, shall be subject to the same restrictions as the Restricted Stock so used, plus any additional restrictions that may be imposed by the Committee. Such terms and conditions relating to such use of Restricted Stock shall be provided under the Agreements described in paragraph (f) of this Section.

(c) Transfer of Restricted Stock. At the end of the Restricted Period applicable to any Restricted Stock, such Shares, and any accrued dividends will be transferred free of all restrictions to the Participant (or, to the Participant's legal representative, beneficiary or heir).

(d) Forfeitures. Subject to paragraph (b) of this Section 14.2, a Participant whose employment with the Company and its Affiliates is terminated prior to the last day of the applicable Restricted Period shall forfeit all shares of Restricted Stock and any accrued dividends.

(e) Certificate Deposited With Company. Each certificate issued in respect of Shares of Restricted Stock granted to a Participant under the Plan shall be registered in the name of the Participant and deposited, together with a stock power endorsed in blank, with the Company. At the discretion of the Committee, any such certificates may be deposited in a bank designated by the Committee. Each such certificate shall bear the following (or a similar) legend:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeitures) contained in The Quaker Long Term Incentive Plan of 1999 and an Agreement entered into between the registered owner and The Quaker Oats Company. A copy of the Plan and Agreement is on file in the office of the Secretary of The Quaker Oats Company, 321 North Clark Street, Chicago, Illinois 60610."

(f) Restricted Stock Agreement. The Participant shall enter into an Agreement with the Company in a form specified by the Committee and containing such additional terms and conditions, if any, as the Committee in its sole discretion shall determine, which are not inconsistent with the provisions of the Plan.

(g) Dividends. Regular cash dividends payable with respect to shares of Restricted Stock shall, in accordance with the terms of the applicable Agreement, be paid to the Participant currently or accrued. If dividends are accrued, interest may be payable on such dividends at such rate, if any, as is established from time to time by the Committee.

(h) Substitution of Rights. Prior to the end of the Restricted Period with respect to any Shares of Restricted Stock awarded to a Participant, the Committee may, with the consent of the Participant, substitute an unsecured obligation of the Company to pay cash or stock (on such reasonable terms and conditions as the Committee may, in its sole discretion, determine) in lieu of its obligations under this ARTICLE XIV to deliver unrestricted Shares plus accrued dividends.

(i) Shareholder Rights. Subject to the foregoing restrictions, each Participant shall have all the rights of a shareholder with respect to Shares of Restricted Stock including, but not limited to, the right to vote such Shares.

ARTICLE XV PERFORMANCE SHARES

15.1 Description. Performance Shares are the right of an individual to whom a grant of such Shares is made to receive Shares or cash equal to the Fair Market Value of such Shares at a future date in accordance with the terms of such grant.

15.2 Grant. The Committee may grant an award of Performance Shares. The number of Performance Shares and the terms and conditions of the grant shall be set forth in the applicable Agreement, which may include Performance Goals as described in Article XVII.

ARTICLE XVI OTHER STOCK BASED AWARDS

16.1 Description. The Committee shall have the right to provide any other form of stock based awards under the Plan, if the Committee believes that such Other Stock Based Award would further the purposes for which the Plan was established.

16.2 Grant. The Committee may grant an award of Other Stock Based Awards which may include, without limitation, the grant of Shares based on certain conditions, or the grant of securities convertible into Shares. The number of Other Stock Based Awards and the terms and

conditions of the grant shall be set forth in the applicable Agreement, which may include Performance Goals as described in Article XVII.

ARTICLE XVII
PERFORMANCE GOALS

Performance Shares and Other Stock Based Awards may be governed by the achievement of Performance Goals as the Committee shall determine. Performance Goals that may be used by the Committee for such grants shall consist of: operating profits (which may include a determination based upon earnings before income taxes, depreciation and amortization), net profits, earnings per share, profit returns and margins, revenues, controllable earnings, shareholder return and/or value, stock price and working capital. Performance Goals may be measured solely on a corporate, subsidiary or business unit basis, or a combination thereof and may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure of the selected performance criteria. Profits, earnings and revenues used for any Performance Goal measurement may exclude: gains or losses on operating asset sales or dispositions; asset write-downs; litigation or claim judgments or settlements; accruals for historic environmental obligations; effect of changes in tax law or rate on deferred tax liabilities; accruals for reorganization and restructuring programs; uninsured catastrophic property losses; the cumulative effect of changes in accounting principles; and any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial performance appearing in the Company's annual report to shareholders for the applicable year.

ARTICLE XVIII
MISCELLANEOUS PROVISIONS

17.1 Underscored References. The underscored references contained in the Plan are included only for convenience, and they shall not be construed as a part of the Plan or in any respect affecting or modifying its provisions.

17.2 Number and Gender. The masculine and neuter, wherever used in the Plan, shall refer to either the masculine, neuter or feminine; and, unless the context otherwise requires, the singular shall include the plural and the plural the singular.

17.3 Governing Law. This Plan shall be construed and administered in accordance with the laws of the State of Illinois.

17.4 Purchase for Investment. The Committee may require each person purchasing Shares pursuant to an Option or other award under the Plan to represent to and agree with the Company in writing that such person is acquiring the Shares for investment and without a view to distribution or resale. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as

the Committee may deem advisable under all applicable laws, rules and regulations, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

17.5 No Employment Contract. The adoption of the Plan or the granting of a Benefit shall not confer upon any Employee any right to continued employment nor shall it interfere in any way with the right of the Employer to terminate the employment of any of its Employees at any time.

17.6 No Effect on Other Benefits. The receipt of Benefits under the Plan shall have no effect on any benefits to which a Participant may be entitled from the Employer, under another plan or otherwise, or preclude a Participant from receiving any such benefits.

IN WITNESS WHEREOF, this Plan is executed by a duly authorized officer of the Company.

THE QUAKER OATS COMPANY

Dated: April 19, 1999

By: /s/ Pamela S. Hewitt
Its Senior Vice President

PEPSICO, INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges ^(a)
Years Ended December 28, 2002, December 29, 2001, December 30, 2000,
December 25, 1999 and December 26, 1998
(in millions except ratio amounts)

	2002	2001	2000	1999	1998
Earnings:					
Income before income taxes	\$4,868	\$4,029	\$3,761	\$4,275	\$2,660
Unconsolidated affiliates interests, net	(235)	(106)	(90)	(69)	28
Amortization of capitalized interest	8	10	9	10	8
Interest expense	178	219	272	421	461
Interest portion of net rent expense ^(b)	64	55	57	46	60
Earnings available for fixed charges	\$4,883	\$4,207	\$4,009	\$4,683	\$3,217
Fixed Charges:					
Interest expense	\$178	\$219	\$272	\$421	\$461
Capitalized interest	3	3	7	10	12
Interest portion of net rent expense ^(b)	64	55	57	46	60
Total fixed charges	\$245	\$277	\$336	\$477	\$533
Ratio of Earnings to Fixed Charges ^(c)	19.92	15.21	11.91	9.82	6.03

As a result of the adoption of SFAS 142 and the consolidation of SVE in 2002, the bottling deconsolidation in 1999 and the Tropicana acquisition late in 1998 and items identified in (c) below, the ratios provided are not comparable.

