SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

August 27, 2001

Date of Report (Date of earliest event reported)

PepsiCo, Inc.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of incorporation)

1-1183	13-1584302
(Commission File Number)	(IRS Employer Identification No.)

700 Anderson Hill Road, Purchase, New York 10577

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (914) 253-2000

Item 5. Other Events

As previously reported in our Form 8-K dated August 8, 2001, we completed a merger transaction on August 2, 2001, which resulted in The Quaker Oats Company (Quaker) becoming a wholly-owned subsidiary of PepsiCo. Under the merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock 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.

The transaction was accounted for as a tax-free transaction and as a pooling-of-interests under Accounting Principles Board Opinion No. 16, *Business Combinations*.

This Form 8-K makes available the supplemental consolidated balance sheets as of December 30, 2000 and December 25, 1999, and the related supplemental consolidated statements of income, cash flows and common shareholders' equity for each of the years in the three-year period ended December 30, 2000, together with the related management's discussion and analysis of results of operations and financial condition and the supplemental selected financial data for each of the years in the five-year period ended December 30, 2000, which are being filed as Exhibit 99.1 and are incorporated herein by reference. Also incorporated herein by reference is the independent auditors' report filed as part of Exhibit 99.1.

This Form 8-K also makes available the supplemental condensed consolidated balance sheet as of June 16, 2001, the related supplemental condensed consolidated statements of income and comprehensive income for the twelve and twenty-four weeks ended June 16, 2001 and June 10, 2000 and the supplemental condensed consolidated statement of cash flows for the twenty-four weeks ended June 16, 2001 and June 10, 2000, together with the related management's discussion and analysis of results of operations and financial condition, which are being filed as Exhibit 99.2 and are incorporated herein by reference. Also incorporated herein by reference is the independent accountants' report filed as part of Exhibit 99.2.

This Form 8-K also makes available the supplemental ratio of earnings to fixed charges for each of the years in the five-year period ended December 30, 2000 in Exhibit 12.1 and for the twenty-four weeks ended June 16, 2001 and June 16, 2000 in Exhibit 12.2 which are both incorporated herein by reference.

The supplemental consolidated financial statements and schedules give retroactive effect to the merger of PepsiCo, Inc. and The Quaker Oats Company on August 2, 2001, which has been accounted for as a pooling-of-interests as described in Note 1 to the supplemental consolidated financial statements in Exhibit 99.1. Generally accepted accounting principles prohibit giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements until financial statements are issued for a period which includes the date of consummation. These financial statements and schedules do not extend through the date of consummation. However, they will become the historical consolidated financial statements and schedules of PepsiCo, Inc. and subsidiaries after financial statements covering the date of consummation of the business combination are issued.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial statements of businesses acquired.

The required financial statements of businesses acquired as of December 31, 1999 and 2000 and for each of the years in the three-year period ended December 31, 2000 are not being filed with this report on Form 8-K because this information is substantially the same as that which was incorporated as part of the joint proxy statement/prospectus dated March 15, 2001. This information is incorporated herein by reference.

The required financial statements of businesses acquired as of June 30, 2001 and for the six and three months ended June 30, 2001 and 2000 are being filed as Exhibit 99.3 and are incorporated herein by reference.

(b) Pro forma financial information.

The required pro forma financial information for each of the years in the three-year period ended December 30, 2000 is not being filed with this report on Form 8-K because this information is substantially the same as that which was included in the joint proxy statement/prospectus dated March 15, 2001. This information is incorporated herein by reference.

The required pro forma financial information as of June 16, 2001 and for the twenty-four weeks ended June 16, 2001 and June 10, 2000 is being filed as Exhibit 99.4 and is incorporated herein by reference.

(c) Exhibits.

12.1 Supplemental Ratio of Earnings to Fixed Charges for each of the years in the five-year period ended December 30, 2000

12.2 Supplemental Ratio of Earnings to Fixed Charges for the twenty-four weeks ended June 16, 2001 and June 10, 2000

15 Accountants' Acknowledgement

23.1 Consent of KPMG LLP

23.2 Consent of Arthur Andersen LLP

99.1 Audited supplemental financial statements as of December 30, 2000 and December 25, 1999, and for each of the years in the three-year period ended December 30, 2000 and related Management's Discussion and Analysis of Operations and Financial Condition and the Supplemental Selected Financial Data

99.2 Unaudited supplemental financial statements as of June 16, 2001 and June 10, 2000 and for the twelve and/or twenty-four weeks ended June 16, 2001 and June 10, 2000 and related Management's Discussion and Analysis of Operations and Financial Condition

99.3 Financial statements of The Quaker Oats Company and Subsidiaries as of June 30, 2001 and for the six and three months ended June 30, 2001 and 2000

99.4 Unaudited Pro Forma Condensed Combined Financial Information as of June 16, 2001 and for the twenty-four weeks ended June 16, 2001 and June 10, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

PepsiCo, Inc.
(Registrant)

Date: August 27, 2001

/S/ PETER A. BRIDGMAN
Peter A. Bridgman
Senior Vice President and
Controller

Date: August 27, 2001

/S/ LAWRENCE F. DICKIE
Lawrence F. Dickie
Vice President, Associate General
Counsel and Assistant Secretary

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EXHIBIT 12.1

PEPSICO, INC. AND SUBSIDIARIES

Supplemental Computation of Ratio of Earnings to Fixed Charges (a)
Years Ended December 30, 2000, December 25, 1999, December 26, 1998,
December 27, 1997 and December 28, 1996
(in millions except ratio amounts)

	2000	1999	1998	1997	1996
Earnings:					
Income from continuing operations before income taxes and cumulative effect of accounting changes	$3,761	$4,275	$2,660	$1,245	$1,982
Unconsolidated affiliates interests, net	(90)	(69)	28	15	272
Amortization of capitalized interest	9	10	8	10	7
Interest expense	272	421	461	560	669
Interest portion of net rent expense (b)	57	46	60	55	60
Earnings available for fixed charges	$4,009	$4,683	$3,217	$1,885	$2,990
Fixed Charges:					
Interest expense	$ 272	$ 421	$ 461	$ 560	$ 669
Capitalized interest	7	10	12	22	15
Interest portion of net rent expense (b)	57	46	60	55	60
Total fixed charges	$ 336	$ 477	$ 533	$ 637	$ 744
Ratio of Earnings to Fixed Charges (c)	11.91	9.82	6.03	2.96	4.02

(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 the 1999 gain on the bottling transactions of $1 billion, the $1.4 billion loss on a business divestiture in 1997, and asset impairment and restructuring charges of $184 million in 2000, $73 million in 1999, $482 million in 1998, $331 million in 1997 and $593 million in 1996. Excluding the gain in 1999, the loss in 1997, and the charges for all years, the ratio of earnings to fixed charges would have been 12.46 in 2000, 7.87 in 1999, 6.93 in 1998, 5.61 in 1997 and 4.80 in 1996.

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EXHIBIT 12.2

PEPSICO, INC. AND SUBSIDIARIES,

Supplemental Computation of Ratio of Earnings to Fixed Charges (a)
(in millions except ratio amounts, unaudited)

	24 Weeks Ended	
	6/16/01	6/10/00
Earnings:		
Income before income taxes	$2,011	$1,602
Unconsolidated affiliates interests, net	(70)	(48)
Amortization of capitalized interest	5	4
Interest expense	105	125
Interest portion of rent expense (b)	28	21
Earnings available for fixed charges	$2,079	$1,704
Fixed Charges:		
Interest expense	$ 105	$ 125
Capitalized interest	1	4
Interest portion of rent expense (b)	28	21
Total fixed charges	$ 134	$ 150
Ratio of Earnings to Fixed Charges	15.52	11.32

(a) Based on unrounded amounts.

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

Note: Amounts include the impact of asset impairment and restructuring charges of $8 in 2001 and $172 in 2000. Excluding these charges, the ratio of earnings to fixed charges would have been 15.58 for the 24 weeks ended June 16, 2001 and 12.46 for the 24 weeks ended June 10, 2000.

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Accountant's Acknowledgement

The Board of Directors
PepsiCo, Inc.

We hereby acknowledge our awareness of the use of our report dated August 20, 2001 on the supplemental condensed consolidated financial statements of PepsiCo, Inc. for the twelve and twenty-four weeks ended June 16, 2001, included within the Form 8-K of PepsiCo, Inc. dated August 27, 2001, and incorporated by reference in the following Registration Statements and in the related Prospectuses:

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

Pursuant to Rule 436(c) of the Securities Act of 1933, such report is not considered a part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

KPMG LLP

New York, New York
August 27, 2001

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Consent of KPMG LLP

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 August 20, 2001, relating to the Supplemental Consolidated Balance Sheets of PepsiCo, Inc. and Subsidiaries as of December 30, 2000 and December 25, 1999 and the related Supplemental Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 30, 2000, which report appears in the Form 8-K of PepsiCo, Inc. dated August 27, 2001:

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
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$500,000,000 Capital Stock, 1 2/3 cents par value	333-56302
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KPMG LLP

New York, New York
August 27, 2001

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EXHIBIT 23.2

Consent of Arthur Andersen LLP

As independent public accountants, we hereby consent to the incorporation by reference in this registration statement of our report dated January 30, 2001, included and incorporated by reference in The Quaker Oats Company's Form 10-K for the year ended December 31, 2000, and to all references to our Firm included in this registration statement.

Arthur Andersen LLP

Chicago, Illinois
August 27, 2001

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EXHIBIT 99.1

PEPSICO, INC. AND SUBSIDIARIES

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Management's Discussion and Analysis of Results of Operations and Financial Condition

Management's Discussion and Analysis
(tabular dollars in millions except per share amounts)

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".

All per share amounts reflect common per share amounts, assume dilution 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 items affecting the comparability of results and certain market and other risks we face. The second section analyzes the Results of Operations, first on a consolidated basis and then for each of our business segments (pages 21-31). The final two sections address Consolidated Cash Flows and Liquidity and Capital Resources (page 31).

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 macro-economic 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

Items Affecting Comparability

Fifty-third Week in 2000

Comparisons of 2000 to 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 5 or 6 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

On August 2, 2001, we completed a merger transaction with The Quaker Oats Company. 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.

In connection with the merger transaction, we sold the global rights of 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 through our bottling system 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 under Accounting Principles Board Opinion No. 16, *Business Combinations*. As a result, all prior period supplemental 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 supplemental financial statements and, for interim reporting, 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 quarter prior to the merger and for the years presented in the supplemental consolidated financial statements are as follows:

	24 Weeks Ended June 16, 2001	2000	1999	1998
Net Sales:				
PepsiCo...............	$ 9,820	$20,438	$20,367	$22,348
Quaker................	2,741	5,041	4,726	4,843
Adjustments	(518)	-	-	-
Combined................	$12,043	$25,479	$25,093	$27,191
Net Income:				
PepsiCo...............	$ 1,150	$ 2,183	$ 2,050	$ 1,993
Quaker................	279	360	455	285
Adjustments (a).......	(61)	-	-	-
Combined................	$ 1,368	$ 2,543	$ 2,505	$ 2,278

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

We expect to incur transaction costs of approximately $125 million related to the merger, most of which will be recognized in the third quarter. We also expect to incur approximately $450 to $550 million of additional costs to integrate the two companies.

We have identified ongoing merger-related cost savings and revenue enhancement opportunities that are expected to reach $400 million a year by 2005. Synergies are expected to be achieved by the end of 2002 approximate $140 to $175 million.

Bottling Transactions

In 1998, we announced our intention to restructure our bottling operations in order to compete more effectively, particularly in the North American market.

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 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 bottler which has since changed its name to PepsiAmericas, Inc. As part of the merger, we will participate in an earn- out option whereby we may receive additional PepsiAmericas' shares if certain performance targets are met. Our three anchor bottlers distribute approximately three-fourths of our beverage products in North America.

Asset Impairment and Restructuring Charges

	2000	1999	1998
Asset impairment charges			
Held and used in the business			
Property, plant and equipment.....	$ 125	$ 8	$ 190
Intangible assets.................	-	-	41
Other assets......................	-	-	8
Held for disposal/abandonment			
Property, plant and equipment.....	-	34	83
Intangible assets.................	-	-	65
Total asset impairment.........	125	42	387
Restructuring charges			
Employee related costs...............	41	20	66
Other charges........................	18	11	29
Total restructuring...........	59	31	95
Total................................	$ 184	$ 73	$ 482
After-tax.......................	$ 111	$ 45	$ 379
Per share.......................	$0.06	$0.02	$0.21

2000

The 2000 asset impairment and restructuring charge of $184 million related to the closure of two cereal manufacturing facilities and two Quaker distribution centers in the United States. This charge was part of a three- year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's North American manufacturing and distribution capabilities.

The asset impairment charges of $125 million 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 closures of distribution centers were completed in 2000. The closures of manufacturing facilities will occur in 2001. The assets will be either disposed of or abandoned in 2001. The restructuring charges of $59 million primarily included severance and termination benefits for approximately 1,000 employees and other shutdown costs. Substantially all of the terminations will be completed during 2001.

1999

The 1999 asset 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.

1998

The 1998 asset impairment and restructuring charges of $482 million were comprised of the following:

- A charge of $218 million, for asset impairment of $200 million and restructuring charges of $18 million related to PepsiCo's Russian bottling operations. The restructuring actions, in response to lower demand, an adverse change in the business climate and an expected continuation of operating losses and cash deficits in Russia following the August 1998 devaluation of the ruble, included a reduction of our cost structure primarily through closing facilities, renegotiating manufacturing contracts and reducing the number of employees. We also evaluated our long-lived bottling assets for impairment, triggered by the reduction in the utilization of assets caused by the adverse economic conditions. The impairment charge reduced the net book value of the assets to their estimated fair market value, based primarily on amounts paid for similar assets in that marketplace. Of the total charge of $218 million, $212 million related to bottling operations that became part of PBG in 1999.

- A charge of $106 million, for asset impairment of $45 million and restructuring charges of $61 million related to numerous actions taken by Quaker to improve future profitability across its food and beverage operations. The asset impairment charges primarily reflected the reduction in the carrying value of long- lived assets of these businesses to their fair market value. The estimated fair value of these assets was based on various methodologies, including a discounted value of estimated future cash flows and liquidation analyses. The restructuring charges included charges for plant and sales and administrative office closures and consolidations, restructuring of certain joint ventures in Asia and employee termination benefits and related costs for streamlining executive management.

An impairment charge of $88 million related to Quaker businesses that were divested. Charges of $40 million and $25 million were recognized related to the Continental Coffee and Nile Spice soup cup businesses, which were divested in 1998 at a combined net gain of $2 million. In addition, a charge of $23 million was recognized related to Quaker's Brazilian pasta business, which was divested in 1999 at a gain of $5 million.

- An impairment charge of $54 million related to manufacturing equipment at Frito-Lay North America. The charge primarily reflected the write off of the net book value of the equipment and related projects. Disposal or abandonment of these assets was completed in 1999.

- A charge of $16 million for employee related costs resulting from the separation of PepsiCo's North American concentrate and bottling organizations. Of this amount, $10 million related to bottling operations that became part of PBG in 1999.

The employee related costs for 1998 of $66 million primarily included severance and other termination benefits and relocation costs for approximately 4,000 full-time and part-time employees. The terminations unrelated to the bottling operations that became part of PBG occurred during 1998 and 1999.

Restructuring reserves totaling $63 million at December 30, 2000 are included in accounts payable and other current liabilities in the Supplemental Consolidated Balance Sheet.

Tropicana Acquisition

In August 1998, we acquired Tropicana Products, Inc. for $3.3 billion. The 1998 results of operations include Tropicana subsequent to the acquisition date.

Tax Items

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).

In 1998, PepsiCo reported a tax benefit, included in the provision for income taxes, of $494 million (or $0.27 per share) as a result of reaching a final agreement with the Internal Revenue Service to settle substantially all remaining aspects of a tax case relating to our concentrate operations in Puerto Rico.

Acquisition of South Beach Beverages Company, LLC

On January 5, 2001, we completed the acquisition of South Beach Beverages Company, LLC for approximately $337 million in cash, retaining a 91% interest in the newly formed South Beach Beverages 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.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS

133, as amended by SFAS 137 and SFAS 138, was adopted by us on December 30, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, 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. Based on derivatives outstanding at December 30, 2000, the adoption increased assets by approximately $12 million and liabilities by approximately $10 million with approximately $3 million recognized in accumulated other comprehensive income and less than $1 million recognized in the Supplemental Consolidated Statement of Income.

In May 2000, the FASB’s Emerging Issues Task Force (EITF) reached a consensus on Issue 00-14, *Accounting for Certain Sales Incentives*. EITF 00-14 addresses the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In April 2001, the EITF delayed the effective date for this consensus to 2002. The impact of adopting this consensus is not expected to have a material impact on our consolidated financial statements.

In January 2001, the EITF reached a consensus on Issue 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. Issue 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. The consensus was effective for the first quarter of 2001 and was not material to our consolidated financial statements.

In April 2001, the EITF reached a consensus on Issue 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products*. EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in Issue 00-14, from a vendor to a reseller or another party that purchases the vendor’s products. The consensus requires most of our customer promotional incentives currently classified as marketing costs to be classified as a reduction of revenue. Total promotional expenses classified as marketing costs were $3.2 billion in 2000, $2.9 billion in 1999 and $2.7 billion in 1998. The consensus is effective for 2002.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, *Business Combinations*, which supersedes Accounting Principles Board (APB) Opinion No. 16, *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 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with The Quaker Oats Company is accounted for as a pooling-of-interests and was initiated in December 2000, this Statement will not have an impact on our consolidated financial statements.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, *Goodwill and Intangible Assets* which supersedes APB Opinion No. 17, *Intangible Assets*. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to existing goodwill and intangible assets as well as to transactions completed after the Statement’s effective date. SFAS 142 is effective for 2002. We are currently assessing the Statement and the impact that adoption will have on our consolidated financial statements.

Market and Other Risk Factors

Market Risk

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, and
- interest rates on our debt and short-term investment portfolios.

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 financial and commodity instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure. We do not use derivative instruments for trading or speculative purposes.

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 vegetable oil, corn, oats, natural gas and fuel. Our use of derivative instruments is not significant to our commodity purchases.

Our commodity futures positions were $52 million at December 30, 2000 and $177 million at December 25, 1999. Our commodity futures position resulted in a net unrealized gain of $3 million at December 30, 2000 and a net unrealized loss of $7 million at December 25, 1999. We estimate that a 10% decline in commodity prices would have reduced the 2000 unrealized net gain by $6 million and increased the 1999 unrealized net loss by $19 million. 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.

Foreign Exchange

International operations constitute about 21% of our 2000 and 19% of our 1999 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 impact 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. At December 30, 2000, we had forward contracts to exchange foreign currencies with an aggregate notional amount of $344 million, with $336 million relating to contracts to exchange British pounds for U.S. dollars. Unrealized losses on forward contracts were $9 million at December 30, 2000. We estimate that an unfavorable 10% change in the exchange rate would have increased the 2000 unrealized losses by $35 million. 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. Forward contracts outstanding at December 25, 1999 were not material to the financial statements.

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 dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is substantially offset by the opposite market impact on the related debt.

Our investment portfolios primarily consist of cash equivalents and short-term marketable securities. Accordingly, the carrying amounts approximate market value.

