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 29, 2001

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:

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

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 [X] 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. [ ]

The number of shares of PepsiCo Common Stock outstanding as of March 8, 2002 was 1,764,455,280. The aggregate market value of PepsiCo Common Stock held by nonaffiliates of PepsiCo as of March 8, 2002 was $87,358,330,366.

Documents of Which Portions Are Incorporated by Reference	Parts of Form 10-K into Which Portion of Documents Are Incorporated
Proxy Statement for PepsiCo's May 1, 2002 Annual Meeting of Shareholders	III

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" means PepsiCo and its divisions and subsidiaries.

On August 2, 2001, we completed a merger transaction with The Quaker Oats Company ("Quaker") whereby Quaker became a wholly-owned subsidiary of PepsiCo. Under the merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock in exchange for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

WORLDWIDE SNACKS

Our snack food business is comprised of two business units: Frito-Lay North America and Frito-Lay International.

Frito-Lay North America

Frito-Lay North America ("FLNA") manufactures, markets, sells and distributes a varied line of salty, sweet and grain-based snack foods throughout the United States and Canada, including Lay's potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese flavored snacks, Ruffles potato chips, Fritos corn chips, a variety of dips and salsas, Quaker Chewy granola bars, Rold Gold pretzels, Sunchips multigrain snacks, WOW! brand low fat and no fat versions of potato and tortilla chips, Funyons onion flavored rings, Grandma's cookies, Quaker Fruit and Oatmeal bars, Cracker Jack candy-coated popcorn and Quaker Quakes rice cakes. FLNA also sells and distributes Oh Boy! Oberto brand meat snacks under an agreement with the Oberto Sausage Company.

FLNA's products are transported from manufacturing plants to our major distribution centers, principally by company-owned trucks. FLNA primarily utilizes a direct store delivery system, whereby its sales force delivers the snacks directly from distribution centers to the store shelf. This system permits FLNA to work closely with retail trade locations and to be responsive to their needs. Frito-Lay believes this form of distribution allows it to have a marketing advantage and is essential for the proper distribution of fragile products and products with a short shelf life.

FLNA also develops the national marketing, promotion and advertising programs that support the FLNA brands and related brand images; oversees the quality of the FLNA products; develops new products and packaging; approves packaging suppliers; and leads and coordinates selling efforts.

Frito-Lay International

Frito-Lay International's ("FLI") products are available in approximately 120 countries outside the United States and Canada through company-owned businesses and affiliated companies. On most of the European continent, our snack food business is conducted through Snack Ventures Europe, a joint venture between PepsiCo and General Mills, Inc., in which we own a 60% interest. In ten Latin America countries, our snack food business is conducted through joint ventures between PepsiCo and Libracor, Ltd., a part of Venezuela's Empresas Polar Group. We have a 50% interest in these ventures, except in one country where we own a 70% interest.

FLI sells a variety of salty and sweet snack food products which appeal to local tastes including Sabritas snack foods, Alegro and Gamesa sweet snacks in Mexico, Walkers snack foods in the United Kingdom and Smith's snack foods in Australia. In addition, many of our U.S. brands, such as Lay's, Doritos, Tostitos, Cheetos, Ruffles and Fritos brand salty snack foods, have been introduced internationally. FLI's products also include various Quaker food and snack products. Principal international markets include Mexico, the United Kingdom, Brazil, Spain, the Netherlands, Australia and South Africa.

FLI develops the marketing, promotion and advertising programs that support the local and FLI brands and related brand images; oversees the quality of the FLI products; develops new products and packaging; approves packaging suppliers; and leads and coordinates selling efforts.

WORLDWIDE BEVERAGES

Our beverage business is comprised of three business units: Pepsi-Cola North America, Gatorade/Tropicana North America and PepsiCo Beverages International.

Pepsi-Cola North America

Pepsi-Cola North America ("PCNA") manufactures concentrates for Pepsi, Diet Pepsi, Wild Cherry Pepsi, Pepsi One, Pepsi Twist, Mountain Dew, Mountain Dew Code Red, Mug, Sierra Mist, Slice and FruitWorks. PCNA also manufactures and sells Dole single serve juices and juice drinks, SoBe juice drinks and teas and AMP energy drinks. These concentrates and beverages are sold to bottlers in the United States and Canada. PCNA's bottlers are licensed, within defined territories, to manufacture, market, sell and distribute Pepsi beverages and syrups. PCNA also licenses its bottlers to process and distribute Aquafina bottled water. We have a minority interest in 6 of these bottlers, including our three anchor bottlers: The Pepsi Bottling Group, PepsiAmericas and Pepsi Bottling Ventures, which distribute approximately three quarters of our North American volume.

The Pepsi/Lipton Tea Partnership, a joint venture of PepsiCo and Unilever N.V., sells tea concentrate to Pepsi bottlers, and develops and markets ready-to-drink tea products under the Lipton trademark, including Lipton Brisk and Lipton's Iced Tea. PepsiCo's partnership with the Starbucks Corporation develops ready-to-drink coffee products, which are sold under the Starbucks Frappuccino trademark and are distributed by PCNA's bottlers.

PCNA also develops the national marketing, promotion and advertising programs that support the PCNA brands and related brand images; oversees the quality of the PCNA beverages; develops new products and packaging; approves packaging suppliers; and leads and coordinates selling efforts for national fountain, supermarket and mass merchandising accounts.

Gatorade/Tropicana North America

Gatorade/Tropicana North America ("GTNA") produces, markets, sells and distributes Gatorade sports drinks, Tropicana Pure Premium, Tropicana Season's Best, Tropicana Twister, Dole, and Tropicana Pure Tropics juices and juice beverages and Propel fitness water.

GTNA manages production and co-packing for Gatorade and Tropicana shelf stable beverages. GTNA utilizes both its own and broker sales forces who sell who these products to a wide variety of wholesale and retail accounts.

Manufacturing operations in Bradenton, Florida produce approximately 80% of the worldwide supply of Tropicana Pure Premium products. Refrigerated rail cars and trucks are used to transport the product quickly and efficiently from the Bradenton manufacturing plant to the principal distribution centers. A high priority is placed on inventory management techniques that ensure product quality and fresh taste.

GTNA also develops the national marketing, promotion and advertising programs that support the Gatorade and Tropicana brands and related brand images; oversees the quality of the sports drinks, juices and juice beverages; develops new products and packaging; and leads and coordinates selling and distribution efforts for national supermarket, convenience and mass merchandising accounts.

PepsiCo Beverages International

PepsiCo Beverages International ("PBI") manufactures concentrates for Pepsi, Pepsi Light, Pepsi Max, Wild Cherry Pepsi, 7UP, Diet 7UP, Mirinda, KAS, Mountain Dew and other brands for sale to bottlers outside of the United States and Canada. PBI's bottlers are licensed, within defined territories, to manufacture, market, sell and distribute Pepsi beverages and syrups. We have a minority interest in approximately 40 of these bottlers. In certain countries PBI owns and operates the bottling businesses which manufacture, sell and distribute Pepsi beverages. PBI also produces and sells Gatorade sports drinks and Tropicana juices and juice beverages outside of the Untied States and Canada through company-owned and independently-owned bottlers and distributors. PBI beverages are sold in approximately 170 countries. Principal international markets include Mexico, China, Saudi Arabia, India, Argentina, Brazil, Thailand, the United Kingdom, Spain, and The Philippines.

PBI, with its bottlers, develops the international marketing, promotion and advertising programs that support the PBI brands and related brand images; oversees the quality of the PBI beverages; provides technical support to its bottlers; and develops new products and packages; approves packaging suppliers; and leads and coordinates selling efforts for certain international fountain, supermarket and mass merchandising accounts.

QUAKER FOODS NORTH AMERICA

Quaker Foods North America ("QFNA") manufactures, markets and sells hot and ready-to-eat cereals, flavored rice and pasta products, mixes and syrups, hominy grits and cornmeal in the United States and Canada. QFNA products include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni rice, Aunt Jemima mixes and syrups, Quaker grits, Pasta Roni pasta and Near East rice. QFNA utilizes both its own and broker sales forces who sell to a variety of wholesale and retail accounts.

QFNA also develops the national marketing, promotion and advertising programs that support the QFNA brands and brand images; oversees the quality of the products; develops new products and packaging; approves packaging suppliers; and leads and coordinates selling efforts for supermarket and mass merchandising accounts.

Competition

All of our businesses are highly competitive. Our foods and beverages compete in the United States and internationally with widely distributed products of a number of major companies that operate in many of the areas we serve. We also compete with private label foods and beverages and with the products of local and regional manufacturers. The main areas of competition are price, quality and variety of products, customer service and availability of distribution.

Employees

As of December 29, 2001, we employed, subject to seasonal variations, approximately 143,000 people worldwide, including approximately 81,000 people employed within the United States. We believe that relations with our employees are generally good.

Raw Materials and Other Supplies

The principal materials we use in our food and beverage businesses are almonds, aspartame, cocoa, corn, corn sweeteners, flavorings, flour, juice concentrates, oats, oranges, grapefruits and other fruits, potatoes, rice, seasonings, sugar, vegetable and essential oils, wheat, and packaging materials. Key packaging materials include P.E.T. resin used for plastic bottles and cardboard. Since we rely on trucks to move and distribute many of our products, fuel is also an important commodity. 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. 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.

Governmental Regulation

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 are also subject to state, local and foreign laws.

Patents, Trademarks and Licenses

We own numerous valuable trademarks which are essential to our worldwide businesses, including Frito-Lay, Lay's, Doritos, Tostitos, Cheetos, Ruffles, Fritos, Rold Gold, Quaker Chewy, Sunchips, Grandma's, Quaker Quakes, Cracker Jack, Sabritas, Alegro, Gamesa, Walkers, Smith's, Pepsi-Cola, Pepsi, Diet Pepsi, Pepsi Max, Wild Cherry Pepsi, Pepsi One, Pepsi Twist, Mountain Dew, Mountain Dew Code Red, Aquafina, Slice, Mug, AMP, 7UP and Diet 7UP (outside the United States), Mirinda, KAS, Sierra Mist, FruitWorks, Gatorade, Propel, Tropicana, Tropicana Pure Premium, Tropicana Season's Best, Tropicana Twister, Tropicana Pure Tropics, Quaker, Cap'n Crunch, Life, Rice-A-Roni, Near East, Pasta Roni, Golden Grain and Aunt Jemima. 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 collateral products 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 and 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.

Environmental Matters

We continue to make expenditures to comply with federal, state, local and foreign environmental laws and regulations. These expenditures have not had a material impact on our capital expenditures, net income or competitive position.

Business Segments

Information related to:

- Net sales;
- Operating profit;
- Total assets;
- Amortization of intangible assets;
- Depreciation and other amortization expense;
- Capital spending;
- Investments in unconsolidated affiliates; and
- Equity income/(loss) and transition gains/(losses)

for each reportable segment for 2001, 2000 and 1999 may be found in Item 8 “Financial Statements and Supplementary Data” in Note 21 on pages F-33 through F-38. Additional geographic net sales and long-lived assets are also found in Item 8.

Item 2. Properties

Worldwide Snacks

FLNA operates 45 food manufacturing and processing plants in the United States and Canada, of which 42 are owned and 3 are leased. In addition, FLNA owns or leases approximately 1,900 warehouses and distribution centers for storage of food products in the United States and Canada. FLNA leases or owns 29 sales/regional offices throughout the United States, including its headquarters building and a research facility in Plano, Texas. FLI operates approximately 90 plants and approximately 1,100 distribution centers, warehouses and offices outside of the United States and Canada.

Worldwide Beverages

PCNA operates 2 concentrate plants and 7 warehouses throughout the United States and Canada. Licensed bottlers in which we have an ownership interest operate 75 bottling plants. GTNA operates 11 manufacturing plants, 14 distribution centers and 16 offices, including Tropicana's corporate office space in Bradenton, Florida. PBI operates approximately 60 manufacturing and bottling plants and approximately 250 warehouses and offices outside of the United States and Canada.

Quaker Foods North America

QFNA owns 4 manufacturing plants in the United States.

Shared Properties

FLNA and QFNA share one plant that manufactures oat based foods and snacks. FLNA, GTNA and QFNA share 21 distribution centers and warehouses and 18 offices in the United States and Canada including a research and development laboratory in Barrington, Illinois, and corporate office space in downtown Chicago, Illinois. In March 2000, Quaker signed a ten year lease for a new building to be constructed in Chicago. This new site is intended to replace the current Chicago offices, which is leased through August 2002. Our obligations under the lease is contingent upon completion of the building and satisfaction of certain obligations by the lessor.

General

We own our corporate headquarters buildings in Purchase, New York.

Leases of plants in the United States and Canada 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.

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, 53, 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, 60, 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 Madeleine Albright.

Peter A. Bridgman, 49, 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 in 1999.

Roger A. Enrico, 57, served as Chief Executive Officer and Chairman of the Board from 1996 to 2001. He was Vice Chairman from 1993 to 1996 and from May 2001 until his retirement from PepsiCo in March 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, Inc. 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 Winthrop, Stimson, Putnam & Roberts in New York.

Robert S. Morrison, 59, is Vice Chairman of PepsiCo and Chairman, President and Chief Executive Officer of The Quaker Oats Company. Mr. Morrison became Vice Chairman of PepsiCo in August 2001, upon completion of the merger with Quaker. He was elected Quaker's Chairman, President and Chief Executive Officer in 1997. Prior to joining Quaker, Mr. Morrison was Chief Executive Officer of Kraft, Inc. from 1994 to 1997. Previously, he served as President of Kraft Refrigerated Products Group, President of Kraft General Foods Canada and President of General Foods U.S.A.

Indra K. Nooyi, 47, was elected Director, President and Chief Financial Officer of PepsiCo in May 2001, after serving as Senior Vice President and Chief Financial Officer since 2000. Ms. Nooyi joined PepsiCo in 1994 and served as 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.

Executive officers are elected by the Company's 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 the Company's 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 29, 2001, there were approximately 227,000 shareholders of record.

Dividend Policy - Quarterly cash 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 7, 2001, March 8, June 7 and September 6, 2002. Quarterly cash dividends have been paid since PepsiCo was formed in 1965.

Cash Dividends Declared Per Share (in cents):

Quarter	2001	2000
1	14.0	13.5
2	14.5	14.0
3	14.5	14.0
4	14.5	14.0
Total	57.5	55.5

Note: Through the second quarter of 2001, cash dividends declared are those of pre-merger PepsiCo.

Stock Prices - The composite high and low sales prices and quarterly closing prices for one share of PepsiCo Common Stock for each fiscal quarter of 2001 and 2000 were as follows (in dollars):

2001	HIGH	LOW	CLOSE
First Quarter	49.50	40.25	43.85
Second Quarter	46.61	40.90	43.26
Third Quarter	47.99	43.12	47.40
Fourth Quarter	50.46	45.76	49.05

2000	HIGH	LOW	CLOSE
First Quarter	38.63	29.69	33.00
Second Quarter	42.50	31.56	41.25
Third Quarter	47.06	39.69	42.31
Fourth Quarter	49.94	41.31	49.56

Item 6. Selected Financial Data

Selected Financial Data is included on page F-44.

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

On August 2, 2001, we completed a merger transaction, which resulted in The Quaker Oats Company (Quaker) becoming a wholly-owned subsidiary of PepsiCo. As a result, we restated all prior periods presented to reflect the combined results of operations, financial position and cash flows of both companies as if they had always been merged. For further detail see "Merger of PepsiCo and The Quaker Oats Company".

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.

Management's Discussion and Analysis is presented in four sections. The first section discusses critical accounting policies, transactions with related and other parties, items affecting comparability, new accounting standards and market and other risk factors. The second section analyzes the results of operations, first on a consolidated basis and then for each of our business segments. The final two sections address consolidated cash flows and liquidity and capital resources.

Cautionary Statements

From time to time, in written reports and in oral statements, we discuss expectations regarding our future performance including synergies from the merger, the impact of the euro conversion and the impact of global macroeconomic issues. 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.

INTRODUCTION TO OUR BUSINESS

Critical Accounting Policies

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. We focus your attention on the following:

Principles of consolidation - The financial statements include the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Investments in unconsolidated affiliates over which we exercise significant influence, but not control, are accounted for by the equity method. Our definition of control for majority owned affiliates considers the exercisability of the minority interest rights, and consolidation would be precluded to the extent that the minority interest holds substantive participating rights. Our share of the net income or loss of unconsolidated affiliates accounted for by the equity method is included in our consolidated net income. As a result of changes in the operations of our European snack joint venture, we have determined that, effective in 2002, consolidation is required.

Revenue recognition - We recognize revenue when products are delivered to customers consistent with sales terms. Sales terms generally do not allow a right of return.

Derivative instruments and hedging - We manage risks associated with commodity prices, foreign exchange rates, interest rates and our stock price and may use derivative instruments to hedge these risks. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure and, therefore, we do not use derivative instruments for trading or speculative purposes. The evaluation of hedge effectiveness is subject to assumptions based on the terms and timing of the underlying exposures. 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.

Asset impairment - All long-lived assets, including goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally

measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Assumptions used in these cash flows are consistent with internal forecasts.

Income taxes - Our effective tax rate and the tax bases of our assets and liabilities reflect our best estimate of the ultimate outcome of tax audits. Valuation allowances are established where expected future taxable income does not support the realization of the deferred tax assets.

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. Our contractual and other commercial obligations primarily relate to the procurement of goods and services in the normal course of business and to guarantees related to our equity investees.

Refer to Note 1 to the financial statements for additional information on our accounting policies.

Transactions with Related and Other Parties

Significant related parties include our bottling franchisees in which we own an equity interest. We have entered into agreements with these bottlers and expect these arrangements to continue. These agreements cover the prices and terms for the sale of concentrate and full goods bearing our trademarks, as well as the manufacturing and distribution of our fountain products. In addition, we provide various forms of marketing support to or on behalf of our bottlers covering a variety of initiatives including marketplace support, marketing programs, capital equipment and shared media expense. The level of this support is negotiated annually and can be increased or decreased at our discretion. We provide this support because we share a common business objective with our bottlers of increasing the availability and consumption of Pepsi-Cola beverages and the level of support has a direct impact on these objectives. See Liquidity and Capital Resources for related party commitments and guarantees and Note 10 to our consolidated financial statements for additional information on related parties.

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Our transactions with these vendors and customers are in the normal course of business and consistent with terms negotiated with other vendors and customers. Those Board members do not participate in vendor selection and negotiations nor in customer negotiations. In addition, certain officers serve on the boards of our anchor bottlers and other equity investees and may receive compensation from such entities consistent with that of other members serving on those boards.

Items Affecting Comparability

Fifty-third Week in 2000

Comparisons of 2000 to 2001 and 1999 are affected by an additional week of results in the 2000 reporting year. Because our fiscal year ends on the last Saturday in December, a fifty-third week is added every five or six years. The fifty-third week increased 2000 net sales by an estimated $294 million, operating profit by an estimated $62 million and net income by an estimated $44 million or $0.02 per share.

Merger of PepsiCo and The Quaker Oats Company

Under the Quaker merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock in exchange for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

In connection with the merger transaction, we sold the global rights in our All Sport beverage brand to The Monarch Company, Inc. of Atlanta. As part of the terms of the sale, we agreed that, for 10 years after the Quaker transaction closing date, we would not distribute Gatorade sports drink through our bottling system in the United States and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

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.

The results of operations of the separate companies and the combined company for the most recent interim period prior to the merger and for the years presented in the consolidated financial statements are as follows:

	24 Weeks Ended 6/16/01	2000	1999
Reported Net Sales:			
PepsiCo	$ 9,820	$20,438	$20,367
Quaker	2,741	5,041	4,726
Adjustments (a)	(518)	–	–
Combined	$12,043	$25,479	$25,093
Reported Net Income:			
PepsiCo	$ 1,150	$ 2,183	$ 2,050
Quaker	279	360	455
Adjustments (a)	(61)	–	–
Combined	$ 1,368	$ 2,543	$ 2,505

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's and conforming the accounting policies of the two companies applicable to interim reporting. These changes have no impact on full year net sales or net income.

During 2001, we recognized costs of $356 million associated with our merger with Quaker. The components of these merger-related costs were as follows:

Transaction costs	**$ 117**
Integration and restructuring costs	**239**
Total merger-related costs	**$ 356**
After-tax	**$ 322**
Per share	**$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 costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, expenses for accelerated vesting under change-in-control provisions, information system integration costs and employee-related costs.

The restructuring charges primarily reflect termination costs for approximately 580 corporate, sales, distribution, manufacturing, research and marketing employees. Employee termination costs include retirement benefit costs, severance costs and expenses associated with change-in-control provisions of pre-merger employment contracts. As of December 29, 2001, approximately 380 of the terminations have occurred. The terminations are expected to be completed during 2002.

Additional merger-related actions are expected to bring the total integration costs and restructuring charges to between $450 million and $550 million. Ongoing merger-related cost savings and revenue enhancement opportunities are expected to reach $400 million a year by 2005. We expect to achieve up to $175 million of the synergies by the end of 2002.

Other Impairment and Restructuring Charges

	2001	2000	1999
Asset impairment charges			
Held and used in the business			
Property, plant and equipment	**$ 19**	$ 125	$ 8
Held for disposal/abandonment			
Property, plant and equipment	**-**	-	34
Total asset impairment	**19**	125	42
Restructuring charges			
Employee-related costs	**-**	41	20
Other charges	**12**	18	11
Total restructuring	**12**	59	31
Total	**$ 31**	$ 184	$ 73
After-tax	**$ 19**	$ 111	$ 45
Per share	**$0.01**	$0.06	$0.02

2001 and 2000

The 2001 and 2000 other impairment and restructuring charges relate to a three-year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's manufacturing and distribution capabilities across all of its North American businesses.

The asset impairment charges primarily reflect the reduction in the carrying value of the land, buildings and production machinery and equipment to their estimated fair market value based on analyses of the liquidation values of similar assets. The restructuring charges primarily included severance and termination benefits for approximately 1,000 employees and other shutdown costs. No future charges are expected on this project.

1999

The 1999 other impairment and restructuring charges of $73 million were comprised of the following:

- A charge of $65 million, for asset impairment of $37 million and restructuring charges of $28 million, related to the closure of three plants and impairment of equipment at Frito-Lay North America. The asset impairment charges primarily reflected the reduction in the carrying value of the land and buildings to their estimated fair market value based on selling prices for comparable real estate, less costs to sell, and the write off of the net book value of equipment which could not be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of $28 million primarily included severance costs and plant closing costs.

- A charge of $8 million, for asset impairment of $5 million and restructuring charges of $3 million, related to the previously discussed Quaker supply chain reconfiguration project. The charge included costs to consolidate several cereal manufacturing lines and employee-related costs.

The employee-related costs for 1999 of $20 million primarily included severance and early retirement benefits for approximately 930 employees. Substantially all of the terminations occurred during 1999.

Total restructuring reserves of $100 million, including merger-related reserves, at December 29, 2001, are included in accounts payable and other current liabilities in the Consolidated Balance Sheet.