(a) Based on unrounded amounts.

(b) One-third of net rent expense is the portion deemed representative of the interest factor.

(c) Includes the impact of merger-related costs of \$224 million in 2002 and \$356 million in 2001, other asset impairment and restructuring charges of \$31 million in 2001, \$184 million in 2000, \$73 million in 1999 and \$482 million in 1998 and the impact of the 1999 gain on the bottling transactions of \$1 billion. Excluding these items, the ratio of earnings to fixed charges would have been 20.84 in 2002, 16.60 in 2001, 12.46 in 2000, 7.87 in 1999 and 6.93 in 1998.



WORLDWIDE CODE OF CONDUCT

DEAR FELLOW EMPLOYEES

PepsiCo is a huge corporation. Our businesses reach into nearly every corner of the world. We operate in 200 countries, every time zone and we speak more than 30 different languages.

There's only one way to hold together a company so big and diverse – through shared values and common goals.

That's why our Code of Conduct is so vitally important. It provides us with a clear understanding of our core values; it's what we stand for, the rules we live by. The Code applies to every PepsiCo employee throughout the world. It applies to every business transaction we make and to any business acting on our behalf.

PepsiCo is a great corporation. Our Code of Conduct helps to keep it that way. So I ask that you please read it with care and that you make a commitment to live by it – every day.

Our future depends upon it.

Steven S Reinemund
Chairman and Chief Executive Officer

PEPSICO'S MISSION

Our mission is to be the world's premier consumer products company focused on convenience foods and beverages. We seek to produce healthy financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive to act with honesty, fairness and integrity."

RESPECT FOR OUR EMPLOYEES/DIVERSITY

PepsiCo follows all local employment laws and regulations and respects lawful customs of the countries where we operate.

We believe our most important strength is our employees. We seek to provide a work environment where all employees have the opportunity to reach their full potential and contribute to PepsiCo's success. We are committed to equal opportunity in all aspects of employment for all employees and applicants; to providing a workplace free from all forms of discrimination, including sexual and other forms of harassment, and to fostering a work environment where people feel comfortable and respected, regardless of individual differences, talents or personal characteristics. Our long-term objective is for the diversity of our employees to match the diversity of the population wherever we operate.

PepsiCo encourages an inclusive culture that welcomes and embraces the strengths of our differences, supports involvement, and provides everyone with equal access to opportunities and information. We believe in treating each other with respect and dignity, thereby fostering an atmosphere of caring, open communications and candor. We respect the rights of individuals to achieve professional and personal balance in their lives. We place a great deal of emphasis on personal integrity and believe long-term results are the best measure of performance.

CUSTOMERS, SUPPLIERS AND COMPETITORS

We are committed to the continuation of free enterprise. Therefore, we recognize the importance of laws which prohibit restraints of trade, predatory economic activities and unfair or unethical business practices. We will continue to comply with such laws wherever they exist.

In all of its business dealings with suppliers, customers and competitors, PepsiCo will:

- Compete vigorously and with integrity.
- Treat all customers and suppliers honestly, fairly and objectively.
- Avoid any unfair or deceptive practice and always present our services and products in an honest and forthright manner.
- Never criticize a competitor's product without a good basis for such statements.
- Make clear to all suppliers that we expect them to compete fairly and vigorously for our business, and we will select our suppliers strictly on merit.
- Comply with all laws prohibiting agreements with competitors to: fix prices or other sales terms; divide or assign sales territories, customers or product lines; or coordinate bids and agreements with customers to fix their resale prices. These types of agreements are generally illegal in the United States and many other markets where we conduct business.

GLOBAL RELATIONS

PepsiCo firmly believes that, by fostering economic growth, international commerce strengthens both understanding and peace. As an international corporation, PepsiCo recognizes its responsibility to the interests of the countries in which we do business. We obey all laws and regulations and respect the lawful customs of host countries. Our objective is to be nonpolitical and to continue to be a good corporate citizen wherever we operate.

BUSINESS GIFTS AND PAYMENTS

Our business decisions are made on merit. Therefore, we will never give or offer, directly or indirectly, anything of value to a government official to influence any discretionary decision by such official in his or her official capacity. Giving gifts or entertainment to governmental officials and employees is highly regulated and often prohibited. Such gifts and entertainment should not be provided unless you have determined that they are permitted by law and your business unit's policies.

In circumstances where it would not create an appearance of impropriety, employees may provide existing or potential customers with reasonable entertainment or gifts. However, the gifts must be permitted by local law, the customer's own policies and your business unit's policies.

Employees may not accept a gift, favor, loan, special service, payment or special treatment of any kind from any individual or organization which conducts or seeks to conduct business with the Company, or which competes with the Company, unless:

- It would be consistent with good business practices;
- It could not be considered a business inducement;
- It is of nominal value (as set forth in your Division's policy); and
- Public disclosure of the transaction would not embarrass PepsiCo.

All business-related gifts which exceed your Division's definition of nominal value should be reported to your immediate supervisor as soon as they are received.

SAFETY AND ENVIRONMENTAL PROTECTION

PepsiCo is committed to providing safe and healthy work environments and to being an environmentally responsible corporate citizen. It is our policy to comply with all applicable environmental, safety and health laws and regulations. It is the responsibility of each employee to comply with all company policies concerning violence in the workplace and substance abuse.

We are dedicated to designing, constructing, maintaining and operating facilities that protect our people and physical resources. This includes providing and requiring the use of adequate protective equipment and measures and insisting that all work be done safely.

We believe that protecting the environment is an important part of good corporate citizenship. We are committed to minimizing the impact of our businesses on the environment with methods that are socially responsible, scientifically based and economically sound. We encourage conservation, recycling and energy use programs that promote clean air and water and reduce landfill waste.

POLITICAL AND COMMUNITY ACTIVITIES AND CONTRIBUTIONS

PepsiCo believes in contributing to society and encourages employees to participate in community activities.

We will continue to communicate information and opinions on issues of public concern which may affect PepsiCo. Decisions by our employees whether or not to contribute time, money or resources of their own to any political or community activity are entirely personal and voluntary.

We will obey all laws in promoting the Company's position to government authorities and in making political contributions. Contributions by the Company to political candidates may be prohibited or regulated. Any such contribution requires the approval of PepsiCo's Vice President of Government Affairs.

CONFLICTS OF INTEREST

PepsiCo's conflicts of interest policy is straight-forward: Don't compete with PepsiCo businesses, and never let your business dealings on behalf of any of our businesses be influenced, or appear to be influenced, by personal or family interests.