Assuming year-end 2000 and 1999 variable rate debt and investment levels, a one-point increase in interest rates would have increased net interest expense by $9 million in 2000 and $14 million in 1999. The change in this impact from 1999 resulted from decreased variable rate debt levels and increased investment levels at year-end 2000. This sensitivity analysis includes the impact of existing interest rate and currency swaps.

Euro Conversion

On January 1, 1999, member countries of the European Union fixed conversion rates between their existing currencies (legacy currencies) and one common currency - the euro. The euro trades on currency exchanges and is used in business transactions. Conversion to the euro eliminated currency exchange rate risk between the member countries. Beginning in January 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation. Our operating subsidiaries affected by the euro conversion are executing plans to address the issues raised by the euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, such as vending machines, to accommodate euro-denominated transactions and the impact of one common currency on pricing. Since financial systems and processes currently accommodate multiple currencies, the plans contemplate conversion by the end of 2001 if not already addressed in conjunction with other system or process initiatives. The system and equipment conversion costs are 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 discussed below exclude the impact of the fifty-third week in 2000, impairment and restructuring charges, the gain on the bottling transactions in 1999, various Quaker one-time charges and Quaker divested businesses and reflect the impact of certain reclassifications and tax items in all periods presented. Comparable net sales and operating profit, referred to as new PepsiCo, also present the deconsolidation of our bottling operations as if it had occurred at the beginning of 1998. Tropicana results are included subsequent to its acquisition in 1998.

Consolidated Review

Net Sales

				% Change B/(W)	
	2000	1999	1998	2000	1999

Reported	$25,479	$25,093	$27,191	2	(8)
Comparable	$25,185	$23,385	$20,859	8	12

In 2000, comparable net sales increased 8%. This increase is primarily due to volume gains and 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 by 1 percentage point. The fifty-third week enhanced reported net sales by 1 percentage point.

In 1999, comparable net sales increased 12%. This increase primarily reflects the inclusion of Tropicana for the full year in 1999, volume gains in Worldwide Snacks and higher effective net pricing in Worldwide Snacks and Pepsi-Cola North America. The inclusion of Tropicana for the full year in 1999 contributed 6 percentage points of growth. These advances were partially offset by a net unfavorable foreign currency impact, primarily in Brazil and Mexico, which reduced comparable net sales growth by nearly 2 percentage points. Reported net sales decreased 8% reflecting the bottling deconsolidation, partially offset by the inclusion of Tropicana for the full year in 1999.

Volume

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

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.

Total servings increased 2% in 1999 compared to 1998 due to volume growth of Worldwide Snacks and of Pepsi-Cola North America.

Operating Profit and Margin

				Change B/(W)	
	2000	1999	1998	2000	1999
Reported					
Operating profit	$3,818	$3,483	$3,036	10%	15%
Operating profit margin	15.0%	13.9%	11.2%	1.1	2.7
Comparable					
Operating profit	$3,957	$3,487	$3,109	13%	12%
Operating profit margin	15.7%	14.9%	14.9%	0.8	-

In 2000, comparable operating profit margin increased 0.8 percentage points primarily reflecting the favorable margin impact of the 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 expenses and general and administrative expenses.

In 1999, comparable operating profit margin was flat. The margin impact of the higher effective net pricing was offset by the negative margin impact of Tropicana for a full year in 1999, increased general and administrative expenses and increased advertising and marketing expenses.

Bottling Equity Income

Bottling equity income 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 reflected in equity income.

In 2000, net bottling equity income was $130 million. The $18 million favorable impact of an accounting change by PBG was offset by our share of 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 by $5 million.

In 1999, bottling equity income of $83 million reflects 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.

Gain on Bottling Transactions

The 1999 gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.15 per share) relates 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) in the second quarter. 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.

Interest Expense, net

	2000	1999	1998	% Change B/(W) 2000	% Change B/(W) 1999
Reported					
Interest expense	$ (272)	$ (421)	$ (461)	35	9
Interest income	85	130	85	(34)	53
Interest expense, net	$ (187)	$ (291)	$ (376)	36	22
Comparable					
Interest expense	$ (268)	$ (421)	$ (461)	36	9
Interest income	66	136	85	(51)	59
Interest expense, net	$ (202)	$ (285)	$ (376)	29	24

In 2000, comparable interest expense declined 36% 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 the Pepsi Bottling Group. Comparable interest income declined 51% primarily due to lower average investment balances. The fifty-third week increased net interest expense by $3 million. Reported interest income in 2000 and 1999 includes gains or losses from the equity derivative contracts that, in connection with the 2001 adoption of the new accounting standard on derivative instruments, are now classified in selling, general and administrative expenses.

In 1999, comparable interest expense decreased 9% due to lower average interest rates on slightly lower average debt levels. Interest income increased 59% primarily due to higher average investment balances, partially offset by lower average interest rates on these balances. The higher average investment balances primarily result from the first quarter proceeds received from PBG as settlement of pre-existing intercompany balances. Reported interest income in 1999 includes gains or losses from the equity derivative contracts as described above.

Provision for Income Taxes

	2000	1999	1998
Reported			
Provision for income taxes	$1,218	$1,770	$382
Effective tax rate	32.4%	41.4%	14.4%
Comparable			
Provision for income taxes	$1,270	$1,099	$982
Effective tax rate	32.7%	32.9%	31.9%

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.

In 1999, the comparable effective tax rate increased 1 percentage point primarily from the absence in 1999 of the settlement in 1998 of prior years' audit issues offset by the benefit of proportionately lower bottling income. The reported effective tax rate increased 27 percentage points primarily as a result of the bottling transactions and the absence in 1999 of the 1998 income tax benefit relating to our concentrate operations in Puerto Rico.

Net Income and Net Income Per Common Share - Assuming Dilution

	2000	1999	1998	% Change B/(W) 2000	% Change B/(W) 1999
Net income					
Reported	$2,543	$2,505	$2,278	2	10
Comparable	$2,610	$2,239	$2,097	17	7

Net income per common share - assuming dilution					
Reported	$1.42	$1.38	$1.23	3	12
Comparable	$1.46	$1.23	$1.13	18	9

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 assuming dilution.

In 1999, comparable net income increased 7% and the related net income per common share increased 9% due to increased operating profit and a decrease in net interest expense, partially offset by a higher effective tax rate. Net income per common share also benefited from a 1.7% reduction in average shares outstanding assuming dilution.

Business Segments

Additional information concerning our operating segments is presented in Note 21.

Worldwide Snacks

Worldwide Snacks primarily include our salty, sweet and grain-based snack businesses. Products manufactured and sold include Lay's and Ruffles potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese- flavored snacks, Fritos corn chips, a variety of dips and salsas, Rold Gold pretzels, Quaker Chewy granola bars, Grandma's cookies, Oberto's meat snacks and Cracker Jack candy coated popcorn. 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, including cereals, that are not material.

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

Frito-Lay North America

	2000	1999	1998	% Change B/(W) 2000	% Change B/(W) 1999
Net sales					
Reported	$8,971	$8,232	$7,821	9	5
Comparable	$8,807	$8,232	$7,821	7	5
Operating profit					
Reported	$1,915	$1,679	$1,515	14	11
Comparable	$1,875	$1,679	$1,515	12	11

2000 vs. 1999

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

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 brand potato chips, Cheetos brand cheese puffs and Ruffles brand potato chips, as well as double-digit growth in Tostitos brand tortilla chips. These gains were partially offset by continued declines in WOW! brand products. Pound volume growth including the fifty-third week was 7%.

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.

1999 vs. 1998

Net sales grew 5% due to volume gains and higher effective net pricing.

Pound volume advanced 4%. The advance was led by high single-digit growth in our core corn products, excluding the low-fat and no-fat versions, mid single-digit growth in Lay's brand potato chips and significant growth in Cracker Jack brand products and branded dips. Volume declines in our WOW!, "Baked" Lay's and "Baked" Tostitos brand products partially offset these gains.

Operating profit increased 11% reflecting the higher volume, the higher effective net pricing and reduced commodity costs, partially offset by higher advertising and marketing expenses. Advertising and marketing expenses grew at a faster rate than sales due primarily to increased promotional allowances.

Frito-Lay International

	2000	1999	1998	% Change B/(W) 2000	% Change B/(W) 1999
Net sales					
Reported	$4,875	$4,274	$4,077	14	5
Comparable	$4,814	$4,274	$4,077	13	5
Operating profit					
Reported	$ 546	$ 455	$ 397	20	15
Comparable	$ 536	$ 455	$ 397	17	15

2000 vs. 1999

Comparable net sales increased 13% primarily driven by volume growth at Sabritas in Mexico, Walkers in the United Kingdom, and in Turkey, largely due to promotional programs, and effective net pricing at Gamesa and Sabritas in Mexico. 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 by 3 percentage points.

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

1999 vs. 1998

Net sales increased 5%. Excluding the negative impact of Brazil, which was primarily due to macro- economic conditions, net sales increased 12% reflecting higher volume and higher effective net pricing. Overall, the higher effective net pricing more than offset the net impact of weaker currencies outside of Brazil. The unfavorable foreign currency impact, primarily in Mexico, reduced net sales growth by 4 percentage points. Net contributions from acquisitions/divestitures contributed 1 percentage point to the sales growth.

Kilo volume increased 4% primarily driven by a 10% increase in salty snack kilos. The salty snack advance was led by double-digit growth at Sabritas in Mexico and several of our businesses in Central and South America and in Asia. A 5% decline in sweet snack kilos partially offset the salty growth. The sweet snack volume decline resulted from the disposal of our chocolate and biscuit businesses in Poland partially offset by strong growth at Gamesa and Sabritas in Mexico. The net impact from acquisitions/divestitures decreased kilo volume growth by 1 percentage point.

Operating profit increased 15%. Excluding Brazil, operating profit increased 32% driven by strong performances at Sabritas, Gamesa and several of our businesses in Asia. The net impact of weaker foreign currencies outside of Brazil, primarily in Mexico and the United Kingdom, reduced operating profit growth by 5 percentage points. The unfavorable foreign currency impact was more than offset by higher effective net pricing.

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, Fruitworks and other brands for sale to franchised bottlers. It also sells syrups for these brands to national fountain accounts. Pepsi-Cola North America also licenses 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, 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 bottlers 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

				% Change B/(W)	
	2000	1999	1998	2000	1999
Net sales					
Reported	$3,289	$2,605	$1,389	26	88
Comparable	$3,253	$3,005	$2,912	8	3
Operating profit					
Reported	$ 833	$ 751	$ 738	11	2
Comparable	$ 820	$ 751	$ 738	9	2

2000 vs. 1999

Comparable net sales increased 8%. Higher concentrate and fountain pricing and higher Aquafina royalties contributed 8 percentage points of growth, and 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 by 1 percentage point.

Bottler case sales volume increased 1% driven by double-digit growth of Aquafina and distribution gains from Fruitworks. In addition, the introduction of Sierra Mist and low single-digit growth by 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 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.

1999 vs. 1998

Comparable net sales increased 3% reflecting higher concentrate pricing net of increased customer support, and increased royalty income associated with Aquafina bottled water. Reported net sales increased $1.2 billion, primarily due to the bottling deconsolidation.

Bottler case sales increased nearly 2% led by Pepsi One, introduced late in 1998, mid single- digit growth of our Mountain Dew brand and strong double-digit growth of our Aquafina brand of bottled water. These gains were partially offset by single-digit declines in Pepsi and Diet Pepsi brands. Concentrate shipments were even with prior year.

Comparable operating profit increased 2% primarily reflecting the net benefit of the higher pricing and the increased royalty income. These increases were partially offset by higher fountain related costs, increased advertising and marketing spending and higher general and administrative costs.

Gatorade/Tropicana North America

				% Change B/(W)	
	2000	1999	1998	2000	1999
Net sales					
Reported	$3,841	$3,452	$1,956	11	77
Comparable	$3,808	$3,452	$1,956	10	77
Operating profit					
Reported	$ 500	$ 433	$ 259	16	67
Comparable	$ 495	$ 433	$ 259	15	67

2000 vs. 1999

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

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

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.

1999 vs. 1998

Net sales increased 77% primarily due to the acquisition of Tropicana (August 26, 1998). Excluding the acquisition, net sales increased 12% due to volume gains.

Excluding the acquisition of Tropicana, volume grew 13% due to double-digit growth of our Gatorade brand reflecting the introduction of Gatorade Fierce and new packaging, including a redesigned sports bottle and a 20-ounce wide-mouth bottle. Expanded distribution for Gatorade and availability outside traditional retail channels also contributed to the volume growth.

Operating profit increased 67% primarily due to the acquisition of Tropicana. Excluding the acquisition, operating profit grew 18%, primarily due to the increased volume and operating efficiencies, partially offset by increased advertising and marketing expenses.

PepsiCo Beverages International

				% Change B/(W)	
	2000	1999	1998	2000	1999
Net sales					
Reported	$2,531	$2,407	$2,074	5	16
Comparable	$2,531	$2,429	$2,165	4	12
Operating profit	$ 169	$ 108	$ 120	56	(10)

2000 vs. 1999

Comparable net sales increased 4% due to 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 by 5 percentage points.

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. Through December, 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.

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

1999 vs. 1998

Comparable net sales increased 12% due to the acquisition of Tropicana (August 26, 1998). Excluding Tropicana, net sales increased 3% reflecting net contributions from other acquisitions/divestitures, higher volume and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Brazil, Mexico, India and Germany reduced net sales by 4 percentage points.

Volume was flat reflecting double-digit growth in China, strong double-digit growth in Germany, Japan and Pakistan, and single-digit growth in India and Saudi Arabia. These advances were offset by lower volume in Brazil, Russia, the Philippines, and Thailand. Through December, total carbonated soft drink concentrate shipments to franchisees, including those former wholly-owned bottlers in which we now own an equity interest, increased 2% while their bottler case sales increased at a slower rate.

Operating profit decreased 10%. The acquisition of Tropicana contributed 3 percentage points of decline. Excluding Tropicana, the decline reflected a net unfavorable foreign currency impact, primarily in Brazil, higher advertising and marketing expenses and net losses from acquisitions/divestitures.

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.

				% Change B/(W)	
	2000	1999	1998	2000	1999

Net sales	$1,972	$1,993	$1,928	(1)	3
Operating profit	$ 392	$ 363	$ 331	8	10

2000 vs. 1999

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

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

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. The impact of these factors contributed to the operating profit margin improvement of 1.7 percentage points.

1999 vs. 1998

Net sales increased 3% primarily due to a favorable mix shift and higher volume.

Volume increased 1% primarily driven by the introduction of new varieties of hot cereals.

Operating profit increased 10% reflecting lower raw material costs and supply chain cost-savings initiatives partially offset by higher advertising and marketing expenses. Advertising and marketing expenses grew at a faster rate than sales. The impact of these factors contributed to the operating profit margin improvement of 1 percentage point.

CONSOLIDATED CASH FLOWS

In 2000, cash and cash equivalents decreased $208 million to $1.0 billion. Cash flows from operating activities were used to fund share repurchases, capital spending, dividend payments and long-term debt payments.

In 1999, cash and cash equivalents increased $608 million to $1.2 billion. Cash flows from operating activities, proceeds from debt issuances and sales of businesses were used primarily for repayments of short-term borrowings, share repurchases, capital spending and dividend payments.

Share Repurchases

Pre-merger PepsiCo share repurchase activity was as follows:

	2000	1999	1998
Cost	$1,430	$1,285	$2,230
Shares repurchased			
Number of shares (in millions)	38	36	59
% of shares outstanding at beginning of year	2.6%	2.4%	3.9%

Quaker repurchased shares totaling $254 million in 2000, $382 million in 1999 and $385 million in 1998.

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.

At year-end 2000, we maintained $2.0 billion of revolving credit facilities. Of the $2.0 billion, approximately $800 million would have expired within one year. The balance would have expired in June 2005. Annually, these facilities were extendable an additional year upon the mutual consent of PepsiCo and the lending institutions. The credit facilities existed largely to support issuances of short-term debt and remained unused at year-end 2000. At year-end 2000, $750 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.

In June 2001, we cancelled $1.5 billion of these credit facilities and entered into a $375 million facility expiring in June 2002 and a $375 million facility expiring in June 2006.

In April 2001, we issued 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment in connection with our merger with The Quaker Oats Company. We received $524 million in net proceeds.

In connection with the merger with Quaker, we expect to incur approximately $125 million of transaction costs necessary to complete the merger and a total of approximately $450 to $550 million of additional costs to integrate the two companies. The substantial portion of these costs is expected to be cash and will be paid over a two-year period from the consummation of the merger.

We have identified ongoing merger-related cost savings and revenue enhancement opportunities that are expected to reach $400 million a year by 2005. Synergies expected to be achieved by the end of 2002 approximate $140 to $175 million.

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PepsiCo, Inc. and Subsidiaries

SUPPLEMENTAL FINANCIAL STATEMENTS

FISCAL YEAR ENDED DECEMBER 30, 2000

Supplemental Consolidated Statement of Income
(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	2000	1999	1998
Net Sales			
New PepsiCo	$25,479	$22,970	$19,529
Bottling operations	-	2,123	7,662
Total Net Sales	25,479	25,093	27,191
Costs and Expenses			
Cost of sales	10,226	10,326	11,696
Selling, general and administrative expenses	11,104	11,018	11,742
Amortization of intangible assets	147	193	235
Impairment and restructuring charges	184	73	482
Total Costs and Expenses	21,661	21,610	24,155
Operating Profit			
New PepsiCo	3,818	3,430	2,912
Bottling operations and equity investments	-	53	124
Total Operating Profit	3,818	3,483	3,036
Bottling equity income, net	130	83	-
Gain on bottling transactions	-	1,000	-
Interest expense	(272)	(421)	(461)
Interest income	85	130	85
Income Before Income Taxes	3,761	4,275	2,660
Provision for Income Taxes	1,218	1,770	382
Net Income	$ 2,543	$ 2,505	$ 2,278
Net Income Per Common Share			
Basic	$ 1.45	$ 1.41	$ 1.27
Diluted	$ 1.42	$ 1.38	$ 1.23

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

See accompanying Notes to Supplemental Consolidated Financial Statements.