Bottling Transactions

During 1999, we completed a series of transactions creating our anchor bottlers. In April 1999, certain wholly-owned bottling businesses, referred to as The Pepsi Bottling Group (PBG), completed an initial public offering with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. In May, we combined certain other bottling operations with Whitman Corporation retaining a noncontrolling ownership interest of approximately 38%. In July, we combined certain other bottling operations with PepCom Industries, Inc. retaining a noncontrolling interest of 35% in the combined entity renamed Pepsi Bottling Ventures, LLC. In October, we formed a business venture with Pohlad Companies, a Pepsi-Cola franchisee, retaining a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary, PepsiAmericas, Inc.

Our financial statements include the results of our bottling operations on a consolidated basis through the transaction dates above, and our proportionate share of income under the equity method subsequent to those dates.

In December 2000, Whitman merged with PepsiAmericas. We now own approximately 37% of the combined company, which has since changed its name to PepsiAmericas, Inc. As part of the merger, we participate in an earn-out option whereby we may receive additional shares when certain performance targets are met.

Our three anchor bottlers distribute approximately three-fourths of our beverage products in North America.

Tax Item

In 1999, Quaker adjusted its tax accruals and tax assets to reflect developments and information received during the year. The net effect of these adjustments reduced the income tax provision by $59 million or $0.03 per share.

New Accounting Standards

On December 31, 2000, we adopted Statement of Financial Accounting Standard No. (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. The adoption of SFAS 133 on December 31, 2000 increased assets by approximately $12 million and liabilities by approximately $10 million with approximately $3 million recognized in accumulated other comprehensive income and a loss of less than $1 million recognized in the Consolidated Statement of Income.

During 2000 and 2001, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products. EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products* was issued in November 2001 and codified earlier pronouncements. Primarily effective for 2002, adoption of EITF 01-9 will reduce our net sales by $3.4 billion in 2001, $3.1 billion in 2000 and $2.9 billion in 1999, with selling, general and administrative expenses reduced by the same amounts.

In July 2001, the FASB issued SFAS 141, *Business Combinations.* SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 are effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with Quaker (see Note 2 to the consolidated financial statements) was initiated in December 2000 and our acquisition of South Beach Beverage Company, LLC (see Note 4 to the consolidated financial statements) was completed in January 2001, adoption of this statement does not have an impact on our consolidated financial statements.

In July 2001, the FASB also issued SFAS 142, *Goodwill and Intangibles.* SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with finite lives and addresses impairment testing and recognition for goodwill and intangible assets. SFAS 142 applies to existing goodwill and intangible assets, as well as to transactions completed after the statement's effective date. SFAS 142 is effective for 2002. Adoption of SFAS 142 will increase income before taxes by approximately $87 million in 2002 reflecting the cessation of goodwill amortization and changes in the lives of other intangibles. The required transition impairment evaluations are not expected to result in impairment charges.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. 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 are currently assessing SFAS 143 and the impact that adoption, in 2003, will have on our consolidated financial statements.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 establishes a single model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for 2002. Adoption will not have a material impact on our consolidated financial statements.

Market and Other Risk Factors

Market Risks

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are:

- 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
- our stock price.

In the normal course of business, we manage these risks through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies.

Our hedging transactions include, but are not limited to, the use of various derivative instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure and, therefore, we do not use derivative instruments for trading or speculative purposes. 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.

Commodity Prices

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivative instruments. Derivative instruments, including futures, options and swaps, are used to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily corn, oats, natural gas, heating oil, vegetable oil and packaging materials. Our use of derivative instruments is not significant to our commodity purchases.

Our commodity derivative positions were $252 million at December 29, 2001 and $52 million at December 30, 2000. Our commodity derivative positions resulted in a net unrealized loss of $16 million at December 29, 2001 and a net unrealized gain of $3 million at December 30, 2000. We estimate that a 10% decline in commodity prices would have increased the loss by $18 million in 2001 and reduced the gain by $6 million resulting in a loss in 2000.

Foreign Exchange

International operations constitute about one-fifth of our annual business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar, euro and Brazilian real, which principally impacts the translation of our international operating profit into U.S. dollars. On occasion, we may enter into derivative instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally.

Our foreign currency derivative positions had an aggregate notional value of $355 million, with $223 million relating to contracts to exchange British pounds for U.S. dollars, at December 29, 2001 and $344 million, with $336 million relating to contracts to exchange British pounds to U.S. dollars, at December 30, 2000. These forward contracts had a net gain of $4 million at December 29, 2001 and losses of $9 million at December 30, 2000. We estimate that an unfavorable 10% change in the exchange rates would have decreased the 2001 gain by $35 million resulting in a loss and increased the 2000 losses by $35 million.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration.

Assuming year-end 2001 and 2000 variable rate debt and investment levels, a one-point increase in interest rates would have increased net interest expense by $3 million in 2001 and $7 million in 2000. The change in this impact from 2000 resulted from decreased variable debt levels and increased investment levels at year-end 2001. This sensitivity analysis includes the impact of existing interest rate and currency swaps.

Stock Price

The portion of our deferred compensation liability which is based on our stock price is subject to market risk. Prepaid forward contracts with financial institutions with an aggregate notional amount of $52 million at year-end 2001 were used to hedge this risk and are accounted for as natural hedges. The change in fair value of these equity derivative contracts resulted in $1 million of expense in 2001, $19 million of income in 2000 and $6 million of expense in 1999. We estimate that a 10% unfavorable change in the year-end stock price would have increased the 2001 loss by $6 million and reduced the 2000 gain by $7 million.

Euro Conversion

Our operating subsidiaries affected by the euro conversion successfully addressed the issues raised by the euro currency conversion including, among others, adapting computer and financial systems, business processes and equipment, such as vending machines, to accommodate euro-denominated transactions and took actions to reduce the impact of one common currency on cross-border pricing. We have experienced no business interruption as a result of the issuance and circulation of euro-denominated bills and coins and the withdrawal of legacy currencies. The system and equipment conversion costs were not material. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency may have on pricing and the resulting impact, if any, on financial condition or results of operations.

RESULTS OF OPERATIONS

General

In the discussions below, the year-over-year dollar change in unit sales is referred to as *volume*. Price changes over the prior year and the impact of product, package and country sales mix changes are referred to as *effective net pricing*.

Comparable results in all periods presented below exclude:

- the costs associated with our merger with Quaker,
- the impact of the fifty-third week in 2000,
- other impairment and restructuring charges and various Quaker one-time items and
- the gain on the bottling transactions in 1999, and also
- reflect the impact of certain reclassifications and tax items.

In addition, comparable net sales and operating profit present the deconsolidation of our bottling operations as if it had occurred at the beginning of 1998.

Consolidated Review

Net Sales				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Reported	**$26,935**	$25,479	$25,093	**6**	2
Comparable	**$26,935**	$25,185	$23,385	**7**	8

In 2001, comparable net sales increased 7%. This increase is primarily due to volume gains and higher effective net pricing of worldwide snacks and worldwide beverages, as well as the acquisition of South Beach Beverage Company, LLC (SoBe). These gains were partially offset by a net unfavorable foreign currency impact. The SoBe acquisition enhanced comparable net sales growth by nearly 1 percentage point and the unfavorable foreign currency impact, primarily in Brazil and Europe, reduced comparable net sales growth by more than 1 percentage point.

In 2000, comparable net sales increased 8%. This increase is primarily due to volume gains and higher effective net pricing of worldwide snacks, Pepsi-Cola North America and PepsiCo Beverages International. These increases were partially offset by a net unfavorable foreign currency impact, primarily in Europe, which reduced comparable net sales growth by 1 percentage point. The fifty-third week enhanced reported net sales growth by 1 percentage point.

Volume

Servings are based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

Total servings increased 4% in 2001 compared to 2000 primarily due to contributions from our international divisions and Pepsi-Cola North America.

Total servings increased 5% in 2000 compared to 1999 driven by our international divisions, as well as contributions from Frito-Lay North America and Gatorade/Tropicana North America.

Operating Profit and Margin

				Change B/(W)	
	2001	2000	1999	**2001**	2000
Reported					
Operating profit	**$4,021**	$3,818	$3,483	**5%**	10%
Operating profit margin	**14.9%**	15.0%	13.9%	**(0.1)**	1.1
Comparable					
Operating profit	**$4,406**	$3,957	$3,487	**11%**	13%
Operating profit margin	**16.4%**	15.7%	14.9%	**0.7**	0.8

In 2001, comparable operating profit margin increased 0.7 percentage points primarily reflecting the favorable margin impact of higher effective net pricing and increased volume. These improvements were partially offset by the margin impact of increased advertising and marketing and general and administrative expenses.

In 2000, comparable operating profit margin increased 0.8 percentage points primarily reflecting the favorable margin impact of higher effective net pricing and increased volume. These improvements were partially offset by the margin impact of increases in selling and distribution expenses, primarily in Frito-Lay International, advertising and marketing and general and administrative expenses.

Bottling Equity Income and Transaction Gains and Losses

Bottling equity income and transaction gains and losses includes our share of the net earnings or losses from our bottling equity investments. From time to time, we may increase or dispose of particular bottling investments. Any gains or losses from disposals, as well as other transactions related to our bottling investments, are also reflected on a pre-tax basis in equity income and transaction gains and losses.

In 2001, comparable net bottling equity income and transaction gains and losses increased 28% to $160 million, 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. These increases were offset by impairment charges of $62 million related to certain international bottling investments, primarily our equity investment in Turkey, reflecting a major currency devaluation and adverse macroeconomic conditions. Additionally, $27 million for our share of a charge recorded by PepsiAmericas for environmental liabilities relating to discontinued operations is included in our share of the net earnings from our bottling equity investments in 2001.

In 2000, comparable net bottling equity income and transaction gains and losses increased 51% to $125 million. Our share of net earnings from our bottling equity investments includes $18 million from the favorable impact of an accounting change by PBG. In addition, results for 2000 include our share of charges related to restructuring actions in certain other bottling affiliates and the net loss from changes in our equity ownership interests. The fifty-third week in 2000 enhanced reported net bottling equity income and transaction gains and losses by $5 million.

In 1999, reported bottling equity income and transaction gains and losses includes a gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.15 per share) relating to the second quarter PBG and Whitman bottling transactions. The PBG transaction resulted in a pre-tax gain of $1.0 billion ($476 million after-tax or $0.26 per share). The majority of the taxes are expected to be deferred indefinitely. The Whitman transaction resulted in an after-tax loss to us of $206 million or $0.11 per share. The 1999 PepCom transaction was accounted for as a nonmonetary exchange for book purposes. However, a portion of the transaction was taxable which resulted in income tax expense of $25 million or $0.01 per share. The 1999 Pohlad transaction was structured as a fair value exchange with no resulting gain or loss. Further, 1999 bottling equity income and transaction gains and losses reflects $83 million for the equity income of our previously consolidated bottling operations from the applicable transaction closing dates and the equity income or loss of other unconsolidated bottling affiliates for the second, third and fourth quarters.

Interest Expense, net

	2001	2000	1999	% Change B/(W) **2001**	% Change B/(W) 2000
Reported					
Interest expense	**$(219)**	$(272)	$(421)	**20**	35
Interest income	**67**	85	130	**(22)**	(34)
Interest expense, net	**$(152)**	$(187)	$(291)	**19**	36
Comparable					
Interest expense	**$(219)**	$(268)	$(421)	**19**	36
Interest income	**67**	66	136	**-**	(51)
Interest expense, net	**$(152)**	$(202)	$(285)	**25**	29

Reported and comparable interest income in 2001 includes a loss on investments used to economically hedge a portion of our deferred compensation liability. Reported interest income in 2000 and 1999 includes gains or losses from the equity derivative contracts used to hedge a portion of our deferred compensation liability. These equity derivative gains or losses are now classified in selling, general and administrative expenses in connection with the 2001 adoption of the accounting standard on derivative instruments. Comparable interest income for 2000 and 1999 reflects this reclassification. The fifty-third week increased reported net interest expense in 2000 by $3 million.

In 2001, comparable net interest expense declined 25%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income remained nearly flat as the increase from higher average investment balances was offset by lower average interest rates and a loss on the investments hedging a portion of our deferred compensation liability.

In 2000, comparable net interest expense declined 29%. Interest expense declined reflecting significantly lower average debt levels, partially offset by higher average interest rates. Lower average debt levels reflect the third quarter 1999 repayment of borrowings used to finance the Tropicana acquisition and the absence of the financing related to PBG. Interest income declined primarily due to lower average investment balances.

Provision for Income Taxes

	2001	2000	1999
Reported			
Provision for income taxes	**$1,367**	$1,218	$1,770
Effective tax rate	**33.9%**	32.4%	41.4%
Comparable			
Provision for income taxes	**$1,412**	$1,270	$1,099
Effective tax rate	**32.0%**	32.7%	32.9%

In 2001, the comparable effective tax rate decreased 0.7 percentage points primarily due to lower taxes on foreign results. The reported effective tax rate increased 1.5 percentage points primarily due to limited tax benefits associated with merger-related costs recognized during the year.

In 2000, the comparable effective tax rate remained nearly flat. The reported effective tax rate decreased 9 percentage points primarily as a result of the 1999 bottling transactions.

Net Income and Net Income Per Common Share - Assuming Dilution

	2001	2000	1999	% Change B/(W) 2001	2000
Reported					
Net income	**$2,662**	$2,543	$2,505	**5**	2
Net income per common share	**$1.47**	$1.42	$1.38	**4**	3
Comparable					
Net income	**$3,002**	$2,610	$2,239	**15**	17
Net income per common share	**$1.66**	$1.46	$1.23	**14**	18

In 2001, comparable net income increased 15% and the related net income per common share increased 14%. These increases primarily reflect increased operating profit, lower net interest expense and a lower effective tax rate.

In 2000, comparable net income increased 17% and the related net income per common share increased 18% reflecting higher operating profit and lower net interest expense. The increase in net income per common share also reflects the benefit from a 1.4% reduction in average shares outstanding.

Business Segments

Additional information concerning our operating segments is presented in Note 21 to our consolidated financial statements.

Worldwide Snacks

Worldwide Snacks primarily include our salty, sweet and grain-based snack businesses. Products manufactured and sold by Frito-Lay North America include Lay's potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese flavored snacks, Ruffles potato chips, Fritos corn chips, a variety of dips and salsas, Quaker Chewy granola bars, Rold Gold pretzels, Sunchips multigrain snacks and Funyuns onion flavored rings. Frito-Lay International includes Sabritas snack foods and Alegro and Gamesa sweet snacks in Mexico, Walkers snack foods in the United Kingdom and Smith's snack foods in Australia. Frito-Lay International also includes non-snack products, such as cereals that are not material.

Volume growth is reported on a system-wide basis, which includes joint ventures.

Frito-Lay North America

	2001	2000	1999	% Change B/(W) 2001	2000
Net sales					
Reported	**$9,374**	$8,971	$8,232	**4**	9
Comparable	**$9,374**	$8,807	$8,232	**6**	7
Operating profit					
Reported	**$2,056**	$1,915	$1,679	**7**	14
Comparable	**$2,056**	$1,875	$1,679	**10**	12

2001 vs. 2000

Pound volume advanced 3% excluding the impact of the fifty-third week in 2000. 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. Pound volume growth including the fifty-third week in 2000 was 1%.

Comparable net sales grew 6% due to higher effective net pricing and the increased volume. Lay's Bistro Gourmet potato chips contributed nearly 1 percentage point to this growth.

Comparable operating profit increased 10% primarily reflecting the higher effective net pricing and increased volume, partially offset by increased advertising and marketing expenses. Advertising and marketing expenses grew at a faster rate than sales primarily due to increased promotional allowances.

2000 vs. 1999

Pound volume advanced 5% excluding the impact of the fifty-third week. This growth was primarily driven by most of our core brands, excluding the low-fat and no-fat versions, and by our new Snack Kit products. The growth in core brands was led by solid single-digit growth in Lay's potato chips, Cheetos cheese flavored snacks and Ruffles potato chips, as well as double-digit growth in Tostitos tortilla chips. These gains were partially offset by continued declines in WOW! products. Pound volume growth including the fifty-third week was 7%.

Comparable net sales increased 7% primarily due to the volume gains and higher effective net pricing. Sales of our new Snack Kit and Snack Mix products and Oberto natural beef jerky snacks accounted for almost 30% of this growth. The fifty-third week enhanced reported net sales growth by 2 percentage points.

Comparable operating profit increased 12% primarily reflecting the higher volume, the higher effective net pricing and reduced vegetable oil costs, partially offset by higher energy and fuel costs. Advertising and marketing expenses grew at a slightly slower rate than sales. The margin impact of these favorable factors contributed to the comparable operating profit margin improvement of 0.9 percentage points. The fifty-third week enhanced reported operating profit growth by 2 percentage points.

Frito-Lay International

	2001	2000	1999	% Change B/(W) 2001	2000
Net sales					
Reported	**$5,130**	$4,875	$4,274	**5**	14
Comparable	**$5,130**	$4,814	$4,274	**7**	13
Operating profit					
Reported	**$627**	$546	$455	**15**	20
Comparable	**$627**	$536	$455	**17**	17

2001 vs. 2000

Kilo volume increased 6%, excluding the impact of the fifty-third week in 2000. This growth was primarily driven by a 9% increase in salty snack kilos and a 5% increase in sweet snack kilos. The salty snack growth was led by double-digit growth at our European joint venture, in Brazil and in Poland and single-digit growth at Walkers. Acquisitions contributed 2 percentage points of salty growth. The sweet snack increase was primarily attributable to growth at Gamesa. Kilo volume growth including the fifty-third week in 2000 was 5%.

Comparable net sales increased 7%, primarily driven by the volume growth in Walkers, Gamesa and Poland and effective net pricing at Sabritas and Gamesa. Acquisitions contributed 1 percentage point to sales growth. Weaker foreign currencies in Brazil and the United Kingdom decreased net sales by 4 percentage points.

Operating profit increased 17%, led by solid results from Sabritas, Walkers, Poland and Gamesa, partially offset by a decrease in Argentina as a result of macroeconomic conditions. The weaker foreign currencies, primarily in Brazil and the United Kingdom, decreased operating profit growth by 2 percentage points.

2000 vs. 1999

Kilo volume increased 10%, excluding the impact of the fifty-third week. This growth was primarily driven by a 13% increase in salty snack kilos and a 9% increase in other non-snack food kilos. The salty snack growth was led by double-digit increases at Sabritas, our European and Latin American joint ventures and Walkers. The other non-snack food growth was led by our business in Brazil. Acquisitions did not significantly impact the kilo growth. Kilo volume growth including the fifty-third week was 11%.

Comparable net sales increased 13% primarily driven by the volume growth at Sabritas, Walkers and in Turkey, largely due to promotional programs, and effective net pricing at Gamesa and Sabritas. The net impact from acquisitions/divestitures contributed 2 percentage points to sales growth. Weaker foreign currencies, primarily in the United Kingdom and Australia, decreased net sales growth by 3 percentage points.

Comparable operating profit grew 17% reflecting strong operating performances at Sabritas, Gamesa and in Turkey. The net impact from acquisitions/divestitures decreased operating profit growth by 3 percentage points. Weaker foreign currencies, primarily in the United Kingdom, decreased operating profit growth by 2 percentage points.

Worldwide Beverages

Our worldwide beverage operations include Pepsi-Cola North America, Gatorade/Tropicana North America and PepsiCo Beverages International.

Pepsi-Cola North America markets, promotes and manufactures concentrates for Pepsi, Mountain Dew, MUG, Sierra Mist, Slice and other brands for sale to franchised bottlers. It also sells syrups for these brands to national fountain accounts. Pepsi-Cola North America receives a royalty fee for licensing the processing, distribution and sale of Aquafina bottled water; manufactures, markets and distributes ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks; and manufactures and sells SoBe and Dole beverages for distribution and sale through our franchise bottling system.

Gatorade/Tropicana North America produces, markets, sells and distributes Gatorade sports drinks, Tropicana Pure Premium, Tropicana Season’s Best, Tropicana Twister and Dole juices.

PepsiCo Beverages International (PBI) manufactures concentrates of Pepsi, 7UP, Mirinda, KAS, Mountain Dew, and other brands internationally for sale to franchised and company-owned bottlers. PBI also produces, markets, sells and distributes Gatorade sports drinks as well as Tropicana and other juices. In addition, PBI operates bottling plants and distribution facilities in certain international markets for the production, distribution and sale of company-owned and licensed brands.

Pepsi-Cola North America

	2001	2000	1999	% Change B/(W) 2001	2000
Net sales					
Reported	**$3,842**	$3,289	$2,605	**17**	26
Comparable	**$3,842**	$3,253	$3,005	**18**	8
Operating profit					
Reported	**$927**	$833	$751	**11**	11
Comparable	**$927**	$820	$751	**13**	9

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2001 vs. 2000

Concentrate shipments and equivalents increased 4%, excluding the impact of the fifty-third week in 2000. 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, in part, by the successful launch of Pepsi Twist, and a double-digit decline in Slice reflecting the strong growth 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.

Comparable net sales increased 18% primarily due to 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 volume growth. These gains were partially offset by increased customer support. SoBe and Dole are sold as finished product to our bottling system. Accordingly, net sales growth was accelerated due to their significantly higher price per unit. The SoBe acquisition contributed 7 percentage points to net sales growth.

Operating profit increased 13% primarily due to the increased volume and higher effective net pricing. These gains were partially offset by the increased advertising and marketing expenses related to bottler funding and other programs, increased general and administrative expenses and the increased customer support. General and administrative expenses grew at a significantly faster rate than sales, while advertising and marketing expenses grew at a significantly slower rate. The SoBe acquisition reduced operating profit growth by 4 percentage points.

2000 vs. 1999

Bottler case sales volume increased 1% driven by double-digit growth in Aquafina and distribution gains from Fruitworks. In addition, the introduction of Sierra Mist and low single-digit growth in Diet Pepsi contributed to the increase. These gains were partially offset by a low single-digit decline in Pepsi and double-digit declines in Pepsi One and Lemon Lime Slice. Concentrate shipments were in line with bottler case sales. On a fifty-three week basis, concentrate shipments increased 1.3%.

Comparable net sales increased 8%. Higher concentrate and fountain pricing and higher Aquafina royalties contributed 8 percentage points of growth, and the increased volume, including the launch of Sierra Mist and our new Dole juice product, contributed 2 percentage points. These increases were partially offset by increased customer support. The fifty-third week enhanced reported net sales growth by 1 percentage point.

Comparable operating profit increased 9% primarily due to the higher concentrate pricing, increased volume and the higher Aquafina royalties. These increases were partially offset by higher advertising and marketing expenses, increased customer support and increased general and administrative expenses.

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Gatorade/Tropicana North America

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Net sales					
Reported	**$4,016**	$3,841	$3,452	**5**	11
Comparable	**$4,016**	$3,808	$3,452	**5**	10
Operating profit					
Reported	**$530**	$500	$433	**6**	16
Comparable	**$530**	$495	$433	**7**	15

2001 vs. 2000

Volume grew 4% excluding the impact of the fifty-third week in 2000. 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.