Examples of conflicts that must be disclosed and resolved include:

- Having a family interest in a transaction with the Company. A family interest would include interests which your spouse, parent, child, sibling or domestic partner have.
- Having more than a nominal individual or family interest in a competitor, supplier or customer of the Company (for example, ownership of more than 1% of a supplier's equity securities).
- Having a significant individual or family interest in an organization that does, or seeks to do, business with the Company.
- Acquiring an individual or family interest in property (such as real estate, patent rights, securities or other properties) or a business where you believe the Company has, or might have, an interest.
- Having outside business interests or activities which affect job performance because of the significant amount of time and attention diverted from your responsibilities as a Company employee.

INSIDER TRADING AND PROPRIETARY INFORMATION

PepsiCo obeys all laws designed to protect the investing public with respect to the use and disclosure of material information.

Information is considered material if a reasonable investor would consider it important to his or her decision to buy, sell or hold PepsiCo stock. Examples would be a significant upward or downward revision of earnings forecasts, a significant division restructuring, a major management change or a significant acquisition or divestiture.

Employees should not effect any transaction in the securities of PepsiCo or another company involved with PepsiCo while they have material nonpublic information about that company.

Employees should not disclose any confidential information regarding the Company to anyone outside PepsiCo, including their spouse, parents, children, siblings or domestic partner, except where disclosure is needed to enable PepsiCo to carry on its business, and there is no reason to believe – because of an agreement or otherwise – that the disclosure might cause any economic loss or substantial embarrassment to the Company or its customers, bottlers, distributors or suppliers. Examples of such confidential information include: nonpublic information about the Company's customers, suppliers, distributors and potential acquisitions; its business operations and structure; its formulas and pricing; its processing, machines and inventions; its research and know-how; and its plans and strategies.

Within PepsiCo, employees should only discuss or disclose material nonpublic information in the ordinary course of business and when they have no reason to believe that the information will be misused or improperly disclosed by the recipient.

ACCOUNTS AND RECORD KEEPING

We will continue to observe the most stringent standards in the keeping of our financial records and accounts. Our books must reflect all components of transactions, as well as our own standard of insisting upon an honest and forthright presentation of the facts.

It is the responsibility of each employee to uphold these standards. Appropriate records must be kept of all transactions. Employees are expected to cooperate fully with our internal and external auditors. Information must not be falsified or concealed under any circumstance, and an employee whose activities cause false financial reporting will be subject to disciplinary action, including discharge.

OUTSIDE CONSULTANTS

Where the Company hires outside consultants or agents to assist it, the consultant or agent, and its employees, will be provided with copies of this Code and informed that they will be expected to comply with its provisions with respect to their work for the Company.

E-MAIL, INTERNET AND INTRANET

PepsiCo's E-Mail, Internet and Intranet systems are to be used primarily for Company business. In no event may the systems be used: for sending or receiving discriminatory or harassing messages, chain letters, material which is obscene or in bad taste; for commercial solicitations; or in a way that would otherwise violate this Code.

PepsiCo owns all E-Mail messages which are sent from or received through PepsiCo's systems. It may monitor your messages and may be required to disclose them in the case of litigation or any appropriate government inquiry.

DISCLOSURE

Every employee shall disclose promptly to his or her immediate supervisor any personal situation or transaction which is or may be in conflict with the intent or spirit of this Code, and shall cooperate fully with any inquiry into such matter. The supervisor shall determine what action should be taken and recommend that action in writing for approval by the next higher level of management. All employee disclosures and corrective actions shall be reported to PepsiCo's General Auditor. If disclosure of a matter to your supervisor seems inappropriate, you should promptly discuss the matter with your division's Chief Legal Officer.

APPLICATION & RESPONSIBILITIES

This Code of Conduct will be distributed annually to all PepsiCo employees throughout the World. Each employee of PepsiCo or its subsidiaries (sometimes referred to as the "Company") has responsibility for complying with this Code. Each employee's responsibilities under the Code extend to joint ventures which the Company controls. PepsiCo's General Auditor is responsible for verifying annually that each employee in a position to effect compliance with this Code has read and understands it. The PepsiCo Law Department and the General Auditor are responsible for responding to questions and issues of interpretation about this Code. Division managements are responsible for reviewing and resolving any issue reported in relation to this Code and reporting the issue, review and resolution to PepsiCo's General Auditor.

SUBSIDIARIES OF PEPSICO, INC. AS OF 12/28/2002

COMPANY NAME	JURISDICTION OF INCORPORATION
A. R. Scott Ltd.	United Kingdom
Ahmedabad Advertising and Marketing Consultants Ltd.	India
Ainwick Corporation	Oregon
Alegro International, S. de R.L. de C.V.	Mexico
Alimentos del Istmo S.A.	Panama
Alimentos Quaker Oats y Compania limitada	Guatemala
Alliance Cannery	Canada
Alpac Corporation	Washington
Anderson Hill Insurance Limited	Bermuda
Angkor Beverages Company Ltd.	Cambodia
Aradhana Beverages and Foods Co. Private Limited	India
Aradhana Beverages Manufacturing Co.	India
Aradhana Snack Food Company	India
B&H Project, Inc.	Florida
Bacchler - Consultadora E Servicos LDA.	Portugal
BAESA Capital Corporation	Cayman Islands
Beaman Bottling Company	Delaware
Bebidas Purificadas de Durango, S.A. de C.V.	Mexico
Bebidas Purificadas de Michoacan S.A. de C.V.	Mexico
Bebidas Purificadas de Occidente, S.A. de C.V.	Mexico
Bebidas Purificadas del Centro, S.A. de C.V.	Mexico
Bebidas Purificadas del Cupatitzio, S.A. de C.V.	Mexico
Bebidas Purificadas Del Norte, S.A. de C.V.	Mexico
Bebidas Purificadas del Sureste, Sa de CV	Mexico
Beijing Pepsi-Cola Beverage Company Ltd.	China
Bell Taco Funding Syndicate	Australia
Beverage Services Ltd.	Bermuda
Beverage Services, Inc.	Delaware
Beverages, Foods & Service Industries, Inc.	Delaware
Bienes Raices Metropolitanos, S.A. de C.V.	Mexico
Blanchard, S.A.	France
Bluejay Holdings LLC	Delaware
Bogota Foods, Limited	Cayman Islands
Boquitas Fiestas LLC	Delaware
Boquitas Fiestas S.R.L	Honduras
Border Properties, Inc.	New York
Bottling Investment Chile	Bahamas
Bottling Realco Nova Scotia ULC	Canada
Bramshaw Limited	Ireland
Breckinridge, Inc.	Delaware
Britvic Holdings Limited	United Kingdom
Britvic Soft Drinks Limited	United Kingdom
BUG de Mexico, S.A. de C.V.	Mexico
Bug Holdings S. de R.L. de C.V.	Mexico
Capital Services Associates N.V.	Netherlands Antilles
Catalana de Bebides Carbonicas, S.A.	Spain
Central de La Industria Escorpion, SA de CV	Mexico
Changchun Pepsi-Cola Beverage Company	China
Chipiga S. de R.L. de C.V.	Mexico
Chipima, Sociedade De Productos Alimentares, SA	Portugal
Chipsy for Food Industries SAE	Egypt
Chipsy International SAE	Egypt
Chitos International y Cia Ltd.	Guatemala
Chongqing Hua Mei Food & Beverage Company Limited	China
Chongqing Pepsi-Tianfu Beverage Co. Ltd.	China
Chongqing Tianfu Yulong Foodstuff and Beverage Company	China
CMC Investment Company	Bermuda
Columbia Foods Limited.	Cayman Islands
Comercializadora Nacional SAS, Ltda	Columbia
Comercializadora Snacks S.R.L.	Venezuela
Compania Embotelladora Nacional, S.A. de C.V.	Mexico
Concentrate Realco NSULC	Canada