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Supplemental Consolidated Statement of Cash Flows
(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	2000	1999	1998
Operating Activities			
Net income	$ 2,543	$ 2,505	$ 2,278
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on bottling transactions	-	(1,000)	-
Bottling equity income, net	(130)	(83)	-
Depreciation and amortization	1,093	1,156	1,367
Non-cash portion of impairment and restructuring charges	125	42	387
Non-cash portion of tax benefit	-	-	(259)
Deferred income taxes	33	573	66
Deferred compensation - ESOP	36	32	32
Other non-cash charges and credits, net	303	368	178
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable	(52)	(141)	146
Inventories	(51)	(202)	(4)
Prepaid expenses and other current assets	(35)	(209)	(256)
Accounts payable and other current liabilities	240	290	(76)
Income taxes payable	335	274	(92)
Net change in operating working capital	437	12	(282)
Net Cash Provided by Operating Activities	4,440	3,605	3,767
Investing Activities			
Capital spending	(1,352)	(1,341)	(1,610)
Acquisitions and investments in unconsolidated affiliates	(98)	(430)	(4,537)
Sales of businesses	33	513	283
Sales of property, plant and equipment	57	130	140
Capital gains tax recovery	-	-	240
Short-term investments, by original maturity			
More than three months-purchases	(4,950)	(2,209)	(690)
More than three months-maturities	4,585	2,220	727
Three months or less, net	(9)	12	839
Other, net	(262)	(67)	(167)
Net Cash Used for Investing Activities	(1,996)	(1,172)	(4,775)

(Continued on following page)

Supplemental Consolidated Statement of Cash Flows (continued)
(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	2000	1999	1998
Financing Activities			
Proceeds from issuances of long-term debt	130	3,480	991
Payments of long-term debt	(879)	(1,216)	(2,384)
Short-term borrowings, by original maturity			

More than three months-proceeds	198	3,699	2,738
More than three months-payments	(155)	(2,758)	(461)
Three months or less, net	1	(2,814)	1,755
Cash dividends paid	(949)	(935)	(917)
Share repurchases	(1,430)	(1,285)	(2,230)
Quaker share repurchases	(254)	(382)	(385)
Proceeds from exercises of stock options	690	383	527
Net Cash Used for Financing Activities	(2,648)	(1,828)	(366)
Effect of exchange rate changes on cash and cash equivalents	(4)	3	-
Net (Decrease) Increase in Cash and Cash Equivalents	(208)	608	(1,374)
Cash and Cash Equivalents - Beginning of Year	1,246	638	2,012
Cash and Cash Equivalents - End of Year	$ 1,038	$ 1,246	$ 638

Supplemental Cash Flow Information			
Interest paid	$ 226	$ 384	$ 239
Income taxes paid	$ 876	$ 689	$ 683
Schedule of Noncash Investing and Financing Activities			
Fair value of assets acquired	$ 80	$ 717	$ 5,359
Cash paid and stock issued	(98)	(438)	(4,537)
Liabilities assumed	$ (18)	$ 279	$ 822

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

See accompanying Notes to Supplemental Consolidated Financial Statements.

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Supplemental Consolidated Balance Sheet
(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
December 30, 2000 and December 25, 1999

	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,038	$ 1,246
Short-term investments, at cost	467	93
	1,505	1,339
Accounts and notes receivable, net	2,129	2,005
Inventories	1,192	1,165
Prepaid expenses and other current assets	791	661
Total Current Assets	5,617	5,170
Property, Plant and Equipment, net	6,558	6,373
Intangible Assets, net	4,714	4,972
Investments in Unconsolidated Affiliates	2,979	2,847
Other Assets	889	586
Total Assets	$20,757	$19,948
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 202	$ 387
Accounts payable and other current liabilities	4,529	4,144
Income taxes payable	64	196
Total Current Liabilities	4,795	4,727
Long-Term Debt	3,009	3,527
Other Liabilities	3,960	3,385
Deferred Income Taxes	1,367	1,209
Preferred stock, no par value: issued and outstanding 0.8 and 0.9 shares, respectively	49	61
Deferred Compensation - preferred	(27)	(39)
Common Shareholders' Equity		
Common stock, par value 1 2/3¢ per share: issued 2,029 and 2,030 shares, respectively	34	34
Capital in excess of par value	375	559

Deferred compensation	(21)	(45)
Retained earnings	16,510	14,921
Accumulated other comprehensive loss	(1,374)	(1,085)
	15,524	14,384
Less: repurchased common stock, at cost: 280 shares and 271 shares, respectively	(7,920)	(7,306)
Total Common Shareholders' Equity	7,604	7,078
Total Liabilities and Shareholders' Equity	$20,757	$19,948

We have restated all periods presented to reflect the merger with the Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

See accompanying Notes to Supplemental Consolidated Financial Statements.

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Supplemental Consolidated Statement of Common Shareholders' Equity
(in millions)
Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance, beginning of year	2,030	$ 34	2,037	$ 34	2,045	$ 34
Share repurchases	(9)	-	(13)	-	(16)	-
Quaker stock option exercises	8	-	6	-	8	-
Balance, end of year	2,029	$ 34	2,030	$ 34	2,037	$ 34
Capital in Excess of Par Value						
Balance, beginning of year		$ 559		$ 904		$ 1,279
Share repurchases		(236)		(370)		(386)
Stock option exercises(a)		52		(21)		8
Other		-		46		3
Balance, end of year		$ 375		$ 559		$ 904
Deferred Compensation						
Balance, beginning of year		$ (45)		$ (68)		$ (91)
Net activity		24		23		23
Balance, end of year		$ (21)		$ (45)		$ (68)
Retained Earnings						
Balance, beginning of year		$14,921		$13,356		$11,998
Net income		2,543		2,505		2,278
Cash dividends declared: Common		(950)		(936)		(915)
Cash dividends declared: Preferred		(4)		(4)		(5)
Balance, end of year		$16,510		$14,921		$13,356
Accumulated Other Comprehensive Loss						
Balance, beginning of year		$(1,085)		$(1,139)		$(1,070)
Currency translation adjustment		(289)		(136)		(73)
CTA reclassification adjustment		-		175		24
Minimum pension liability adjustment(b)		(2)		17		(20)
Other		2		(2)		-
Balance, end of year		$(1,374)		$(1,085)		$(1,139)
Repurchased Common Stock						
Balance, beginning of year	(271)	$(7,306)	(255)	$(6,535)	(224)	$(4,986)
Shares repurchased	(38)	(1,430)	(36)	(1,285)	(59)	(2,230)
Stock option exercises	29	816	20	514	28	676
Other	-	-	-	-	-	5
Balance, end of year	(280)	$(7,920)	(271)	$(7,306)	(255)	$(6,535)
Total Common Shareholders' Equity		$ 7,604		$ 7,078		$ 6,552

(a) Includes total tax benefit of $177 in 2000, $105 in 1999 and $143 in 1998.

(b) Net of taxes of $(1) in 2000, $9 in 1999 and $(11) in 1998.

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.
See accompanying Notes to Supplemental Consolidated Financial Statements.

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Notes to Supplemental Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

On August 2, 2001, we completed our merger with The Quaker Oats Company (Quaker). As a result, we restated all prior period supplemental 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 management 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.

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 - Business Segments for the impact on PepsiCo's business segments.

The consolidated financial statements subsequent to the date 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 asset impairment and restructuring charges described in Note 3, the third quarter 1998 acquisition of Tropicana described in Note 4 and the income tax adjustments 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. Accordingly, our share of the net income or loss of such unconsolidated affiliates 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 to 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 2000, $1.6 billion in 1999 and $1.3 billion in 1998. Deferred advertising expense, classified as prepaid expenses in the Supplemental Consolidated Balance Sheet, was $127 million in 2000 and $104 million in 1999. 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 as either a reduction of net sales or as marketing costs. New PepsiCo total promotional expenses classified as marketing costs were $3.2 billion in 2000, $2.9 billion in 1999 and $2.7 billion in 1998.

During 2000, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) added to its agenda various issues that impact the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, *Accounting for Certain Sales Incentives*. EITF 00-14 addresses the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In April 2001, the EITF announced that it would delay the effective date for this consensus to 2002. The impact of adopting this consensus is not expected to have a material impact on our results of operations.

In January 2001, the EITF reached a consensus on Issue 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. Issue 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. The consensus was effective for the first quarter of 2001 and was not material to our consolidated financial statements.

In April 2001, the EITF reached a consensus on Issue 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products*. EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in Issue 00-14, from a vendor to a reseller or another party that purchases the vendor's products. The consensus will require most of our customer promotional incentives currently classified as marketing costs to be classified as a reduction of revenue. The consensus is effective for 2002.

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 $2.5 billion in 2000, $2.4 billion in 1999 and $2.9 billion in 1998.

Research and Development Costs

Research and development costs are expensed in the year incurred. Research and development costs were $207 million in 2000, $187 million in 1999 and $150 million in 1998.

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 our incentive programs, compensation cost for performance share units granted and for cash payments expected to be paid to employees in lieu of stock options is 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. The pre-merger PepsiCo plans generally use a measurement date of September 30. The pre-merger Quaker plans use 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

The interest differential to be paid or received on an interest rate swap is recognized as an adjustment to interest expense as the differential occurs. If an interest rate swap position were to be terminated, the gain or loss realized upon termination would be deferred and amortized to interest expense over the remaining term of the underlying debt instrument it was intended to modify. However, if the underlying debt instrument were to be settled prior to maturity, the gain or loss realized upon termination would be recognized immediately.

The differential to be paid or received on a currency swap related to non-U.S. dollar denominated debt is charged or credited to selling, general and administrative expenses as the differential occurs. This is fully offset by the corresponding gain or loss recognized on the currency translation of the debt, as both amounts are based upon the same exchange rates. The currency differential not yet settled in cash is reflected in the Consolidated Balance Sheet under the appropriate current or noncurrent receivable or payable caption. If a currency swap position were to be terminated prior to maturity, the gain or loss realized upon termination would be immediately recognized in selling, general and administrative expenses.

Gains and losses on futures contracts designated as hedges of future commodity purchases are deferred in the Consolidated Balance Sheet under the appropriate current asset or liability caption and included in the cost of the hedged commodity when purchased. Changes in the value of such contracts used to hedge commodity purchases are highly correlated to the changes in the value of the purchased commodity. Subsequent changes in the value of such contracts that cease to be highly correlated or

changes in the value of futures contracts not designated as hedges are recognized in cost of sales immediately. If a futures contract designated as a hedge were to be terminated, the gain or loss realized upon termination would be included in the cost of the hedged commodity when purchased.

Forward exchange contracts used to hedge the foreign currency exposure of monetary assets and liabilities denominated in currencies other than the functional currency are reflected in the Consolidated Balance Sheet at fair value. Changes in the fair value of these contracts are recognized in selling, general and administrative expenses.

Equity derivative contracts indexed to PepsiCo's stock price are reflected in the Consolidated Balance Sheet at fair value as a prepaid expense. Changes in fair value of these contracts are recognized 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

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 or last-in, first-out method) or 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 20 to 40 years. Machinery and equipment (including fleet) are depreciated over their estimated useful lives, generally ranging from 2 to 17 years.

Intangible Assets

Goodwill, the excess of our investments in unconsolidated affiliates over our equity in the underlying assets of these investments, and trademarks 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 20 to 40 years.

Recoverability of Long-Lived Assets to be Held and Used in the Business

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.

Accounting Changes

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133, as amended by SFAS 137 and SFAS 138, was adopted by us on December 31, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, 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. Based on derivatives outstanding at December 30, 2000, the adoption increased assets by approximately $12 million and liabilities by approximately $10 million with approximately $3 million recognized in accumulated other comprehensive income and less than $1 million recognized in the Supplemental Consolidated Statement of Income.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, *Business Combinations* which supersedes Accounting Principles Board (APB) Opinion No. 16, *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 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with The Quaker Oats Company (see Note 2) is accounted for as a pooling-of-interests and was initiated in December 2000, this Statement will not have an impact on our consolidated financial statements.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, *Goodwill and Intangible Assets*, which supersedes APB Opinion No. 17, *Intangible Assets*. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to existing goodwill and intangible assets as well as to transactions completed after the Statement's effective date. We are currently assessing the Statement and the impact that adoption will have on our consolidated financial statements. SFAS 142 is effective for 2002.

Note 2 - Merger of PepsiCo and The Quaker Oats Company

On August 2, 2001, we completed a merger transaction which resulted in The Quaker Oats Company becoming a wholly-owned subsidiary of PepsiCo. Under the merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock 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.

The merger was accounted for as a tax-free transaction and as a pooling-of-interests under Accounting Principles Board Opinion No. 16, *Business Combinations*. As a result, all prior period supplemental consolidated financial statements 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 supplemental financial statements and, for interim reporting, the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

We incurred transaction costs of approximately $125 million related to the merger, most of which will be recognized in the third quarter.

In connection with the merger transaction, we sold the global rights of 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 through our bottling system and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

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

	24 Weeks Ended June 16, 2001 (unaudited)	2000	1999	1998
Net Sales:				
PepsiCo.....................	$ 9,820	$20,438	$20,367	$22,348
Quaker......................	2,741	5,041	4,726	4,843
Adjustments (a)............	(518)	-	-	-
Combined......................	$12,043	$25,479	$25,093	$27,191
Net Income:				
PepsiCo.....................	$ 1,150	$ 2,183	$ 2,050	$ 1,993
Quaker......................	279	360	455	285
Adjustments (a)............	(61)	-	-	-
Combined......................	$ 1,368	$ 2,543	$ 2,505	$ 2,278

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

Note 3 - Asset Impairment and Restructuring

	2000	1999	1998
Asset impairment charges			
Held and used in the business			
Property, plant and equipment............	$ 125	$ 8	$ 190
Intangible assets.........................	-	-	41
Other assets..............................	-	-	8
Held for disposal/abandonment			
Property, plant and equipment............	-	34	83
Intangible assets.........................	-	-	65
Total asset impairment................	125	42	387
Restructuring charges			
Employee related costs.......................	41	20	66
Other charges...............................	18	11	29
Total restructuring...................	59	31	95
Total..	$ 184	$ 73	$ 482
After-tax.............................	$ 111	$ 45	$ 379
Per share.............................	$0.06	$0.02	$0.21

2000

The 2000 asset impairment and restructuring charge of $184 million related to the closure of two cereal manufacturing facilities and two Quaker distribution centers in the United States. This charge was part of a three- year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's North American manufacturing and distribution capabilities.

The asset impairment charges of $125 million 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 closures of distribution centers were completed in 2000. The closures of manufacturing facilities will occur in 2001. The assets will be either disposed of or abandoned in 2001. The restructuring charges of $59 million primarily included severance and termination benefits for approximately 1,000 employees and other shutdown costs. Substantially all of the terminations will be completed during 2001.

<u>1999</u>
The 1999 asset 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.

<u>1998</u>
The 1998 asset impairment and restructuring charges of $482 million were comprised of the following:

- A charge of $218 million, for asset impairment of $200 million and restructuring charges of $18 million related to PepsiCo's Russian bottling operations. The restructuring actions, in response to lower demand, an adverse change in the business climate and an expected continuation of operating losses and cash deficits in Russia following the August 1998 devaluation of the ruble, included a reduction of our cost structure primarily through closing facilities, renegotiating manufacturing contracts and reducing the number of employees. We also evaluated our long-lived bottling assets for impairment, triggered by the reduction in the utilization of assets caused by the adverse economic conditions. The impairment charge reduced the net book value of the assets to their estimated fair market value, based primarily on amounts paid for similar assets in that marketplace. Of the total charge of $218 million, $212 million related to bottling operations that became part of PBG in 1999 (see Note 10).

- A charge of $106 million, for asset impairment of $45 million and restructuring charges of $61 million related to numerous actions taken by Quaker to improve future profitability across its food and beverage operations. The asset impairment charges primarily reflected the reduction in the carrying value of long-lived assets of these businesses to their fair market value. The estimated fair value of these assets was based on various methodologies, including a discounted value of estimated future cash flows and liquidation analyses. The restructuring charges included charges for plant and sales and administrative office closures and consolidations, restructuring of certain joint ventures in Asia and employee termination benefits and related costs for streamlining executive management.

- An impairment charge of $88 million related to Quaker businesses that were divested. Charges of $40 million and $25 million were recognized related to the Continental Coffee and Nile Spice soup cup businesses, which were divested in 1998 at a combined net gain of $2 million. In addition, a charge of $23 million was recognized related to Quaker's Brazilian pasta business, which was divested in 1999 at a gain of $5 million.

- An impairment charge of $54 million related to manufacturing equipment at Frito-Lay North America. The charge primarily reflected the write off of the net book value of the equipment and related projects. Disposal or abandonment of these assets was completed in 1999.

- A charge of $16 million for employee related costs resulting from the separation of PepsiCo's North American concentrate and bottling organizations (see Note 10). Of this amount, $10 million related to bottling operations that became part of PBG in 1999.

The employee related costs for 1998 of $66 million primarily included severance and other termination benefits and relocation costs for approximately 4,000 full-time and part-time employees. The terminations unrelated to the bottling operations that became part of PBG occurred during 1998 and 1999.

Analysis of restructuring reserves for total PepsiCo:

	Employee Related	Facility Closure	Third Party Termination	Other	Total
Reserve, December 27, 1997	$ 71	$ 1	$ 109	$ 6	$ 187
1998 restructuring charges	66	24	5	-	95
Cash payments	(54)	(1)	(46)	(5)	(106)
Changes in estimate	(13)	4	(6)	-	(15)
Reserve, December 26, 1998	70	28	62	1	161
1999 restructuring charges	20	8	-	3	31
Cash payments	(44)	(5)	(47)	(2)	(98)
Non-cash 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)
Non-cash utilization	(3)	(3)	-	-	(6)
Changes in estimate	-	(4)	-	-	(4)
Reserve, December 30, 2000	$ 43	$ 9	$ 9	$ 2	$ 63

The restructuring reserves are included in accounts payable and other current liabilities in the Supplemental Consolidated Balance Sheet.

Note 4 - Acquisitions

During 2000, we made acquisitions, primarily of various international salty snack food businesses, which aggregated $98 million.

During 1999, we made acquisitions, primarily investments in various bottlers including investments in unconsolidated affiliates, which aggregated $430 million in cash.

During 1998, we completed the acquisitions of Tropicana Products, Inc. from The Seagram Company Ltd. for $3.3 billion in cash and The Smith's Snackfoods Company in Australia from United Biscuits Holdings plc for $270 million in cash. In addition during 1998, acquisitions and investments in unconsolidated affiliates included the purchase of the remaining ownership interest in various bottlers and purchases of various other international salty snack food businesses. Acquisitions for 1998 aggregated $4.5 billion in cash.

The results of operations of acquisitions are generally included in the consolidated financial statements from their respective dates of acquisition. The acquisitions were accounted for under the purchase method. The purchase prices were allocated based on the estimated fair value of the assets acquired and liabilities assumed. The excess purchase prices over the fair values of the net assets acquired of approximately $4 million in 2000, $271 million in 1999 and $3.2 billion in 1998 were allocated to goodwill.

Unaudited Tropicana Pro Forma

The following table presents the unaudited pro forma combined results of PepsiCo and Tropicana as if the acquisition had occurred at the beginning of our 1998 fiscal year. The aggregate impact of other acquisitions in this period was not material to our net sales, net income or net income per common share.

	1998 (unaudited)
Net sales	$28,517
Net income available for common - diluted	$ 2,221
Net income per common share - diluted	$ 1.20

The pro forma amounts include the amortization of the goodwill arising from the allocation of the purchase price and interest expense on the debt issued to finance the purchase. The pro forma information does not necessarily present what the combined results would have been for this period and is not intended to be indicative of future results.

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 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:

	2000		1999		1998	
	Income	Average Shares Out-standing	Income	Average Shares Out-standing	Income	Average Shares Out-standing
Net income	$2,543		$2,505		$2,278	
Less: Preferred dividends.....	4		4		5	
Net income available for common shareholders..........	$2,539	1,748	$2,501	1,774	$2,273	1,795
Basic net income per common share................	$ 1.45		$ 1.41		$ 1.27	
Net income available for common shareholders..........	$2,539	1,748	$2,501	1,774	$2,273	1,795
Effect of dilutive securities:						
Stock options................	-	38	-	37	-	47
ESOP convertible preferred stock......................	2	4	2	5	2	5
Non-vested stock awards......	-	1	-	1	-	1
Diluted.......................	$2,541	1,791	$2,503	1,817	$2,275	1,848
Diluted net income per common share	$ 1.42		$ 1.38		$ 1.23	

Diluted net income per common share excludes incremental shares of 0.1 million in 2000, 49.0 million in 1999 and 31.1 million in 1998 related to employee stock options due to their antidilutive effect at each respective year end.