Comparable net sales increased 5% due to the volume gains and higher effective net pricing for Gatorade.

Comparable operating profit increased 7% due to the volume gains, the higher effective net pricing and lower general and administrative expenses. These increases were partially offset by higher promotional allowances and higher manufacturing costs primarily resulting from lower fruit yields, higher energy costs and lower production leverage.

2000 vs. 1999

Volume grew 10% due to the introduction of two new Gatorade flavors, multiple packs and expanded distribution. Continued double-digit growth in Tropicana Pure Premium, including strong double-digit growth in Tropicana Pure Premium nutritionals and blends, also contributed to this growth. On a fifty-three week basis, volume increased 11%.

Comparable net sales increased 10% primarily due to the volume gains. Lower effective net pricing at Tropicana was substantially offset by increased pricing of selected Gatorade products.

Comparable operating profit increased 15% primarily due to the volume gains. These gains were partially offset by increased advertising and marketing expenses, including costs to support the launch of Propel fitness water, and increased packaging and transportation costs.

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PepsiCo Beverages International

	2001	2000	1999	% Change B/(W) 2001	2000
Net sales					
Reported	**$2,582**	$2,531	$2,407	**2**	5
Comparable	**$2,582**	$2,531	$2,429	**2**	4
Operating profit	**$221**	$169	$108	**31**	56

2001 vs. 2000

Volume 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. Total carbonated soft drink concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 3% while their bottler case sales grew at about the same rate.

Net sales increased 2%. This increase was 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, primarily in Europe, Brazil and Egypt, reduced net sales growth by 4 percentage points.

Operating profit increased 31% primarily reflecting the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Europe, reduced operating profit growth by 12 percentage points. Overall margin improvements contributed to operating profit growth.

2000 vs. 1999

Volume increased 6%. This reflects broad-based increases led by a doubling of volume in Russia, where volumes recovered from the effects of the 1998 ruble devaluation. Volume growth was also driven by double-digit growth in China, India and Thailand and by growth in Mexico. Total carbonated soft drink concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 2% while their bottler case sales grew at a higher rate.

Comparable net sales increased 4% due to the volume gains and higher effective net pricing, partially offset by a broad-based net unfavorable foreign currency impact led by Europe. The net unfavorable foreign currency impact reduced net sales growth by 5 percentage points.

Operating profit increased 56% primarily reflecting the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact, primarily in Europe, higher advertising and marketing and higher general and administrative expenses to support top-line growth.

Quaker Foods North America

Quaker Foods North America manufactures, markets and sells ready-to-eat cereals, hot cereals, flavored rice and pasta products, mixes and syrups, hominy grits and cornmeal in North America. Products manufactured and sold include Quaker oatmeal, Cap’n Crunch and Life ready-to-eat cereals, Rice-A-Roni products, Aunt Jemima mixes and syrups and Quaker grits.

	2001	2000	1999	% Change B/(W) 2001	2000
Net sales	**$1,991**	$1,972	$1,993	**1**	(1)
Operating profit	**$415**	$392	$363	**6**	8

2001 vs. 2000

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.

Net sales increased 1% primarily due to higher effective net pricing reflecting a mix shift to higher priced products, as well as price increases for cereals. This increase was offset by the lower overall volume.

Operating profit increased 6% reflecting the higher effective net pricing from growth in higher priced products and the price increases in cereals.

2000 vs. 1999

Volume declined 1% driven by price competition in the ready-to-eat cereal category, partially offset by gains from the introduction of new varieties of hot cereals.

Net sales declined 1% primarily due to the lower overall volume.

Operating profit increased 8% reflecting the higher-margin hot cereals volume growth, productivity gains and lower marketing spending. Advertising and marketing expenses declined at a faster rate than sales.

CONSOLIDATED CASH FLOWS

Operating cash flow for 2001 was $2.9 billion compared with $3.1 billion for 2000. Operating cash flow primarily reflects externally reported net cash provided by operating activities of $4.2 billion, excluding after-tax net interest payments and the cash payments for merger-related costs and other impairment restructuring charges, less capital spending, sales of property, plant and equipment and other net investing activity. Our 2001 operating cash flow reflects a $421 million

contribution to our U.S. pension plans compared to a $70 million contribution in 2000. The 2001 payment was made following a review of our anticipated future sources and uses of cash. We do not expect to make a cash contribution to our U.S. pension plans in 2002. Additionally, in 2001, we received tax refunds of $62 million versus $145 million in 2000.

As shown in our Consolidated Statement of Cash Flows, our 2001 cash and cash equivalents decreased $355 million to $683 million reflecting cash used for investing and financing activities primarily funded from net cash provided by operations. The cash used in investing activities reflects capital spending, net purchases of short-term investments, the acquisition of SoBe and the contribution to our pension plans. The cash used in financing activities reflects share repurchases and dividend payments, partially offset by proceeds from the exercise of stock options and the net proceeds of $524 million from the issuance of shares in connection with the merger with Quaker. We issued 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment.

Our 2000 cash and cash equivalents decreased $208 million to $1 billion reflecting cash used for financing and investing activities primarily funded from net cash provided by operations. The cash used in financing activities reflects share repurchases, dividend payments and net long-term debt payments, partially offset by proceeds from the exercise of stock options. The cash used in investing activities reflects capital spending and net purchases of short-term investments.

Common Share Repurchases

Common share repurchase activity was as follows:

	2001	2000	1999
Cost	**$1,716**	$1,430	$1,285
Shares repurchased			
Number of shares (in millions)	**35**	38	36
% of shares outstanding at beginning of year	**2.4%**	2.6%	2.4%

Quaker repurchased common shares totaling $242 million in 2000 and $373 million in 1999.

Subsequent to our merger with Quaker, we repurchased 35 million shares of our common stock at a cost of $1.7 billion under the emergency and exemptive orders from the Securities and Exchange Commission aimed at facilitating the reopening of the U.S. equities market on September 17, 2001, following the September 11th terrorist attacks. Our Board of Directors authorized the repurchase of up to $2 billion worth of our common stock during the terms of the orders. Repurchases under the orders did not compromise our ability to account for the merger with Quaker as a pooling-of-interests. All authorizations for share repurchases have been rescinded as a result of the PepsiCo and Quaker merger.

LIQUIDITY AND CAPITAL RESOURCES

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world. Our principle source of liquidity is operating cash flows, which are derived from net sales. Macroeconomic conditions may impact the demand for and pricing of our products. Our debt rating of A1 from Moody’s and A from Standard & Poor’s contributes to our accessibility to global capital markets. These ratings 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.

At year-end 2001, we maintained $750 million of revolving credit facilities. Of the $750 million, approximately $375 million expires in June 2002 with the remaining $375 million expiring in June 2006. Annually, these facilities are extendable for an additional year upon the mutual consent of PepsiCo and the lending institutions. The credit facilities exist largely to support issuances of short-term debt and remain unused at year-end 2001. At year-end 2001, $375 million of short-term borrowings were reclassified as long-term, reflecting our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings on a long-term basis.

Quaker integration costs will require cash, of which $228 million was paid in 2001. We expect the balance will be paid in 2002 and 2003.

Long-term financial obligations and other commercial commitments

Long-term financial obligations:

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt, including current maturities (a)	$2,970	$319	$ 926	$769	$ 956
Operating leases	605	138	206	99	162
Total	$3,575	$457	$1,132	$868	$1,118

(a) As recognized in our Consolidated Balance Sheet.

Our other commercial commitments at December 29, 2001 include:

- the unconditional guarantee of $2.3 billion of Bottling Group, LLC's long-term debt (see Notes 13 and 20 to our consolidated financial statements);

- guarantees of approximately $45 million of debt and other obligations of unconsolidated affiliates;
- commitments for the purchase of goods and services used in the production of our products approximating $2 billion with terms up to 5 years;
- obligations, with terms up to 5 years, related to our bottlers and certain unconsolidated affiliates approximating $425 million that, if triggered, will result in increasing our ownership;

- guarantees approximating $90 million with terms that extend over 5 years related primarily to leases of Tricon Global Restaurants, Inc. (which we spun-off in 1997) and
- other commitments in the normal course of business, including obligations for customer promotional incentives, approximating $60 million with terms primarily extending up to 5 years.

Our commitments for goods and services purchases do not exceed our projected requirements over the related terms and are in the normal course of business.

Item 8. Financial Statements and Supplementary Data

See Index to Financial Information on page F-2.

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 its 2002 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 its 2002 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. Executive Compensation

Information on compensation of our directors and executive officers is contained in our Proxy Statement for its 2002 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

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 its 2002 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. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) 1. Financial Statements

Index to Financial Information on page F-2.

2. Exhibits

Index to Exhibits on page E-1.

(b) Reports on Form 8-K.

1. On September 17, 2001, we filed a Current Report on Form 8-K attaching a press release dated September 17, 2001, announcing our intent to resume share repurchases under the terms of the emergency relief order from the Securities and Exchange Commission.

2. On October 10, 2001, we filed a Current Report on Form 8-K attaching our press release dated October 10, 2001 our earnings results for the third quarter of 2001.

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 20, 2002

PepsiCo, Inc.

By: *<u>/s/ Steven S Reinemund</u>*
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.

SIGNATURE	TITLE	DATE
/s/ Steven S Reinemund *Steven S Reinemund*	Chairman of the Board and Chief Executive Officer	March 20, 2002
/s/ Indra K. Nooyi *Indra K. Nooyi*	President and Chief Financial Officer	March 20, 2002
/s/ Peter A. Bridgman *Peter A. Bridgman*	Senior Vice President and Controller (Principal Accounting Officer)	March 20, 2002
/s/ John F. Akers John F. Akers	Director	March 20, 2000
/s/ Robert E. Allen Robert E. Allen	Director	March 20, 2002
/s/ Roger A. Enrico Roger A. Enrico	Director	March 20, 2002

SIGNATURE	TITLE	DATE
/s/ Peter Foy Peter Foy	Director	March 20, 2002
/s/ Ray L. Hunt Ray L. Hunt	Director	March 20, 2002
/s/ Arthur C. Martinez Arthur C. Martinez	Director	March 20, 2002
/s/ Robert S. Morrison Robert S. Morrison	Director	March 20, 2002
/s/ John J. Murphy John J. Murphy	Director	March 20, 2002
/s/ Franklin D. Raines Franklin D. Raines	Director	March 20, 200s
/s/ Sharon Percy Rockefeller Sharon Percy Rockefeller	Director	March 20, 2002
/s/ Franklin A. Thomas Franklin A. Thomas	Director	March 20, 2002
/s/ Cynthia M. Trudell Cynthia M. Trudell	Director	March 20, 2002
/s/ Solomon D. Trujillo Solomon D. Trujillo	Director	March 20, 2002

INDEX TO EXHIBITS
ITEM 14(a)(3)

EXHIBIT

3.1	Restated Articles of Incorporation of PepsiCo, Inc., which are incorporated herein by reference to Exhibit 4.1 to PepsiCo's Registration Statement on Form S-8 (Registration No. 333-66632).
3.2	By-Laws of PepsiCo, Inc., as amended March 16, 2000, which are incorporated herein by reference to Exhibit 4.2 to PepsiCo'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. 2 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.

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 SEC 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 SEC 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.
12	Computation of Ratio of Earnings to Fixed Charges.
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, David R. Andrews, Roger A. Enrico, Peter Foy, Ray L. Hunt, Arthur C. Martinez, Robert S. Morrison, John J. Murphy, Franklin D. Raines, Sharon Percy Rockefeller, Franklin A. Thomas, Cynthia M. Trudell and Solomon D. Trujillo.

PepsiCo, Inc. and Subsidiaries

FINANCIAL STATEMENTS

PEPSICO, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL INFORMATION

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Consolidated Statement of Income for the fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999	F-3
Consolidated Statement of Cash Flows for the fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999	F-4 - F-5
Consolidated Balance Sheet at December 29, 2001 and December 30, 2000	F-6
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All other financial statements and schedules have been omitted since the information is not applicable or is included in Item 14 (a) (1) Financial Statements.

Consolidated Statement of Income
(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Net Sales			
New PepsiCo	**$26,935**	$25,479	$22,970
Bottling operations	**-**	-	2,123
Total Net Sales	**26,935**	25,479	25,093
Costs and Expenses			
Cost of sales	**10,754**	10,226	10,326
Selling, general and administrative expenses	**11,608**	11,104	11,018
Amortization of intangible assets	**165**	147	193
Merger-related costs	**356**	-	-
Other impairment and restructuring charges	**31**	184	73
Total Costs and Expenses	**22,914**	21,661	21,610
Operating Profit			
New PepsiCo	**4,021**	3,818	3,430
Bottling operations and equity investments	**-**	-	53
Total Operating Profit	**4,021**	3,818	3,483
Bottling equity income and transaction gains/(losses), net	**160**	130	1,083
Interest expense	**(219)**	(272)	(421)
Interest income	**67**	85	130
Income Before Income Taxes	**4,029**	3,761	4,275
Provision for Income Taxes	**1,367**	1,218	1,770
Net Income	**$2,662**	$2,543	$2,505

	========	========	========
Net Income Per Common Share			
Basic	**$ 1.51**	$ 1.45	$ 1.41
Diluted	**$ 1.47**	$ 1.42	$ 1.38

See accompanying notes to consolidated financial statements.

Return to Index to Financial Information

Consolidated Statement of Cash Flows
(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Operating Activities			
Net income	**$ 2,662**	$ 2,543	$ 2,505
Adjustments to reconcile net income to net cash provided by operating activities			
Bottling equity income and transaction (gains)/ losses, net	**(160)**	(130)	(1,083)
Depreciation and amortization	**1,082**	1,093	1,156
Merger-related costs	**356**	-	-
Other impairment and restructuring charges	**31**	184	73
Cash payments for merger-related costs and other restructuring charges	**(273)**	(38)	(98)
Deferred income taxes	**162**	33	573
Deferred compensation - ESOP	**48**	36	32
Other noncash charges and credits, net	**209**	303	368
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable	**7**	(52)	(141)
Inventories	**(75)**	(51)	(202)
Prepaid expenses and other current assets	**(6)**	(35)	(209)
Accounts payable and other current liabilities	**(236)**	219	357
Income taxes payable	**394**	335	274
	--------	--------	--------
Net change in operating working capital	**84**	416	79
	--------	--------	--------
Net Cash Provided by Operating Activities	**4,201**	4,440	3,605
	--------	--------	--------
Investing Activities			
Capital spending	**(1,324)**	(1,352)	(1,341)
Acquisitions and investments in unconsolidated affiliates	**(432)**	(98)	(430)
Sales of businesses	**-**	33	513
Sales of property, plant and equipment	**-**	57	130
Short-term investments, by original maturity			
More than three months - purchases	**(2,537)**	(4,950)	(2,209)
More than three months - maturities	**2,078**	4,585	2,220
Three months or less, net	**(41)**	(9)	12
Other, net	**(381)**	(262)	(67)
	--------	--------	--------
Net Cash Used for Investing Activities	**(2,637)**	(1,996)	(1,172)
	--------	--------	--------

(Continued on following page)

Consolidated Statement of Cash Flows (continued)
(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

	2001	2000	1999
Financing Activities			
Proceeds from issuances of long-term debt	**324**	130	3,480
Payments of long-term debt	**(573)**	(879)	(1,216)
Short-term borrowings, by original maturity			
More than three months - proceeds	**788**	198	3,699

	2001	2000	1999
More than three months - payments	**(483)**	(155)	(2,758)
Three months or less, net	**(397)**	1	(2,814)
Cash dividends paid	**(994)**	(949)	(935)
Share repurchases - common	**(1,716)**	(1,430)	(1,285)
Share repurchases - preferred	**(10)**	-	-
Quaker share repurchases	**(5)**	(254)	(382)
Proceeds from reissuance of shares	**524**	-	-
Proceeds from exercises of stock options	**623**	690	383
Net Cash Used for Financing Activities	**(1,919)**	(2,648)	(1,828)
Effect of exchange rate changes on cash and cash equivalents	**-**	(4)	3
Net (Decrease)/Increase in Cash and Cash Equivalents	**(355)**	(208)	608
Cash and Cash Equivalents, Beginning of Year	**1,038**	1,246	638
Cash and Cash Equivalents, End of Year	**$ 683**	$ 1,038	$ 1,246

Supplemental Cash Flow Information			
Interest paid	**$ 159**	$ 226	$ 384
Income taxes paid	**$ 857**	$ 876	$ 689
Acquisitions:			
Fair value of assets acquired	**$ 604**	$ 80	$ 717
Cash paid and stock issued	**(432)**	(98)	(438)
Liabilities assumed	**$ 172**	$ (18)	$ 279

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheet
(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
December 29, 2001 and December 30, 2000

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 683**	$ 1,038
Short-term investments, at cost	**966**	467
	1,649	1,505
Accounts and notes receivable, net	**2,142**	2,129
Inventories	**1,310**	1,192
Prepaid expenses and other current assets	**752**	791
Total Current Assets	**5,853**	5,617
Property, Plant and Equipment, net	**6,876**	6,558
Intangible Assets, net	**4,841**	4,714
Investments in Unconsolidated Affiliates	**2,871**	2,979
Other Assets	**1,254**	889
Total Assets	**$21,695**	$20,757
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	**$ 354**	$ 202
Accounts payable and other current liabilities	**4,461**	4,529
Income taxes payable	**183**	64
Total Current Liabilities	**4,998**	4,795
Long-Term Debt	**2,651**	3,009
Other Liabilities	**3,876**	3,960
Deferred Income Taxes	**1,496**	1,367
Preferred Stock, no par value	**26**	49
Deferred Compensation - preferred	**-**	(27)
Common Shareholders' Equity		
Common stock, par value 1 2/3(cent)per share (issued 1,782		

and 2,029 shares, respectively)	**30**	34
Capital in excess of par value	**13**	375
Deferred compensation	**-**	(21)
Retained earnings	**11,519**	16,510
Accumulated other comprehensive loss	**(1,646)**	(1,374)
	9,916	15,524
Less: repurchased common stock, at cost (26 and 280 shares, respectively)	**(1,268)**	(7,920)
Total Common Shareholders' Equity	**8,648**	7,604
Total Liabilities and Shareholders' Equity	**$21,695**	$20,757

See accompanying notes to consolidated financial statements.

Return to Index to Financial Information

Consolidated Statement of Common Shareholders' Equity

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions)

	2001		2000		1999	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance, beginning of year	**2,029**	**$ 34**	2,030	$ 34	2,037	$ 34
Share repurchases	**-**	**-**	(9)	-	(13)	-
Stock option exercises	**6**	**-**	-	-	-	-
Quaker stock option exercises	**3**	**-**	8	-	6	-
Shares issued to effect merger	**(256)**	**(4)**	-	-	-	-
Balance, end of year	**1,782**	**30**	2,029	34	2,030	34
Capital in Excess of Par Value						
Balance, beginning of year		**375**		559		904
Share repurchases		**-**		(236)		(370)
Stock option exercises (a)		**82**		52		(21)
Reissued shares		**150**		-		-
Shares issued to effect merger		**(595)**		-		-
Other		**1**		-		46
Balance, end of year		**13**		375		559
Deferred Compensation						
Balance, beginning of year		**(21)**		(45)		(68)
Net activity		**21**		24		23
Balance, end of year		**-**		(21)		(45)
Retained Earnings						
Balance, beginning of year		**16,510**		14,921		13,356
Net income		**2,662**		2,543		2,505
Shares issued to effect merger		**(6,644)**		-		-
Cash dividends declared - common		**(1,005)**		(950)		(936)
Cash dividends declared - preferred		**(4)**		(4)		(4)
Balance, end of year		**11,519**		16,510		14,921
Accumulated Other Comprehensive Loss						
Balance, beginning of year		**(1,374)**		(1,085)		(1,139)
Currency translation adjustment (CTA)		**(218)**		(289)		(136)
CTA reclassification adjustment		**-**		-		175
Cash flow hedges, net of tax:						
Cumulative effect of accounting change		**3**		-		-
Derivative (losses)/gains, net		**(21)**		-		-
Minimum pension liability adjustment, net of tax		**(38)**		(2)		17
Other		**2**		2		(2)
Balance, end of year		**(1,646)**		(1,374)		(1,085)
Repurchased Common Stock						
Balance, beginning of year	**(280)**	**(7,920)**	(271)	(7,306)	(255)	(6,535)
Shares repurchased	**(35)**	**(1,716)**	(38)	(1,430)	(36)	(1,285)
Stock option exercises	**20**	**751**	29	816	20	514

Reissued shares.................	**13**	**374**	-	-	-	-
Shares issued to effect merger..	**256**	**7,243**	-	-	-	-
Balance, end of year...........	**(26)**	**(1,268)**	(280)	(7,920)	(271)	(7,306)
Total Common Shareholders' Equity.		**$ 8,648**		$ 7,604		$ 7,078

(a) Includes total tax benefit of $212 in 2001, $177 in 2000 and $105 in 1999.
See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

On August 2, 2001, we completed our merger transaction, which resulted in The Quaker Oats Company (Quaker) becoming a wholly-owned subsidiary of PepsiCo. As a result, we restated all prior period consolidated financial statements presented to reflect the combined results of operations, financial position and cash flows of both companies as if they had always been merged. See Note 2.

The preparation of the 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.

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 the 2000 and 1999 amounts to conform to the 2001 presentation.

Items Affecting Comparability

Our fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. The fiscal year ended December 30, 2000 consisted of fifty-three weeks. The fifty-third week increased 2000 net sales by an estimated $294 million, operating profit by an estimated $62 million and net income by an estimated $44 million or $0.02 per share. See Note 21 for the impact on our business segments.

The consolidated financial statements subsequent to the dates of the bottling transactions described in Note 10 are not comparable to the consolidated financial statements presented for prior periods as certain bottling operations that were previously consolidated are now accounted for under the equity method. In addition, the merger costs described in Note 2, other impairment and restructuring charges described in Note 3, and the income tax adjustment described in Note 14 affect comparability.

Principles of Consolidation

The financial statements include the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany balances and transactions have been eliminated. Investments in unconsolidated affiliates over which we exercise significant influence, but not control, are accounted for by the equity method. Our definition of control for majority owned affiliates considers the exercisability of the minority interest rights, and consolidation would be precluded to the extent that the minority interest holds substantive participating rights. Our share of the net income or loss of unconsolidated affiliates accounted for by the equity method is included in consolidated net income.

Issuances of Subsidiary Stock

The issuance of stock by one of our subsidiaries to third parties reduces our proportionate ownership interest in the subsidiary. Unless the issuance of such stock is part of a broader corporate reorganization, we recognize a gain or loss equal to the difference between the issuance price per share and our carrying amount per share. Such gain or loss, net of the related tax, is recognized in consolidated net income when the transaction occurs.

Revenue Recognition

We recognize revenue when products are delivered to customers consistent with sales terms. Sales terms generally do not allow a right of return.