Copella Fruit Juice, Ltd.	United Kingdom
Copper Beach LLC	Delaware
Corina Snacks	Cyprus
Corporativo Internacional Mexicano S. de R.L. de C.V.	Mexico
Crispflow Ltd.	United Kingdom
Cumo Peru S.R.L.	Peru
Davlyn Realty Corporation	Delaware
Desarrollo Inmobiliario Gamesa, S.A. de C.V.	Mexico
Dhillon Kool Drinks & Beverages Ltd.	India
Distribuidora Disa de Michoacan S.A. de C.V.	Mexico
Distribuidora Disa de Uruapan, S.A. de C.V.	Mexico
Distribuidora Disa del Centro, S.A. de C.V.	Mexico
Distribuidora Garci-Crespo Sa de CV	Mexico
Distribuidora Interestatal, S.A. de C.V.	Mexico
Distribuidora Savoy Guatemala S.A.	Guatemala
Dormant PC Ltd.	United Kingdom
Dormant PWT Ltd.	United Kingdom
D'ORO - Sociedade de Productos Alimentares, S.A.	Portugal
Duingras Holdings B.V.	Netherlands
Duo Juice Company	Delaware
Duo Juice Company BV	Netherlands
Earthposed Limited	United Kingdom
EIEIO Beverage Company	Delaware
Elaboradora Argentina De Cereales, S.A.	Argentina
Elite Foods Ltd.	Israel
Embotellador Garci-Crespo, SA de CV	Mexico
Embotelladora de Occidente S.A. de C.V.	Mexico
Embotelladora de Refrescos Mexicanos S.A. de C.V.	Mexico
Embotelladora Internacionales de Mexico, S. de C.V.	Mexico
Embotelladora Metropolitana, SA de CV	Mexico
Embotelladora Moderna, S.A. de C.V.	Mexico
Embotelladora Potosi, S.A. de C.V.	Mexico
Embotelladores del Valle de Anahuac, S.A. de C.V.	Mexico
Embotelladores Mexicanos de Pepsi-Cola S.A. de C.V.	Mexico
Empaques Constar, SA de CV	Mexico
Empaques Sewell, SA de CV	Mexico
Encorp Atlantic, Inc.	Canada
Envasadora del Centro, SA de CV	Mexico
Equipos para Embotelladoras y Cervecerias, S.A. de C.V.	Mexico
Equipos Y Deportes Exclusivos, S.A. De C.V.	Mexico
Evercrisp Snack Productos de Chile S.A.	Chile
Export Development Corp.	Delaware
Fabrica de Productos Alimenticios Rene y Compania SCA	Guatemala
Fabrica de Productos Rene LLC	Delaware
Farm Produce (Australia) Pty. Ltd.	Australia
Fester Industria Alimenticia Ltda.	Brazil
Finvmex, S.A. de C.V.	Mexico
FL Holding, Inc.	Delaware
FLI Andean LLC	Delaware
FLI Columbia, LLC	Delaware
FLI Snacks Andean, GP, LLC	Delaware
Florida International Fruschtsaft	Germany
FLRC, Inc.	California
Fomentadora Urbana del Sureste, SA de CV	Mexico
Fomentadora Urbana Metroplitana, SA de CV	Mexico
Frito-Lay Australia Holdings Pty Ltd.	Australia
Frito-Lay Columbia Ltda.	Columbia
Frito-Lay Distribution OOO	Russia
Frito-Lay Dominicana S.A.	Dominican Republic
Frito-Lay Foods Limited	United Kingdom
Frito-Lay France SA	France
Frito-Lay Gida Sanayi Ve Ticaret A.S.	Turkey
Frito-Lay Holdings C.V.	Netherlands
Frito-Lay Holdings Limited	United Kingdom
Frito-Lay India	India
Frito-Lay Investments B.V.	Netherlands
Frito-Lay Manufacturing OOO	Russia
Frito-Lay Mexico SRL de CV	Mexico

Frito-Lay Netherlands Holding B.V	Netherlands
Frito-Lay Poland Sp.zo.o.	Poland
Frito-Lay Taiwan Co. Ltd.	Taiwan
Frito-Lay Trading Company (Europe) Gmbh	Switzerland
Frito-Lay Trading Company Gmbh	Switzerland
Frito-Lay Venezuela S.A.	Venezuela
Frito-Lay, Inc.	Delaware
Fuzhou Pepsi-Cola Beverage Company Limited	China
Galletas y Pastas Tepeyac	Mexico
Galletera Palma, S.A. de C.V.	Mexico
Gamesa S. de R.L. de C.V.	Mexico
Gamesa USA, Inc.	Delaware
Gamesa, LLC	Delaware
Gas Natural de Merida SA de CV	Mexico
Gatorade Limited	United Kingdom
Gatorade Portugal Services Da Marketing S.A.	Portugal
Gatorade Puerto Rico Co.	Puerto Rico
General Cinema Beverages, Inc.	Delaware
Golden Grain Company	California
Goldfinch Holdings, LLC	Delaware
Granja Buenagua, SA de CV	Mexico
Green Hemlock LLC	Delaware
Greenville Holding Corp.	New Jersey
Grocery International Holdings, Inc.	Delaware
Grupo Embotellador Noreste, SA de CV	Mexico
Grupo Gamesa, S. de R.L. de C.V.	Mexico
Guangzhou Flavours Development Corporation	China
Guangzhou Pepsi-Cola Beverage Co. Ltd.	China
Guangzhou Quaker Oats Beverages & Food Co. Ltd.	China
Guangzhou Tropicana Beverages Co., Ltd.	China
Guilin Pepsi-Cola Beverage Company, Ltd.	China
Gujarat Bottling Company	India
Harinera Monterrey, S.A. de C.V.	Mexico
Heathland, LP	Delaware
Hennika Limited	Ireland
Hillbrook Insurance Company, Inc.	Vermont
Holland Snacks S.A. de C.V.	Mexico
Homefinding Company of Texas	Texas
Hostess-FL NRO ULC	Canada
Hurdell Holdings LLC	Delaware
Hurdell Holdings S. de R.L.	Mexico
Importadora Gator, S.A. de C.V.	Mexico
Impulse Action Ltd.	United Kingdom
Industria de Refrescos, SA de CV	Mexico
Inmobiliaria Guesa S.A. de C.V.	Mexico
Inmobiliaria Interamericana, S.A. De C.V.	Mexico
Inmobiliaria La Bufa, S.A. de C.V.	Mexico
Inmobiliaria La Cantera, SA de CV	Mexico
Inmobiliaria Operativa, SA de CV	Mexico
Integrated Beverage Services (Bangladesh) Ltd.	Bangladesh
International Bottlers Almaty Ltd	Kazakstan
International Kas AG	Liechtenstein
Inversiones PFI Chile Limitada	Chile
Inversiones Santa Coloma S.A.(Venezuela)	Venezuela
Japan Frito-Lay Ltd.	Japan
JFS Enterprises, Inc.	Florida
Jinan Pepsi-Cola Beverage Company Limited	China
Jordan Ice and Aerated Water Ltd.	Jordan
Jungla Mar del Sur	Costa Rica
Kirin-Tropicana, Inc.	Japan
KRJ Holdings, S.R.L. de C.V.	Mexico
Kyle Receivables Ltd.	Ireland
Larragana, S.L.	Spain
Latin American Holdings Ltd.	Cayman Islands
Latin American Snack Foods ApS	Denmark
Latin Foods LLC	Delaware
Latvia Snacks Ltd.	Latvia
L'Igloo, S.A.	France