Note 6 - Accounts and Notes Receivable, net

	2000	1999	1998
Trade receivables	$1,613	$1,513	
Receivables from affiliates	190	243	
Other receivables	452	358	
	2,255	2,114	
Allowance, beginning of year	109	148	$148
Charged to expense	42	32	51
Other additions	51	47	37
Deductions	(76)	(118)	(88)
Allowance, end of year	126	109	$148
Net receivables	$2,129	$2,005	

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

	2000	1999
Raw materials................................	$ 503	$ 543
Work-in-process..............................	160	89
Finished goods...............................	529	533
	$1,192	$1,165

The cost of approximately 20% of 2000 and 1999 inventories was computed using the last-in, first-out (LIFO) method. The differences between LIFO and FIFO methods of valuing these inventories for 2000 and 1999 are not material.

Note 8 - Property, Plant and Equipment, net

	2000	1999
Land	$ 407	$ 381
Buildings and improvements	2,753	2,728
Machinery and equipment, including fleet	7,518	6,899
Construction in progress	788	660
	11,466	10,668
Accumulated depreciation	(4,908)	(4,295)
	$ 6,558	$ 6,373

Depreciation expense was $840 million in 2000, $873 million in 1999 and $1,088 million in 1998.

Note 9 - Intangible Assets, net

	2000	1999
Goodwill	$3,798	$3,976
Trademarks	585	642
Other identifiable intangibles	331	354
	$4,714	$4,972

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 $907 million at year-end 2000 and $793 million at year-end 1999.

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%. 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 2000, we owned approximately 37% of the combined company. As part of the merger, we will participate in an earn-out option whereby we may receive additional shares if certain performance targets are met. Effective January 2001, the name of the combined company was changed to PepsiAmericas, Inc.

PBG

In addition to approximately 38% of PBG’s outstanding common stock that we owned at year-end 2000, 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 full year 2000 and 1999 financial information is as follows:

	2000	1999
Current assets	$1,584	$1,498
Noncurrent assets	6,152	6,126
Total assets	$7,736	$7,624
Current liabilities	$ 967	$ 952
Noncurrent liabilities	4,817	4,831
Minority interest	306	278
Total liabilities	$6,090	$6,061
Our equity investment	$ 934	$ 829

	2000	1999	1998
Net sales	$7,982	$7,505	$7,041
Gross profit	$3,577	$3,209	$2,860
Operating profit	$ 590	$ 412	$ 55
Net income (loss)	$ 229	$ 118	$ (146)

The excess of our investment in PBG over our equity in the underlying net assets, net of amortization, was approximately $40 million at year-end 2000. Based upon the quoted closing price of PBG shares at year-end 2000, the calculated market value of our direct investment in PBG, excluding our investment in Bottling Group, LLC, exceeded our carrying value by approximately $1.6 billion.

PepsiAmericas (formerly Whitman)

PepsiAmericas' summarized full year 2000 and 1999 financial information is as follows:

	2000	1999
Current assets	$ 477	$ 538
Noncurrent assets	2,859	2,326
Total assets	$3,336	$2,864
Current liabilities	$ 887	$ 739
Noncurrent liabilities	999	983
Total liabilities	$1,886	$1,722
Our equity investment	$ 741	$ 668

	2000	1999
Net sales	$2,528	$2,183
Gross profit	$1,033	$ 890
Operating profit	$ 223	$ 182
Income from continuing operations	$ 72	$ 43
Net income (loss)	$ 80	$ (9)

The above financial information for 2000 includes the results of the former PepsiAmericas after the date of the merger with Whitman. Comparable 1998 information is not available.

The excess of our investment in PepsiAmericas over our equity in the underlying net assets, net of amortization, was approximately $208 million at year-end 2000. Based upon the quoted closing price at year-end 2000, the calculated market value of our investment in PepsiAmericas exceeded our carrying value by approximately $197 million.

Other Equity Investments

Summarized financial information regarding our principal equity investments, other than PBG and PepsiAmericas follows. Information is presented in the aggregate and generally from the acquisition date.

	2000	1999
Current assets	$1,033	$1,210
Noncurrent assets	2,200	2,568
Total assets	$3,233	$3,778

Current liabilities	$ 972	$1,214
Noncurrent liabilities	578	673
Minority interest	35	41
Total liabilities	$1,585	$1,928
Our related equity investments	$1,030	$1,054

	2000	1999	1998
Net sales	$4,714	$3,754	$3,088
Gross profit	$2,066	$1,691	$1,356
Operating profit	$ 254	$ 89	$ 101
Net income (loss)	$ 79	$ (10)	$ 22

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. They 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 investment 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 Supplemental Consolidated Statement of Income as follows:

	2000	1999	1998
Net sales	$2,546	$1,779	$576
Selling, general and administrative expenses	$ 653	$ 554	$169

As of December 30, 2000, the receivables from these bottling affiliates are $187 million and payables to these affiliates are $125 million. As of December 25, 1999, the receivables from these bottling affiliates were $93 million and the payables to these affiliates were $131 million. Such amounts are settled on terms consistent with other trade receivables and payables. See Note 20 regarding our guarantee of PBG related debt.

Note 11 - Accounts Payable and Other Current Liabilities

	2000	1999
Accounts payable	$1,212	$1,138
Accrued selling, advertising and marketing	986	844
Accrued compensation and benefits	809	741
Insurance accruals	227	105
Dividends payable	240	235
Other current liabilities	1,055	1,081
	$4,529	$4,144

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

	2000	1999
Short-Term Borrowings		
Commercial paper	$ -	$ 4
Current maturities of long-term debt	453	798
Other borrowings (7.1% and 6.8%)	499	485
Amounts reclassified to long-term debt	(750)	(900)

	$ 202	$ 387

Long-Term Debt		
Short-term borrowings, reclassified........................	$ 750	$ 900
Notes due 2001-2016 (6.7% and 6.6%)........................	1,924	2,451
Various foreign currency debt, due 2001 (6.5% and 6.1%)....	219	341
Zero coupon notes, $735 million due 2011-2012 (13.4%)......	339	324
Other, due 2001-2026 (7.6% and 7.3%).......................	230	309
	3,462	4,325
Less: current maturities of long-term debt................	(453)	(798)
	$3,009	$3,527

The weighted average interest rates in the above table include the effects of associated interest rate and currency swaps at year-end 2000 and 1999. Also, see Note 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 2000 and 1999. 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.

	2000	1999
Receive fixed-pay variable		
Notional amount............................	$1,335	$1,242
Weighted average receive rate.............	4.4%	6.1%
Weighted average pay rate.................	4.9%	6.1%

The terms of the interest rate swaps match the terms of the debt they modify. The swaps terminate at various dates through 2013. At year-end 2000, approximately 58% of total debt, including the effects of the associated interest rate swaps, was exposed to variable interest rates, compared to 56% in 1999. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

Currency Swaps

We enter 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 match the terms of the debt they modify. The currency swaps terminate at various dates in 2001.

At year-end 2000, the aggregate carrying amount of debt denominated in Swiss francs and Luxembourg francs was $122 million. 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%, including the effects of related interest rate swaps.

At year-end 1999, the aggregate carrying amount of debt denominated in Swiss francs, Luxembourg francs and Australian dollars was $244 million. The payables under related currency swaps were $62 million, resulting in an effective U.S. dollar liability of $306 million with a weighted average interest rate of 6.3%, including the effects of related interest rate swaps.

Revolving Credit Facilities

At year-end 2000, we maintained $2.0 billion of revolving credit facilities. Of the $2.0 billion, approximately $800 million would have expired within one year. The balance would have expired in 2005. The credit facilities existed largely to support issuances of short-term debt. Annually, these facilities were extendable an additional year upon the mutual consent of PepsiCo and the lending institutions. These facilities are subject to normal banking terms and conditions.

In June 2001, we cancelled $1.5 billion of these credit facilities and entered into a $375 million facility expiring in June 2002 and a $375 million facility expiring in June 2006.

The reclassification of short-term borrowings to long-term debt at year-end 2000 reflected 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 30, 2000, matures as follows during the next five years:

	2001	2002	2003	2004	2005
Maturities	$453	$282	$445	$112	$168

Note 13 - Financial Instruments

Derivative Financial Instruments

Our policy prohibits the use of derivative financial instruments for speculative purposes and we have procedures in place to monitor and control their use. The following discussion excludes futures contracts and options used to hedge our commodity purchases.

Our use of derivative financial instruments primarily involves interest rate and currency swaps, which are intended to reduce borrowing costs by effectively modifying the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on 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. Further, there is no significant concentration with counterparties. See Note 12 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

At year-end 2000, we have forward contracts to exchange foreign currencies with an aggregate notional amount of $344 million. $336 million of the amount relates to contracts to exchange British pounds for U.S. dollars being used to hedge U.S. dollar-denominated intercompany loans. These contracts mature between 2001 and 2003. Our credit risk is considered low because such forward exchange contracts are with strong creditworthy counterparties. Any market risk associated with these contracts is substantially offset by the opposite market impact on the related hedged items.

In addition, at year-end 2000, we have equity derivative contracts with financial institutions in the notional amount of $52 million. These prepaid forward contracts, indexed to PepsiCo’s stock price, hedge a portion of our deferred compensation liability, which is based on PepsiCo’s stock price. The change in the fair value of these contracts resulted in $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 financial instruments:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents........................	$1,038	$1,038	$1,246	$1,246
Short-term investments...........................	$ 467	$ 467	$ 93	$ 93
Equity derivative contracts......................	$ 66	$ 66	$ 47	$ 47
Liabilities				
Forward exchange contracts	$ 9	$ 9	$ -	$ -
Debt				
Short-term borrowings and long-term debt, excluding capital leases..............	$3,205	$3,392	$3,907	$3,977
Debt-related derivative instruments				
Interest rate swaps in asset position.......	-	(12)	-	-
Interest rate swaps in liability position...	-	5	-	29
Combined currency and interest rate swaps in liability position...............	43	46	62	57
Net debt................................	$3,248	$3,431	$3,969	$4,063

The above carrying amounts are included in the Supplemental Consolidated Balance Sheet under the indicated captions, except for combined currency and interest rate swaps, which are included in the appropriate current or noncurrent asset or liability caption. Short-term investments consist primarily of debt securities and have been classified as held-to-maturity. Equity derivative contracts are classified within prepaid expenses and forward exchange contracts are classified within accounts payable and other current liabilities.

Because of the short maturity of cash equivalents and short-term investments, the carrying amounts approximate fair values. The fair values of debt, debt-related derivative instruments and forward derivative instruments 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 $66 million at December 30, 2000 and $64 million at December 25, 1999 based on market rates.

Note 14 - Income Taxes

U.S. and foreign income before income taxes:

	2000	1999	1998
U.S.	$2,574	$3,350	$2,065
Foreign	1,187	925	595
	$3,761	$4,275	$2,660

Provision for income taxes:

		2000	1999	1998
Current:	U.S. Federal	$ 958	$ 819	$ (46)
	Foreign	165	322	289
	State	62	56	73
		1,185	1,197	316
Deferred:	U.S. Federal	31	559	73
	Foreign	(7)	(17)	(9)
	State	9	31	2
		33	573	66
		$1,218	$1,770	$ 382

Reconciliation of the U.S. Federal statutory tax rate to our effective tax rate:

	2000	1999	1998
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit	1.2	1.3	1.8
Lower taxes on foreign results	(2.9)	(2.5)	(3.0)
Settlement of prior years' audit issues	-	-	(4.8)
Puerto Rico settlement	-	-	(18.6)
Bottling transactions	-	9.0	-
Asset impairment and restructuring	-	-	2.9
Other, net	(0.9)	(1.4)	1.1
Effective tax rate	32.4%	41.4%	14.4%

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, was to reduce our 1999 provision for income taxes by $59 million (or $0.03 per share).

In 1998, we reached final agreement with the IRS to settle substantially all remaining aspects of a tax case related to PepsiCo's concentrate operations in Puerto Rico. As a result, we recognized a tax benefit totaling $494 million (or $0.27 per share) which reduced our 1998 provision for 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. We record the tax effect of these temporary differences as deferred tax assets or deferred tax liabilities. 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 that we have taken a tax deduction for, but have not yet recorded in the Consolidated Statement of Income.

Deferred tax liabilities (assets):

	2000	1999
Investments in unconsolidated affiliates	$ 672	$ 667
Property, plant and equipment	802	757
Safe harbor leases	94	101
Zero coupon notes	73	76
Intangible assets other than nondeductible goodwill	54	47
Other	439	353
Gross deferred tax liabilities	$ 2,134	$ 2,001
Net loss carryforwards	(746)	(752)

Postretirement benefits	(311)	(302)
Various current liabilities and other	(869)	(822)
Gross deferred tax assets	(1,926)	(1,876)
Deferred tax asset valuation allowances	752	757
Deferred tax assets, net of valuation allowances	(1,174)	(1,119)
Net deferred tax liabilities	$ 960	$ 882
Included in:		
Prepaid expenses and other current assets	$ (407)	$ (313)
Other assets	-	(14)
Deferred income taxes	1,367	1,209
	$ 960	$ 882

Net operating loss carryforwards totaling $3.0 billion at year-end 2000 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 2001, $2.6 billion between 2002 and 2016 and $0.3 billion may be carried forward indefinitely. In addition, net capital loss carryforwards totaling $0.7 billion at year-end 2000 are being carried forward and are available to reduce future capital gains in the United States. These net capital loss carryforwards will expire in 2001. In 1998, as a result of the loss on a 1997 divestiture, Quaker recovered $240 million in Federal taxes paid on previous capital gains.

Valuation allowances have been established primarily for deferred tax assets related to net operating losses in certain state and foreign tax jurisdictions where the amount of expected future taxable income from operations does not support the recognition of these deferred tax assets. A valuation allowance has been provided for the full value of deferred tax assets related to the net capital loss carryforwards.

Analysis of Valuation Allowances:

	2000	1999	1998
Balance, beginning of year	$757	$885	$777
Provision/benefit	(7)	61	108
Other additions/(deductions)	2	(189)	-
Balance, end of year	$752	$757	$885

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

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.

Note 15 - Preferred and Common Stock

As of December 30, 2000, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized. Of the authorized convertible preferred shares, 840,582 shares, which are designated as $5.46 cumulative convertible stock, were issued and outstanding. Each share is convertible at the option of the holder into 4.9625 shares of common stock and may be called for redemption at $78 per share plus accrued and unpaid dividends. The convertible preferred stock will be issued only for the ESOP and will not be traded on the open market.

Note 16 - Comprehensive Loss

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

	2000	1999	1998
Currency translation adjustment	$1,369	$1,080	$1,119
Minimum pension liability adjustment	5	3	20
Other	-	2	-
Accumulated other comprehensive loss	$1,374	$1,085	$1,139

Note 17 - Employee Stock Options

Stock options are granted to employees under three different incentive plans:

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

Beginning in 1998, all executive (including middle management) awards are made under the LTIP. Under the LTIP, an executive generally receives an award based on a multiple of base salary. Two-thirds of the award consists of stock options with an exercise price equal to the average stock price on the date of the award. These options generally become exercisable at the end of three years and have a 10-year term. At the date of the award, the executive selects 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, will depend on the attainment of prescribed performance goals over the three-year measurement period. If the executive chooses stock options, they are granted with an

exercise price equal to the average stock price on the date of the grant, vest immediately and have a 10-year term. If the executive chooses a cash payment, one dollar of cash will be received for every four dollars of the award. Amounts expensed for expected cash payments were $36.7 million in 2000, $17.9 million in 1999 and $7 million in 1998. At year-end 2000, 125 million shares were available for grants under the LTIP.

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 are generally exercisable after one or more years and expire no later than 10 years from the date of grant. This plan provides 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.

PepsiCo prior to 1998

Prior to 1998, Stock Option Incentive Plan (SOIP) options were granted to middle management employees and were exercisable after one year. LTIP options were granted to senior management employees and were generally exercisable after four years. Both SOIP and LTIP options have 10-year terms. Certain LTIP options could be exchanged by employees for a specified number of performance share units (PSUs) within 60 days of the grant date. The value of a PSU was fixed at the stock price at the grant date and the PSU was payable four years from the grant date, contingent upon attainment of prescribed performance goals. At year-end 2000, there were no PSUs outstanding. There were 68,000 and 84,000 PSUs outstanding in 1999 and 1998, respectively. Payment of PSUs was made in cash and/or in stock as approved by the Compensation Committee of our Board of Directors. Amounts expensed for PSUs were $0.3 million in 1999 and $1 million in 1998.

Stock option activity:

(Options in thousands)	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year............	188,661	$25.82	173,691	$22.43	176,269	$18.41
Granted......................	28,660	31.92	48,711	33.90	40,423	34.76
Exercised....................	(37,039)	18.40	(24,846)	15.84	(35,726)	15.16
Surrendered for PSUs.........	-	-	-	-	(24)	37.46
Forfeited/expired............	(9,642)	33.93	(8,895)	32.06	(7,251)	27.42
Outstanding at end of year......	170,640	28.08	188,661	25.82	173,691	22.43
Exercisable at end of year (a)..	75,129	$21.27	90,826	$18.65	100,729	$16.58
Weighted average fair value of options granted						

during the year..............	$12.04	$10.65	$10.08

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

Stock options outstanding and exercisable at December 30, 2000:

	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 $13.88	6,210	1.59 yrs.	$ 9.83	6,207	$ 9.84
$14.20 to $32.25	94,753	5.64	23.46	60,582	20.56
$32.40 to $47.00	69,677	7.91	35.95	8,340	34.94
	170,640	6.31	28.08	75,129	21.27

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:

	2000	1999	1998
Reported			
Net income....................................	$2,543	$2,505	$2,278
Net income per common share - basic..........	$ 1.45	$ 1.41	$ 1.27
Net income per common share -diluted.........	$ 1.42	$ 1.38	$ 1.23
Pro Forma			
Net income....................................	$2,343	$2,343	$2,161
Net income per common share - basic..........	$ 1.34	$ 1.32	$ 1.20
Net income per common share - diluted........	$ 1.31	$ 1.29	$ 1.17

The pro forma amounts disclosed above are not fully representative of the effects of stock-based awards because, except for the impact resulting from the bottling transactions, the amounts exclude the pro forma cost related to the unvested stock options granted before 1995.

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:

	2000	1999	1998
Risk free interest rate.........	6.7%	5.2%	4.7%
Expected life...................	5 yrs.	5 yrs.	5 yrs.
Expected volatility.............	29%	27%	23%
Expected dividend yield.........	1.08%	1.34%	1.14%

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 ESOP borrowings are included in long-term debt in the Consolidated Balance Sheet.

Total deferred compensation of $48 million as of December 30, 2000, primarily represents payment of future compensation expense related to the ESOP. As we make annual contributions to the ESOP, these contributions, along with the dividends accumulated on the common and preferred stock held by the ESOP, are used to repay the outstanding loans. As the loans are repaid, common and preferred stock are allocated to ESOP participants and deferred compensation is reduced by the amount of the principal payments on the loans.