Marketing Costs

Marketing costs are reported in selling, general and administrative expenses and include costs of advertising, promotional programs and other marketing activities. Advertising expenses were $1.7 billion in 2001 and 2000 and $1.6 billion in 1999. Deferred advertising expense classified as prepaid expenses in the Consolidated Balance Sheet was $111 million in 2001 and $127 million in 2000. Deferred advertising costs are expensed in the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

We classify promotional payments to customers, including cooperative advertising, as either a reduction of net sales or as marketing costs. During 2000 and 2001, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) addressed various issues related to the income statement classification of

certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products. EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products,* was issued in November 2001 and codified earlier pronouncements. Primarily effective for 2002, adoption of EITF 01-9 will reduce our net sales by $3.4 billion in 2001, $3.1 billion in 2000 and $2.9 billion in 1999, with selling, general and administrative expenses reduced by the same amounts.

Distribution Costs

Distribution costs are reported in either cost of sales or selling, general and administrative expenses depending on the distribution method, and include the costs of shipping and handling activities. Shipping and handling expenses classified as selling, general and administrative expenses were $2.6 billion in 2001, $2.5 billion in 2000 and $2.4 billion in 1999.

Research and Development Costs

Research and development costs are expensed in the year incurred. Research and development costs were $206 million in 2001, $207 million in 2000 and $187 million in 1999.

Stock-Based Compensation

We measure stock-based compensation cost as the excess of the quoted market price of PepsiCo common stock at the grant date over the amount the employee must pay for the stock (exercise price). Our policy is to generally grant stock options with an exercise price equal to the stock price at the date of grant, and accordingly, no compensation cost is recognized. Under certain prior incentive programs, compensation cost for cash payments expected to be paid to employees in lieu of stock options was based on the grant date value and recognized over the vesting period of the award.

Pension and Postretirement Benefits

Our pension plans cover substantially all full-time U.S. employees and certain international employees. Benefits depend on years of service and earnings or are based on stated amounts for each year of service. Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. Plans generally use a measurement date of September 30. The pre-merger Quaker plans used a measurement date of December 31. Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

Derivative Instruments and Hedging

We manage risks associated with commodity prices, foreign exchange rates, interest rates our stock price and may use derivatives to hedge these risks. Hedging transactions are executed in accordance with our policies. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure and, therefore, we do not use derivative instruments for trading or speculative purposes. 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. 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. There is no significant concentration of credit risk or activity with any of the counterparties.

Using qualifying criteria defined in Statement of Financial Accounting Standards No. (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities,* derivative instruments are designated and accounted for as either fair value or cash flow hedges. Our evaluations of hedge effectiveness are subject to assumptions based on the terms and timing of the underlying exposures. For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of a derivative instrument that is highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. The ineffective portion is recognized in earnings immediately. If a fair value or cash flow hedge was to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled, but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings.

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivative instruments. Derivative instruments, including futures, options and swaps, are used to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily corn, oats, natural gas, heating oil, vegetable oil and packaging materials. Our use of derivative instruments is not significant to our commodity purchases. Derivative instruments designated as hedges of anticipated commodity purchases are accounted for generally as cash flow hedges. The earnings impact from commodity hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items.

International operations constitute about one-fifth of our annual business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar, euro and Brazilian real, which principally impacts the translation of our international operating profit into U.S. dollars. On occasion, we may enter into derivative financial instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally. Derivative instruments designated as foreign exchange hedges are generally accounted for as fair value hedges. The earnings impact from these hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items.

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. Interest rate and currency swaps are designated as hedges of underlying fixed rate obligations and accounted for as fair value hedges. The earnings impact from these hedges is classified as interest expense.

The portion of our deferred compensation liability, which is based on our stock price, is subject to market risk. Prepaid forward contracts with financial institutions are used to hedge this risk and are accounted for as natural hedges. The earnings impact from these hedges is classified as selling, general and administrative expenses consistent with the expense classification of the deferred compensation liability. Prior to the adoption of SFAS 133, the earnings impact from these equity derivative contracts was classified as interest income.

The cash flows related to the above derivative instruments are classified in the Consolidated Statement of Cash Flows in a manner consistent with those of the transactions being hedged.

Cash Equivalents and Short-Term Investments

Cash equivalents represent funds temporarily invested with original maturities of three months or less. All other investment portfolios are primarily classified as short-term investments

Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) method) or at net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated primarily on a straight-line basis. Buildings and improvements are depreciated over their estimated useful lives, generally ranging from 15 to 40 years. Machinery and equipment (including fleet) are depreciated over their estimated useful lives, generally ranging from 5 to 15 years.

Intangible Assets

Goodwill, the excess of our investments in unconsolidated affiliates over our equity in the underlying net assets of these investments, and trademarks and brands are amortized on a straight-line basis over their estimated useful lives, generally ranging from 20 to 40 years. Other identifiable intangibles are amortized on a straight-line basis over their estimated useful lives, generally ranging from 5 to 20 years.

Asset Impairment

All long-lived assets, including goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

The depreciation or amortization periods for long-lived assets to be held and used are periodically evaluated to determine whether events or circumstances have occurred that warrant revision to the useful lives.

Income Taxes

Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items for which we have taken a tax deduction, but have not yet recorded in the Consolidated Statement of Income. Valuation allowances are established for deferred tax assets where the amount of expected future taxable income from operations does not support the realization of these deferred tax assets.

Deferred tax liabilities are not recognized for temporary differences related to investments in foreign subsidiaries and in unconsolidated foreign affiliates that are essentially permanent in duration. It would not be practicable to determine the amount of any such deferred tax liabilities.

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.

Accounting Changes

In July 2001, the FASB issued SFAS 141, *Business Combinations.* SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 are effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with Quaker (see Note 2) was initiated in December 2000 and our acquisition of South Beach Beverage Company, LLC (see Note 4) was completed in January 2001, adoption of this statement does not have an impact on the accompanying consolidated financial statements.

In July 2001, the FASB also issued SFAS 142, *Goodwill and Intangible Assets.* SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with finite lives and addresses impairment testing and recognition for goodwill and intangible assets. SFAS 142 applies to existing goodwill and intangible assets, as well as to transactions completed after the statement’s effective date. SFAS 142 is effective for 2002. Adoption of SFAS 142 will increase income before taxes by approximately $87 million in 2002 reflecting the cessation of goodwill amortization and changes in the lives of other intangibles. The required transition impairment evaluations are not expected to result in impairment charges.

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 and the associated asset retirement costs. 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 are currently assessing SFAS 143 and the impact that adoption, in 2003, will have on our consolidated financial statements.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 establishes a single model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for 2002. Adoption will not have a material impact on our consolidated financial statements.

Note 2 – Merger of PepsiCo and The Quaker Oats Company

Under the Quaker merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock in exchange for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

In connection with the merger transaction, we sold the global rights in our All Sport beverage brand to The Monarch Company, Inc. of Atlanta. As part of the terms of the sale, we agreed that, for 10 years after the Quaker transaction closing date, we would not distribute Gatorade sports drink through our bottling system in the United States and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

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.

The results of operations of the separate companies and the combined company for the most recent interim period prior to the merger and for the years presented in the consolidated financial statements are as follows:

	24 Weeks Ended 6/16/01	2000	1999
Net Sales:			
PepsiCo..................................	$ 9,820	$20,438	$20,367
Quaker...................................	2,741	5,041	4,726
Adjustments (a)..........................	(518)	–	–
Combined.................................	$12,043	$25,479	$25,093
Net Income:			
PepsiCo..................................	$ 1,150	$ 2,183	$ 2,050
Quaker...................................	279	360	455
Adjustments (a)..........................	(61)	–	–
Combined.................................	$ 1,368	$ 2,543	$ 2,505

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's and conforming the accounting policies of the two companies applicable to interim reporting. These changes have no impact on full year net sales or net income.

During 2001, we recognized costs of $356 million associated with our merger with Quaker. The components of these merger-related costs were as follows:

Transaction costs.........................	**$ 117**
Integration and restructuring costs........	**239**
Total merger-related costs.............	**$ 356**
After-tax...........................	**$ 322**
Per share...........................	**$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 costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, expenses for accelerated vesting under change-in-control provisions, information system integration costs and employee-related costs.

The restructuring charges primarily reflect termination costs for approximately 580 corporate, sales, distribution, manufacturing, research and marketing employees. Employee termination costs include retirement benefit costs, severance costs and expenses associated with change-in-control provisions of pre-merger employment contracts. As of December 29, 2001, approximately 380 of the terminations have occurred. The terminations are expected to be completed during 2002.

We expect to incur additional costs to integrate the two companies.

Analysis of merger-related integration and restructuring reserves:

	Integration	Employee Related	Facility and Other Exit	Total
2001 costs	**$124**	**$106**	**$ 9**	**$ 239**
Cash payments	**(80)**	**(33)**	**(2)**	**(115)**
Reclassification of postretirement/ postemployment liabilities	**-**	**(22)**	**-**	**(22)**
Other noncash utilization	**(22)**	**-**	**(3)**	**(25)**
Reserves, December 29, 2001	**$ 22**	**$ 51**	**$ 4**	**$ 77**

These reserves are included in accounts payable and other current liabilities in the Consolidated Balance Sheet.

Note 3 - Other Impairment and Restructuring Charges

	2001	2000	1999
Asset impairment charges			
Held and used in the business			
Property, plant and equipment	**$ 19**	$ 125	$ 8
Held for disposal/abandonment			
Property, plant and equipment	**-**	-	34
Total asset impairment	**19**	125	42
Restructuring charges			
Employee-related costs	**-**	41	20
Other charges	**12**	18	11
Total restructuring	**12**	59	31
Total	**$ 31**	$ 184	$ 73
After-tax	**$ 19**	$ 111	$ 45
Per share	**$0.01**	$0.06	$0.02

2001 and 2000

The 2001 and 2000 other impairment and restructuring charges relate to a three-year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's manufacturing and distribution capabilities across all of its North American businesses.

The asset impairment charges primarily reflect the reduction in the carrying value of the land, buildings and production machinery and equipment to their estimated fair market value based on analyses of the liquidation values of similar assets. The restructuring charges primarily included severance and termination benefits for approximately 1,000 employees and other shutdown costs. No future charges are expected on this project.

1999

The 1999 other impairment and restructuring charges of $73 million were comprised of the following:

- A charge of $65 million, for asset impairment of $37 million and restructuring charges of $28 million, related to the closure of three plants and impairment of equipment at Frito-Lay North America. The asset impairment charges primarily reflected the reduction in the carrying value of the land and buildings to their estimated fair market value based on selling prices for comparable real estate, less costs to sell, and the write off of the net book value of equipment which could not be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of $28 million primarily included severance costs and plant closing costs.

- A charge of $8 million, for asset impairment of $5 million and restructuring charges of $3 million, related to the previously discussed Quaker supply chain reconfiguration project. The charge included costs to consolidate several cereal manufacturing lines and employee-related costs.

The employee-related costs for 1999 of $20 million primarily included severance and early retirement benefits for approximately 930 employees. Substantially all of the terminations occurred during 1999.

Analysis of other restructuring reserves:

	Employee Related	Facility Closure	Third-Party Termination	Other	Total
Reserve, December 26, 1998	$ 70	$ 28	$ 62	$ 1	$161
1999 restructuring charges	20	8	-	3	31
Cash payments	(44)	(5)	(47)	(2)	(98)
Noncash utilization	(3)	(4)	-	-	(7)
Separation of PBG (see Note 10)	(25)	(5)	(5)	-	(35)
Reserve, December 25, 1999	18	22	10	2	52

2000 restructuring charges.....	41	18	-	-	59
Cash payments.................	(13)	(24)	(1)	-	(38)
Noncash utilization...........	(3)	(3)	-	-	(6)
Changes in estimate...........	-	(4)	-	-	(4)
Reserve, December 30, 2000.......	43	9	9	2	63
2001 restructuring charges.....	**-**	**12**	**-**	**-**	**12**
Cash payments.................	**(28)**	**(17)**	**-**	**-**	**(45)**
Changes in estimate...........	**1**	**(1)**	**-**	**-**	**-**
Reclassification to postretirement Liabilities....	**(7)**	**-**	**-**	**-**	**(7)**
Reserve, December 29, 2001.......	**$ 9**	**$ 3**	**$ 9**	**$ 2**	**$ 23**

The restructuring reserves are included in accounts payable and other current liabilities in the Consolidated Balance Sheet. Third-party termination costs involve indemnifications by PepsiCo for ongoing litigation.

Note 4 - Acquisition of South Beach Beverage Company, LLC

On January 5, 2001, we completed the acquisition of South Beach Beverage Company, LLC for approximately $337 million in cash. As of December 29, 2001, we own a 93% interest in the newly formed South Beach Beverage Company, Inc. (SoBe). SoBe manufactures and markets an innovative line of alternative non-carbonated beverages including fruit blends, energy drinks, dairy-based drinks, exotic teas and other beverages with herbal ingredients, which prior to our acquisition were distributed under license by a network of independent distributors, primarily in the United States.

Note 5 - Net Income Per Common Share

Basic net income per common share is calculated by dividing net income available to common shareholders 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 potentially dilutive effect of convertible stock or stock options.

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

	2001		2000		1999	
	Income	**Average Shares Out-standing**	Income	Average Shares Out-standing	Income	Average Shares Out-standing
Net income	**$2,662**		$2,543		$2,505	
Preferred shares:						
Dividends..................	**(4)**		(4)		(4)	
Redemption.................	**(1)**		-		-	
Net income available for common shareholders.........	**$2,657**	**1,763**	$2,539	1,748	$2,501	1,774
Basic net income per common share................	**$ 1.51**		$ 1.45		$ 1.41	
Net income available for common shareholders.........	**$2,657**	**1,763**	$2,539	1,748	$2,501	1,774
Dilutive securities:						
Stock options...............	**-**	**39**	-	38	-	37
ESOP convertible preferred Stock.....................	**3**	**4**	2	4	2	5
Unvested stock awards.......	**-**	**1**	-	1	-	1
Diluted......................	**$2,660**	**1,807**	$2,541	1,791	$2,503	1,817
Diluted net income per common share	**$ 1.47**		$ 1.42		$ 1.38	

Diluted net income per common share excludes incremental shares of 0.4 million in 2001, 0.1 million in 2000 and 49.0 million in 1999 related to employee stock options due to their antidilutive effect at each respective year end.

Note 6 - Accounts and Notes Receivable, net

	2001	2000	1999
Trade receivables.........................	**$1,663**	$1,613	

Receivables from affiliates	**171**	190	
Other receivables	**429**	452	
	2,263	2,255	
Allowance, beginning of year	**126**	109	$148
Charged to expense	**41**	42	32
Other additions	**2**	8	5
Deductions	**(48)**	(33)	(76)
Allowance, end of year	**121**	126	$109
Net receivables	**$2,142**	$2,129	

Other additions include acquisitions, currency translation effects and reclassifications. Deductions include the impact of the bottling transactions, accounts written off and currency translation effects.

Note 7 - Inventories

	2001	2000
Raw materials	**$ 535**	$ 503
Work-in-process	**205**	160
Finished goods	**570**	529
	$1,310	$1,192

The cost of approximately 20% of 2001 and 2000 inventories was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories for 2001 and 2000 are not material.

Note 8 - Property, Plant and Equipment, net

	2001	2000
Land and improvements	**$ 464**	$ 435
Buildings and improvements	**2,846**	2,722
Machinery and equipment, including fleet	**8,135**	7,522
Construction in progress	**735**	787
	12,180	11,466
Accumulated depreciation	**(5,304)**	(4,908)
	$ 6,876	$ 6,558

Depreciation expense was $843 million in 2001, $840 million in 2000 and $873 million in 1999.

Note 9 - Intangible Assets, net

	2001	2000
Goodwill	**$3,374**	$3,522
Trademarks and brands	**1,320**	994
Other identifiable intangibles	**147**	198
	$4,841	$4,714

Identifiable intangible assets possess economic value but lack physical substance. These assets primarily arise from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable intangibles are based on independent appraisals or internal estimates. Goodwill represents the excess purchase price after allocation to all identifiable net assets.

The above amounts are presented net of accumulated amortization of $1 billion at year-end 2001 and $0.9 billion at year-end 2000.

Note 10 - Investments in Unconsolidated Affiliates

During 1999, we completed a series of transactions creating our anchor bottlers that manufacture, sell and distribute carbonated and non-carbonated Pepsi-Cola beverages under master bottling agreements with us.

In April 1999, certain wholly-owned bottling businesses, referred to as The Pepsi Bottling Group (PBG), completed an initial public offering with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. We received $5.5 billion of debt proceeds as settlement of pre-existing intercompany amounts due to us and recognized a pre-tax gain of $1.0 billion ($476 million after-tax or $0.26 per share) as a result of the transaction. In May, we combined certain other bottling operations with Whitman Corporation to create new Whitman, retaining a noncontrolling ownership interest of approximately 38%. The transaction resulted in an after-tax loss to PepsiCo of $206 million or $0.11 per share. In July, we combined certain other bottling operations with PepCom Industries, Inc.

retaining a noncontrolling interest of 35% in the combined entity renamed Pepsi Bottling Ventures, LLC. This transaction was accounted for as a nonmonetary exchange for book purposes. However, a portion of the transaction was taxable and resulted in income tax expense of $25 million or $0.01 per share. In October, we formed a business venture with Pohlad Companies, a Pepsi-Cola franchisee, retaining a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary, PepsiAmericas, Inc. The transaction was structured as a fair value exchange with no resulting gain or loss.

In December 2000, Whitman merged with PepsiAmericas. At year-end 2001, we owned approximately 37% of the combined company. As part of the merger, we participate in an earn-out option whereby we may receive additional shares when certain performance targets are met. Effective January 2001, the name of the combined company was changed to PepsiAmericas.

PBG

In addition to approximately 38% of PBG's outstanding common stock that we own at year-end 2001, 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:

	2001	2000
Current assets	**$1,548**	$1,584
Noncurrent assets	**6,309**	6,152
Total assets	**$7,857**	$7,736
Current liabilities	**$1,081**	$ 967
Noncurrent liabilities	**4,856**	4,817
Minority interest	**319**	306
Total liabilities	**$6,256**	$6,090
Our equity investment	**$ 962**	$ 934

	2001	2000	1999
Net sales	**$8,443**	$7,982	$7,505
Gross profit	**$3,863**	$3,577	$3,209
Operating profit	**$ 676**	$ 590	$ 412
Net income	**$ 305**	$ 229	$ 118

The excess of our investment in PBG over our equity in the underlying net assets, net of amortization, was approximately $24 million at year-end 2001. Based upon the quoted closing price of PBG shares at year-end 2001, the calculated market value of our direct investment in PBG, excluding our investment in Bottling Group, LLC, exceeded our carrying value by approximately $1.9 billion.

PepsiAmericas (formerly Whitman)

PepsiAmericas' summarized financial information is as follows:

	2001	2000
Current assets	**$ 481**	$ 477
Noncurrent assets	**2,938**	2,859
Total assets	**$3,419**	$3,336
Current liabilities	**$ 653**	$ 887
Noncurrent liabilities	**1,336**	999
Total liabilities	**$1,989**	$1,886
Our equity investment	**$ 746**	$ 741

	2001	2000	1999
Net sales	**$3,171**	$2,528	$2,138
Gross profit	**$1,259**	$1,033	$ 890
Operating profit	**$ 268**	$ 223	$ 182
Income from continuing operations	**$ 90**	$ 72	$ 43
Net income/(loss)	**$ 19**	$ 80	$ (9)

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

The excess of our investment in PepsiAmericas over our equity in the underlying net assets, net of amortization, was approximately $212 million at year-end 2001. Based upon the quoted closing price at year-end 2001, the calculated market value of our investment in PepsiAmericas exceeded our carrying value by approximately $68 million.

Other Equity Investments

Summarized financial information regarding our principal equity investments, other than PBG and PepsiAmericas, follows. These investments are noncontrolling interests in bottling and snack food businesses. Information is presented in the aggregate and generally from the acquisition date.

	2001	2000
Current assets	**$ 953**	$1,033
Noncurrent assets	**1,970**	2,200
Total assets	**$2,923**	$3,233
Current liabilities	**$1,053**	$ 972
Noncurrent liabilities	**249**	578
Minority interest	**3**	35
Total liabilities	**$1,305**	$1,585
Our related equity investments	**$ 906**	$1,030

	2001	2000	1999
Net sales	**$4,314**	$4,714	$3,754
Gross profit	**$2,132**	$2,066	$1,691
Net income/(loss)	**$ 109**	$ 79	$ (10)

Related Party Transactions

Our significant related party transactions involve our investments in unconsolidated bottling affiliates. We sell concentrate to these affiliates that is used in the production of carbonated soft drinks and non-carbonated beverages. We also sell certain finished goods and we receive royalties for the use of our trademark for certain products. The affiliates purchase sweeteners and certain other raw materials through us. The raw material purchases on behalf of these bottling affiliates, related payments to suppliers and collections from the bottlers are not reflected in our consolidated financial statements. We also provide certain administrative and other services to these bottling affiliates under negotiated fee arrangements.

Further, because we share a common business objective with these bottling affiliates of increasing the availability and consumption of Pepsi-Cola beverages, we provide various forms of marketing support to or on behalf of them to promote our beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net sales or as selling, general and administrative expenses.

These transactions with our unconsolidated bottling affiliates are reflected in the Consolidated Statement of Income as follows:

	2001	2000	1999
Net sales	**$2,976**	$2,706	$1,924
Selling, general and administrative expenses	**$ 925**	$ 733	$ 627

As of December 29, 2001, the receivables from these bottling affiliates are $119 million and payables to these affiliates are $108 million. As of December 30, 2000, the receivables from these bottling affiliates were $187 million and payables to these affiliates were $125 million. Such amounts are settled on terms consistent with other trade receivables and payables. See Notes 13 and 20 regarding our guarantee of PBG related debt.

Note 11 - Accounts Payable and Other Current Liabilities

	2001	2000
Accounts payable	**$1,238**	$1,212
Accrued selling, advertising and marketing	**861**	986
Accrued compensation and benefits	**789**	809
Dividends payable	**255**	240
Insurance accruals	**158**	227
Other current liabilities	**1,160**	1,055
	$4,461	$4,529

Note 12 - Short-Term Borrowings and Long-Term Debt

	2001	2000
Short-term borrowings		
Current maturities of long-term debt	**$ 319**	$ 453

Other borrowings (6.4% and 7.1%)................	**410**	499
Amounts reclassified to long-term debt..........	**(375)**	(750)
	$ 354	$ 202
Long-term debt		
Short-term borrowings, reclassified.............	**$ 375**	$ 750
Notes due 2002-2026 (4.1% and 6.7%).............	**1,986**	1,924
Various foreign currency debt, due 2001 (6.5%)..	**-**	219
Zero coupon notes, $735 million due 2011-2012 (13.4%)............................	**356**	339
Other, due 2002-2015 (6.9% and 7.6%)............	**253**	230
	2,970	3,462
Less: current maturities of long-term debt.....	**(319)**	(453)
	$2,651	$3,009

The weighted average interest rates in the above table include the effects of associated interest rate and currency swaps at year-end 2001 and 2000. Also, see Notes 1 and 13 for a discussion of our use of interest rate and currency swaps, our management of the inherent credit risk and fair value information related to debt and interest rate and currency swaps.