Lithuanian Snacks Ltd.	Lithuania
Long Bay, Inc.	Delaware
Looza NV	Belgium
Looza USA, Inc.	Delaware
L-P Investment LLC	Delaware
Maple Limited	Cayman Islands
Matudis - Comercio de Productos Alimentaries, Limited	Portugal
Matutano, S.R.L.	Portugal
Meadowlark Holdings LLC	Delaware
Mexhut, Inc.	Delaware
Mexichip, Inc.	Delaware
Mexsport, Inc.	Delaware
Midland Bottling Co.	Delaware
Mountain Dew Marketing, Inc.	Delaware
Mountainview Insurance Company, Inc.	Vermont
Nanchang Pepsi-Cola Beverage Company Ltd.	China
Nanjing Pepsi-Cola Beverage Company Limited	China
Nasser	Ireland
National Beverages, Inc.	Florida
New Age Beverages Investments Limited	South Africa
New Age Beverages Ltd	South Africa
New Century Beverage Company	California
New Generation Beverages Pty. Ltd.	Australia
North Pacific Territories Holding Company	Washington
Nueva Santa Cecilia S.A. de C.V.	Mexico
Nutripro S.A. de C.V.	Mexico
Ole Springs	Sri Lanka
Opco Holding, Inc.	Delaware
Orion Frito-Lay Corporation	Korea
OTG Development, Inc.	Delaware
P.T. Indofood Frito-Lay Corp.	Indonesia
P.T. Pepsi-Cola IndoBeverage	Indonesia
Pagam Corporation	Delaware
Panagarh Marketing Company Limited	India
Panimex, Inc.	Mauritius
Papas Chips	Uruguay
Pasteleria Vienesa, C.A.	Venezuela
PBI Fruit Juice Company BVBA	Belgium
PCBL, LLC	Delaware
PCI Bahamas Investment Co.	Delaware
PEI e Companhia	Portugal
PEI N.V.	Netherlands Antilles
Peninsular Beverage Service Sdn. Bhd.	Malaysia
Pepsi Bottling Holdings, Inc.	Delaware
Pepsi Bottling Ventures, LLC	Delaware
Pepsi Bugshan Investment Co.	Egypt
Pepsi Foods Private Limited	India
Pepsi India Exports	India
Pepsi International Beverage Company	Vietnam
Pepsi International Bottling System, Inc.	Delaware
Pepsi Overseas (Investments) Partnership	Canada
Pepsi Srl	Italy
Pepsi Stuff, Inc.	Delaware
Pepsi-Asia Beverage Co. Ltd.	China
Pepsi-BeiBing Yang Beverage Co. Ltd.	China
PepsiCo & Cia	Brazil
PepsiCo (China) Ltd.	China
PepsiCo (India) Holdings Private Limited	India
PepsiCo (Ireland) Limited	Ireland
PepsiCo Antilles Holdings N.V.	Netherlands Antilles
PepsiCo Antilles Holdings N.V.	Netherlands Antilles
PepsiCo Australia Holdings Pty. Ltd.	Australia
PepsiCo Beverages (Hong Kong) Limited	Hong Kong
PepsiCo Beverages International Ltd.	Nigeria
PepsiCo Beverages Italia Srl	Italy
PepsiCo Canada (Holdings) Co.	Canada
PepsiCo Canada Finance LLC	Delaware
PepsiCo Captive Holdings, Inc.	Delaware

PepsiCo Comercial Exportadora	Brazil
PepsiCo de Argentina S.R.L.	Argentina
PepsiCo de Mexico S.A. de C.V.	Mexico
PepsiCo do Brasil Ltda.	Brazil
PepsiCo do Brazil Holdings Ltda.	Brazil
PepsiCo Espana Inversiones S.L.	Spain
PepsiCo Estonia	Estonia
PepsiCo Europe Holdings B.V.	Netherlands
PepsiCo Finance (Antilles A) N.V.	Delaware
PepsiCo Finance (Antilles B) N.V.	Netherlands Antilles
PepsiCo Finance (South Africa) (Proprietary) Ltd.	South Africa
PepsiCo Finance (U.K.) Ltd.	United Kingdom
PepsiCo Finance Europe Ltd.	United Kingdom
PepsiCo Finance Luxembourg Ltd.	United Kingdom
PepsiCo Fleet Services Limited	United Kingdom
PepsiCo Foods & Beverages International Limited	United Kingdom
PepsiCo Foods (China) Co. Ltd.	China
PepsiCo Foods Canada Inc.	Canada
PepsiCo Foods Hellas	Greece
PepsiCo Foods International Holdings, Inc.	Delaware
PepsiCo Foods International Pte Ltd.	Singapore
PepsiCo Foreign Sales Corporation	Barbados
PepsiCo France SNC	France
PepsiCo Global Investment Holding Limited	Ireland
PepsiCo Global Investments B.V.	Netherlands
PepsiCo Global Investments II BV	Netherlands
PepsiCo Holdings	United Kingdom
PepsiCo Holdings Hong Kong Limited	Hong Kong
PepsiCo International Ltd.	United Kingdom
PepsiCo International Trading (Shanghai) Ltd.	China
PepsiCo Investment (China) Ltd.	China
PepsiCo Investments (Europe) I B.V.	Netherlands
PepsiCo Investments (Europe) II B.V.	Netherlands
PepsiCo Investments Denmark Ltd I ApS	Denmark
PepsiCo Light BV	Netherlands
PepsiCo Mauritius Holdings Inc.	Mauritius
PepsiCo Max BV	Netherlands
PepsiCo Nordic Denmark A/S	Denmark
PepsiCo Nordic Finland OY	Finland
PepsiCo Nordic Norway A/S	Norway
PepsiCo Nordic Sweden AB	Sweden
PepsiCo Overseas Corporation	Delaware
PepsiCo Pacific Trading Company, Limited	Hong Kong
PepsiCo Pension Management Services, Ltd.	Delaware
PepsiCo Products B.V.	Netherlands
PepsiCo Property Management Limited	United Kingdom
PepsiCo Puerto Rico, Inc.	Delaware
PepsiCo Services International Inc.	Delaware
PepsiCo U.K. Pension Trust Limited	United Kingdom
PepsiCo Ukraine Ltd.	Ukraine
PepsiCo World Trading Company, Inc.	Delaware
Pepsi-Cola (Bermuda) Limited	Bermuda
Pepsi-Cola (Thai) Trading Company Limited	Thailand
Pepsi-Cola A/O	Russia
Pepsi-Cola Advertising and Marketing, Inc.	Delaware
Pepsi-Cola Belgium S.A.	Belgium
Pepsi-Cola Bottlers Holding, C.V.	Netherlands
Pepsi-Cola Bottling Co. of Los Angeles	California
Pepsi-Cola Bottling Company of Ohio, Inc.	Delaware
Pepsi-Cola Bottling Company Of St. Louis, Inc.	Missouri
Pepsi-Cola Canada Ltd.	Canada
Pepsi-Cola Company	Delaware
Pepsi-Cola East Africa Ltd.	United Kingdom
Pepsi-Cola Egypt	Egypt
Pepsi-Cola Equipment Corp.	New York
Pepsi-Cola Far East Trade Development Co., Inc.	Philippines
Pepsi-Cola Gesellschaft M.B.H.	Austria
Pepsi-Cola Gmbh	Germany