The following table presents the ESOP loan payments:

	2000	1999
Principal payments	$37	$33
Interest payments	6	9
Total ESOP payments	$43	$42

As of December 30, 2000, 11 million shares of common stock and 0.6 million shares of preferred stock were held in the accounts of ESOP participants. The final ESOP award was made in June 2001.

Note 19 - Pension and Postretirement Benefits

Components of net periodic benefit cost:	2000	1999	1998
	Pension		
Service cost	$ 120	$ 133	$ 128
Interest cost	221	209	212
Expected return on plan assets	(277)	(269)	(271)
Amortization of transition asset	(3)	(3)	(10)
Amortization of prior service amendments	13	11	16
Amortization of (gain)/loss	(18)	15	6
Net periodic benefit cost	56	96	81
Curtailment/settlement loss	6	54	9
Special termination benefits	-	10	4
Net periodic benefit cost including curtailments/ settlements and special termination benefits	$ 62	$ 160	$ 94
	Postretirement		
Service cost	$ 22	$ 23	$ 23
Interest cost	58	54	58
Amortization of prior service amendments	(12)	(14)	(17)
Amortization of gain	(1)	(1)	(2)
Net periodic benefit cost	67	62	62
Curtailment loss	2	-	-
Special termination benefits	-	3	1
Net periodic benefit cost including curtailments and special termination benefits	$ 69	$ 65	$ 63

	2000	1999	2000	1999
	Pension		Postretirement	
Change in benefit obligation:				
Obligation at beginning of year	$3,009	$3,698	$ 740	$ 947
Service cost	120	133	22	23
Interest cost	221	209	58	54
Plan amendments	3	13	-	-
Participant contributions	6	6	1	1
Actuarial gain/(loss)	6	(141)	48	(35)
Acquisitions/(divestitures)	3	(717)	-	(205)
Benefit payments	(166)	(195)	(43)	(48)
Curtailment/settlement loss	6	-	8	-
Special termination benefits	-	10	-	3
Foreign currency adjustment	(38)	(7)	-	-
Obligation at end of year	$3,170	$3,009	$ 834	$ 740
Change in fair value of plan assets:				
Fair value at beginning of year	$3,053	$3,345	$ -	$ -
Actual return on plan assets	281	534	-	-
Acquisitions/(divestitures)	14	(659)	-	-
Employer contributions	103	28	42	47

Participant contributions	6	6	1	1
Benefit payments	(166)	(195)	(43)	(48)
Foreign currency adjustment	(40)	(6)	-	-
Fair value at end of year	$3,251	$3,053	$ -	$ -
Funded status as recognized in the Supplemental Consolidated Balance Sheet:				
Funded status at end of year	$ 81	$ 44	$(834)	$(740)
Unrecognized prior service cost	49	60	(17)	(29)
Unrecognized (gain)/loss	(349)	(357)	41	(24)
Unrecognized transition asset	(3)	(6)	-	-
Net amounts recognized	$ (222)	$ (259)	$(810)	$(793)
Net amounts as recognized in the Supplemental Consolidated Balance Sheet:				
Prepaid benefit cost	$ 141	$ 126	$ -	$ -
Intangible assets	1	-	-	-
Accrued benefit liability	(372)	(390)	(810)	(793)
Accumulated other comprehensive income	8	5	-	-
Net amounts recognized	$ (222)	$ (259)	$(810)	$(793)
Selected information for plans with accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	$ (307)	$ (713)	$(834)	$(740)
Accumulated benefit obligation	$ (193)	$ (537)	$(834)	$(740)
Fair value of plan assets	$ 63	$ 500	$ -	$ -

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 assumptions at end of year:

	2000	1999	1998
	Pension		
Discount rate for benefit obligation	7.7%	7.7%	6.7%
Expected return on plan assets	9.9%	10.0%	9.9%
Rate of compensation increase	4.5%	4.5%	4.6%

The discount rate assumption used to compute the postretirement benefit obligation at year end was 7.8% in 2000 and 1999.

Components of Pension Assets

The pension plan assets are principally stocks and bonds. These assets include approximately 4.7 million shares of PepsiCo common stock with a fair value of $214 million in 2000 and 6.5 million shares with a fair value of $198 million in 1999. To maintain diversification, 1.8 million shares of PepsiCo common stock were sold in 2000 and 0.5 million shares were sold in 1999. In addition, in 1999, PBG pension plans assumed ownership of 3.1 million shares of PepsiCo common stock with a fair value of $95 million.

Health Care Cost Trend Rates

An average increase of 5.9% in the cost of covered postretirement medical benefits is assumed for 2001 for employees who retire without cost sharing. This average increase is then projected to decline gradually to 5.5% in 2005 and thereafter.

An average increase of 5.7% in the cost of covered postretirement medical benefits is assumed for 2001 for employees who retire with cost sharing. This average increase is then projected to decline to 2.1% in 2005 and thereafter.

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
Effect on total of 2000 service and interest cost components	$ 6	$ (6)
Effect on the 2000 accumulated postretirement		

benefit obligation...	$60	$(55)

Note 20 - Commitments, Contingencies and Leases

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. 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. Total rent expense under operating leases was $171 million in 2000, $137 in 1999 and $180 in 1998.

The following is a schedule of future minimum annual rentals on non-cancelable operating leases, in effect as of December 30, 2000:

	2001	2002	2003	2004	2005	Later years	Total
Total payments	$127	$105	$88	$54	$42	$171	$587

Note 21 - Business Segments

In 1998, we adopted Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of a Business Enterprise and Related Information*, which is based on management reporting. In early 1999, in contemplation of the separation from PepsiCo of our bottling operations, we completed a reorganization of our beverage businesses. Accordingly, our 1999 disclosure presents operating results consistent with the new beverage organization. 1998 amounts have been reclassified to conform to the 1999 and 2000 presentation. Therefore, the results in 1998 and through the applicable transaction closing dates in 1999 of consolidated bottling operations in which we now own an equity interest are presented separately with the 1998 and 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. Asset 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.

<u>Frito-Lay North America</u>

Frito-Lay North America manufactures, markets, sells and distributes salty, sweet, and grain-based snacks. Products manufactured and sold include Lay's and Ruffles potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese-flavored snacks, Fritos corn chips, a variety of dips and salsas, Rold Gold pretzels, Quaker Chewy granola bars, Grandma's cookies, Oberto's meat snacks and Cracker Jack candy coated popcorn.

<u>Frito-Lay International</u>

Frito-Lay International 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, including cereals, that are not material.

<u>Pepsi-Cola North America</u>

Pepsi-Cola North America markets, promotes, and manufactures concentrates for Pepsi, Mountain Dew, MUG, Sierra Mist, Slice, Fruitworks and other brands for sale to franchised bottlers. It also sells syrups for these brands to national fountain accounts. Pepsi-Cola North America also licenses 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.

<u>Gatorade/Tropicana North America</u>

Gatorade/Tropicana North America produces, markets, sells and distributes Gatorade sports drinks, Tropicana Pure Premium, 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 bottlers 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 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 1999 and 1998 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

	2000	1999	1998
	Net Sales		
Worldwide Snacks			
- - Frito-Lay North America.............................	$ 8,971	$ 8,232	$ 7,821
- - Frito-Lay International.............................	4,875	4,274	4,077
Worldwide Beverages			
- - Pepsi-Cola North America............................	3,289	2,605	1,389
- - Gatorade/Tropicana North America....................	3,841	3,452	1,956
- - PepsiCo Beverages International.....................	2,531	2,407	2,074
Quaker Foods North America............................	1,972	1,993	1,928
Combined Segments.....................................	25,479	22,963	19,245
Quaker divested businesses............................	-	7	284
Bottling Operations/Investments.......................	-	2,123	7,662
	$25,479	$25,093	$27,191
	Operating Profit		
Worldwide Snacks			
- - Frito-Lay North America.............................	$ 1,915	$ 1,679	$ 1,515
- - Frito-Lay International.............................	546	455	397
Worldwide Beverages			
- - Pepsi-Cola North America............................	833	751	738
- - Gatorade/Tropicana North America....................	500	433	259
- - PepsiCo Beverages International.....................	169	108	120
Quaker Foods North America............................	392	363	331
Combined Segments.....................................	4,355	3,789	3,360
Quaker divested businesses............................	-	-	(2)
Asset impairment and restructuring charges............	(184)	(73)	(260)
Corporate (a)...	(353)	(286)	(186)
Bottling Operations/Investments.......................	-	53	346
Asset impairment and restructuring charges - bottling.	-	-	(222)
	$ 3,818	$ 3,483	$ 3,036
	Total Assets		
Worldwide Snacks			
- - Frito-Lay North America.............................	$ 4,282	$ 4,146	$ 4,063
- - Frito-Lay International.............................	4,352	4,425	4,302
Worldwide Beverages			

- - Pepsi-Cola North America	836	729	547
- - Gatorade/Tropicana North America	4,143	3,927	3,857
- - PepsiCo Beverages International	1,923	1,988	1,677
Quaker Foods North America	952	1,036	1,043
Combined Segments	16,488	16,251	15,489
Quaker divested businesses	-	2	41
Corporate (b)	1,737	1,226	535
Bottling Operations/Investments	2,532	2,469	9,106
	$20,757	$19,948	$25,171

BUSINESS SEGMENTS (continued)

	2000	1999	1998
	Amortization of Intangible Assets		
Worldwide Snacks			
- - Frito-Lay North America	$ 7	$ 8	$ 7
- - Frito-Lay International	46	46	44
Worldwide Beverages			
- - Pepsi-Cola North America	2	2	3
- - Gatorade/Tropicana North America	68	69	23
- - PepsiCo Beverages International	16	16	9
Quaker Foods North America	8	8	8
Combined Segments	147	149	94
Quaker divested businesses	-	-	2
Bottling Operations/Investments	-	44	139
	$ 147	$ 193	$ 235
	Depreciation and Other Amortization Expense		
Worldwide Snacks			
- - Frito-Lay North America	$ 374	$ 345	$ 334
- - Frito-Lay International	182	158	153
Worldwide Beverages			
- - Pepsi-Cola North America	94	72	30
- - Gatorade/Tropicana North America	118	107	55
- - PepsiCo Beverages International	111	104	77
Quaker Foods North America	51	53	50
Combined Segments	930	839	699
Quaker divested businesses	-	-	9
Corporate	16	10	9
Bottling Operations/Investments	-	114	415
	$ 946	$ 963	$ 1,132
	Capital Spending		
Worldwide Snacks			
- - Frito-Lay North America	$ 524	$ 485	$ 411
- - Frito-Lay International	278	295	333
Worldwide Beverages			
- - Pepsi-Cola North America	59	22	21
- - Gatorade/Tropicana North America	261	216	102
- - PepsiCo Beverages International	98	128	69
Quaker Foods North America	96	58	94
Combined Segments	1,316	1,204	1,030
Quaker divested businesses	-	-	8
Corporate	36	42	29
Bottling Operations/Investments	-	95	543
	$ 1,352	$ 1,341	$ 1,610

BUSINESS SEGMENTS (continued)

	2000	1999	1998
		Investments in Unconsolidated Affiliates	

Frito-Lay International	$ 373	$ 284	$ 341
Pepsi-Cola North America	32	50	33
Gatorade/Tropicana North America	13	17	18
PepsiCo Beverages International	6	4	4
Quaker Foods North America	1	1	1
Combined Segments	425	356	397
Corporate	22	22	22
Bottling Operations/Investments	2,532	2,469	978
	$ 2,979	$ 2,847	$ 1,397

	Equity Income/(Loss) from Unconsolidated Affiliates		
Frito-Lay International	$ 26	$ 3	$ (5)
Pepsi-Cola North America	33	31	21
Gatorade/Tropicana North America	-	1	-
PepsiCo Beverages International	2	1	1
Quaker Foods North America	(4)	-	-
Combined Segments	57	36	17
Bottling Operations/Investments	130	76	8
	$ 187	$ 112	$ 25

GEOGRAPHIC AREAS

	Net Sales		
United States	$17,051	$15,406	$12,388
International	8,428	7,564	7,141
Combined Segments	25,479	22,970	19,529
Bottling Operations/Investments	-	2,123	7,662
	$25,479	$25,093	$27,191

	Long-Lived Assets (c)		
United States	$ 9,285	$ 9,093	$ 7,810
International	4,966	5,099	4,514
Combined Segments	14,251	14,192	12,324
Bottling Operations/Investments	-	-	6,702
	$14,251	$14,192	$19,026

(a) Corporate expenses include unallocated corporate headquarters expenses and costs of centrally managed initiatives and insurance programs, minority interests, foreign exchange transaction gains and losses and certain one-time charges not allocated to the segments.

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

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

Note 22 - Selected Quarterly Financial Data (unaudited)

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$4,941	$6,250	$6,421	$7,867
Gross profit	2,934	3,753	3,882	4,684
Asset impairment and restructuring charges (a)	1	171	6	6
Net income	496	594	755	698
Net income per common share - basic	.28	.34	.43	.40
Net income per common share - diluted	.28	.33	.42	.39
Cash dividends declared per common share (b)	.135	.14	.14	.14
Stock price per share (c)				
High	38 5/8	42 1/2	47 1/16	49 15/16
Low	29 11/16	31 9/16	39 11/16	41 5/16
Close	33	41 1/4	42 5/16	49 9/16

Note: 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 million, to operating profit was an estimated $62 million, and to net income was an estimated $44 million or $0.02 per share.

(a) Asset impairment and restructuring charges (Note 3):

	Pre-tax	After-tax	Per Share
First quarter	$ 1	$ -	$ -
Second quarter	171	103	0.06
Third quarter	6	4	-
Fourth quarter	6	4	-
Full year	$184	$111	$0.06

(b) Cash dividends declared per common share are those of pre-merger PepsiCo.

(c) Represents the composite high and low sales price and quarterly closing prices for one share of pre-merger PepsiCo's common stock.

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$5,816	$6,205	$6,013	$7,059
Gross profit	3,362	3,639	3,600	4,166
Asset impairment and restructuring charges (a)	65	-	-	8
Gain on bottling transactions (b)	-	1,000	-	-
Net income (c)	400	891	637	577
Net income per common share - basic	.22	.50	.36	.33
Net income per common share - diluted	.22	.49	.35	.32
Cash dividends declared per common share (d)	.13	.135	.135	.135
Stock price per share (e)				
High	42 9/16	41 7/16	41 1/2	37 3/4
Low	36 3/16	34 1/16	33 3/8	30 1/8
Close	39 15/16	35 3/8	34 5/8	35 7/16

Note: 1999 includes the operating results of deconsolidated bottling operations through their respective closing dates (see Note 10).

(a) Asset impairment and restructuring charges (Note 3):

	Pre-tax	After-tax	Per Share
First quarter	$65	$40	$0.02
Fourth quarter	8	5	-
Full year	$73	$45	$0.02

(b) Second quarter gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.15 per share) relates to the PBG and Whitman bottling transactions (see Note 10).

(c) Includes, in addition to $270 million associated with the bottling transactions described in (b) above, a tax provision of $25 million (or $0.01 per share) in the third quarter related to the PepCom transaction. Also, includes Quaker favorable tax adjustments of $59 million (or $0.03 per share).

(d) Cash dividends declared per common share are those of pre-merger PepsiCo.

(e) Represents the composite high and low sales price and quarterly closing prices for one share of pre-merger PepsiCo's common stock.

Note 23 - Subsequent Event

Acquisition of South Beach Beverage Company, Inc.

On January 5, 2001, we completed the acquisition of South Beach Beverage Company, LLC for approximately $337 million in cash, retaining a 91% interest in the newly formed South Beach Beverage Company, Inc. 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.

"Back to Exhibit 99.1 Index"

Management's Responsibility for Supplemental Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the supplemental consolidated financial statements and related notes. The supplemental financial statements were prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The supplemental 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 supplemental 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 30, 2000 provide reasonable assurance that the supplemental 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 supplemental consolidated balance sheets of PepsiCo, Inc. and subsidiaries as of December 30, 2000 and December 25, 1999, and the related supplemental consolidated statements of income, cash flows and common shareholders' equity for each of the years in the three-year period ended December 30, 2000. These supplemental consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these supplemental 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.

The supplemental consolidated financial statements give retroactive effect to the merger of PepsiCo, Inc. and The Quaker Oats Company on August 2, 2001, which has been accounted for as a pooling-of-interests as described in Note 2 to the supplemental consolidated financial statements. Generally accepted accounting principles proscribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements that do not include the date of consummation. These financial statements do not extend through the date of consummation. However, they will become the historical consolidated financial statements of PepsiCo, Inc. and subsidiaries after financial statements covering the date of consummation of the business combination are issued.

In our opinion, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and subsidiaries as of December 30, 2000 and December 25, 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America applicable after financial statements are issued for a period which includes the date of consummation of the business combination.

KPMG LLP

New York, New York
August 20, 2001

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Supplemental Selected Financial Data
(in millions except per share amounts, unaudited)
PepsiCo, Inc. and Subsidiaries

		2000(a)(c)	1999(b)(c)	1998(c)(d)
Net sales	$	25,479	25,093	27,191
Income from continuing operations	$	2,543	2,505	2,278
Income per common share - continuing operations - basic	$	1.45	1.41	1.27
Income per common share - continuing operations - diluted	$	1.42	1.38	1.23
Cash dividends declared per common share (e)	$	0.555	0.535	0.515
Total assets (f)	$	20,757	19,948	25,170
Long-term debt	$	3,009	3,527	4,823

		1997(c)(g)	1996(c)
Net sales	$	25,933	25,536
Income from continuing operations	$	561	1,190
Income per common share - continuing operations - basic	$	0.30	0.63
Income per common share - continuing operations - diluted	$	0.30	0.62
Cash dividends per common share (e)	$	0.49	0.445
Total assets (f)	$	22,798	26,554
Long-term debt	$	5,834	9,168

As a result of the bottling deconsolidation in 1999 and the Tropicana acquisition late in 1998, the data provided above is not comparable (see Note 1).

In 1997, we disposed of our restaurants segment and accounted for the disposal as discontinued operations. Accordingly, all information has been restated for 1997 and 1996.

(a) 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 million and net income by an estimated $44 million or $0.02 per share.

(b) Includes a net gain on bottling transactions in 1999 of $1.0 billion ($270 million after-tax or $0.15 per share) and a tax provision related to the PepCom transaction of $25 million ($0.01 per share), and a Quaker favorable tax adjustment of $59 million (or $0.03 per share).

(c) Includes asset impairment and restructuring charges of $184 million ($111 million after-tax or $0.06 per share) in 2000, $73 million ($45 million after-tax or $0.02 per share) in 1999, $482 million ($379 million after-tax or $0.21 per share) in 1998, $331 million ($265 million after-tax or $0.14 per share) in 1997 and $593 million ($542 million after-tax or $0.28 per share) in 1996 (see Note 3).

(d) Includes a tax benefit of $494 million (or $0.27 per share) (see Note 14).

(e) Cash dividends per common share are those of pre-merger PepsiCo.

(f) Includes net assets of discontinued operations of $4.45 billion in 1996.