Interest Rate Swaps

The following table indicates the notional amount and weighted average interest rates of interest rate swaps outstanding at year-end 2001 and 2000. The weighted average variable interest rates that we pay, which are primarily linked to either commercial paper or LIBOR rates, are based on rates as of the respective balance sheet date and are subject to change.

	2001	2000
Receive fixed-pay variable:		
Notional amount................................	**$1,077**	$1,335
Weighted average receive rate..................	**5.6%**	4.4%
Weighted average pay rate......................	**1.7%**	4.9%

The terms of the interest rate swaps match the terms of the debt they modify. The swaps terminate at various dates through 2011. At year-end 2001, approximately 52% of total debt, including the effects of the associated interest rate swaps, was exposed to variable interest rates, compared to 55% in 2000. In addition to variable rate long-term debt, all short-term borrowings are categorized as variable for purposes of this measure.

Currency Swaps

We entered into currency swaps to hedge our currency exposure on certain non-U.S. dollar denominated debt upon issuance of such debt. The terms of the currency swaps matched the terms of the debt they modify. We have no currency swaps at December 29, 2001.

At year-end 2000, the foreign currency risk that related to debt denominated in Swiss francs and Luxembourg francs with an aggregate carrying amount of $122 million was hedged by currency swaps. The payables under related currency swaps were $43 million, resulting in an effective U.S. dollar liability of $165 million with a weighted average interest rate of 6.6%.

Revolving Credit Facilities

At year-end 2001, we maintained $750 million of revolving credit facilities. Of the $750 million, approximately $375 million expires in June 2002 with the remaining $375 million expiring in June 2006. The credit facilities exist largely to support issuances of short-term debt and remain unused at year-end 2001. Annually, these facilities are extendable an additional year upon the mutual consent of PepsiCo and the lending institutions. These facilities are subject to normal banking terms and conditions.

The reclassification of short-term borrowings to long-term debt reflects our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings on a long-term basis.

Long-term debt outstanding at December 29, 2001, matures as follows:

	2002	2003	2004	2005	2006	Thereafter
Maturities	$319	$485	$441	$167	$602	$956

Note 13 - Derivative and Financial Instruments

On December 31, 2000, we adopted SFAS 133. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. The adoption of SFAS 133 on December 31, 2000 increased assets by approximately $12 million and liabilities by approximately $10 million with approximately $3 million recognized in accumulated other comprehensive income and a loss of less than $1 million recognized in the Consolidated Statement of Income. Accumulated other comprehensive loss included net accumulated derivative losses of $18 million as of December 29, 2001.

Cash Flow Hedges

During the next twelve months, we expect to reclassify losses of approximately $1 million from accumulated other comprehensive income into earnings. All cash flow hedges at December 29, 2001 are for periods of less than two years. Ineffectiveness resulting from cash flow hedging activities was not material to our results of operations. No cash flow hedges were discontinued during the year ended December 29, 2001 as a result of anticipated transactions that are no longer probable of occurring.

Fair Value Hedges

Ineffectiveness resulting from fair value hedging activities was not material to our results of operations. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness. In 2001, there were no hedged firm commitments that no longer qualified as fair value hedges. See Note 12 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

Prepaid Forward Contracts

The change in the fair value of these equity derivative contracts resulted in $1 million of expense during 2001, $19 million of income during 2000 and $6 million of expense during 1999. These changes in fair value were substantially offset by opposite changes in the amount of the underlying deferred compensation liability.

Fair Value

Carrying amounts and fair values of our derivative and financial instruments:

	2001		2000	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 683**	**$ 683**	$1,038	$1,038
Short-term investments	**$ 966**	**$ 966**	$ 467	$ 467
Forward exchange contracts (a)	**$ 6**	**$ 6**	$ -	$ -
Commodity contracts (a)	**$ 1**	**$ 1**		
Equity derivative contracts (a)	**$ 65**	**$ 65**	$ 66	$ 66
Interest rate swaps (a)	**$ 32**	**$ 32**	$ -	$ 12
Liabilities				
Forward exchange contracts (b)	**$ 2**	**$ 2**	$ 9	$ 9
Commodity contracts (b)	**$ 17**	**$ 17**		
Short-term borrowings and long-term debt, excluding capital leases	**$3,001**	**$3,266**	$3,205	$3,392
Interest rate swaps (b)	**$ -**	**$ -**	$ -	$ 5
Combined currency and interest rate Swaps (c)	**$ -**	**$ -**	$ 43	$ 46

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

(a) Included in Prepaid Expenses and Other Current Assets.

(b) Included in Accounts Payable and Other Current Liabilities.

(c) Included in Long-Term Debt.

Because of the short maturity of cash equivalents and short-term investments, the carrying amounts approximate fair values. Short-term investments consist primarily of debt securities and have been classified as held-to-maturity. The fair values of commodity contracts, debt, debt-related derivatives and foreign exchange derivatives were estimated using market quotes and calculations based on market rates. We have unconditionally guaranteed $2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of $59 million at December 29, 2001 and $66 million at December 30, 2000 based on market rates.

Note 14 - Income Taxes

		2001	2000	1999
Income before income taxes:				
U.S.		**$2,922**	$2,574	$3,350
Foreign		**1,107**	1,187	925
		$4,029	$3,761	$4,275
Provision for income taxes:				
Current:	U.S. Federal	**$ 926**	$ 958	$ 819
	Foreign	**226**	165	322
	State	**53**	62	56
		1,205	1,185	1,197
Deferred:	U.S. Federal	**159**	31	559
	Foreign	**(8)**	(7)	(17)
	State	**11**	9	31

	2001	2000	1999
	162	33	573
	$1,367	$1,218	$1,770
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**	1.2	1.3
Lower taxes on foreign results	**(4.3)**	(2.9)	(2.5)
Bottling transactions	**-**	-	9.0
Merger-related costs and other impairment and restructuring charges	**2.3**	(0.2)	-
Other, net	**(0.1)**	(0.7)	(1.4)
Effective tax rate	**33.9%**	32.4%	41.4%

In 1999, Quaker adjusted its tax accruals and tax assets to reflect developments and information received during the year. The net effect of these adjustments, which are included above in Other, net, reduced our 1999 provision for income taxes by $59 million or $0.03 per share.

Deferred tax liabilities/(assets):	2001	2000
Investments in unconsolidated affiliates	**$ 702**	$ 672
Property, plant and equipment	**804**	742
Safe harbor leases	**82**	94
Zero coupon notes	**68**	73
Intangible assets other than nondeductible goodwill	**121**	105
Other	**480**	448
Gross deferred tax liabilities	**$ 2,257**	$ 2,134
Net carryforwards	**(556)**	(816)
Postretirement benefits	**(320)**	(311)
Various current and noncurrent liabilities	**(805)**	(869)
Gross deferred tax assets	**(1,681)**	(1,996)
Deferred tax asset valuation allowances	**529**	822
Deferred tax assets, net	**(1,152)**	(1,174)
Net deferred tax liabilities	**$ 1,105**	$ 960
Included in:		
Prepaid expenses and other current assets	**$ (391)**	$ (407)
Deferred income taxes	**1,496**	1,367
	$ 1,105	$ 960

Net operating loss carryforwards totaling $3.2 billion at year-end 2001 are being carried forward and are available to reduce future taxable income of certain subsidiaries in a number of foreign and state jurisdictions. These net operating losses will expire as follows: $0.1 billion in 2002, $2.8 billion between 2002 and 2017 and $0.3 billion may be carried forward indefinitely. In addition, tax credit carryforwards of approximately $90 million are available to reduce certain foreign tax liabilities through 2011.

Analysis of valuation allowances:

	2001	2000	1999
Balance, beginning of year	**$ 822**	$ 810	$ 926
(Benefit)/provision	**(291)**	10	73
Other (deductions)/additions	**(2)**	2	(189)
Balance, end of year	**$ 529**	$ 822	$ 810

Other (deductions)/additions include the effects of currency translation and, in 1999, the impact of the bottling transactions.

Note 15 - Preferred and Common Stock

As of December 29, 2001, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized, which are designated as $5.46 per share cumulative preferred convertible stock. Of the authorized convertible preferred shares, 803,953 shares were issued and 736,153 shares were outstanding. Each share is convertible at the option of the holder into 4.9625 shares of common stock. The convertible preferred shares may be called for redemption at $78 per share plus accrued and unpaid dividends upon written notice. The convertible preferred stock was issued only for the ESOP and will not be traded on the open market.

Preferred stock activity:

	2001		2000		1999	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Balance, beginning of year ...	**0.8**	**$ 49**	0.9	$ 61	1.0	$70
Redemptions................	**(0.1)**	**(23)**	(0.1)	(12)	(0.1)	(9)
Balance, end of year.........	**0.7**	**$ 26**	0.8	$ 49	0.9	$61

Note 16 - Other Comprehensive Loss

The accumulated balances related to each component of other comprehensive loss were as follows:

	2001	2000	1999
Currency translation adjustment......................	**$(1,587)**	$(1,369)	$(1,080)
Cash flow hedges, net of tax: (a)			
Cumulative effect of accounting change...........	**3**	-	-
Derivative (losses)/gains, net...................	**(21)**	-	-
Minimum pension liability adjustment (a) (b).........	**(43)**	(5)	(3)
Other..	**2**	-	(2)
Accumulated other comprehensive loss................	**$(1,646)**	$(1,374)	$(1,085)

(a) Includes $7 for our share of our equity investees' accumulated derivative losses and $29 for our share of our equity investees' minimum pension liability adjustments.

(b) Net of taxes of $22 in 2001, $3 in 2000 and $2 in 1999.

Note 17 - Employee Stock Options

Stock options have been granted to employees under four different incentive plans:

- the PepsiCo SharePower Stock Option Plan (SharePower);
- the PepsiCo Long-Term Incentive Plan (LTIP);
- the PepsiCo Stock Option Incentive Plan (SOIP); and
- the Quaker Long-Term Incentive Plan (Quaker LTIP).

SharePower

SharePower stock options are granted to essentially all full-time employees. SharePower options generally have a 10-year term. Beginning in 1998, the number of SharePower options granted is based on each employee's annual earnings and tenure. These options generally become exercisable after three years. Prior to 1998, the number of options granted was based on each employee's annual earnings and generally became exercisable ratably over five years.

LTIP

All senior management and certain middle management awards are made under the LTIP. Under the LTIP, awards are generally based on a multiple of base salary. The options generally become exercisable at the end of three years and have a 10-year term. In 2001, the entire award was made in stock options with an exercise price equal to the average stock price on the date of the award. From 1998 through 2000, two-thirds of the award consisted of stock options with the balance paid in stock options or cash. At the date of these awards, the employee selected whether the remaining one-third of the award will be granted in stock options or paid in cash at the end of three years. The number of options granted or the cash payment, if any, depended on the attainment of prescribed performance goals over the three-year measurement period. If stock options were selected, they will be granted with an exercise price equal to the average stock price on the date of the grant, will vest immediately and have a 10-year term. If a cash payment is selected, one dollar of cash will be received for every four dollars of the award. Amounts expensed for expected cash payments were $64.0 million in 2001, $36.7 million in 2000 and $17.9 million in 1999. At year-end 2001, 57 million shares were available for grants under the LTIP.

SOIP

Grants under the SOIP are available to middle management employees. Under the SOIP, an employee generally receives an award based on a multiple of base salary. The options generally become exercisable at the end of three years and have a 10-year term. The entire award is made in stock options with an exercise price equal to the average stock price on the date of the award. At year-end 2001, 39 million shares were available for grants under the SOIP.

Quaker LTIP

Grants under the Quaker LTIP were made to officers and other key employees. This program provided for benefits to be awarded in a variety of ways, with stock options being used most frequently. Approximately 12 million shares of Quaker common stock were authorized for grant under the Quaker LTIP. Stock options were granted for the purchase of common stock at a price not less than the fair market value on the date of grant. Options were generally exercisable after one or more years and expire no later than 10 years from the date of grant. This plan provided that, in the event of a change in control

of Quaker, stock options become exercisable. Accordingly, upon approval by the Quaker shareholders of the merger, unvested options under this plan were vested. Upon consummation of the merger, these options were converted to PepsiCo stock options.

Stock option activity:

(Options in thousands)	**2001** Options	**2001** Weighted Average Exercise Price	2000 Options	2000 Weighted Average Exercise Price	1999 Options	1999 Weighted Average Exercise Price
Outstanding at						
Beginning of year	**170,640**	**$28.08**	188,661	$25.82	173,691	$22.43
Granted	**40,432**	**43.53**	28,660	31.92	48,711	33.90
Exercised	**(29,064)**	**21.59**	(37,039)	18.40	(24,846)	15.84
Forfeited/expired	**(5,086)**	**34.83**	(9,642)	33.93	(8,895)	32.06
Outstanding at end of year	**176,922**	**32.35**	170,640	28.08	188,661	25.82
Exercisable at end of year (a)	**83,521**	**26.32**	75,129	21.27	90,826	18.65
Weighted average fair value of options granted		$13.53		$12.04		$10.65

(a) In connection with the 1999 bottling transactions, substantially all unvested PepsiCo stock options held by bottling employees vested. The acceleration resulted in a $46 pre-tax charge included in the determination of the related net gain.

Stock options outstanding and exercisable (in thousands) at December 29, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 4.25 to $14.20	2,975	1.49 yrs.	$ 8.56	2,975	$ 8.56
$14.28 to $33.04	77,165	4.85	24.99	56,023	22.37
$34.00 to $49.00	96,782	8.02	39.13	24,523	37.43
	176,922	6.44	32.35	83,521	26.32

Pro forma income and pro forma income per common share, as if we had recorded compensation expense based on fair value for stock-based awards:

	2001	2000	1999
Reported			
Net income	**$2,662**	$2,543	$2,505
Net income per common share - basic	**$ 1.51**	$ 1.45	$ 1.41
Net income per common share - diluted	**$ 1.47**	$ 1.42	$ 1.38
Pro forma			
Net income	**$2,356**	$2,343	$2,343
Net income per common share - basic	**$ 1.33**	$ 1.34	$ 1.32
Net income per common share - diluted	**$ 1.30**	$ 1.31	$ 1.29

We estimate the fair value of stock-based awards using the Black-Scholes option-pricing model based on the following weighted average assumptions for options granted during the year:

	2001	2000	1999
Risk free interest rate	**4.8%**	6.7%	5.2%
Expected life	**5 yrs.**	5 yrs.	5 yrs.
Expected volatility	**29%**	29%	27%
Expected dividend yield	**0.98%**	1.08%	1.34%

Note 18 - Deferred Compensation - ESOP

Quaker established an ESOP for the benefit of its employees to issue debt and to use the proceeds of such debt to acquire shares of stock for future allocation to ESOP participants. The final ESOP award was made in June 2001. The ESOP borrowings are included in long-term debt in the Consolidated Balance Sheet. As annual contributions were made to the ESOP, these contributions, along with the dividends accumulated on the common and preferred stock held by the ESOP, were used to repay the outstanding loans. As the loans were repaid, common and preferred stock were allocated to ESOP participants and deferred compensation was reduced by the amount of the principal payments on the loans.

The following table presents the ESOP loan payments:	**2001**	2000

Principal payments	**$40**	$37
Interest payments	**3**	6
Total ESOP payments	**$43**	$43

As of December 29, 2001, 11 million shares of common stock and 0.7 million shares of preferred stock were held in the accounts of ESOP participants.

Note 19 - Pension and Postretirement Benefits

	2001	2000	1999
Components of net periodic pension cost:			
Service cost	**$ 127**	$ 120	$ 133
Interest cost	**233**	221	209
Expected return on plan assets	**(301)**	(277)	(269)
Amortization of transition asset	**(2)**	(3)	(3)
Amortization of prior service amendments	**8**	13	11
Amortization of (gain)/loss	**(9)**	(18)	15
Net periodic benefit cost	**56**	56	96
Curtailment/settlement loss	**1**	6	54
Special termination benefits	**26**	-	10
Net pension cost	**$ 83**	$ 62	$ 160

	2001	2000	1999
Components of net periodic postretirement cost:			
Service cost	**$ 20**	$ 22	$ 23
Interest cost	**63**	58	54
Amortization of prior service amendments	**(12)**	(12)	(14)
Amortization of gain	**-**	(1)	(1)
Net periodic benefit cost	**71**	67	62
Curtailment loss	**-**	2	-
Special termination benefits	**1**	-	3
Net postretirement cost	**$ 72**	$ 69	$ 65

	2001	2000	**2001**	2000
	Pension		**Postretirement**	
Change in benefit obligation:				
Obligation at beginning of year	**$3,170**	$3,009	**$ 834**	$ 740
Service cost	**127**	120	**20**	22
Interest cost	**233**	221	**63**	58
Plan amendments	**10**	3	**1**	-
Participant contributions	**5**	6	**-**	1
Actuarial loss	**170**	6	**50**	48
Acquisitions	**-**	3	**-**	-
Benefit payments	**(170)**	(166)	**(58)**	(43)
Curtailment/settlement loss	**2**	6	**-**	8
Special termination benefits	**26**	-	**1**	-
Foreign currency adjustment	**(17)**	(38)	**-**	-
Obligation at end of year	**$3,556**	$3,170	**$ 911**	$ 834
Change in fair value of plan assets:				
Fair value at beginning of year	**$3,251**	$3,053	**$ -**	$ -
Actual (loss)/gain on plan assets	**(382)**	281	**-**	-
Acquisitions	**-**	14	**-**	-
Employer contributions	**446**	103	**58**	42
Participant contributions	**5**	6	**-**	1
Benefit payments	**(170)**	(166)	**(58)**	(43)
Foreign currency adjustment	**(21)**	(40)	**-**	-
Fair value at end of year	**$3,129**	$3,251	**$ -**	$ -
Funded status as recognized in the Consolidated Balance Sheet:				
Funded status at end of year	**$ (427)**	$ 81	**$(911)**	$(834)
Unrecognized prior service cost	**38**	49	**(5)**	(17)
Unrecognized loss/(gain)	**548**	(349)	**91**	41
Unrecognized transition asset	**(2)**	(3)	**-**	-

Net amounts recognized................	**$ 157**	$ (222)	**$(825)**	$(810)

	2001	2000	**2001**	2000
	Pension		**Postretirement**	
Net amounts as recognized in the Consolidated Balance Sheet:				
Prepaid benefit cost..................	**$ 396**	$ 141	**$ -**	$ -
Intangible assets.....................	**-**	1	**-**	-
Accrued benefit liability.............	**(261)**	(372)	**(825)**	(810)
Accumulated other comprehensive income.	**22**	8	**-**	-
Net amounts recognized................	**$ 157**	$(222)	**$(825)**	$(810)
Selected information for plans with accumulated Benefit obligation in excess of plan assets:				
Projected benefit obligation..........	**$(419)**	$(307)	**$(911)**	$(834)
Accumulated benefit obligation........	**$(252)**	$(193)	**$(911)**	$(834)
Fair value of plan assets.............	**$ 51**	$ 36	**$ -**	$ -

In 1999, as a result of the bottling transactions, $717 million of pension benefit obligation and $205 million of postretirement benefit obligations were assumed by bottling affiliates. In addition, bottling affiliate plans assumed ownership of $659 million of pension assets. The net gain on the bottling transactions includes a curtailment/settlement net loss of $52 million.

Weighted-average pension assumptions at end of year:

	2001	2000	1999
Discount rate for benefit obligation................	**7.4%**	7.7%	7.7%
Expected return on plan assets......................	**9.8%**	9.9%	10.0%
Rate of compensation increase.......................	**4.6%**	4.5%	4.5%

The discount rate assumption used to compute the postretirement benefit obligation at year end was 7.5% in 2001 and 7.8% in 2000.

Pension Assets

The pension plan assets are principally invested in stocks and bonds. These assets include approximately 4.7 million shares of PepsiCo common stock with a fair value of $227 million in 2001 and $214 million in 2000. Subsequent to the measurement date of September 30, 2001, 0.8 million shares of PepsiCo common stock were purchased and, during 2000, 1.8 million shares were sold. A one-percentage point decrease in our expected return on assets would have increased our net periodic pension cost by approximately $31 million in 2001.

Health Care Cost Trend Rates

An average increase of 7.5% in the cost of covered postretirement medical benefits is assumed for 2002. This average increase is then projected to decline gradually to 4.5% in 2008 and thereafter. Generally, our costs are capped at a specified dollar amount.

Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical plans. A one-percentage point change in assumed health care costs would have the following effects:

	1% Increase	1% Decrease
2001 service and interest cost components.........	$ 7	$ (6)
2001 accumulated benefit obligation...............	$61	$(52)

Note 20 - Commitments, Contingencies and Leases

Contingent liabilities primarily reflect guarantees to support financial arrangements of certain unconsolidated affiliates, including the unconditional guarantee for $2.3 billion of Bottling Group, LLC’s long-term debt. We believe that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

In March 2000, we entered into a ten-year lease for office space to be constructed in Chicago, Illinois. The new Chicago office is currently in development and is expected to be completed in 2002. Our obligations under the lease are contingent upon completion of the building and satisfaction of certain other obligations by the lessor.

Certain equipment and operating properties are rented under non-cancelable and cancelable operating leases and may provide for renewal options or escalation clauses. Total rent expense under operating leases was $165 million in 2001, $171 million in 2000 and $137 million in 1999. The following is a schedule of future minimum annual rentals on non-cancelable operating leases, in effect as of December 29, 2001:

	2002	2003	2004	2005	2006	Thereafter	Total
Total payments	$138	$111	$95	$57	$42	$162	$605

Note 21 - Business Segments

In early 1999, in contemplation of the separation from PepsiCo of our bottling operations, we completed a reorganization of our beverage businesses and presented our operating results for 1999 consistent with the new beverage organization. Therefore, the results of previously consolidated bottling operations in which we now own an equity interest through the applicable transaction closing dates in 1999 are presented separately with the first quarter 1999 equity income or loss of other unconsolidated bottling affiliates. From the applicable transaction closing dates in 1999, the equity income of those previously consolidated bottling operations and the equity income or loss of other unconsolidated bottling affiliates from the second quarter of 1999 are presented separately below operating profit in the Consolidated Statement of Income. The combined results of our six ongoing reportable segments are referred to as New PepsiCo. The North American segments include the United States and Canada.

The accounting policies of the segments are the same as those described in Note 1. Merger-related costs and other impairment and restructuring charges are not included in segment results. All intersegment net sales and expenses are immaterial and have been eliminated in computing net sales and operating profit.

Frito-Lay North America

Frito-Lay North America (FLNA) manufactures, markets, sells and distributes salty, sweet and grain-based snacks. Products manufactured and sold include Lay's potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese flavored snacks, Ruffles potato chips, Fritos corn chips, a variety of dips and salsas, Quaker Chewy granola bars, Rold Gold pretzels, Sunchips multigrain snacks and Funyuns onion flavored rings.

Frito-Lay International

Frito-Lay International (FLI) manufactures, markets, sells and distributes primarily salty and sweet snacks. Products include Sabritas snack foods and Alegro and Gamesa sweet snacks in Mexico, Walkers snack foods in the United Kingdom and Smith's snack foods in Australia. Frito-Lay International also includes non-snack products, such as cereals that are not material.