Pepsi-Cola India Manufacturing Company	India
Pepsi-Cola Industrial Da Amazonia Ltda.	Brazil
Pepsi-Cola Interamericana de Guatemala S.A.	Guatemala
Pepsi-Cola International (Cyprus) Limited	Cyprus
Pepsi-Cola International (PVT) Limited	Pakistan
Pepsi-Cola International Limited	Bermuda
Pepsi-Cola International Limited (U.S.A.)	Delaware
Pepsi-Cola International Tanitim Ltd.	Turkey
Pepsi-Cola International, Cork	Ireland
Pepsi-Cola Jordan Ltd.	Jordan
Pepsi-Cola Kft. Hungary	Hungary
Pepsi-Cola Korea, Co. Ltd.	Korea
Pepsi-Cola Magreb	Morocco
Pepsi-Cola Mamulleri Limited Sirketi	Turkey
Pepsi-Cola Management and Administrative Services, Inc.	Delaware
Pepsi-Cola Manufacturing (Ireland)	Ireland
Pepsi-Cola Manufacturing (Mediterranean) Limited	Bermuda
Pepsi-Cola Manufacturing Company Of Uruguay S.R.L.	Uruguay
Pepsi-Cola Manufacturing International, Limited	Bermuda
Pepsi-Cola Marketing Corp. Of P.R., Inc.	Puerto Rico
Pepsi-Cola Mediterranean, Ltd.	Delaware
Pepsi-Cola Metropolitan Bottling Company, Inc.	New Jersey
Pepsi-Cola Metropolitan, LLC	Delaware
Pepsi-Cola Mexicana, S.A. de C.V.	Mexico
Pepsi-Cola Operating Company Of Chesapeake And Indianapolis	Delaware
Pepsi-Cola Panamericana S.C.R. Ltda.	Peru
Pepsi-Cola Panamericana, LLC	Delaware
Pepsi-Cola Panamericana, S.R.L.	Venezuela
Pepsi-Cola Portugal, Marketing E Servicios de Bebidas Ltda.	Portugal
Pepsi-Cola Products Philippines, Inc.	Philippines
Pepsi-Cola Sales and Distribution, Inc.	Delaware
Pepsi-Cola Tea Company	Delaware
Pepsi-Cola Technical Operations, Inc.	Delaware
Pepsi-Cola Venezuela C.A.	Venezuela
Pepsi-Gemex S.A. de C.V.	Mexico
Pepsi-International Beverage Company	Vietnam
PFI Agriculture Europe Ltd.	United Kingdom
PFI Italia S.R.L.	Italy
PGCC, Inc.	Delaware
PIE Holdings Limited	Ireland
Pine International LLC	Delaware
Pizza Hut, Inc.	Delaware
Planters UK Limited	United Kingdom
PlayCo, Inc.	Delaware
Polis SRL	Italy
Praga 45, Inc.	Delaware
Prestwick, Inc.	Delaware
Procesos Plasticos, SA de CV	Mexico
Productos Industrializados Saltillo, S.A.	Mexico
Productos Quaker de Mexico S.A. de C.V.	Mexico
Productos Quaker, S.A.	Colombia
Productos S.A.S. C.V.	Netherlands
Productos SAS Management B.V.	Netherlands
Progress Service, Inc.	Florida
PRS, Inc.	Delaware
PT Gatorade Indonesia	Indonesia
Punch N.V.	Netherlands Antilles
Purificadora de Agua Los Reyes, SA de CV	Mexico
Putnam Holdings, Inc.	Delaware
PV Merger Corp.	Illinois
Quaker Bebidas, S.L.	Spain
Quaker Beverages Italia S.P.A.	Italy
Quaker De Chile Limitada	Delaware
Quaker de Mexico S.A. de C.V.	Mexico
Quaker Development B.V.	Netherlands
Quaker Europe Ltd.	United Kingdom
Quaker European Beverages, LLC	Delaware
Quaker European Investments B.V.	Netherlands