(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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EXHIBIT 99.2

PEPSICO, INC. AND SUBSIDIARIES

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Management's Discussion and Analysis of Results of Operations and Financial Condition

Management's Discussion and Analysis
(tabular dollars are presented in millions, except per share amounts)

All per share amounts reflect common per share amounts, assume dilution and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

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 discussed below exclude impairment and restructuring charges, exclude various Quaker one-time charges and reflect the impact of certain reclassifications in the periods presented.

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 macro-economic 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.

Merger of PepsiCo and The Quaker Oats Company

On August 2, 2001, we completed a merger transaction with The Quaker Oats Company. 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.

In connection with the merger transaction, we sold the global rights of 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 through our bottling system 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 under Accounting Principles Board Opinion No. 16, *Business Combinations*. As a result, all prior period supplemental 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 supplemental 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 quarter prior to the merger and for the years presented in the supplemental consolidated financial statements are as follows:

	24 Weeks Ended June 16, 2001	2000	1999	1998
Net Sales:				
PepsiCo...............	$ 9,820	$20,438	$20,367	$22,348
Quaker................	2,741	5,041	4,726	4,843
Adjustments (a).......	(518)	-	-	-
Combined................	$12,043	$25,479	$25,093	$27,191
Net Income				
PepsiCo...............	$ 1,150	$ 2,183	$ 2,050	$ 1,993
Quaker................	279	360	455	285
Adjustments (a).......	(61)	-	-	-
Combined................	$ 1,368	$ 2,543	$ 2,505	$ 2,278

[a] Adjustments reflect the impact of changing Quaker’s fiscal calendar to conform to PepsiCo’s and adjustments to conform accounting policies of the two companies applicable to interim reporting. Accordingly, these changes have no impact on full year net sales or net income.

We expect to incur transaction costs of approximately $125 million related to the merger, most of which will be recognized in the third quarter. We also expect to incur approximately $450 to $550 million of additional costs to integrate the two companies.

We have identified ongoing merger-related cost savings and revenue enhancement opportunities that are expected to reach $400 million a year by 2005. Synergies expected to be achieved by the end of 2002 approximate $140 to $175 million.

Asset Impairment and Restructuring

	12 Weeks Ended		24 Weeks Ended	
	6/16/01	6/10/00	6/16/01	6/10/00
Asset impairment charges				
Held and used in the business				
Property, plant and equipment	$-	$ 121	$2	$ 121
Restructuring charges				
Employee related costs	-	38	-	38
Other charges	4	12	6	13
Total restructuring	4	50	6	51
Total	$4	$ 171	$8	$ 172
After-tax	$3	$ 103	$5	$ 103
Per share	-	$0.06	-	$0.06

The 2001 and 2000 asset 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.

In 2000, in conjunction with the supply chain reconfiguration project, Quaker adopted plans for the closure of two cereal manufacturing facilities and two distribution centers in the United States. The asset impairment charges of $121 million 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 of $51 million primarily included severance and termination benefits and other shutdown costs.

Analysis of Consolidated Operations

Net Sales, Operating Profit and Operating Profit Margin

	12 Weeks Ended 6/16/01	12 Weeks Ended 6/10/00	Change B/(W)	24 Weeks Ended 6/16/01	24 Weeks Ended 6/10/00	Change B/(W)
Net sales	$6,713	$6,250	7%	$12,043	$11,191	8%
Reported						
Total operating profit	$1,151	$ 858	34%	$ 2,016	$ 1,637	23%
Total operating profit margin	17.1%	13.7%	3.4	16.7%	14.6%	2.1
Comparable						
Total operating profit	$1,153	$1,043	11%	$ 2,022	$ 1,819	11%
Total operating profit margin	17.2	16.7	0.5	16.8	16.3	0.5

For the quarter, net sales increased 7% primarily due to volume gains and higher effective net pricing across all segments, and the acquisition of SoBe, partially offset by a net unfavorable foreign currency impact. The SoBe acquisition enhanced net sales growth by 1 percentage point and the unfavorable foreign currency impact reduced net sales growth by 2 percentage points.

For the quarter, comparable operating profit margin increased 0.5 percentage points primarily reflecting the higher effective net pricing and increased volume. These increases were partially offset by increased advertising and marketing, general and administrative and selling and distribution expenses.

Year-to-date, net sales increased 8% due to volume gains and higher effective net pricing across all segments, and the acquisition of SoBe, partially offset by a net unfavorable foreign currency impact. The SoBe acquisition enhanced net sales growth by 1 percentage point and the unfavorable foreign currency impact reduced net sales growth by 2 percentage points.

Year-to-date, comparable operating profit margin increased 0.5 percentage points primarily reflecting the higher effective net pricing and increased volume. These increases were partially offset by increased advertising and marketing, selling and distribution and general and administrative expenses.

Volume

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

For the quarter, total servings increased 4% due to contributions from all divisions, particularly our international divisions and Pepsi-Cola North America.

Year-to-date total servings increased 5% due to contributions from all divisions, particularly Frito-Lay International and Worldwide Beverages.

Bottling Equity Income

Bottling equity income increased 16% to $63 million for the quarter and 16% to $68 million year-to-date. The increases reflect our share of the higher net earnings from our bottling equity investments. For the second quarter, bottling equity income includes a gain of $59 million from the sale of approximately 2 million shares of The Pepsi Bottling Group, Inc. stock. This reduced our investment in PBG by approximately 1%. Second quarter impairment charges related to certain international bottling investments exceeded this gain. A significant portion of these charges related to our equity investee in Turkey which was impacted by a major currency devaluation and adverse macro economic conditions.

Interest Expense, net

	12 Weeks Ended 6/16/01	12 Weeks Ended 6/10/00	% Change B/(W)	24 Weeks Ended 6/16/01	24 Weeks Ended 6/10/00	% Change B/(W)
Reported						
Interest expense	$(53)	$(69)	23	$(105)	$(125)	16
Interest income	12	22	(45)	32	31	3
Interest expense, net	$(41)	$(47)	13	$ (73)	$ (94)	22
Comparable						
Interest expense	$(53)	$(69)	23	$(105)	$(125)	16
Interest income	12	11	(13)	32	23	41
Interest expense, net	$(41)	$(58)	30	$ (73)	$(102)	28

For the quarter, comparable interest expense, net of interest income, declined 30%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income increased primarily due to higher average investment balances, partially offset by lower average interest rates. Reported interest income in 2000 includes gains or losses from the equity derivative contracts that are now classified in selling, general and administrative expenses in connection with the 2001 adoption of the new accounting standard on derivative instruments.

Year-to-date comparable interest expense, net of interest income, declined 28%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income increased primarily due to higher average investment balances, partially offset by lower average interest rates. Reported interest income in 2000 includes gains or losses from the equity derivative contracts as described above.

Provision for Income Taxes

	12 Weeks Ended		24 Weeks Ended	
	6/16/01	6/10/00	6/16/01	6/10/00
Reported				
Provision for income taxes	$375	$271	$643	$512
Effective tax rate	32.0%	31.3%	32.0%	32.0%
Comparable				
Provision for income taxes	$375	$340	$645	$581
Effective tax rate	32.0%	32.7%	32.0%	32.7%

For the quarter and year-to-date, the comparable effective tax rate decreased 0.7 percentage points primarily due to lower taxes on foreign results.

Net Income and Net Income Per Common Share

	12 Weeks Ended		% Change B/(W)	24 Weeks Ended		% Change B/(W)
	6/16/01	6/10/00		6/16/01	6/10/00	
Reported						
Net income	$ 798	$ 594	34	$1,368	$1,090	25
Net income per common share	$0.44	$0.33	32	$ 0.76	$ 0.61	24
Comparable						
Net income	$ 800	$ 699	14	$1,372	$1,195	15
Net income per common share	$0.44	$0.39	13	$ 0.76	$ 0.67	14

For the quarter, comparable net income increased 14% and the related net income per common share increased 13%. These increases primarily reflect increased operating profit and a lower effective tax rate. The increase in net income per common share also reflects the negative impact of a 1.5% increase in shares outstanding primarily related to the issuance of 13.2 million of repurchased shares in connection with the Quaker merger.

Year-to-date comparable net income increased 15% and the related net income per common share increased 14%. These increases primarily reflect increased operating profit, a lower effective tax rate and lower net interest expense. The increase in net income per common share also reflects the negative impact of a 1.1% increase in shares outstanding primarily related to the issuance of 13.2 million of repurchased shares in connection with the Quaker merger.

Analysis of Business Segments

<u>Worldwide Snacks</u>

Volume growth is reported on a systemwide basis which includes joint ventures.

Frito-Lay North America

	12 Weeks Ended		% Change B/(W)	24 Weeks Ended		% Change B/(W)
	6/16/01	6/10/00		6/16/01	6/10/00	
Net sales	$2,249	$2,119	6	$4,273	$4,035	6
Operating profit	$ 492	$ 455	8	$ 918	$ 843	9

12 Weeks

Net sales grew 6% due to higher effective net pricing and increased volume.

Pound volume advanced 3% primarily due to strong single-digit growth in Lay's brand potato chips and Fritos brand corn chips, the introduction of our new Lay's Bistro gourmet potato chips and double-digit growth in Cheetos brand cheese puffs. These gains were partially offset by a double-digit decline in Ruffles brand potato chips.

Operating profit increased 8% primarily reflecting the higher effective net pricing and the increased volume, partially offset by higher advertising and marketing expenses. Advertising and marketing expenses grew at a significantly faster rate than sales, reflecting increased promotional allowances for the national launch of Gatorade energy bars.

24 Weeks

Net sales grew 6% due to higher effective net pricing and increased volume.

Pound volume advanced 2% primarily due to single-digit growth in Lay's brand potato chips, Doritos brand tortilla chips and Cheetos brand cheese puffs, and the introduction of our new Lay's Bistro gourmet potato chips. These gains were partially offset by a double-digit decline in Ruffles brand potato chips.

Ongoing operating profit increased 9% primarily reflecting the higher effective net pricing and the increased volume, partially offset by increased advertising and marketing expenses and higher energy costs.

Frito-Lay International

	12 Weeks Ended		% Change	24 Weeks Ended		% Change
	6/16/01	6/10/00	B/(W)	6/16/01	6/10/00	B/(W)
Net sales	$1,225	$1,166	5	$2,294	$2,171	6
Operating profit	$ 143	$ 129	11	$ 284	$ 236	20

12 Weeks

Net sales increased 5%, primarily driven by higher effective net pricing at Sabritas in Mexico and higher volume at Walkers in the U.K. and in Poland. The impact from acquisitions contributed 2 percentage points of growth. The net impact of weaker foreign currencies, primarily in the U.K. and Brazil, decreased net sales growth by 4 percentage points.

Kilo volume increased 7%, primarily driven by a 7% increase in salty snack kilos and a 7% increase in other non-snack food kilos. The salty snack growth was led by double-digit growth at our European joint venture, Poland and Brazil and single-digit growth at Walkers, partially offset by a single-digit decline at Sabritas. European salty volume growth was largely driven by promotional programs. The other non-snack food growth was led by our European cereal and rice snack businesses. The impact from acquisitions contributed 2 percentage points of growth.

Operating profit increased 11%, led by the strong performances in Poland and the U.K. and increased equity income from our European joint venture. The net impact of weaker foreign currencies, primarily in the U.K., decreased operating profit growth by 2 percentage points.

24 Weeks

Net sales increased 6%, primarily driven by higher effective net pricing at Sabritas in Mexico and higher volume at Walkers in the U.K. and Gamesa in Mexico. The impact from acquisitions contributed 1 percentage point of growth. The net impact of weaker foreign currencies, primarily in the U.K., Brazil and Australia, decreased net sales growth by 5 percentage points.

Kilo volume increased 7%, primarily driven by an 8% increase in salty snack kilos and a 7% increase in sweet snack kilos. The salty snack growth was led by double-digit growth at our European joint venture, Poland and Brazil and single-digit growth at Walkers, partially offset by a single-digit decline at Sabritas. European salty volume growth was largely driven by promotional programs. The sweet snack increase was based on growth at Gamesa and Sabritas in Mexico. The impact from acquisitions contributed 1 percentage point of growth.

Operating profit increased 20%, led by the strong performances at Sabritas and in Poland and increased equity income from our European joint venture. The net impact of weaker foreign currencies, primarily in the U.K., decreased operating profit growth by 4 percentage points.

Worldwide Beverages

Pepsi-Cola North America results include the North American concentrate and fountain businesses. PepsiCo Beverages International results include the international concentrate business and other consolidated international bottling operations and international Gatorade and Tropicana businesses. The twelve week period includes March, April and May and the twenty-four week period includes January through May.

System bottler case sales (BCS) represents PepsiCo-owned brands as well as brands that we have been granted the right to produce, distribute and market nationally and are based on system bottlers' sales.

Second quarter BCS includes the months of April and May. Concentrate shipments and equivalents for PCNA includes shipments of concentrate and finished goods to bottlers as well as bottler case sales of Aquafina.

Pepsi-Cola North America

	12 Weeks Ended		% Change	24 Weeks Ended		% Change
	6/16/01	6/10/00	B/(W)	6/16/01	6/10/00	B/(W)
Net sales	$962	$798	20	$1,733	$1,437	21
Operating profit	$249	$224	11	$ 431	$ 382	13

12 Weeks

Net sales increased 20% primarily due to increased volume and higher concentrate pricing. The acquisition of SoBe and our new products, Dole, Mountain Dew Code Red and Sierra Mist, 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 and due to a significantly higher price per unit accelerate the net sales growth. The SoBe acquisition contributed 8 percentage points to net sales growth.

Concentrate shipments and equivalents increased 6% versus a year ago, driven by low double-digit growth of Mountain Dew reflecting the introduction of Code Red, the inclusion of Sierra Mist, the acquisition of SoBe and the launch of Dole, as well as strong double-digit growth in Aquafina. These gains were partially offset by a double-digit decline in Slice. BCS volume increased 3%. The acquisition of SoBe contributed 1 percentage point to concentrate shipments and equivalents and BCS growth.

Operating profit increased 11% primarily due to the increased volume and higher concentrate pricing. These gains were partially offset by higher advertising and marketing expenses related to bottler funding and other programs, the increased customer support and higher general and administrative expenses. Excluding SoBe, advertising and marketing expenses grew at a slower rate than sales while general and administrative expenses grew at a faster rate.

24 Weeks

Net sales increased 21% primarily due to increased volume and higher concentrate pricing. The acquisition of SoBe and our new products, Dole, Sierra Mist and Mountain Dew Code Red, 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 and due to a significantly higher price per unit accelerate the net sales growth. The SoBe acquisition contributed 7 percentage points to sales growth.

Concentrate shipments and equivalents increased 6% versus a year ago, driven by the inclusion of Sierra Mist, mid single-digit growth of Mountain Dew reflecting the introduction of Code Red, strong double-digit growth in Aquafina, as well as the launch of Dole and the acquisition of SoBe. These gains were partially offset by a double-digit decline in Slice. BCS volume increased 4%. The acquisition of SoBe contributed 1 percentage point to concentrate shipments and equivalents and BCS growth.

Operating profit increased 13% primarily due to the increased volume, higher concentrate pricing and the absence of a prior year charge related to a customer bankruptcy. These gains were partially offset by the increased advertising and marketing expenses related to bottler funding and other programs, the customer support and general and administrative expenses. Excluding SoBe, advertising and marketing expenses grew at a slightly slower rate than sales while general and administrative expenses grew at faster rate. Operating profit growth was not significantly impacted by the acquisition of SoBe.

Gatorade/Tropicana North America

	12 Weeks Ended		% Change	24 Weeks Ended		% Change
	6/16/01	6/10/00	B/(W)	6/16/01	6/10/00	B/(W)
Net sales	$1,095	$1,011	8	$1,811	$1,664	9
Operating profit	$ 172	$ 166	4	$ 261	$ 249	5

12 Weeks

Net sales increased 8% due to volume gains and higher effective net pricing.

Volume grew 4%, led by growth of three new Gatorade flavors introduced late last year and double-digit growth of Tropicana Pure Premium nutritionals and Tropicana Twister.

Operating profit increased by 4% reflecting the higher effective net pricing and volume gains, partially offset by higher advertising and marketing expenses, increased energy costs and lower fruit yields.

24 Weeks

Net sales increased 9% due to volume gains and higher effective net pricing.

Volume grew 6%, led by growth of three new Gatorade flavors introduced late last year, double-digit growth of Tropicana Pure Premium nutritionals and Tropicana Twister.

Operating profit increased by 5% due to the volume gains and higher effective net pricing, partially offset by increased advertising and marketing expenses, increased energy costs and lower production leverage.

PepsiCo Beverages International

	12 Weeks Ended		% Change	24 Weeks Ended		% Change
	6/16/01	6/10/00	B/(W)	6/16/01	6/10/00	B/(W)
Net sales	$737	$731	1	$1,117	$1,087	3
Operating profit	$ 94	$ 69	37	$ 125	$ 88	42

12 Weeks

Net sales increased 1% primarily due to higher effective net pricing and volume gains, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced net sales growth by 5 percentage points.

Volume increased 4%. This increase reflects broad-based increases led by continued strong double-digit growth in Russia and double-digit growth in Thailand and Nigeria. These advances were partially offset by declines in Saudi Arabia, Mexico and Turkey. For March through May, total concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 2% while their BCS grew at a higher rate.

Operating profit increased 37% primarily due to the higher effective net pricing, the increased volume and a favorable advertising and marketing expense comparison. These increases were partially offset by higher general and administrative expenses. The gain on the sale of land in Japan was more than offset by a net unfavorable foreign currency impact.

24 Weeks

Net sales increased 3%. This increase was primarily due to volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced net sales growth by 5 percentage points.

Volume increased 5%. This increase reflects broad-based increases led by strong double-digit growth in Russia and double-digit growth in China and Brazil. These advances were partially offset by declines in Mexico and Saudi Arabia. Through May, total concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 5% while their BCS grew at a slower rate.

Operating profit increased 42% primarily reflecting the volume gains and the higher effective net pricing, partially offset by a net unfavorable foreign currency impact and higher general and administrative expenses.

Quaker Foods North America

	12 Weeks Ended		% Change	24 Weeks Ended		% Change
	6/16/01	6/10/00	B/(W)	6/16/01	6/10/00	B/(W)
Net sales	$445	$425	5	$815	$797	2

Operating profit	$ 87	$ 69	24	$165	$159	3

- --

<u>12 Weeks</u>

Net sales increased 5% primarily due to higher volume and a favorable mix shift.

Volume increased 4% primarily driven by growth in hot cereals, ready-to-eat cereals, mixes and syrups and flavored rice and pasta. The hot cereals growth resulted primarily from new products and flavor varieties.

Operating profit increased 24% reflecting the higher volume and favorable mix shift. Advertising and marketing expenses increased at a significantly slower rate than sales. The impact of these factors contributed to the operating profit margin improvement of 3 percentage points.

<u>24 Weeks</u>

Net sales increased 2% primarily due to higher volume and a favorable mix shift.

Volume increased 2% primarily driven by growth in hot cereals, mixes and syrups and flavored rice and pasta, partially offset by declines in Canadian foods and ready-to-eat cereals. The hot cereals growth resulted primarily from new products and flavor varieties.

Operating profit increased 3% reflecting the higher volume and favorable mix shift, partially offset by higher advertising and marketing expenses. Advertising and marketing expenses grew at a slightly slower rate than sales.