Pepsi-Cola North America

Pepsi-Cola North America (PCNA) markets, promotes and manufactures concentrates for Pepsi, Mountain Dew, MUG, Sierra Mist, Slice and other brands for sale to franchised bottlers. It also sells syrups for these brands to national fountain accounts. Pepsi-Cola North America receives a royalty fee for licensing the processing, distribution and sale of Aquafina bottled water; manufactures, markets and distributes ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks; and manufactures and sells SoBe and Dole beverages for distribution and sale through our franchise bottling system.

Gatorade/Tropicana North America

Gatorade/Tropicana North America (GTNA) produces, markets, sells and distributes Gatorade sports drinks, Tropicana Pure Premium, Tropicana Season's Best, Tropicana Twister and Dole juices.

PepsiCo Beverages International

PepsiCo Beverages International (PBI) manufactures concentrates of Pepsi, 7UP, Mirinda, KAS, Mountain Dew and other brands internationally for sale to franchised and company-owned bottlers. PBI also produces, markets, sells and distributes Gatorade sports drinks as well as Tropicana and other juices. In addition, PBI operates bottling plants and distribution facilities in certain international markets for the production, distribution and sale of company-owned and licensed brands.

Quaker Foods North America

Quaker Foods North America (QFNA) manufactures, markets and sells ready-to-eat cereals, hot cereals, flavored rice and pasta products, mixes and syrups, hominy grits and cornmeal in North America. Products manufactured and sold include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni products, Aunt Jemima mixes and syrups and Quaker grits.

Fiscal Year

Comparisons of 2000 to 2001 and 1999 are affected by an additional week of results in the 2000 reporting period. The estimated impact of the fifty-third week on 2000 segment results is 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
	$294	68
Corporate unallocated		(6)

$62
========

Business Segments

	2001	2000	1999
	Net Sales		
Worldwide Snacks			
- - Frito-Lay North America	**$ 9,374**	$ 8,971	$ 8,232
- - Frito-Lay International	**5,130**	4,875	4,274
Worldwide Beverages			
- - Pepsi-Cola North America	**3,842**	3,289	2,605
- - Gatorade/Tropicana North America	**4,016**	3,841	3,452
- - PepsiCo Beverages International	**2,582**	2,531	2,407
Quaker Foods North America	**1,991**	1,972	1,993
Combined Segments	**26,935**	25,479	22,963
Quaker divested businesses	**-**	-	7
Bottling Operations/Investments	**-**	-	2,123
	$26,935	$25,479	$25,093
	Operating Profit		
Worldwide Snacks			
- - Frito-Lay North America	**$ 2,056**	$ 1,915	$ 1,679
- - Frito-Lay International	**627**	546	455
Worldwide Beverages			
- - Pepsi-Cola North America	**927**	833	751
- - Gatorade/Tropicana North America	**530**	500	433
- - PepsiCo Beverages International	**221**	169	108
Quaker Foods North America	**415**	392	363
Combined Segments	**4,776**	4,355	3,789
Merger-related costs	**(356)**	-	-
Other impairment and restructuring charges	**(31)**	(184)	(73)
Corporate (a)	**(368)**	(353)	(286)
Bottling Operations/Investments	**-**	-	53
	$ 4,021	$ 3,818	$ 3,483

Business Segments (continued)

	2001	2000	1999
	Total Assets		
Worldwide Snacks			
- - Frito-Lay North America	**$ 4,623**	$ 4,282	$ 4,146
- - Frito-Lay International	**4,381**	4,352	4,425
Worldwide Beverages			
- - Pepsi-Cola North America	**1,325**	836	729
- - Gatorade/Tropicana North America	**4,328**	4,143	3,927
- - PepsiCo Beverages International	**1,747**	1,923	1,988
Quaker Foods North America	**917**	952	1,036
Combined Segments	**17,321**	16,488	16,251
Quaker divested businesses	**-**	-	2
Corporate (b)	**1,927**	1,737	1,226
Bottling Operations/Investments	**2,447**	2,532	2,469
	$21,695	$20,757	$19,948
	Amortization of Intangible Assets		
Worldwide Snacks			
- - Frito-Lay North America	**$ 7**	$ 7	$ 8
- - Frito-Lay International	**46**	46	46
Worldwide Beverages			
- - Pepsi-Cola North America	**19**	2	2
- - Gatorade/Tropicana North America	**69**	68	69
- - PepsiCo Beverages International	**16**	16	16
Quaker Foods North America	**8**	8	8

Combined Segments	**165**	147	149
Bottling Operations/Investments	**-**	-	44
	$ 165	$ 147	$ 193

	Depreciation and Other Amortization Expense		
Worldwide Snacks			
- - Frito-Lay North America	**$ 377**	$ 374	$ 345
- - Frito-Lay International	**187**	182	158
Worldwide Beverages			
- - Pepsi-Cola North America	**64**	94	72
- - Gatorade/Tropicana North America	**129**	118	107
- - PepsiCo Beverages International	**99**	111	104
Quaker Foods North America	**43**	51	53
Combined Segments	**899**	930	839
Corporate	**18**	16	10
Bottling Operations/Investments	**-**	-	114
	$ 917	$ 946	$ 963

	2001	2000	1999
	Capital Spending		
Worldwide Snacks			
- - Frito-Lay North America	**$ 514**	$ 524	$ 485
- - Frito-Lay International	**291**	278	295
Worldwide Beverages			
- - Pepsi-Cola North America	**70**	59	22
- - Gatorade/Tropicana North America	**289**	261	216
- - PepsiCo Beverages International	**95**	98	128
Quaker Foods North America	**57**	96	58
Combined Segments	**1,316**	1,316	1,204
Corporate	**8**	36	42
Bottling Operations/Investments	**-**	-	95
	$ 1,324	$ 1,352	$ 1,341
	Investments in Unconsolidated Affiliates		
Frito-Lay International	**$ 361**	$ 373	$ 284
Pepsi-Cola North America	**25**	32	50
Gatorade/Tropicana North America	**10**	13	17
PepsiCo Beverages International	**6**	6	4
Quaker Foods North America	**-**	1	1
Combined Segments	**402**	425	356
Corporate	**22**	22	22
Bottling Operations/Investments	**2,447**	2,532	2,469
	$ 2,871	$ 2,979	$ 2,847
	Equity Income/(Loss) and Transaction Gains/(Losses)		
Frito-Lay International	**$ 32**	$ 26	$ 3
Pepsi-Cola North America	**40**	33	31
Gatorade/Tropicana North America	**(3)**	-	1
PepsiCo Beverages International	**3**	2	1
Quaker Foods North America	**(8)**	(4)	-
Combined Segments	**64**	57	36
Bottling Operations/Investments (c)	**160**	130	1,076
	$ 224	$ 187	$ 1,112

Geographic Areas	2001	2000	1999
	Net Sales		
United States	**$18,215**	$17,051	$15,406
International	**8,720**	8,428	7,564
Combined Segments	**26,935**	25,479	22,970
Bottling Operations/Investments	**-**	-	2,123
	$26,935	$25,479	$25,093
	Long-Lived Assets (d)		
United States	**$ 9,689**	$ 9,285	$ 9,093
International	**4,899**	4,966	5,099
Combined Segments	**$14,588**	$14,251	$14,192

(a) Corporate expenses include unallocated corporate headquarters expenses and costs of centrally managed initiatives and insurance programs, foreign exchange transaction gains and losses and certain one-time charges.

(b) Corporate assets consist principally of cash and cash equivalents, short-term investments primarily held outside the U.S., property, plant and equipment, and other investments and unconsolidated affiliates.

(c) Includes our share of the net earnings or losses from our bottling equity investments and any gains or losses from disposals, as well as other transactions related to our bottling investments. Includes in 1999, a gain of $1 billion ($270 after-tax or $0.15 per share) related to our PBG and PepsiAmericas bottling transactions.

(d) Long-lived assets represent net property, plant and equipment, net intangible assets and investments in unconsolidated affiliates.

Note 22 - Selected Quarterly Financial Data
(unaudited)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
PepsiCo	$4,539	$5,281		
Quaker	1,227	1,514		
Adjustments (a)	(436)	(82)		
Net sales	**$5,330**	**$6,713**	**$6,906**	**$7,986**
PepsiCo	$2,748	$3,250		
Quaker	677	846		
Adjustments (a)	(240)	(52)		
Gross profit	**$3,185**	**$4,044**	**$4,178**	**$4,774**
Merger-related costs (b)	**$ -**	**$ -**	**$ 235**	**$ 121**
Quaker	$ 4	$ 5		
Adjustments (a)	-	(1)		
Other impairment and restructuring charges (c)	**$ 4**	**$ 4**	**$ 13**	**$ 10**
PepsiCo	$ 498	$ 652		
Quaker	109	170		
Adjustments (a)	(37)	(24)		
Net income	**$ 570**	**$ 798**	**$ 627**	**$ 667**
Net income per common share - basic (d)	**$ 0.33**	**$ 0.45**	**$ 0.35**	**$ 0.38**
Net income per common share - diluted (d)	**$ 0.32**	**$ 0.44**	**$ 0.34**	**$ 0.37**
Cash dividends declared per common share (e)	**$ 0.14**	**$0.145**	**$0.145**	**$0.145**
Stock price per share (f)				
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

2000 (g)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
PepsiCo	$4,191	$4,928	$4,909	$6,410
Quaker	1,172	1,398	1,475	996
Adjustments (a)	(422)	(76)	37	461
Net sales	$4,941	$6,250	$6,421	$7,867
PepsiCo	$2,514	$3,037	$3,044	$3,900
Quaker	649	761	831	512
Adjustments (a)	(229)	(45)	7	272
Gross profit	$2,934	$3,753	$3,882	$4,684
Quaker	$ 173	$ 4	$ -	$ 6
Adjustments (a)	(172)	167	6	-
Other impairment and restructuring charges (c)	$ 1	$ 171	$ 6	$ 6
PepsiCo	$ 422	$ 563	$ 587	$ 611
Quaker	2	151	159	48
Adjustments (a)	72	(120)	9	39
Net income	$ 496	$ 594	$ 755	$ 698
Net income per common share - basic (d)	$ 0.28	$ 0.34	$ 0.43	$ 0.40
Net income per common share - diluted (d)	$ 0.28	$ 0.33	$ 0.42	$ 0.39
Cash dividends declared per common share (e)	$0.135	$ 0.14	$ 0.14	$ 0.14
Stock price per share (f)				
High	$38.63	$42.50	$47.06	$49.94
Low	$29.69	$31.56	$39.69	$41.31
Close	$33.00	$41.25	$42.31	$49.56

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's, conforming the accounting policies of the two companies applicable to interim periods, and certain reclassifications for gross profit and other impairment and restructuring charges.

(b) Merger-related costs in 2001 (Note 2):

	Third Quarter	Fourth Quarter
Pre-tax	$ 235	$ 121
After-tax	$ 231	$ 91
Per share	$0.13	$0.05

(c) Other impairment and restructuring charges (Note 3):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Pre-tax	$4	$ 4	$ 13	$10
After-tax	$2	$ 3	$ 8	$ 6
Per share	$-	$ -	$0.01	$ -
2000				
Pre-tax	$1	$ 171	$ 6	$ 6
After-tax	$-	$ 103	$ 4	$ 4
Per share	$-	$0.06	$ -	$ -

(d) 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.

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

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

(g) Fiscal year 2000 consisted of fifty-three weeks and 1999 consisted of fifty-two weeks. The impact for the fourth quarter and full year to net sales was an estimated $294, to operating profit was an estimated $62, and to net income was an estimated $44 or $0.02 per share.

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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 accountants 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 29, 2001 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

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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 29, 2001 and December 30, 2000 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 29, 2001. 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 29, 2001 and December 30, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
February 6, 2002

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Selected Financial Data (in millions except per share amounts, unaudited)

	2001(a)(b)	2000(b)(c)	1999(b)(d)
Net sales	**$26,935**	$25,479	$25,093
Income from continuing operations	**$ 2,662**	$ 2,543	$ 2,505
Income per common share - continuing operations - basic	**$ 1.51**	$ 1.45	$ 1.41
Income per common share - continuing operations - diluted	**$ 1.47**	$ 1.42	$ 1.38
Cash dividends declared per common share (f)	**$ 0.575**	$ 0.555	$ 0.535
Total assets	**$21,695**	$20,757	$19,948
Long-term debt	**$ 2,651**	$ 3,009	$3,527

	1998(b)(e)	1997(b)(g)
Net sales	$27,191	$25,933
Income from continuing operations	$ 2,278	$ 561
Income per common share - continuing operations - basic	$ 1.27	$ 0.30
Income per common share - continuing operations - diluted	$ 1.23	$ 0.30
Cash dividends declared per common share (f)	$ 0.515	$ 0.49
Total assets	$25,170	$22,798
Long-term debt	$ 4,823	$ 5,834

As a result of the bottling deconsolidation in 1999 and the Tropicana acquisition late in 1998, the data provided above is not comparable. In 1997, we disposed of our restaurants segment and accounted for the disposal as discontinued operations. Accordingly, all information has been restated for 1997.

(a) Includes merger-related costs of $356 ($322 after-tax and $0.18 per share).

(b) Includes other impairment and restructuring charges of $31 ($19 after-tax or $0.01 per share) in 2001, $184 ($111 after-tax or $0.06 per share) in 2000, $73 ($45 after-tax or $0.02 per share) in 1999, $482 ($379 after-tax or $0.21 per share) in 1998 and $331 ($265 after-tax or $0.14 per share) in 1997.

(c) The 2000 fiscal year consisted of fifty-three weeks compared to fifty-two weeks in our normal fiscal year. The fifty-third week increased 2000 net sales by an estimated $294 and net income by an estimated $44 (or $0.02 per share).

(d) Includes a net gain on bottling transactions of $1.0 billion ($270 after-tax or $0.15 per share) and a tax provision related to the PepCom transaction of $25 ($0.01 per share), and a Quaker favorable tax adjustment of $59 (or $0.03 per share).

(e) Includes a tax benefit of $494 (or $0.27 per share) related to final agreement with the IRS to settle a case related to concentrate operations in Puerto Rico.

(f) Cash dividends per common share are those of pre-merger PepsiCo prior to the effective date of the merger.

(g) Includes a loss on a business divestiture of $1.4 billion ($1.1 billion after-tax or $0.61 per share).

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EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated as of December 2, 2000, by and among The Quaker Oats Company, a New Jersey corporation (the "Company"), PepsiCo, Inc., a North Carolina corporation ("Parent"), and Robert S. Morrison (the "Executive").

WHEREAS, the Company has entered into an Agreement and Plan of Merger of even date herewith (the "Acquisition Agreement"), among the Parent, the Company and BeverageCo, Inc., a wholly-owned subsidiary of the Parent (the "Merger Sub"), pursuant to which the Merger Sub will merge with and into the Company, with the Company as the surviving corporation (the "Transaction"); and

WHEREAS, the Parent, Company and the Executive desire to set forth in a written agreement the terms and conditions under which the Executive will render services to the Parent and continue to render services to the Company after the consummation of the Transaction.

NOW, THEREFORE, the parties hereto, in consideration of the mutual covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, agree as follows:

1. Employment Period.

(a) This Agreement shall become effective at the "Effective Date," which shall mean immediately following the closing of the Transaction, if any, provided that the Executive remains employed by the Company at all times through the Effective Date. If the Transaction is not consummated, or if the Executive ceases for any reason to be employed by the Company through the Effective Date, this Agreement shall be null and void and of no further force or effect.

(b) The Executive shall serve the Parent and Company, on the terms and conditions set forth in this Agreement, for the period beginning at the Effective Date and ending on the date set forth on Exhibit A hereto (the "Employment Period"), subject to earlier termination as provided herein.

2. Position and Duties.

(a) During the Employment Period, the Parent shall cause the Executive to be employed by the Company and the Executive shall serve the Parent and the Company in the positions set forth on Exhibit A hereto, with primary responsibilities for the development of the Company business plan and the assimilation and integration of Company's business operations with Parent. Executive shall also be elected a director of Parent and the Company.

(b) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote his full business attention and time to the business and affairs of the Company and shall use his reasonable best efforts to carry out his duties and responsibilities hereunder faithfully and efficiently. It shall not be a violation of the foregoing for the Executive to (i) serve on corporate, civic or charitable boards or committees or (ii) manage personal investments, so long as such activities do not materially interfere with the performance of his responsibilities hereunder or violate Section 6 hereof.

(c) The Executive's services shall be performed primarily at the Company's offices in the Chicago, Illinois metropolitan area..

3. Compensation.

(a) Salary. As compensation for the Executive's services hereunder during the Employment Period, the Company shall pay to the Executive a base salary (hereinafter the "Base Salary") at an annual rate not less than the amount set forth in Exhibit A hereto, payable at such times and intervals as the Company customarily pays the base salaries of its other executive employees. During the Employment Period, the Base Salary shall be reviewed annually for possible increase in accordance with the Company's normal payroll practices for management personnel. The Base Salary shall not be reduced after any such increase, and the term "Base Salary" shall thereafter refer to the Base Salary as so increased.

(b) Incentive Compensation. In addition to the Base Salary, the Executive shall be eligible to earn an annual bonus (the "Annual Bonus"), with a target bonus equal to the amount specified in Exhibit A hereto. In addition, the Executive shall be awarded stock options on the terms and conditions set forth on Exhibit B hereto under Parent's 1994 Long-Term Incentive Plan (the "LTIP"). Finally, the Executive shall be entitled to receive a special supplemental payment (the "Supplemental Payment") in the amount and on the date set forth in Exhibit A hereto, if the Executive remains employed by the Company on such date, or in the event of his earlier termination, as set forth herein. Nothing herein shall be deemed to modify the terms of any stock options or other equity-based awards held by Executive as of the Effective Date, which awards shall continue to be governed by the terms thereof (after giving effect to the Acquisition Agreement).

(c) Group/Executive Benefits and Fringe Benefits. During the Employment Period, the Executive shall be entitled to participate in any group or executive savings, retirement and welfare benefit plans, and in fringe benefit and perquisite programs (including, without limitation, medical, life insurance and other welfare benefits and benefits under qualified and nonqualified retirement and savings plans) of the Company or the Parent, as the case may be, to the same extent as, and on the same terms and conditions as, other similarly situated executives of the Parent or Company from time to time, with credit for service credited by the Company under such plans and programs prior to the closing of the Transaction (collectively, along with the Supplemental Retirement Benefits described in Section 5 below, referred to as "Benefits"). In addition, Executive shall be entitled to defer all salary and bonus payments hereunder under the Parent's Executive Income Deferral Program, provided, however, that Executive shall not elect to have any deferred amounts deemed invested in Parent common stock without the prior approval of Parent.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement of all reasonable business expenses incurred by the Executive during the Term in carrying out his duties under this Agreement, provided that the Executive complies with the policies, practices and procedures of the Company for submission of expense reports, receipts, or similar documentation of such expenses, as in effect from time

to time.

(e) Change of Control. The Parent shall offer to enter into, or shall cause the Company to offer to enter into, a change-of-control employment agreement with the Executive on the same terms and conditions as such or similar agreement may be entered into by Parent with other similarly situated executives of Parent or its subsidiaries (the "Change of Control Agreement").

(f) Corporate Loan. Within five (5) days after the Effective Date or such later date as requested by Executive in writing, Parent shall lend Executive the amount requested, not exceeding a principal sum of $10,000,000, bearing interest on the unpaid principal sum, compounded quarterly, at the short term applicable Federal rate at the time such loan is made. Such principal and interest shall be due and payable 30 days after the earlier of (i) the last day of the Initial Term or (ii) the termination of Executive's employment. The loan shall be unsecured but with full recourse against Executive. The loan shall be evidenced by a promissory note substantially in the form attached as Exhibit C hereto.

4. Employment Termination.

(a) Termination by the Company. (i) The Executive's employment may be terminated by the Parent for Cause (as defined below), or for any other reason, including Disability (as defined below) (a termination without Cause). The Parent shall give the Executive notice of termination specifying which of the foregoing provisions is applicable and, in the case of a termination for Cause, the factual basis therefor, and the termination shall be effective upon the 5th day after such notice is given or such later day as may be specified in such notice (such day, the "Date of Termination").

(ii) "Disability" shall mean a disability that would entitle Executive to receive benefits under the long-term disability plan of the Company, or any of its affiliates, including by limited to Parent (the "Affiliated Companies"), applicable to Executive, as in effect from time to time, which prevents the Executive from performing his duties hereunder for 180 consecutive days or more.

(iii) "Cause" shall mean that, as established by clear and convincing evidence, Executive engaged in gross misconduct by committing a significant violation of the Parent's or Company's Code of Ethics or by committing a significant breach of any material covenant, agreement or obligation under this Agreement; provided that, if appropriate under the circumstances (taking into account the nature of the offense), the Parent has called the alleged misconduct to Executive's attention and he is allowed a reasonable opportunity to cure it. A determination of Cause by gross misconduct must be made by a two-thirds vote of the full Board of Directors of Parent (excluding Executive), and must be communicated in writing to Executive by a Notice of Termination, which shall include a certification or a copy of the resolution duly adopted by said Board by the required two-thirds vote.

(iv) "Notice of Termination" shall mean a written notice which (A) indicates the type of termination under this Agreement (e.g., for Cause) and cites the applicable provision of this Agreement, (B) briefly describes the facts and circumstances claimed to provide a basis for the stated type of termination, if applicable, and (C) specifies the date of termination from active service.

(b) Termination by Executive. (i) The Executive's employment may be terminated by the Executive for "Good Reason"(as defined below), or without Good Reason. The Executive shall give the Parent and Company Notice of Termination, and the termination shall be effective upon the 30th business day after such notice is given unless the Parent agrees to an earlier day (such day, the "Date of Termination").

(ii) A termination by the Executive shall be for "Good Reason" if it occurs within 30 days after, and as a result of, one of the following:

(A) the Parent or Company intentionally fails to pay or provide required compensation, after such omission has been called to the Company’s attention and the Company has been given a reasonable opportunity to cure it;

(B) the Parent or Company significantly reduces Executive’s titles, position, duties or authority as set forth in Section 2(a) of this Agreement or Executive fails to be elected or is removed from the Board of Directors of Parent or the Company;

(C) any material breach by the Parent or Company of this Agreement, provided, such breach is called to the Parent’s or Company’s attention and the Parent or Company has been given a reasonable opportunity to cure it; or

(D) any relocation by the Parent or the Company of the Executive’s principal place of business away from the Chicago, Illinois metropolitan area, unless the Executive consents, in his sole discretion, to such relocation.