Quaker Foods Ltd.	United Kingdom
Quaker Global Investments B.V.	Netherlands
Quaker Holding (UK) Limited	United Kingdom
Quaker Holdings (UK) Ltd.	United Kingdom
Quaker Manufacturing, LLC	Delaware
Quaker Oats (Shanghai) Food Co. Ltd.	China
Quaker Oats Asia, Inc.	Delaware
Quaker Oats Australia Pty. Ltd.	Australia
Quaker Oats Capital Corporation	Delaware
Quaker Oats Europe LLC	Delaware
Quaker Oats Europe, Inc.	Delaware
Quaker Oats Holdings, Inc.	Delaware
Quaker Oats Japan, Ltd.	Japan
Quaker Oats Limited	United Kingdom
Quaker Oats Philippines, Inc.	Delaware
Quaker Oats Puerto Rico, Inc.	Puerto Rico
Quaker Oats, B.V.	Netherlands
Quaker Products (Malaysia)Sdn. B	Malaysia and Delaware
Quaker Products Limited	United Kingdom
Quaker Products Manufacturing, Import, Export & Marketing Ltd. Co.	Turkey
Quaker Sales & Distribution, Inc.	Delaware
Quaker South Africa, Inc.	Delaware
Quaker Subco Ltd.	United Kingdom
Quaker Trading Ltd.	United Kingdom
Quic, Ltd.	Bermuda
Quixley Limited	British Virgin Islands
Recot, Inc.	Delaware
Red Maple LLC	Delaware
Refrigerantes sul riograndenses S.A.	Brazil
Regia-Comercial E Publicidade Ltda.	Brazil
Rolling Frito-Lay Sales, LP	Delaware
Ruscan, Inc.	New York
S.V.E. (Hungary) Trading and Manufacturing Limited	Hungary
S.W. Frito-Lay, Ltd	Texas
Sabritas de Costa Rica, S. de R.L.	Costa Rica
Sabritas de Panama, SA	Panama
Sabritas y Compania, SCA	El Salvador
Sabritas, LLC	Delaware
Sabritas, S.A. de R.L. de C.V.	Mexico
Saudi Snack Foods Company Limited	Saudi Arabia
Savoy Austral Limited	Cayman Islands
Senrab Limited	Ireland
Serm Suk Public Company Limited	Thailand
Servicios Administrativos Suma, SA de CV	Mexico
Servicios Calificados, S.A. de C.V.	Mexico
Servicios Chipiga S. de R.L. de C.V.	Mexico
Seven-Up Andino, S.A.	Ecuador
Seven-Up Asia, Inc.	Missouri
Seven-Up Canada Co.	Canada
Seven-Up Europe Ltd	United Kingdom
Seven-Up Great Britain, Inc.	Missouri
Seven-Up Ireland Limited	Ireland
Seven-Up Light BV	Netherlands
Seven-Up Marketing, S.A.	Delaware
Seven-Up Nederland B.V.	Netherlands
Seven-Up Southern Hemisphere, Inc.	Missouri
Shanghai PepsiCo Snacks Company Limited	China
Shanghai Pepsi-Cola Beverage Company Ltd.	China
Shanghai Tropicana Beverages Co., Ltd.	China
Shanghi Quaker Oats Beverages Co. Ltd.	China
Shenzhen Pepsi-Cola Beverage Co. Ltd.	China
Sichuan Pepsi-Cola Beverage Co. Ltd.	China
SIH International LLC	Delaware
Sika Silk Company Limited	China
Simba	South Africa
Smartfoods, Inc.	Delaware
Smiths Crisps Limited	United Kingdom
Smiths Food Group, B.V.	Netherlands

Snack Food Belgium S.A.	Belgium
Snack Food Holdings C.V.	Netherlands
Snack Food Investments GmbH	Switzerland
Snack Ventures Europe SCA	Belgium
Snack Ventures Inversiones, S.L.	Spain
Snack Ventures Manufacturing, S.L.	Spain
Snacks America Latina Ecuador Cia. Ltda	Ecuador
Snacks America Latina Peru S.R.L.	Peru
Snacks America Latina S.R.L	Peru
Snacks America Latina Venezuela S.R.L.	Venezuela
Snacks Guatemala, Ltd.	Bermuda
Snacks Ventures S.A.	Spain
Societe Moderne Libanaise Pour Le Commerce	Lebanon
Soda Bottler Limited	Tanzania
South Beach Beverage Company, Inc.	Delaware
Special Edition Beverages Limited	New Zealand
Special Editions Enterprises Ltd.	New Zealand
Sportmex Internacional, S.A. De C.V.	Mexico
Stokley-Van Camp Inc.	Indiana
SVC Equipment Company	Delaware
SVC Latin America, Inc.	Delaware
SVC Latin America, LLC	Delaware
SVC Manufacturing, Inc.	Delaware
SVE Italia	Italy
SVE Russia Holdings GmbH	Germany
Taco Bell (U.K.) Limited	London
Tastes of Adventures Pty. Ltd.	Australia
Tasty Foods S.A.	Greece
Tenedora Del Noreste, S.A. de C.V.	Mexico
TFL Holdings, Inc.	Delaware
The Beverage S.R.L.	Italy
The Concentrate Manufacturing Company Of Ireland	Ireland
The Gatorade Company	Delaware
The Gatorade Company of Australia Pty Ltd.	Australia
The Original Pretzel Company Pty. Ltd.	Australia
The Quaker Oats Company	New Jersey
The Quaker Oats Company of Canada, Ltd.	Canada
The Radical Fruit Company of New York	Ireland
The Smiths Snack Food Company Pty. Ltd.	Australia
Tianjin PepsiCo Foods Co. Ltd.	China
Tianjin Pepsi-Cola Beverage Company Limited	China
TPI Urban Renewal Corporation	New Jersey
Tropicana Alvalle S.A.	Spain
Tropicana Beverage (Huizhou) Co. Ltd.	China
Tropicana Beverages Company	India
Tropicana Beverages Greater China Limited	Hong Kong
Tropicana Beverages Ltd.	Hong Kong
Tropicana Europe NV	Belgium
Tropicana France S. A.	France
Tropicana Industrial Glass Co.	Florida
Tropicana Inversiones, S. L.	Spain
Tropicana Manufacturing Company	Delaware
Tropicana Payroll, Inc.	Florida
Tropicana Products (Europe) GmbH	Germany
Tropicana Products Sales, Inc.	Delaware
Tropicana Products, Inc.	Delaware
Tropicana Sweden AB	Sweden
Tropicana Transportation Corporation	Delaware
Tropicana United Kingdom Ltd.	United Kingdom
Twinpack Atlantic Inc.	Canada
Ukrainian Developmental Corp.	Ukraine
United Foods Company S.A.	Brazil
Valores Bermuda S.R.L.	Venezuela
Valores Mapumar	Venezuela
Veurne Snack foods BVBA	Belgium
Walker Snacks (Distribution) Ltd.	United Kingdom
Walkers (Nominees) Limited	United Kingdom
Walkers Acquisition Company Limited	United Kingdom

Walkers Crisps Limited
Walkers Group Limited
Walkers Intermediate Holding Company Limited
Walkers Snack Foods Limited
Walkers Snacks Ltd.
Walkers Snacks Services Limited
Weinkellerei Franz Weber GmbH, Nierstein
Wetter Beverage Company
Whitman International BV
Wilson International Sales Corporation
Wotsits Brands Limited
Wuhan Pepsi-Cola Beverage Co. Ltd.

United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom
United Kingdom
Germany
Delaware
Netherlands
Delaware
United Kingdom
China

Consent of Independent Auditors

The Board of Directors
PepsiCo, Inc.