Cash Flows

Our 2001 cash and cash equivalents decreased $595 million to $443 million. This decrease reflects net purchases of short-term investments, dividend payments, capital spending and the acquisition of SoBe, partially funded by operating income and the proceeds from the issuance of shares in connection with the merger with Quaker.

Liquidity and Capital Resources

We maintain $1.25 billion of revolving credit facilities. Of the $1.25 billion, approximately $540 million will expire within one year. The balance will expire in 2006. At expiration, these facilities can be extended 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.

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world.

In April 2001, we issued 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment in connection with our merger with The Quaker Oats Company. We received $524 million in net proceeds.

In connection with the merger of Quaker, we expect to incur approximately $125 million of transaction costs necessary to complete the merger and a total of approximately $450 to $550 million of additional costs to integrate the two companies. The substantial portion of these costs is expected to be cash and will be paid over a two-year period from the consummation of the merger.

We have identified ongoing merger-related cost savings and revenue enhancement opportunities that are expected to reach $400 million a year by 2005. Synergies expected to be achieved by the end of 2002 approximate $140 to $175 million.

Euro Conversion

On January 1, 1999, member countries of the European Union fixed conversion rates between their existing currencies (legacy currencies) and one common currency—the euro. The euro trades on currency exchanges and is used in business transactions. Conversion to the euro eliminated currency exchange rate risk between the member countries. Beginning in January 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation. Our operating subsidiaries affected by the euro conversion are executing plans to address the issues raised by the euro currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, such as vending machines, to accommodate euro-denominated transactions and the impact of one common currency on pricing. Since financial systems and processes currently accommodate multiple currencies, the plans contemplate conversion by the end of 2001 if not already addressed in conjunction with other system or process initiatives. The system and equipment conversion costs are not material. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency will have on pricing and the resulting impact, if any, on financial condition or results of operations.

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SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF INCOME
(in millions except per share amounts, unaudited)

	12 Weeks Ended		24 Weeks Ended	
	6/16/01	6/10/00	6/16/01	6/10/00
Net Sales	$6,713	$6,250	$12,043	$11,191
Costs and Expenses				
Cost of sales	2,669	2,497	4,814	4,504
Selling, general and administrative expenses	2,851	2,689	5,131	4,810
Amortization of intangible assets	38	35	74	68
Impairment and restructuring charges	4	171	8	172
Operating Profit	1,151	858	2,016	1,637
Bottling equity income, net	63	54	68	59
Interest expense	(53)	(69)	(105)	(125)
Interest income	12	22	32	31
Income Before Income Taxes	1,173	865	2,011	1,602
Provision for Income Taxes	375	271	643	512
Net Income	$ 798	$ 594	$ 1,368	$ 1,090
Net Income Per Common Share				
Basic	$ 0.45	$ 0.34	$ 0.78	$ 0.62
Diluted	$ 0.44	$ 0.33	$ 0.76	$ 0.61
Cash Dividends Declared Per Common Share*	$0.145	$ 0.14	$ 0.285	$ 0.275

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

* Represents that of pre-merger PepsiCo.

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions, unaudited)

	24 Weeks Ended	
	6/16/01	6/10/00
Cash Flows - Operating Activities		
Net income	$ 1,368	$ 1,090
Adjustments to reconcile net income to net cash provided by operating activities		
Bottling equity income, net	(68)	(59)
Depreciation and amortization	482	461
Noncash portion of impairment and restructuring charges	2	121
Deferred income taxes	(3)	79
Deferred compensation - ESOP	21	4
Other noncash charges and credits, net	93	144
Net change in operating working capital	(1,038)	(549)
Net Cash Provided by Operating Activities	857	1,291
Cash Flows - Investing Activities		
Capital spending	(456)	(448)
Acquisitions and investments in unconsolidated affiliates	(414)	(8)
Sales of property, plant and equipment	57	30
Short-term investments, by original maturity		
More than three months - purchases	(1,169)	(468)
More than three months - maturities	500	440

Three months or less, net	(104)	(49)
Other, net	136	(226)
Net Cash Used for Investing Activities	(1,450)	(729)
Cash Flows - Financing Activities		
Proceeds from issuances of long-term debt	11	100
Payments of long-term debt	(255)	(720)
Short-term borrowings, by original maturity		
More than three months - proceeds	78	107
More than three months - payments	(102)	(110)
Three months or less, net	27	526
Cash dividends paid	(482)	(469)
Share repurchases	-	(814)
Pre-merger Quaker share repurchases	(5)	(95)
Proceeds from issuance of shares in connection with Quaker merger	524	-
Proceeds from exercises of stock options	206	325
Net Cash Provided by (Used for) Financing Activities	2	(1,150)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4)	(7)
Net Decrease in Cash and Cash Equivalents	(595)	(595)
Cash and Cash Equivalents - Beginning of year	1,038	1,246
Cash and Cash Equivalents - End of period	$ 443	$ 651

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

ASSETS

	(Unaudited) 6/16/01	12/30/00
Current Assets		
Cash and cash equivalents	$ 443	$ 1,038
Short-term investments, at cost	1,240	467
	1,683	1,505
Accounts and notes receivable, less allowance: 6/01- $119, 12/00 - $126	2,584	2,129
Inventories		
Raw materials	584	503
Work-in-process	299	160
Finished goods	642	529
	1,525	1,192
Prepaid expenses and other current assets	974	791
Total Current Assets	6,766	5,617
Property, Plant and Equipment	11,814	11,466
Accumulated Depreciation	(5,164)	(4,908)
	6,650	6,558
Intangible Assets, net		
Goodwill	4,133	3,798
Trademarks	587	585
Other identifiable intangibles	284	331
	5,004	4,714
Investments in Unconsolidated Affiliates	2,869	2,979
Other Assets	955	889
Total Assets	$22,244	$20,757

Continued on next page.

SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEET (continued)
(in millions except per share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Unaudited) 6/16/01	12/30/00
Current Liabilities		
Short-term borrowings	$ 354	$ 202
Accounts payable and other current liabilities	4,414	4,529
Income taxes payable	229	64
Total Current Liabilities	4,997	4,795
Long-term Debt	2,572	3,009
Other Liabilities	4,111	3,960
Deferred Income Taxes	1,355	1,367
Preferred Stock, no par value	44	49
Deferred Compensation - preferred	(14)	(27)
Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share: Authorized 3,600 shares, issued 6/01 - 2,032 and 12/00 - 2,029 shares	34	34
Capital in excess of par value	581	375
Deferred compensation	(13)	(21)
Retained earnings	17,385	16,510
Accumulated other comprehensive loss	(1,465)	(1,374)
	16,522	15,524
Less: Repurchased shares, at cost: 6/01 - 259 shares, 12/00 - 280 shares	(7,343)	(7,920)
Total Common Shareholders' Equity	9,179	7,604
Total Liabilities and Shareholders' Equity	$22,244	$20,757

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
(in millions, unaudited)

	12 Weeks Ended		24 Weeks Ended	
	6/16/01	6/10/00	6/16/01	6/10/00
Net Income	$798	$ 594	$1,368	$1,090
Other Comprehensive Income/(Loss)				
Currency translation adjustment, net of related taxes	19	(165)	(87)	(227)
Cash flow hedges, net of related taxes:				
Cumulative effect of accounting change	-	-	3	-
Net derivative losses	(2)	-	(3)	-
Reclassification to net income	(1)	-	(6)	-

Other	-	-	2	4
	16	(165)	(91)	(223)
Comprehensive Income	$814	$ 429	$1,277	$ 867

We have restated all periods presented to reflect the merger with The Quaker Oats Company on August 2, 2001, which was accounted for as a pooling-of-interests.

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES
(unaudited)

NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollars in millions; all per share amounts reflect common per share amounts and assume dilution unless noted)

(1) General

Our Supplemental Condensed Consolidated Balance Sheet at June 16, 2001 and the Supplemental Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 24 weeks ended June 16, 2001 and June 10, 2000 and the Supplemental Condensed Consolidated Statement of Cash Flows for the 24 weeks ended June 16, 2001 and June 10, 2000 have not been audited and, except for the adoption of Statement of Financial Accounting Standards (SFAS) 133 as described in Note 5, have been prepared on a basis that is substantially consistent with the accounting principles applied in our 2000 Annual Report on Form 10-K for the year ended December 30, 2000. In our opinion, this information includes all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 24 weeks are not necessarily indicative of the results expected for the year.

(2) Merger of PepsiCo and The Quaker Oats Company

On August 2, 2001, we completed a merger transaction, which resulted in The Quaker Oats Company becoming a wholly-owned subsidiary of PepsiCo. Under the merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock 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.

The transaction was accounted for as a tax-free transaction and as a pooling-of-interests under Accounting Principles Board Opinion No. 16, *Business Combinations*. As a result, the supplemental financial statements described in Note 1 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 restated 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.

We incurred transaction costs of approximately $125 million related to the merger, most of which will be recognized in the third quarter.

In connection with the merger transaction, we sold the global rights of 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 through our bottling system and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

(3) Net Income Per Common Share

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

	12 Weeks Ended June 16, 2001		12 Weeks Ended June 10, 2000	
	Income	Average Shares Out-standing	Income	Average Shares Out-standing
Net income	$ 798		$ 594	
Less: Preferred dividends	1		1	

Net income available for common shareholders.......	$ 797	1,766	$ 593	1,745
Basic net income per common share..................	$ 0.45		$ 0.34	
Net income available for common shareholders.......	$ 797	1,766	$ 593	1,745
Effect of dilutive securities:				
Stock options...................................	-	39	-	34
ESOP convertible preferred stock................	-	4	1	4
Non-vested stock awards.........................	-	1	-	1
Diluted..	$ 797	1,810	$ 594	1,784
Diluted net income per common share................	$ 0.44		$ 0.33	

	24 Weeks Ended June 16, 2001		24 Weeks Ended June 10, 2000	
	Income	Average Shares Out-standing	Income	Average Shares Out-standing
Net income	$1,368		$1,090	
Less: Preferred dividends.........................	2		2	
Net income available for common shareholders.......	$1,366	1,759	$1,088	1,749
Basic net income per common share..................	$ 0.78		$ 0.62	
Net income available for common shareholders.......	$1,366	1,759	$1,088	1,749
Effect of dilutive securities:				
Stock options...................................	-	41	-	31
ESOP convertible preferred stock................	1	4	1	4
Non-vested stock awards.........................	-	1	-	1
Diluted..	$1,367	1,805	$1,089	1,785
Diluted net income per common share	$ 0.76		$ 0.61	

(4) Business Segments

	12 Weeks Ended		24 Weeks Ended	
Net Sales	6/16/01	6/10/00	6/16/01	6/10/00
Worldwide Snacks				
- -Frito-Lay North America....................	$2,249	$2,119	$ 4,273	$ 4,035
- -Frito-Lay International....................	1,225	1,166	2,294	2,171
	3,474	3,285	6,567	6,206
Worldwide Beverages				
- -Pepsi-Cola North America...................	962	798	1,733	1,437
- -Gatorade/Tropicana North America...........	1,095	1,011	1,811	1,664
- -PepsiCo Beverages International............	737	731	1,117	1,087
	2,794	2,540	4,661	4,188
Quaker Foods North America	445	425	815	797
Total Net Sales.........................	$6,713	$6,250	$12,043	$11,191
Operating Profit				
Worldwide Snacks				
- -Frito-Lay North America	$ 492	$ 455	$ 918	$ 843
- -Frito-Lay International....................	143	129	284	236
	635	584	1,202	1,079
Worldwide Beverages				
- -Pepsi-Cola North America...................	249	224	431	382
- -Gatorade/Tropicana North America...........	172	166	261	249
- -PepsiCo Beverages International............	94	69	125	88
	515	459	817	719
Quaker Foods North America	87	69	165	159
Combined Segments..........................	1,237	1,112	2,184	1,957

Corporate Unallocated	(82)	(83)	(160)	(148)
Impairment and restructuring................	(4)	(171)	(8)	(172)
Total Operating Profit...................	$1,151	$ 858	$ 2,016	$ 1,637

Total Assets	6/16/01	12/30/00
Worldwide Snacks		
- - Frito-Lay North America.........................	$ 4,411	$ 4,282
- - Frito-Lay International.........................	4,394	4,352
Worldwide Beverages		
- - Pepsi-Cola North America........................	1,447	836
- - Gatorade/Tropicana North America................	4,531	4,143
- - PepsiCo Beverages International.................	1,981	1,923
Quaker Foods North America........................	920	952
Combined segments.................................	17,684	16,488
Corporate...	2,101	1,737
Bottling investments..............................	2,459	2,532
Total Assets.................................	$22,244	$20,757

(5) Supplemental Cash Flow Information

	24 Weeks Ended	
	6/16/01	6/10/00
Interest paid..	$ 86	$ 112
Income taxes paid..	$ 361	$ 257
Supplemental Schedule of Noncash Investing and Financing Activities		
Fair value of assets acquired.....................................	$ 576	$ 15
Cash paid...	(415)	(12)
Liabilities assumed...	$ 161	$ 3

(6) Asset Impairment and Restructuring

	12 Weeks Ended		24 Weeks Ended	
	6/16/01	6/10/00	6/16/01	6/10/00
Asset impairment charges				
Held and used in the business				
Property, plant and equipment ..	$-	$ 121	$2	$ 121
Restructuring charges				
Employee related costs	-	38	-	38
Other charges	4	12	6	13
Total restructuring	4	50	6	51
Total	$4	$ 171	$8	$ 172
After-tax	$3	$ 103	$5	$ 103
Per share	-	$0.06	-	$0.06

The 2001 and 2000 asset 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.

In 2000, in conjunction with the supply chain reconfiguration project, Quaker adopted plans for the closure of two cereal manufacturing facilities and two distribution centers in the United States. The asset impairment charges of $121 million 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 of $51 million primarily include severance and termination benefits and other shutdown costs.

Analysis of restructuring reserves for total PepsiCo:

	Employee Related	Facility Closure	Third Party Termination	Other	Total
Reserve, December 30, 2000	$ 43	$ 9	$ 9	$ 2	$ 63
2001 restructuring charges	-	6	-	-	6
Cash payments	(17)	(12)	-	-	(29)
Reserve, June 16, 2001	$ 26	$ 3	$ 9	$ 2	$ 40

The restructuring reserves are included in accounts payable and other current liabilities in the Supplemental Condensed Consolidated Balance Sheet.

(7) Derivative Instruments and Hedging Activities

On December 31, 2000, we adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 137 and SFAS 138. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either current or non-current assets or liabilities in the Condensed 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 less than $1 million recognized in the Supplemental Condensed Consolidated Statement of Income. Accumulated other comprehensive loss included a net accumulated derivative loss of $6 million as of June 16, 2001.

In the normal course of business, we manage risks associated with commodity prices, foreign exchange rates, interest rates and equity prices 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 financial and commodity instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure. 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. We do not use derivative instruments for trading or speculative purposes.

Accounting Policies

Using qualifying criteria defined in SFAS 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). 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 the 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 of fair value changes on qualifying hedges is recognized in earnings immediately. If a fair value or cash flow hedge were 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.

On occasion, we may enter into a derivative instrument for which hedge accounting is not required because it is entered into to offset changes in the fair value of an underlying transaction which is required to be recognized in earnings (natural hedge). These instruments are reflected in the Condensed Consolidated Balance Sheet at fair value with changes in fair value recognized in earnings.

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 vegetable oil, corn, oats, packaging materials, natural gas and fuel. Our use of derivative instruments is not significant to our commodity purchases. Derivative instruments designated as hedges of anticipated commodity purchases are accounted for as either cash flow or natural 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.

We expect to reclassify into earnings, during the next twelve months, currently deferred net after-tax losses from accumulated other comprehensive income of approximately $5 million at the time the underlying hedged transactions are realized. Substantially all cash flow hedges at June 16, 2001 are for periods of less than two years. Cash flow hedges for longer periods are not material. Ineffectiveness resulting from cash flow hedging activities was not material to our results of operations. No cash flow hedges were discontinued during the quarter ended June 16, 2001 as a result of anticipated transactions that are no longer probable of occurring.

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 financial instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally. Forward exchange contracts used to hedge the foreign currency exposure resulting from assets and liabilities denominated in currencies other than the functional currency and anticipated intercompany purchases are accounted for as either natural or cash flow hedges, as applicable. 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. The fair value of such contracts designated as cash flow hedges was not material at June 16, 2001.

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 dates of the swaps match the

principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on 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. Further, there is no significant concentration with counterparties.

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 ineffective portion of debt fair value hedges was not material to our results of operations.

Equity Prices

Equity derivative contracts with financial institutions are used to hedge a portion of our deferred compensation liability which is based on PepsiCo’s stock price. These prepaid forward contracts indexed to PepsiCo's stock price 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 underlying hedged item.

(8) New Accounting Standards

During 2000, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) added to its agenda various issues that impact the income statement classification of certain promotional payments. In May 2000, the EITF reached a consensus on Issue 00-14, *Accounting for Certain Sales Incentives*. EITF 00-14 addresses the recognition and income statement classification of various sales incentives. Among its requirements, the consensus will require the costs related to consumer coupons currently classified as marketing costs to be classified as a reduction of revenue. In April 2001, the EITF delayed the effective date for this consensus to 2002. The impact of adopting this consensus is not expected to have a material impact on our consolidated financial statements.

In January 2001, the EITF reached a consensus on Issue 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. Issue 00-22 requires that certain volume-based cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. The consensus was effective for the first quarter of 2001 and was not material to our consolidated financial statements.

In April 2001, the EITF reached a consensus on Issue 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products*. EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in Issue 00-14, from a vendor to a reseller, or another party that purchases the vendor's products. The consensus requires most of our customer promotional incentives currently classified as marketing costs to be classified as a reduction of revenue. Annual promotional expenses classified as marketing costs were $3.2 billion in 2000. The consensus is effective for 2002.

In July 2001, the FASB issued SFAS 141, *Business Combinations* which supersedes APB 16, *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 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with The Quaker Oats Company is accounted for as a pooling-of-interests and was initiated in December 2000, this Statement will not have an impact on our consolidated financial statements.

In July 2001, the FASB also issued SFAS 142, *Goodwill and Intangible Assets*, which supersedes APB 17, *Intangible Assets*. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to goodwill and intangible assets arising from transactions completed before and after the effective date. SFAS 142 is effective for 2002. We are currently assessing the Statement and the impact that adoption will have on our consolidated financial statements.

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Independent Accountants' Review Report

The Board of Directors
PepsiCo, Inc.

We have reviewed the accompanying supplemental condensed consolidated balance sheet of PepsiCo, Inc. and subsidiaries as of June 16, 2001 and the related supplemental condensed consolidated statements of income and comprehensive income for the twelve and twenty-four weeks ended June 16, 2001 and June 10, 2000 and the supplemental condensed consolidated statement of cash flows for the twenty-four weeks ended June 16, 2001 and June 10, 2000. These supplemental condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The supplemental condensed consolidated financial statements give retroactive effect to the merger of PepsiCo, Inc. and The Quaker Oats Company on August 2, 2001, which has been accounted for as a pooling-of-interests as described in Note 2 to the supplemental condensed consolidated financial statements. Generally accepted accounting principles proscribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements that do not include the date of consummation. These financial statements do not extend through the date of consummation. However, they will become the historical condensed consolidated financial statements of PepsiCo, Inc. and subsidiaries after financial statements covering the date of consummation of the business combination are issued.