(c) Consequences of Termination by the Company without Cause or by the Executive for Good Reason. If, during the Employment Period, the Executive's employment is terminated by the Parent without Cause or by the Executive for Good Reason, the Executive shall, for the remainder of the Initial Term, nonetheless remain an employee through the end of the Initial Term of the Company to perform such duties as he and the Chief Executive Officer of Parent shall mutually agree, and shall receive from the Company:

(i) a lump sum cash payment, within 30 days after the Date of Termination, equal to the sum of: (I) the unpaid Base Salary, if any, payable through the end of the Initial Term, or if applicable, the Extended Term (determined without deferral of any amount pursuant to based on Section 162(m) of the Internal Revenue Code of 1986, as amended, (the "Code")), at the rate in effect immediately before the Date of Termination (but, in the case of a termination by the Executive for Good Reason, disregarding any reduction thereof that was the basis for such termination), plus (II) the unpaid Annual Bonus that would be payable through the end of the Initial Term, or if applicable the Extended Term, assuming such Annual Bonus was payable at the rate equal to the greater of (x) the most recent annual performance target on which such year's Annual Bonus is determined, or (y) Executive's fiscal 2000 Annual Bonus amount awarded by the Company; plus

(ii) any unpaid Supplemental Payment; plus

(iii) any accrued but unpaid Benefits, payable in accordance with the term thereof; plus

(iv) continued Benefits for the period ending on the last day of the Initial Term. Thereafter, Executive shall be considered to be a retiree under the terms of the applicable Benefit plans; plus

(v) full vesting on the Date of Termination of stock options theretofore granted under Section 3(b) above and the grant of stock options described on Exhibit B (to the extent not theretofore granted) which stock options shall be fully vested on the date of grant; provided that such stock options shall not be exercisable until the earlier of the third anniversary of the date of grant or such date on which the vesting of such stock options would, but for the provisions of this Section 4(c)(v), have occurred prior to such third anniversary under the terms of the LTIP or such options, and such stock options shall remain exercisable for their full ten-year term.

(d) Other Employment Terminations. If, during the Employment Period, the Executive's employment is terminated for any reason other than by the Company without Cause or by the Executive for Good Reason, the Executive shall not be entitled to any compensation provided for under this Agreement, other than (i) Base Salary through the Date of Termination; (ii) benefits under any long-term disability insurance coverage in the case of termination because of Disability; and (iii) vested Benefits.

(e) Retiree Status. Subject to the provisions of any retirement plan qualified under Section 401(a) of the Code, upon termination of Executive's employment for any reason, he shall be regarded as a retired senior officer of the Company for purposes of all benefits payable under this Agreement and any benefit plan or agreement of the Parent or the Company in which Executive participates, other than with respect to the stock options granted pursuant to Section 3(b).

5. Supplemental Retirement Benefits.

(a) Subject to the proration provisions described in Section 5(d) below, upon termination of employment for any reason, Executive shall receive a supplemental retirement benefit pursuant to this Agreement which, in combination with any and all retirement benefits to which Executive is entitled or received under any qualified or non-qualified defined benefit plans of Parent, the Company and any of Executive's former employers, will produce for him, upon commencement of benefits at or after age 60, aggregate retirement benefits such that the annualized amount, on a straight life annuity basis, is equal to the greater of: (i) fifty percent (50%) of his average cash compensation (annualized base salary and annual performance bonus) for his five consecutive full calendar years of employment with the Company (including years prior to the Effective Date) that produce highest average cash compensation, or if his actual number of full calendar years of employment with the Company (including years prior to the Effective Date) is less than five, then such average for such number of full calendar years, as determined under Section 6(a) of that certain Employment Agreement between the Executive and the Company, effective October 22, 1997 (the "1997 Employment Agreement")); or (ii) fifty percent (50%) of such average cash compensation determined by taking into account only the three full calendar years of employment with the Company prior to the Effective Date; or (iii) nine hundred fifty thousand dollars ($950,000.00). In determining the set-off for other retirement benefits, the value of those benefits shall be calculated as if Executive had elected to receive each benefit on a straight life annuity basis, regardless of the form of payment he actually elected (including any lump sum payment).

(b) Executive may elect to take the supplemental benefit described in Section 5(a) in any form permitted under the Company Supplemental Executive Retirement Program (the "SERP") or the Company Retirement Plan, including, but not limited to, a lump sum payment, subject to the applicable actuarial adjustment prescribed by the plan in question for electing such alternate form of payment instead of a straight life annuity.

(c) Subject to Section 5(f), if Executive commences receipt of the supplemental retirement benefit described in Section 5(a) before attaining age 60, then the benefit shall be subject to actuarial reduction, calculated in accordance with the terms of the SERP.

(d) Subject to Section 5(f), if, before the end of the Initial Term, Executive's employment is terminated by the Company for Cause or is terminated by Executive without Good Reason, then the supplemental retirement benefit described in Section 5(a) shall be prorated based on the number of months Executive was actively employed with the Company, as follows: (i) multiply the formula figure determined under Section 5(a) (without subtracting any set-off for other retirement benefits) by a fraction, the numerator of which is the number of months Executive was actively employed by the Company, and the denominator of which is sixty (60); and then (ii) subtract the set-off for other retirement benefits, as described in Section 5(a). Provided, if Executive does not accept a position with any other company (other than one which is wholly owned by Executive and/or members of his immediate family and which has annual gross sales revenue of less than $1,000,000.00) during the one-year period following his last day of active service with the Company, then the proration formula shall be more favorable to Executive, as follows: (x) calculate the net supplemental retirement benefit under Section 5(a), including subtracting the set-off for other retirement benefits; and then (y) multiply that amount by a fraction, the numerator of which is the number of months Executive was actively employed by the Company, and the denominator of which is sixty (60).

(e) If Executive dies before the supplemental retirement benefit described in Section 5(a) becomes payable, his wife shall receive a survivor annuity for the rest of her life equal in amount to the straight life annuity which would have been payable to Executive under Section 5(a) if, on the date immediately before his death, he had terminated his employment for Good Reason, taking into account all set-offs that would have applied to his benefit, except that if his spouse only receives a reduced survivor annuity under the Company Retirement Plan, then that amount, rather than the full straight life annuity which would have been payable to Executive, shall be set-off with respect to the Company Retirement Plan.

(f) For the purpose of the foregoing provisions of this Section 5, upon a termination of Executive's employment with the Company (i) in a Qualifying Termination (as defined under Exhibit A) at any time or (ii) for any reason after the last day of the Initial Term, then Executive shall be considered to have attained the later of age 60 or his actual attained age on such termination date.

(g) In addition to the foregoing, upon a termination of Executive's employment with the Company (i) in a Qualifying Termination (as defined under Exhibit A) at any time or (ii) for any reason after the last day of the Initial Term, Executive shall be entitled to such benefits under the Parent's or Company's supplemental or non-qualified defined pension benefit plans with respect to his service after the Effective Date.

6. Covenants.

(a) Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company and the Affiliated Companies (as defined in Section 4(a)(ii)) all secret or confidential information, knowledge or data relating to the Company or any of the Affiliated Companies and their respective businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research, secret data, costs or names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Executive has obtained or obtains during his employment by the Company or any of the Affiliated Companies and that is not public knowledge (other than as a result of the Executive's violation of this Section 6(a)) ("Confidential Information"). For the purposes of this Section 6(a), information shall not be deemed to be publicly available merely because it is embraced by general disclosures or because individual features or combinations thereof are publicly available. The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company or any of the Affiliated Companies, except with the prior written consent of the Company or such Affiliated Company, as applicable, or as otherwise required by law or legal process. All records, files, memoranda, reports, customer lists, drawings, plans, documents and the like that the Executive uses, prepares or comes into contact with during the course of the Executive's employment shall remain the sole property of the Company and/or one or more of the Affiliated Companies, as applicable, and shall be turned over to the Company or such Affiliated Company, as applicable, upon termination of the Executive's employment.

(b) No Solicitation. The Executive agrees that he shall not, at any time during the Noncompetition Period (as defined in Section 6(c) below), directly or indirectly employ, or solicit the employment of (whether as an employee, officer, director, agent, consultant or independent contractor), any person who is or was at any time during the previous six (6) months an employee, representative, officer or director of the Company or any of the Affiliated Companies (except for such employment by the Company or any of the Affiliated Companies).

(c) Noncompetition. In light of Executive's exposure to and participation in the development of the Company's and the Affiliated Companies' business strategies, operating techniques and market development plans, Executive shall during the Employment Period and for a period of two years immediately following the Employment Period, abide by the following covenants and restrictions:

(i) He shall not Participate in the management of business entity that produces, markets, sells, distributes or licenses Covered Products, unless that entity is merely a retailer or consumer of Covered Products who does not compete against the Company or any Affiliated Company in any way.

(ii) The following definitions shall apply to this Section 5(c):

(A) "Covered Products" means any product which falls into one or more of the following categories, so long as the Company or any Affiliated Company is producing, marketing, distributing, selling or licensing such product anywhere in the world, including, non-alcoholic beverages; bottled water; hot cereals; ready-to-eat cereals; grain and/or potato-based snacks, including salty snacks and cookies; value-added pasta products; dry pasta products; value-added rice products; nuts; pancake mixes; pancake syrup; confectionary products and items the Company or any Affiliated Company produces for the food service market.

(B) "Participate" shall be construed broadly to include, without limitation: (1) holding a position in which Executive directly manages such a business entity; (2) holding a position in which anyone else who directly manages such a business entity is in Executive's reporting chain or chain-of-command, regardless of the number of reporting levels between them; (3) providing input, advice, guidance or suggestions regarding the management of such a business entity to anyone responsible therefor; (4) providing a testimonial on behalf of such an operation or the product it produces; or (5) doing anything else which falls within a common sense definition of the term "participate" as used in the present context.

(d) Acknowledgment and Enforcement. The Executive acknowledges and agrees that: (i) the purpose of the foregoing covenants, including without limitation the noncompetition covenant of Section 6(c), is to protect the goodwill, trade secrets and other Confidential Information of the Company; (ii) because of the nature of the business in which the Company and the Affiliated Companies are engaged and because of the nature of the Confidential Information to which the Executive has access, it would be impractical and excessively difficult to determine the actual damages of the Company and the Affiliated Companies in the event the Executive breached any of the covenants of this Section 6; and (iii) remedies at law (such as monetary damages) for any breach of the Executive's obligations under this Section 6 would be inadequate. The Executive therefore agrees and consents that if he commits any breach of a covenant under this Section 6 or threatens to commit any such breach, the Company shall have the right (in addition to, and not in lieu of, any other right or remedy that may be available to it) to temporary and permanent injunctive relief from a court of competent jurisdiction, without posting any bond or other security and without the necessity of proof of actual damage. With respect to any provision of this Section 6 finally determined by a court of competent jurisdiction to be unenforceable, the Executive and the Company hereby agree that such court shall have jurisdiction to reform this Agreement or any provision hereof so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination. If any of the covenants of this Section 6 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Company's right to enforce any such covenant in any other jurisdiction.

7. Mitigation and Set-Off. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise. The Parent shall not be entitled to set-off against the amounts payable to the Executive under this Agreement any amounts owed to the Parent by the Executive, other than amounts in default under the Corporate Loan described in Section 3(f) of this Agreement, any amounts earned by the Executive in other employment after termination of his employment with the Parent, or any amounts which might have been earned by the Executive in other employment had he sought such other employment.

8. Make-Whole Payments. If any amount payable to the Executive by the Company or any Affiliated Company, whether under this Agreement or otherwise, or whether arising before or after the Effective Date (a “Payment”), is subject to any tax under section 4999 of the Code, or any similar federal or state law (an “Excise Tax”), the Parent shall pay to the Executive an additional amount (the “Make Whole-Amount”) which is equal to (i) the amount of the Excise Tax, plus (ii) the aggregate amount of any interest, penalties, fines or additions to any tax which are imposed in connection with the imposition of such Excise

Tax, plus (iii) all income, excise and other applicable taxes imposed on the Executive under the laws of any Federal, state, or local government or taxing authority by reason of the payments required under clause (i) and clause (ii) and this clause (iii).

(a) For purposes of determining the Make-Whole Amount, the Executive shall be deemed to be taxed at the highest marginal rate under all applicable local, state, federal and foreign income tax laws for the year in which the Make-Whole Amount is paid. The Make-Whole Amount payable with respect to an Excise Tax shall be paid by the Parent coincident with the Payment with respect to which such Excise Tax relates.

(b) All calculations under this Section 8 shall be made initially by the Parent and the Parent shall provide prompt written notice thereof to the Executive to timely file all applicable tax returns. Upon request of the Executive, the Parent shall provide the Executive with sufficient tax and compensation data to enable the Executive or his tax advisor to independently make the calculations described in subparagraph a. above and the Parent shall reimburse the Executive for reasonable fees and expenses incurred for any such verification.

(c) If the Executive gives written notice to the Parent of any objection to the results of the Parent's calculations within 60 days of the Executive's receipt of written notice thereof, the dispute shall be referred for determination to tax counsel selected by the independent auditors of the Parent ("Tax Counsel"). The Parent shall pay all fees and expenses of such Tax Counsel. Pending such determination by Tax Counsel, the Parent shall pay the Executive the Make-Whole Amount as determined by it in good faith. The Parent shall pay the Executive any additional amount determined by Tax Counsel to be due under this Section 8 (together with interest thereon at a rate equal to 120% of the Federal short-term rate determined under Section 1274(d) of the Code) promptly after such determination.

(d) The determination by Tax Counsel shall be conclusive and binding upon all parties unless the Internal Revenue Service, a court of competent jurisdiction, or such other duly empowered governmental body or agency (a "Tax Authority") determines that the Executive owes a greater or lesser amount of Excise Tax with respect to any Payment than the amount determine by Tax Counsel.

(e) If a Tax Authority makes a claim against the Executive which, if successful, would require the Parent to make a payment under this Section 8, the Executive agrees to contest the claim on request of the Parent subject to the following conditions:

(i) The Executive shall notify the Parent of any such claim within 10 days of becoming aware thereof. In the event that the Parent desires the claim to be contested, it shall promptly (but in no event more than 30 days after the notice from the Executive or such shorter time as the Tax Authority may specify for responding to such claim) request the Executive to contest the claim. The Executive shall not make any payment of any tax which is the subject of the claim before the Executive has given the notice or during the 30-day period thereafter unless the Executive receives written instructions from the Parent to make such payment together with an advanced of funds sufficient to make the requested payment plus any amounts payable under this Section 8 determined as if such advance were an Excise Tax, in which case the Executive shall act promptly in accordance with such instructions.

(ii) If the Parent so requests, the Executive shall contest the claim by either paying the tax claimed and suing for a refund in the appropriate court or contesting the claim in the United States Tax Court or other appropriate court, as directed by the Parent; provided, however, that any request by the Parent for the Executive to pay the tax shall be accompanied by an advanced from the Parent to the Executive of funds sufficient to make the requested payment plus any amounts payable under this Section 8 determined as if such advance were an Excise Tax. If directed by the Parent in writing the Executive shall take all action necessary to compromise or settle the claim, but in no event shall the Executive compromise or settle the claim or cease to contest claim without the written consent of the Parent; provided, however, that the Executive may take any such action if the Executive waives in writing his right to a payment under this Section 8 for any amounts payable in connection with such claim. The Executive agrees to cooperate in good faith with the Parent in contesting the claim and to comply with any reasonable request from the Parent concerning the contest of the claim, including the pursuit of administrative remedies, the appropriate forum for any judicial proceedings, and the legal basis for contesting the claim. Upon request of the Parent, the Executive shall take appropriate appeals of any judgment or decision that would require the Parent to make a payment under this Section 8. Provided that the Executive is in compliance with the provisions of this section, the Parent shall be liable for and indemnify the Executive against any loss in connection with, and all costs and expenses, including attorney’s fees, which may be incurred as a result of, contesting the claim, and shall provide the Executive within 30 days after each written request therefor by the Executive cash advances or reimbursement for all such costs and expenses actually incurred or reasonably expected to be incurred by the Executive as a result of contesting the claim.

(f) Should a Tax Authority finally determine that an additional Excise Tax is owed, then the Parent shall pay an additional Make-Up Amount to the Executive in a manner consistent with this Section 8 with respect to any additional Excise Tax and any assessed interest, fines, or penalties. If any Excise Tax as calculated by the Parent or Tax Counsel, as the case may be, is finally determined by a Tax Authority to exceed the amount required to be paid under applicable law, then the Executive shall repay such excess to the Parent, but such repayment shall be reduced by the amount of any taxes paid by the Executive on such excess which are not offset by the tax benefit attributable to the repayment.

9. Notices.

(a) Methods. Each notice, demand, request, consent, report, approval or communication (hereinafter, "Notice") which is or may be required to be given by any party to any other party in connection with this Agreement and the transactions contemplated hereby, shall be in writing, and given by facsimile, personal delivery, receipted delivery services, or by certified mail, return receipt requested, prepaid and properly addressed to the party to be served as shown in Section 9(b) below.

(b) Addresses. Notices shall be effective on the date sent via facsimile, the date delivered personally or by receipted delivery service, or three (3) days after the date mailed:

If to the Parent:

PepsiCo, Inc.
700 Anderson Hill Road
Purchase, New York 10577-1444
Attn.: Chief Executive Officer

Facsimile: (914) 249-8144

If to the Executive: At his residence address most recently filed with the Company.

with a copy to: Vedder, Price, Kaufman & Kammholz
222 North LaSalle Street
Chicago, IL 60601
Attn: Robert J. Stucker
Thomas P. Desmond
Facsimile: (312) 609-5005

In each case, with a copy to Company:

If to Company: The Quaker Oats Company
321 North Clark Street
Chicago, Illinois 60610
Attn.: Senior Vice President -- General Counsel
Facsimile: (312) 222-7696

(c) Changes. Each party may designate by Notice to the other in writing, given in the foregoing manner, a new address to which any Notice may thereafter be so given, served or sent.

10. Arbitration. Any controversy or claim arising out of or relating to this Agreement or the breach thereof, except with respect to Section 6(d) and Section 8, shall be settled by arbitration in the City of Chicago in accordance with the laws of the State of Illinois by three arbitrators appointed by the parties. If the parties cannot agree on the appointment, one arbitrator shall be appointed by the Parent and one by the Executive, and the third shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the Chief Judge of the United States Court of Appeals for the Seventh Circuit. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section 10. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that it shall be necessary or desirable for the Executive to retain legal counsel or incur other costs and expenses in connection with enforcement of his rights under this Agreement, Executive shall be entitled to recover from the Parent his reasonable attorneys' fees and costs and expenses in connection with enforcement of his rights (including the enforcement of any arbitration award in court). Payment shall be made to the Executive by the Parent at the time these attorneys' fees and costs and expenses are incurred by the Executive. If, however, the arbitrators should later determine that under the circumstances the Executive could have had no reasonable expectation of prevailing on the merits at the time he initiated the arbitration based on the information then available to him, he shall repay any such payments to the Parent in accordance with the order of the arbitrators. Any award of the arbitrators shall include interest at a rate or rates considered just under the circumstances by the arbitrators.

11. Effect on Existing Agreements; Entire Agreement. Executive agrees that notwithstanding the provisions of his 1997 Employment Agreement or that certain Executive Separation Agreement between the Company and the Executive dated April 3, 2000 (the "ESA"), any resignation by Executive after the date hereof shall not constitute a resignation for "Good Reason" under the 1997 Employment Agreement or a "Termination" under the ESA; provided, however, that the foregoing agreement shall only apply with respect to the Transaction and matters consistent therewith. The agreement of Executive set forth in the preceding sentence shall be effective as of the date of execution of this Agreement, notwithstanding the Effective Date provisions of Section 1(a) or the next sentence of this Section 11. If this Agreement becomes effective as provided in Section 1(a), then as of the Effective Date, this Agreement shall constitute the entire agreement of the parties with respect to the subject matter hereof and shall supersede all prior agreements with respect thereto, including, without limitation, the 1997 Employment Agreement and the ESA. In the event the closing of the Transaction does not occur, then this Agreement shall be of no force or effect.

12. Successors.

(a) Executive. This Agreement is personal to the Executive and, without the prior written consent of the Parent and Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) The Company. This Agreement shall inure to the benefit of and be binding upon the Parent and Company and their successors and assigns.

(c) Assigns. The Parent shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Parent and/or the Company to expressly assume and perform this Agreement in the same manner and to the same extent that the Parent and/or Company would have been required to perform it if no such assignment had taken place. As used in this Agreement, "Parent" and "Company" shall mean the Parent and Company, respectively, each as defined above and any such successor by operation of law or otherwise.

13. Indemnification. To the fullest extent permitted by law and the Parent's and Company's by-laws, the Parent and the Company shall indemnify Executive (including the advancement of expenses) for any judgments, fines, amounts paid in settlement and reasonable expenses, including attorney's fees, incurred by Executive in connection with the defense of any lawsuit or other claim to which he is made a party by reason of being an officer, director or employee of the Parent, the Company or any Affiliated Companies.

14. Miscellaneous.

(a) Governing Law. The Agreement shall be construed and enforced according to the Employee Retirement Income Security Act of 1974 ("ERISA"), and the laws of the State of Illinois, other than its laws respecting choice of law, to the extent not pre-empted by ERISA.

(b) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining

portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

(c) Tax Withholding. Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations.

(d) No Waiver. The Executive's, the Parent's or the Company's failure to insist upon strict compliance with any provision of, or to assert any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(e) Headings. The Section headings contained in this Agreement are for convenience only and in no manner shall be construed as part of this Agreement.

(f) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization of its Board of Directors, the Company and the Parent has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE:

/s/ ROBERT S. MORRISON
Robert S. Morrison

COMPANY:

THE QUAKER OATS COMPANY

By: /s/ JOHN J. GARTZ
Name: John J. Gartz
Title:Senior Vice President

PARENT:

PEPSICO, INC.

By: /s/ ROBERT F. SHARPE, JR.
Name: Robert F.Sharpe, Jr.
Title: Senior Vice President

EXHIBIT A TO EMPLOYMENT AGREEMENT
TERMS AND CONDITIONS FOR ROBERT S. MORRISON

Employment Period: Eighteen (18) months following the Effective Date (the “Initial Term”). The term shall automatically be extended at the end of the Initial Term for one additional year (any such additional period being the “Extended Term”), and for one additional year at the end of each Extended Term, unless the Executive or Parent shall give written notice of non-renewal to the other party at least one year prior to the scheduled end of the Initial Term or such Extended Term.

Position: Vice Chairman of Parent and Chairman and CEO of the Company; Director of Parent and Company.

Minimum Annual Rate of Base Salary: $1,107,750; provided, such amount of Executive’s Base Salary as exceeds the maximum amount allowable as a deduction by the Company (or Parent as the case may be) under Section 162(m) of the Code shall be deferred and payable to the Executive in the first succeeding year in which such amount shall be so allowable, but not later than the date on which Executive terminates employment with the Company, unless such amounts have been deferred at the election of Executive under the Parent’s Executive Income Deferral Program, in which case such amount shall be paid in accordance with the terms thereof).