We consent to incorporation by reference in the registration statements listed below of PepsiCo, Inc. of our report dated February 6, 2003, relating to the consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 28, 2002, which report appears in the December 28, 2002 annual report on Form 10-K of PepsiCo, Inc.:

Description	Registration Statement Number
<u>Form S-3</u>	
PepsiCo SharePower Stock Option Plan for PCDC Employees	33-42121
\$32,500,000 Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority Adjustable Rate Industrial Revenue Bonds	33-53232
Extension of the PepsiCo SharePower Stock Option Plan to Employees of Snack Ventures Europe, a joint venture between PepsiCo Foods International and General Mills, Inc.	33-50685
\$4,587,000,000 Debt Securities and Warrants	33-64243
\$500,000,000 Capital Stock, 1 2/3 cents par value	333-56302
<u>Form S-4</u>	
330,000,000 Shares of Common Stock, 1 2/3 cents par value and 840,582 Shares of Convertible Stock, no par value	333-53436
Senior Unsecured Guarantee of 4 5/8% Series B Senior Notes Due November 15, 2012 of Bottling Group LLC	333-102035-01
<u>Form S-8</u>	
PepsiCo SharePower Stock Option Plan	33-35602, 33-29037, 33-42058, 33-51496, 33-54731 & 33-66150
1988 Director Stock Plan	33-22970
1979 Incentive Plan and the 1987 Incentive Plan	33-19539
1994 Long-Term Incentive Plan	33-54733
1995 Stock Option Incentive Plan	33-61731 & &333-09363
1979 Incentive Plan	2-65410
PepsiCo, Inc. Long Term Savings Program	2-82645, 33-51514 & 33-60965
PepsiCo 401(K) Plan	333-89265
PepsiCo Puerto Rico 1165(e) Plan	333-56524
Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union 3173)	333-65992
The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors	333-66632
The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees	333-66634
The PepsiCo 401(k) Plan for Salaried Employees	333-76196
The PepsiCo 401(k) Plan for Hourly Employees	333-76204
The PepsiCo Share Award Plan	333-87526

KPMG LLP

New York, New York
March 6, 2003

POWER OF ATTORNEY

PepsiCo, Inc. ("PepsiCo") and each of the undersigned, an officer or director, or both, of PepsiCo, do hereby appoint David R. Andrews, Robert E. Cox and Thomas H. Tamoney, and each of them severally, its, his or her true and lawful attorney-in-fact to execute on behalf of PepsiCo and the undersigned the following documents and any and all amendments thereto (including post-effective amendments):

- (i) Registration Statements No. 33-53232, 33-64243 and 333-102035 relating to the offer and sale of PepsiCo's Debt Securities, Warrants and Guarantees;
- (ii) Registration Statements No. 33-4635, 33-21607, 33-30372, 33-31844, 33-37271, 33-37978, 33-47314, 33-47527, 333-53436 and 333-56302 all relating to the primary and/or secondary offer and sale of PepsiCo Common Stock issued or exchanged in connection with acquisition transactions;
- (iii) Registration Statements No. 33-29037, 33-35602, 33-42058, 33-51496, 33-54731 33-42121, 33-50685 and 33-66150 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo, Inc. SharePower Stock Option Plan;
- (iv) Registration Statements No. 2-82645, 33-51514, 33-60965 and 333-89265 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo 401(k) Plan or the PepsiCo Long-Term Savings Program; Registration Statement No. 333-56524 relating to the offer and sale of PepsiCo Common Stock under the PepsiCo Puerto Rico 1165(e) Plan; Registration Statement No. 333-65992 relating to the offer and sale of PepsiCo Common Stock under the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamsters Local Union #173), the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates; Registration Statement No. 333-66634 relating to the offer and sale of PepsiCo Common Stock under The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees; Registration No. 333-76196 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo 401(k) Plan for Salaried Employees; and Registration No. 333-76204 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo 401(k) Plan for Hourly Employees;
- (v) Registration Statements No. 33-61731 and No. 333-09363 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo, Inc. 1995 Stock Option Incentive Plan; Registration Statement No. 33-54733 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo, Inc. 1994 Long-Term Incentive Plan; Registration Statement No. 33-19539 relating to the offer and sale of PepsiCo Common Stock under PepsiCo's 1987 Incentive Plan and resales of such shares by officers of PepsiCo; Registration Statement No. 2-65410 relating to the offer and sale of PepsiCo Common Stock under PepsiCo's 1979 Incentive Plan and 1972 Performance Share Plan, as amended; Registration Statement No. 333-66632 relating to the offer and sale of PepsiCo Common Stock under The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999, and The Quaker Oats Company Stock Option Plan for Outside Directors;
- (vi) Registration Statement No. 33-22970 relating to the offer and sale of PepsiCo Common Stock under PepsiCo's Director Stock Plan;
- (vii) Registration Statements No. 333-87526 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo Share Award Plan;

- (viii) Schedule 13G relating to PepsiCo's beneficial ownership of Common Stock and Class B Common Stock of The Pepsi Bottling Group, Schedule 13D relating to PepsiCo's beneficial ownership of Common Stock of PepsiAmericas, Inc. and any schedules deemed to be necessary or appropriate by any such attorney-in-fact;
- (ix) all other applications, reports, registrations, information, documents and instruments filed or required to be filed by PepsiCo with the Securities and Exchange Commission, any stock exchanges or any governmental official or agency in connection with the listing, registration or approval of PepsiCo Common Stock, PepsiCo debt securities or warrants, other securities or PepsiCo guarantees of its subsidiaries' debt securities or warrants, or the offer and sale thereof, or in order to meet PepsiCo's reporting requirements to such entities or persons;

and to file the same, with all exhibits thereto and other documents in connection therewith, and each of such attorneys shall have the power to act hereunder with or without the other.

IN WITNESS WHEREOF, the undersigned has executed this instrument on March 6, 2003

PepsiCo, Inc.

By: /s/ Steven S Reinemund

Steven S Reinemund
*Chairman of the Board and
Chief Executive Officer*

/s/ Steven S Reinemund

Steven S Reinemund
*Chairman of the Board and
Chief Executive Officer*

/s/ Arthur C. Martinez

Arthur C. Martinez
Director

/s/ Indra K. Nooyi

Indra K. Nooyi
*Director, President,
and Chief Financial Officer*

/s/ Franklin D. Raines

Franklin D. Raines
Director

/s/ Peter A. Bridgman

Peter A. Bridgman
*Senior Vice President and Controller
(Chief Accounting Officer)*

/s/ Sharon Percy Rockefeller

Sharon Percy Rockefeller
Director

/s/ John F. Akers

John F. Akers
Director

/s/ James J. Schiro

James J. Schiro
Director

/s/ Robert E. Allen

Robert E. Allen
Director

/s/ Peter Foy

Peter Foy
Director

/s/ Roger A. Enrico

Roger A. Enrico
Director

/s/ Ray L. Hunt

Ray L. Hunt
Director

/s/ Franklin A. Thomas

Franklin A. Thomas
Director

/s/ Cynthia M. Trudell

Cynthia M. Trudell
Director

/s/ Solomon D. Trujillo

Solomon D. Trujillo
Director

/s/ Daniel Vasella

Daniel Vasella
Director