Annual Bonus: The Executive shall be eligible to receive an annual bonus with respect to the calendar year in which the Effective Date occurs based on the Company’s performance as measured against goals related to general Company performance and to the assimilation of the Company into Parent, which goals shall be established in consultation with Executive. The target annual bonus for such period shall not be less than 100% of the Base Salary payable for such calender year (which Base Salary shall be determined by including any amount deferred for such year pursuant to Section 162(m) of the Code), with a maximum bonus opportunity of not less than 200% of such Base Salary. To the extent that the Executive receives a pro rata bonus award under the Company’s bonus plan as in effect prior to the Effective Date for the period from January 1, 2001 through the Effective Date, then the Annual Bonus payable with respect to the remainder of such calendar year shall be a pro rata bonus, based on the fraction of the calendar remaining as of the Effective Date. With respect to each subsequent calendar year in the Employment Term, the Executive shall be eligible to receive an annual bonus with respect to the calendar year based on the Company’s performance

as measured against goals established in consultation with Executive, and based on an annual target bonus of 100% of Base Salary and a maximum bonus opportunity of 200% of Base Salary. To the extent that Executive's employment during such calendar year is less than the full calendar year (for example, because the Initial Term expires during such year and is not renewed), then such annual bonus shall be pro rated to reflect such period.

Supplemental Payment: Executive shall receive a Supplemental Payment equal to $19.2 million (the "Supplemental Payment"); provided, however, that Parent, Company and Executive acknowledge that such amount is based on a December 1, 2000, estimate prepared by Arthur Andersen LLP (which estimate has been delivered to Parent, Company and Executive and assumes certain facts not known as the date hereof) and Arthur Andersen LLP shall update the calculation of the Supplemental Payment immediately prior to the Effective Date based upon the actual facts, which updated amount shall be the Supplemental Payment. Unless the Supplemental Payment is to be credited to the Parent's Executive Income Deferral Program pursuant to the election of the Executive made in the time and manner required by such Plan (in which case it shall be paid in accordance with the terms thereof), the Supplemental Payment shall be paid not later than thirty (30) days following the last day the Initial Term, provided Executive is employed with the Company or an Affiliated Company through such date. The Executive's death, termination by the Executive for Good Reason or termination of Executive by the Parent or Company other than for Cause shall be a "Qualifying Termination." Upon a Qualifying Termination before the Supplemental Payment has been paid in full, the Executive (or his beneficiary) shall be entitled to receive such unpaid Supplemental Payment in a lump sum no later than thirty (30) days following such termination, unless the Supplemental Payment is to be credited to the Parent's Executive Income Deferral Program pursuant to the election of the Executive made in the time and manner required by such Plan (in which case it shall be paid in accordance with the terms thereof). In the event the Executive's employment terminates prior to the last day of the Initial Term for any reason other than a Qualifying Termination, Executive shall forfeit his right to receive the Supplemental Payment.

EXHIBIT B TO EMPLOYMENT AGREEMENT
OPTIONS TO BE GRANTED TO ROBERT S. MORRISON

Number of Options: In each of 2001 and 2002, Executive will be granted a 10-year option with respect to no less than 300,000 shares of Parent common stock. The 2001 grant shall be made not later than 30 days after the Effective Date and the 2002 grant will be made in 2002 when options are granted to Parent officers generally, but no later than the first anniversary of the Effective Date.

Per-share exercise price: The options will be priced at the "Fair Market Value," as defined in the LTIP, of the Parent stock on the Effective Date and will vest and become exercisable as to all of the shares on the third anniversary of the date of grant (or such earlier date as may be provided under the LTIP, such as upon death or the occurrence of a change in control).

General Terms and Conditions: The options otherwise will be subject to the LTIP. A Qualifying Termination (as defined in Exhibit A) prior to the end of the Initial Term, and any termination upon or after the last day of the Initial Term, will cause such options to vest in full and to remain outstanding and become exercisable on the third anniversary of the date of grant (or such earlier date as any be provided under the LTIP, such as upon death or the occurrence of a change in control) as if Executive's employment had not terminated, and such options shall not expire before the last day of the 10-year grant. In the event the Executive's employment terminates prior to the last day of the Initial Term for any reason other than a Qualifying Termination, any option granted pursuant to this Exhibit B shall be forfeited.

EXHIBIT C TO EMPLOYMENT AGREEMENT
FORM OF PROMISSORY NOTE FOR ROBERT S. MORRISON

Promissory Note

$________________ Date: __________, 200__

_________________ (herein referred to as "Holder") has agreed to advance to _________________ (herein referred to as "Maker") on _____________, 200__, such amount as requested by Maker from time to time not exceeding the total principal sum of $10,000,000, and for said value received Maker promises to repay to the order of Holder, said principal sum on or before the date which is 30 days after the date of [18 months + 30 days], 20___, or the date of Maker's termination of employment with Holder and all affiliated companies, together with interest on the unpaid principal sum, compounded quarterly, at the [short term applicable Federal rate at the time of this Promissory Note].

If Maker fails to make any payment set forth above when due, Holder may elect to declare the entire unpaid principal amount, including all unpaid interest, immediately due and payable with or without notice.

In the event of commencement of legal action to enforce payment of this note, the non-prevailing party agrees to pay the prevailing party's reasonable attorney's fees and court costs in connection therewith.

Holder reserves the right to assign or transfer all or any part of, or any interest in, Holder's rights and benefits under this Note to any successor to all or part of its business or assets.

This Note shall be construed in accordance with and governed by the internal laws of the State of Illinois, without reference to principles of conflict of laws.

By:___________________________________

Witnessed by:

____

EXHIBIT 12

PEPSICO, INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges (a)
Years Ended December 29, 2001, December 30, 2000, December 25, 1999,
December 26, 1998 and December 27, 1997
(in millions except ratio amounts)

	2001	2000	1999	1998	1997
Earnings:					
Income from continuing operations before income taxes and cumulative effect of accounting changes..........	$4,029	$3,761	$4,275	$2,660	$1,245
Unconsolidated affiliates interests, net.	(106)	(90)	(69)	28	15
Amortization of capitalized interest.....	10	9	10	8	10
Interest expense	219	272	421	461	560
Interest portion of net rent expense (b).	55	57	46	60	55
Earnings available for fixed charges.....	$4,207	$4,009	$4,683	$3,217	$1,885
Fixed Charges:					
Interest expense.........................	$ 219	$ 272	$ 421	$ 461	$ 560
Capitalized interest.....................	3	7	10	12	22
Interest portion of net rent expense (b).	55	57	46	60	55
Total fixed charges................	$ 277	$ 336	$ 477	$ 533	$ 637
Ratio of Earnings to Fixed Charges (c)...	15.21	11.91	9.82	6.03	2.96

(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 $356 in 2001, other asset impairment and restructuring charges of $31 million in 2001, $184 million in 2000, $73 million in 1999, $482 million in 1998 and $331 million in 1997, the impact of the 1999 gain on the bottling transactions of $1 billion and the $1.4 billion loss on a business divestiture in 1997. Excluding these items, the ratio of earnings to fixed charges would have been 16.60 in 2001, 12.46 in 2000, 7.87 in 1999, 6.93 in 1998 and 5.61 in 1997.

SUBSIDIARIES OF PEPSICO, INC. AS OF 12/29/2001

COMPANY NAME	JURISDICTION OF INCORPORATION
ABC Dispensing Technologies, Inc.	Florida
Administracion y Asesoria Metropolitana SA de CV	Mexico
Agral Arrendadora, S.A. de C.V.	Mexico
Agral Comisionista y Distribuidora, S.A. de C.V.	Mexico
Agral Inmobiliaria, S.A. de C.V.	Mexico
Ahmedabad Advertising and Marketing Consultants Ltd.	India
Ainwick Corporation	Oregon
Alvalle, S.A.	Spain
Alegro International, S de R.L. de C.V.	Mexico
Alimentos del Istmo S.A.	Panama
Alliance Canners	Canada
Alpac Corporation	Washington
Anderson Hill Insurance Limited	Bermuda
Angkor Beverages Company Ltd.	Cambodia
Aradhana Beverages and Foods Co. Private Limited	India
Aradhana Snack Food Company	India
B&H Project, Inc.	Florida
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 de Quintana Roo, SA de CV	Mexico
Bebidas Purificadas de Zacatecas, 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
Bebidas Purificados de Acapulco, SA de CV	Mexico
Bebidas Purificdas de Chihuahua	Mexico
Beijing Pepsi-Cola Beverage Company Ltd.	China
Bell Taco Funding Syndicate	Australia
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, Ltd.	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
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
Chipsy International SAE	Egypt
Chipima, Sociedade De Productos Alimentares, SA	Portugal
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
Colombia Foods Ltd.	Cayman Islands
Comercializadora de Bebidas y Refrescos del Vallede Tolu	Mexico
Comercializadora Nacional SAS, Ltda	Columbia
Comercializadora Snacks S.R.L.	Venezuela
Comercio Integral Mexicano, SA de CV	Mexico
Compania Embotelladora Nacional, S.A. de C.V.	Mexico
Concentrate Realco NSULC	Canada
Constar Ambalaj Sanayi Ve Ticaret AS	Turkey
Copella Fruit Juice, Ltd.	United Kingdom
Copper Beach LLC	Delaware
Core, Comisiones y Representaciones, S.A. de C.V.	Mexico
Corina Snacks	Cyprus

Corporativo Internacional MexicanoS. de R.L. de C.V.	Mexico
CPK Acquisition Corp.	California
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 de Aguas Envasadas DEK, SA de CV	Mexico
Distribuidora de Agus, Refrescos y Bebidas Purificadas S.	Mexico
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
Duo Juice Company	Delaware
Duo Juice Company BV	Netherlands
Earthposed Limited	United Kingdom
EIEIO Beverage Company	Delaware
Electropura, SA de CV	Mexico
Elite Foods Ltd.	Israel
Embotellador Garci-Crespo, SA de CV	Mexico
Embotelladora Agral de la Laguna, S.A. de C.V.	Mexico
Embotelladora Agral Regiomontana, S.A. de C.V.	Mexico
Embotelladora Campechana, Sa de CV	Mexico
Embotelladora de Occidente S.A. de C.V.	Mexico
Embotelladora de Refrescos Mexicanos S.A. de C.V.	Mexico
Embotelladora Del Bravo, S.A. 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
Embotelladora San Marcos, S.A. De C.V.	Mexico
Embotelladora Santa Catarina, 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
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
Finanzas Corporativas, S.A. de C.V.	Mexico
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 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 Holdings C.V.	Netherlands
Frito-Lay Holdings Limited	United Kingdom
Frito-Lay India	India
Frito-Lay Investments BV	Netherlands
Frito-Lay Manufacturing OOO	Russia
Frito-Lay Netherlands Holdings BV	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
Frito-LayGida Sanayi Ve Ticaret A.S.	Turkey
Fruko Mesrubat Sanayi A.S.	Turkey
Fuzhou Pepsi-Cola Beverage Company Limited	China
Galletas y Pastas Tepeyac	Mexico
Galletera Palma, S.A. de C.V.	Mexico
Gamesa, LLC	Delaware
Gamesa, S.A. de C.V.	Mexico

Gamesa USA, Inc.	Delaware
Gatorade Puerto Rico Co.	Puerto Rico
Golden Grain Company	California
General Cinema Beverages, Inc.	Delaware
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 Gamesa, S. de R.L. de C.V.	Mexico
Guangzhou Flavours Development Corporation	China
Guangzhou Pepsi-Cola Beverage 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, Inc.	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 UbC	Canada
Impulse Action Ltd.	United Kingdom
Industria de Refrescos de Acapulco	Mexico
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 Los Gallos	Mexico
Inmobiliaria Operativa, SA de CV	Mexico
Integrated Beverage Services (Bangladesh) Ltd.	Bangladesh
International Beverage Company	Vietnam
International Bottlers Almaty Ltd	Russia
International Kas AG	Liechtenstein
Inversiones PFI Chile Limitada	Chile
Inversiones Santa Coloma S.A. (Columbia)	Columbia
Inversiones Santa Coloma S.A.(Venezuela)	Venezuela
Japan Frito-Lay Ltd.	Japan
JFS Enterprises, Inc.	Florida
Jordan Ice and Aerated Water Ltd.	Jordan
Jungla Mar del Sur	Costa Rica
Kirin-Tropicana, Inc.	Japan
KRL Holdings, S.R.L. de C.V.	Mexico
Kyle Receivables Ltd.	Ireland
Larragana, S.L.	Spain
Latin American Holdings Ltd.	Cayman Islands
Latin Foods LLC	Delaware
Latvia Snacks Ltd.	Latvia
L'Igloo, S.A.	France
Lithuanian Snacks Ltd.	Lithuania
Long Bay, Inc.	Delaware
Looza (UK) Ltd.	United Kingdom
Looza NV	Belgium
Looza USA, Inc.	Delaware
L-P Investment LLC	Delaware
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
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
North Pacific Territories Holding Company	Washington
Nueva Santa Cecilia S.A. de C.V.	Mexico
OldCo 1 Sp. z o.o.	Poland
OldCo 2 Sp. z o.o.	Poland
Ole Springs	Sri Lanka
Opco Holding, Inc.	Delaware
Orion Frito-Lay Corporation	Korea
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
Pasabocas Margarita Antioquia	Colombia
Pasteleria Vienesa, C.A.	Venezuela
PBI Fruit Juice Company BVBA	Belgium
PCBL, LLC	Delaware
PCE Bebidas Ltda	Brazil
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 Bugshan Investment Co.	Egypt
Pepsi Foods Private Limited	India
Pepsi India Exports	India
Pepsi International Bottlers LLC	Delaware
Pepsi International Bottling System, Inc.	Delaware
Pepsi Overseas (Investments) Partnership	Canada
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 Australia Holdings Pty Ltd	Australia
PepsiCo Canada Finance LLC	Delaware
PepsiCo Captive Holdings, Inc.	Delaware
PepsiCo Comercial Exportadora	Brazil
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.	Tennessee
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 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 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 Middle East Investments BV	Netherlands
PepsiCo Nigeria Ltd.	Nigeria
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 (Bahamas) Bottling Company	Bahamas
Pepsi-Cola (Bermuda) Limited	Bermuda
Pepsi-Cola (Thai) Trading Company Limited	Thailand

Name	Jurisdiction
Pepsi-Cola A/O	Russia
Pepsi-Cola Belgium S.A.	Belgium
Pepsi-Cola Bottlers Australia	Australia
Pepsi-Cola Bottlers Holding, C.V.	Netherlands
Pepsi-Cola Bottlers New Zealand	New Zealand
Pepsi-Cola Bottling Co. of Bend	Oregon
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 Bottling International Inc.	Nevada
Pepsi-Cola Canada (NRO) Ltd.	Canada
Pepsi-Cola Canada Ltd.	Canada
Pepsi-Cola Chile Consultores Limitada	Chile
Pepsi-Cola Company	Delaware
Pepsi-Cola De France S.A.R.L.	France
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, Offenbach, Commercial Register Hrb 2124	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 Manufacturing (Ireland)	Ireland
Pepsi-Cola Manufacturing (Mediterranean) Limited	Bermuda
Pepsi-Cola Manufacturing Company Of Uruguay S.R.L.	Uruguay
Pepsi-Cola Manufacturing 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	Metropolitan
Pepsi-Cola Mexicana, S.A. de C.V.	Mexico
Pepsi-Cola Operating Company Of Chesapeake and Indianapolis	Delaware
Pepsi-Cola Panamericana, LLC	Delaware
Pepsi-Cola Panamericana, S.A.	Venezuela
Pepsi-Cola Products Philippines, Inc.	Philippines
Pepsi-Cola Servis ve Dagitim A.S.	Turkey
Pepsi-Cola Tea Company	Delaware
Pepsi-Cola U.K. limited	United Kingdom
Pepsi-Cola Venezuela C.A.	Venezuela
Pepsi-Gemex S.A. de C.V.	Mexico
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
Praga 45, Inc.	Delaware
Prestwick, Inc.	Delaware
Procesos Plasticos, SA de CV	Mexico
Productos Alimenticios Margarita	Colombia
Productos Industrializados Saltillo, S.A.	Mexico
Productos S.A.S. C.V.	Netherlands
Productos SAS Management B.V.	Netherlands
Progress Service, Inc.	Florida
Promocion y Distribucion Alimenticia	Mexico
Promotora de Embotelladoras, S.A. de C.V.	Mexico
PRS, Inc.	Delaware
Punch N.V.	Netherlands Antilles
Purificadora de Agua Cancun, SA de CV	Mexico
Purificadora de Agua Los Reyes, SA de CV	Mexico
Putnam Holdings, Inc.	Delaware
QO Coffee Holdings, Inc.	Delaware
Quaker De Chile Limitada	Chile and Delaware
Quaker Oats Asia, Inc.	Delaware
Quaker Oats Capital Corporation	Delaware

Quaker Oates Europe, Inc.	Illinois
Quaker Oats Holdings, Inc.	Delaware
Quaker Oats Phillipines, Inc.	Delaware
Quaker Products (Malaysia)Sdn. B	Malaysia and Delaware
Quaker Sales & Distribution, Inc.	Delaware
Quaker South Africa, Inc.	Delaware
Quaker Spain, Inc.	Delaware
Quaker Trading Limited, Inc.	England and Delaware
Recot, Inc.	Delaware
Red Maple LLC	Delaware
Refrescos de Iguala, SA de CV	Mexico
Refrescos y Bebidas de Aguascalientes, S.A. de C.V.	Mexico
Refrigerantes sul riograndenses S.A.	Brazil
Regia-Comercial E Publicidade Ltda.	Brazil
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 Brands Columbia S.A.	Columbia
Senrab Limited	Ireland
Serm Suk Public Company Limited	Thailand
Servi Agua, SA de CV	Mexico
Servicios Administrativos Suma, SA de CV	Mexico
Servicios Calificados, S.A. de C.V.	Mexico
Seven-Up Andino, S.A.	Ecuador
Seven-Up Asia, Inc.	Missouri
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
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 CV	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 Ecuador S.R.L.	Peru
Snacks America Latina Venezuela S.R.L.	Venezuela
Snacks Ventures S.A.	Spain
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
Stuff Comercial de Mexico, S.A. de C.V.	Mexico
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
Tanurin, S.A. de C.V.	Mexico
Tastes of Adventures Pty. Ltd.	Australia
Tasty Foods S.A.	Greece
Tenedora Del Noreste, S.A. de C.V.	Mexico
Terrenos y Fincas de Rio Verde, S.A. de C.V.	Mexico
TFL Holdings, Inc.	Delaware
The Beverage S.R.L.	Italy
The Concentrate Manufacturing Company Of Ireland	Ireland
The Original Pretzel Company Pty. Ltd.	Australia

The Gatorade Company	Delaware
The Quaker Oats Company	New Jersey
The Radical Fruit Company of New York	Ireland
The Smiths Snackfood 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 Beverages Company	India
Tropicana Beverages Greater China Limited	Hong Kong
Tropicana Beverages Hong Kong Ltd.	Hong Kong
Tropicana Beverage (Huizhou) C. Ltd.	China
Tropicana Beverages Ltd.	Hong Kong
Tropicana China Investments Ltd.	Hong Kong
Tropicana Europe NV (Belgium)	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 Products, Ltd.	Canada
Tropicana Sweden AB	Sweden
Tropicana Transportation Corporation	Delaware
Tropicana United Kingdom Ltd.	United Kingdom
Twinpack Atlantic Inc.	Canada
Ukranian Developmental Corp.	Ukraine
United Foods Company S.A.	Brazil
Valores Mapumar	Venezuela
Vending LLC	Delaware
Veurne Snackfoods BVBA	Belgium
Walkers Crisps Limited	United Kingdom
Walkers Snack Foods Limited	United Kingdom
Walker Snacks (Distribution) Ltd.	United Kingdom
Walkers Snacks Ltd.	United Kingdom
Weinkellerei Franz Weber Gmbh, Nierstein	Germany
Wetter Beverage Company	Delaware
Whitman International BV	Netherlands
Wilson International Sales Corporation	Delaware
Wuhan Pepsi-Cola Beverage Co. Ltd.	China

EXHIBIT 23

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, 2002, relating to the consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 29, 2001 and December 30, 2000 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 29, 2001, which report appears in the December 29, 2001 annual report on Form 10-K of PepsiCo, Inc.:

Description	**Registration Statement Number**
Form S-3	
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
Form S-4	
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
Form S-8	
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	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

KPMG LLP

New York, New York
March 20, 2002

EXHIBIT 24

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 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 and 33-64243 relating to the offer and sale of PepsiCo's Debt Securities and Warrants, and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of debt securities or warrants by PepsiCo or guarantees by PepsiCo of any of its subsidiaries' debt securities or warrants;

(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, and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the primary and/or secondary offer and sale of PepsiCo Common Stock issued or exchanged in acquisition transactions;

(iiii) 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 shares of PepsiCo Common Stock under the PepsiCo SharePower Stock; and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of shares of PepsiCo Common Stock under the PepsiCo SharePower Stock Option Plan to employees of PepsiCo or otherwise;

(iv) Registration Statements No. 2-82645, 33-51514; 33-60965 and 333-89265 relating to the offer and sale of shares of PepsiCo Common Stock under the PepsiCo 401(k) Plan or the Long Term Savings Program of PepsiCo, Registration Statement No. 333-56524 relating to the offer and sale of shares 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, 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, Registration No. 333-76204 relating to the offer and sale of PepsiCo Common Stock under The PepsiCo 401(k) Plan for Hourly Employees and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of shares of PepsiCo Common Stock under long term savings programs of PepsiCo or any of its subsidiaries;

(v) Registration Statements No. 33-61731 and No. 333-09363 relating to to the offer and sale of PepsiCo Common Stock under PepsiCo's 1995 Stock Option Incentive Plan, Registration Statement No. 33-54733, relating to the offer and sale of shares of PepsiCo Common Stock under PepsiCo's 1994 Long-Term Incentive Plan, Registration Statement No. 33-19539 relating to the offer and sale of shares of PepsiCo Common Stock under PepsiCo's 1987 Incentive Plan and resales of such shares by officers of PepsiCo, and Registration Statement No. 2-65410 relating to the offer and sale of shares of PepsiCo Common Stock under PepsiCo's 1979 Incentive Plan, 1972 Performance Share Plan, as amended, Registration Statement No. 333-66632 relating to the offer and sale of shares of PepsiCo Common Stock under The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999, The Quaker Oats Company Stock Option Plan for Outside Directors and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of shares of PepsiCo Common Stock under various option plans, and resales of such shares by officers of PepsiCo;

(vi) Registration Statement No. 33-22970 relating to the offer and sale of shares of PepsiCo Common Stock under PepsiCo's 1988 Director Stock Plan;

(vii) 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.

(viii) 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 20, 2002

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

/s/ Robert S. Morrison
Robert S. Morrison

Chairman of the Board and
Chief Executive Officer

/s/ Indra K. Nooyi
Indra K. Nooyi
Director, President and
Chief Financial Officer

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

/s/ John F. Akers
John F. Akers
Director

/s/ Robert E. Allen
Robert E. Allen
Director

/s/ Roger A. Enrico
Roger A. Enrico
Director

/s/ Peter Foy
Peter Foy
Director

/s/ Ray L. Hunt
Ray L. Hunt
Director

/s/ Arthur C. Martinez
Arthur C. Martinez
Director

Vice Chairman of the Board

/s/ John J. Murphy
John J. Murphy
Director

/s/ Franklin D. Raines
Franklin D. Raines
Director

/s/ Sharon Percy Rockefeller
Sharon Percy Rockefeller
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