Based on our review, we are not aware of any material modifications that should be made to the supplemental condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the supplemental consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 30, 2000, and the related supplemental consolidated statements of income, cash flows and common shareholders' equity for the year then ended not presented herein; and in our report dated August 20, 2001, we expressed an unqualified opinion on those supplemental consolidated financial statements. In our opinion, the information set forth in the accompanying supplemental condensed consolidated balance sheet as of December 30, 2000, is fairly presented, in all material respects, in relation to the supplemental consolidated balance sheet from which it has been derived.

KPMG LLP

New York, New York
August 20, 2001

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EXHIBIT 99.3

THE QUAKER OATS COMPANY AND SUBSIDIARIES

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THE QUAKER OATS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME, REINVESTED EARNINGS AND COMPREHENSIVE INCOME
(UNAUDITED)

Dollars in Millions (Except Per Share Data)	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Net Sales	$2,740.5	$2,570.0
Cost of goods sold	1,218.0	1,160.4
Gross profit	1,522.5	1,409.6
Selling, general and administrative expenses	1,046.3	978.7
Restructuring charges, reserve adjustments and asset impairments	9.0	177.4
Interest expense	30.0	26.9
Interest income	(2.2)	(2.9)
Foreign exchange loss - net	3.4	1.5
Income before income taxes	436.0	228.0
Provision for income taxes	156.6	75.1
Net Income	279.4	152.9
Preferred dividends - net of tax	2.0	2.1
Net Income Available for Common	$ 277.4	$ 150.8
Per Common Share:		
Net income - basic	$ 2.10	$ 1.14
Net income - diluted	$ 2.00	$ 1.11
Dividends declared	$ 0.57	$ 0.57
Average Number of Common Shares Outstanding (in thousands)	132,251	131,732
Reinvested Earnings:		
Balance - beginning of period	$1,061.7	$ 854.6
Net income	279.4	152.9
Dividends	(77.3)	(76.7)
Balance - end of period	$1,263.8	$ 930.8

Comprehensive Income:

Net income	$ 279.4	$ 152.9
Other comprehensive income - net of tax:		
Foreign currency translation adjustments	(14.6)	(9.5)
Transition adjustment related to change in accounting for derivative instruments and hedging activities	(1.7)	-
Unrealized losses on qualifying cash flow hedges - net of reclassification adjustments	(1.3)	-
Unrealized gains on marketable securities - net of reclassification adjustments	1.2	0.4
Other	0.2	
Total Comprehensive Income	$ 263.2	$ 143.8

See accompanying notes to the condensed consolidated financial statements.

THE QUAKER OATS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME, REINVESTED EARNINGS AND COMPREHENSIVE INCOME
(UNAUDITED)

Dollars in Millions (Except Per Share Data)	Three Months Ended June 30,	
	2001	2000
Net Sales	$1,513.9	$1,397.9
Cost of goods sold	668.4	637.5
Gross profit	845.5	760.4
Selling, general and administrative expenses	558.6	511.1
Restructuring charges and reserve adjustments	5.0	3.7
Interest expense	15.2	13.0
Interest income	(0.9)	(1.1)
Foreign exchange loss (gain) - net	2.5	(2.1)
Income before income taxes	265.1	235.8
Provision for income taxes	95.2	84.7
Net Income	169.9	151.1
Preferred dividends - net of tax	0.9	1.0
Net Income Available for Common	$ 169.0	$ 150.1
Per Common Share:		
Net income - basic	$ 1.28	$ 1.13
Net income - diluted	$ 1.22	$ 1.10
Dividends declared	$ 0.285	$ 0.285
Average Number of Common Shares Outstanding (in thousands)	132,516	131,871
Reinvested Earnings:		
Balance - beginning of period	$1,132.5	$ 818.1
Net income	169.9	151.1
Dividends	(38.6)	(38.4)
Balance - end of period	$1,263.8	$ 930.8
Comprehensive Income:		
Net income	$ 169.9	$ 151.1
Other comprehensive income - net of tax:		
Foreign currency translation adjustments	(1.1)	(9.3)
Unrealized losses on qualifying cash flow hedges - net of reclassification adjustments	(0.8)	-
Unrealized gains on marketable securities - net of reclassification adjustments	1.0	(0.1)
Other	0.1	-
Total Comprehensive Income	$ 169.1	$ 141.7

See accompanying notes to the condensed consolidated financial statements.

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THE QUAKER OATS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

Dollars in Millions	June 30, 2001	December 31, 2000
Assets		
Current Assets:		
Cash and cash equivalents	$ 120.4	$ 174.3
Marketable securities	265.2	0.3
Trade accounts receivable - net of allowances	448.1	298.0
Inventories:		
Finished goods	283.6	213.9
Raw materials	37.0	39.0
Packaging materials and supplies	36.7	34.5
Total inventories	357.3	287.4
Other current assets	251.1	253.7
Total Current Assets	1,442.1	1,013.7
Property, plant and equipment	1,926.3	1,927.6
Less: accumulated depreciation	830.0	807.6
Total property - net	1,096.3	1,120.0
Intangible assets - net of amortization	225.1	229.2
Other assets	82.5	55.9
Total Assets	$ 2,846.0	$ 2,418.8
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term debt	$ 96.1	$ 81.6
Current portion of long-term debt	59.5	48.0
Trade accounts payable	282.0	212.3
Other current liabilities	604.2	518.5
Total Current Liabilities	1,041.8	860.4
Long-term debt	639.6	664.1
Other liabilities	522.2	518.0
Preferred stock, series B, no par value, authorized 1,750,000 shares; issued 1,282,051 shares of $5.46 cumulative convertible shares (liquidating preference of $78 per share)	100.0	100.0
Deferred compensation	(13.6)	(27.2)
Treasury preferred stock, at cost, 468,198 shares and 441,469 shares, respectively	(56.7)	(51.2)
Common Shareholders' Equity:		
Common stock, $5 par value, authorized 400 million shares; issued 167,978,792 shares	840.0	840.0
Additional paid-in capital	154.8	136.4
Reinvested earnings	1,263.8	1,061.7
Accumulated other comprehensive income	(127.5)	(111.3)
Deferred compensation	(13.3)	(21.2)
Treasury common stock, at cost, 35,067,288 shares and 36,208,395 shares, respectively	(1,505.1)	(1,550.9)
Total Common Shareholders' Equity	612.7	354.7
Total Liabilities and Shareholders' Equity	$ 2,846.0	$ 2,418.8

See accompanying notes to the condensed consolidated financial statements.

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THE QUAKER OATS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Dollars in Millions	Six Months Ended June 30, 2001	2000
Cash Flows from Operating Activities:		
Net income	$ 279.4	$ 152.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69.7	65.5
Deferred income taxes	3.0	1.7
Restructuring charges, reserve adjustments and asset impairments	9.0	177.4
Loss on disposition of property, plant and equipment	2.4	1.7
Increase in trade accounts receivable	(155.5)	(172.3)
Increase in inventories	(72.3)	(59.9)
Decrease (increase) in other current assets	1.4	(47.2)
Increase in trade accounts payable	72.0	58.5
Increase in other current liabilities	86.7	10.0
Change in deferred compensation	21.5	3.6
Tax benefit from employee stock option exercises	17.2	25.3
Other items	(32.2)	1.5
Net Cash Provided by Operating Activities	302.3	218.7
Cash Flows from Investing Activities:		
Purchases of marketable securities	(360.1)	(230.1)
Proceeds from sales of marketable securities	97.1	157.1
Additions to property, plant and equipment	(73.4)	(127.2)
Proceeds from sales of property, plant and equipment	12.5	4.4
Net Cash Used in Investing Activities	(323.9)	(195.8)
Cash Flows from Financing Activities:		
Cash dividends	(77.3)	(76.7)
Change in short-term debt	15.0	(34.4)
Proceeds from long-term debt	0.3	0.2
Reduction of long-term debt	(15.0)	(49.8)
Issuance of common treasury stock	52.6	88.0
Repurchases of common stock	-	(110.0)
Repurchases of preferred stock	(5.5)	(5.2)
Net Cash Used in Financing Activities	(29.9)	(187.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2.4)	(2.2)
Net Decrease in Cash and Cash Equivalents	(53.9)	(167.2)
Cash and Cash Equivalents - Beginning of Period	174.3	282.9
Cash and Cash Equivalents - End of Period	$ 120.4	$ 115.7

See accompanying notes to the condensed consolidated financial statements.

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THE QUAKER OATS COMPANY AND SUBSIDIARIES
NET SALES AND OPERATING INCOME BY SEGMENT
(UNAUDITED)

	Net Sales (a)	Operating Income (Loss)(b)

Dollars in Millions	Six Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Foods:				
U.S. and Canadian	$1,188.7	$1,148.5	$226.0	$227.0
Latin American	171.9	170.7	13.7	15.2
Other (c)	121.5	100.9	17.0	12.8
Total Foods	1,482.1	1,420.1	256.7	255.0
Beverages:				
U.S. and Canadian	1,043.3	948.2	202.7	173.6
Latin American	157.3	139.3	25.0	15.3
Other (c)	57.8	62.4	3.4	(1.1)
Total Beverages	1,258.4	1,149.9	231.1	187.8
Total Sales/Operating Income	$2,740.5	$2,570.0	487.8	442.8
Less: Restructuring charges, reserve adjustments and asset impairments (d)(e)			9.0	177.4
General corporate expenses			11.6	11.9
Interest expense - net			27.8	24.0
Foreign exchange loss - net			3.4	1.5
Income before income taxes			$436.0	$228.0

(a) Intersegment revenue is not material.

(b) Operating results by segment exclude certain expenses not allocated to operating segments, such as net restructuring charges, asset impairment losses, income taxes, general corporate expenses and net financing costs.

(c) Other includes European and Asia/Pacific businesses.

(d) 2001 includes pretax restructuring charges of $14.0 million and pretax income of $5.0 million to reduce prior-period restructuring and divestiture reserves.

(e) 2000 includes pretax restructuring charges of $63.0 million, pretax income to reduce prior-period restructuring and divestiture reserves of $5.7 million and pretax asset impairment losses of $120.1 million related to a supply chain reconfiguration project.

THE QUAKER OATS COMPANY AND SUBSIDIARIES
NET SALES AND OPERATING INCOME BY SEGMENT
(UNAUDITED)

Dollars in Millions	Net Sales (a) Three Months Ended June 30,		Operating Income (Loss)(b) Three Months Ended June 30,	
	2001	2000	2001	2000
Foods:				
U.S. and Canadian	$ 550.0	$ 515.7	$ 97.0	$ 86.8
Latin American	84.6	83.3	9.6	7.6
Other (c)	63.3	47.9	8.1	6.6
Total Foods	697.9	646.9	114.7	101.0
Beverages:				
U.S. and Canadian	689.5	629.3	155.8	138.8
Latin American	84.8	75.7	15.5	12.2
Other (c)	41.7	46.0	5.3	1.5
Total Beverages	816.0	751.0	176.6	152.5
Total Sales/Operating Income	$1,513.9	$1,397.9	291.3	253.5
Less: Restructuring charges and reserve adjustments (d)(e)			5.0	3.7
General corporate expenses			4.4	4.2
Interest expense - net			14.3	11.9

Foreign exchange loss (gain) - net	2.5	(2.1)
Income before income taxes	$265.1	$235.8

(a) Intersegment revenue is not material.

(b) Operating results by segment exclude certain expenses not allocated to operating segments, such as net restructuring charges, income taxes, general corporate expenses and net financing costs.

(c) Other includes European and Asia/Pacific businesses.

(d) 2001 includes pretax restructuring charges of $9.2 million and pretax income of $4.2 million to reduce prior-period restructuring and divestiture reserves.

(e) 2000 includes pretax restructuring charges of $6.2 million and pretax income to reduce prior-period restructuring and divestiture reserves of $2.5 million.

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THE QUAKER OATS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Basis of Presentation

The condensed consolidated financial statements include The Quaker Oats Company and its subsidiaries (the Company). The condensed consolidated statements of income, reinvested earnings and comprehensive income for the six and three months ended June 30, 2001 and 2000, the condensed consolidated balance sheet as of June 30, 2001, and the condensed consolidated statements of cash flows for the six months ended June 30, 2001 and 2000, have been prepared by the Company without audit. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows as of June 30, 2001, and for all periods presented. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Company's Form 10-K Annual Report to shareholders for the year ended December 31, 2000.

Certain previously reported amounts have been reclassified to conform to the current presentation.

Note 2 - Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Restructuring Charges and Asset Impairment Losses

The consolidated operating results for 2001 include restructuring charges of $14.0 million related to current-year restructuring actions and income to reduce prior-period restructuring and divestiture reserves of $5.0 million.

The following summarizes current-year net charges taken by the Company relating to restructuring plans:

Dollars in Millions	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
Supply chain reconfiguration project	$ 9.2	$ 13.9
Other U.S. organization alignments	-	0.1
Charges before reserve adjustments	$ 9.2	$ 14.0
Adjustments to prior-period reserves	(4.2)	(5.0)
Total	$ 5.0	$ 9.0

Supply Chain Reconfiguration Project

Restructuring charges of $9.2 million and $13.9 million were recognized in the three and six months ended June 30, 2001, respectively, related to a supply chain reconfiguration project announced in September 1999. The three-year project to upgrade and optimize the Company’s manufacturing and distribution capabilities in North America involves the rationalization of U.S. and Canadian Foods operations, an expansion of U.S. beverage manufacturing and a reconfiguration of the Company’s food and beverage logistics network.

In 2000, the Company adopted plans to close two cereal manufacturing facilities and two distribution centers in the United States, which resulted in restructuring charges of $5.2 million and $55.3 million in the three and six months ended June 30, 2000, respectively. The restructuring charges, primarily attributable to the Company’s U.S. and Canadian Foods operations, were comprised of severance and termination benefits and other shutdown costs.

In 2000, the Company recognized asset impairment losses of $120.1 million attributable to the U.S. and Canadian Foods operations. As a result of the negotiation of a significant contract manufacturing agreement and completion of decisional and effects bargaining required to close the two cereal manufacturing facilities, the Company evaluated the recoverability of its affected long-lived assets pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 121. The affected assets (land, buildings, and production machinery and equipment) were determined to be held for use, as they are integral to the Company’s operations until the migration of production activity to other facilities is completed. Because the carrying value of the affected long-lived assets exceeded the projected future undiscounted cash flows, the Company was required to reduce the carrying value of the long-lived assets to fair value and recognize asset impairment losses. The fair value of affected assets was determined based on analyses of the current liquidation values of similar assets.

In total, the Company has recognized charges of $206.4 million related to this project, including $13.9 million in the current year and $192.5 million in prior years. Additional restructuring actions over the remainder of 2001 and 2002 are expected to bring the total restructuring charges to approximately $210 million. Ongoing cost savings resulting from this project are expected to be approximately $40 million in the current year and to reach the full amount of approximately $65 million annually beginning in 2002 and going forward. Eighty percent of the savings are expected to be in cash.

Other U.S. Organization Alignments
During 2000, the Company also adopted plans to restructure its human resources department, close an administrative office in California and a small leased Gatorade manufacturing facility in Puerto Rico, and decentralize certain U.S. customer service functions. As a result of these actions, the Company eliminated approximately 55 positions. Restructuring charges of $1.0 million and $7.7 million were recognized in the three and six months ended June 30, 2000, respectively, for severance and termination benefits and shut-down costs. Annual savings from these actions, approximately $10 million, began mid-year 2000 and are expected to be primarily in cash.

Restructuring Reserves
Consolidated operating results in the three and six months ended June 30, 2001, included income of $4.2 million and $5.0 million, respectively, to reduce prior-period restructuring and divestiture reserves. For the three and six months ended June 30, 2000, adjustments totaled $2.5 million and $5.7 million, respectively, to reduce prior-period restructuring and divestiture reserves. Adjustments to reserves in both years were primarily due to higher-than-anticipated proceeds on the sale of certain assets and other changes from previously estimated amounts.

Restructuring actions are proceeding as planned and remaining restructuring reserves of $20.1 million as of June 30, 2001, are considered adequate to cover committed restructuring actions. Restructuring reserve balances as of December 31, 2000, activity during the current year and restructuring reserve balances as of June 30, 2001, were as follows:

Dollars in Millions	December 31, 2000 Reserves	Amounts Charged			Amounts Utilized	Amounts Adjusted	June 30, 2001 Reserves
		Cash	Non-Cash	Total			
2001 Restructuring:							
Severance and termination benefits	$ -	$0.7	$ -	$ 0.7	$ (0.7)	$ -	$ -
Other	-	6.8	6.5	3.3	(13.3)	-	-
Subtotal	$ -	$7.5	$6.5	$14.0	$(14.0)	$ -	$ -
Prior-Period Restructuring	45.1	-	-	-	(22.9)	(2.1)	20.1
Total	$45.1	$7.5	$6.5	$14.0	$(36.9)	$(2.1)	$20.1

<u>Note 4 - Litigation</u>

The Company is a party to a number of lawsuits and claims, which it is vigorously defending. Such matters arise out of the normal course of business and relate to the Company's past acquisition activity and other issues. Certain of these actions seek damages in large amounts. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of such litigation will not have a material adverse effect on the Company's consolidated financial position or results of operations. Changes in assumptions, as well as actual experience, could cause the estimates made by management to change.

A settlement has been reached in the purported class action pending in the United States District Court for the Northern District of Illinois (the Weiner Action). This lawsuit arose out of the Company's acquisition of Snapple Beverage Corp., and was brought on behalf of purchasers of the Company's common stock during the period between August 4, 1994 and November 1, 1994. Pursuant to the Settlement Agreement, the class will receive $9.9 million plus the payment of $500,000 of costs associated with that payment. This settlement is subject to a fairness hearing and final approval by the court. The settlement is covered by insurance and a reserve.

Note 5 - Comprehensive Income

Total comprehensive income for the three months ended June 30, 2001 and 2000, was $169.1 million and $141.7 million, respectively. For the six months ended June 30, 2001 and 2000, total comprehensive income was $263.2 million and $143.8 million, respectively. The Company's total comprehensive income for the three and six months ended June 30, 2001 and 2000, includes: net income; foreign currency translation adjustments; and unrealized gains on marketable securities, net of adjustments to reclassify realized gains to net income. Comprehensive income for the current year also includes the transition adjustment to record the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138, and the related unrealized losses on qualifying cash flow hedges, net of adjustments to reclassify realized losses to net income.

The components of accumulated other comprehensive income, net of tax, included in the condensed consolidated balance sheets as of June 30, 2001, and December 31, 2000, were:

Dollars in Millions	June 30, 2001	December 31, 2000
Net foreign currency translation adjustments	$(125.9)	$(111.3)
Transition adjustment related to change in accounting for derivative instruments and hedging activities	(1.7)	--
Net unrealized losses on qualifying cash flow hedges	(1.3)	--
Net unrealized gains on marketable securities	1.2	--
Other	0.2	--
Accumulated other comprehensive income	$(127.5)	$(111.3)

The unrealized gains on marketable securities and unrealized losses on qualifying cash flow hedges, both net of reclassification adjustments, included in the condensed consolidated statements of income, reinvested earnings and comprehensive income for the three and six months ended June 30, 2001 and 2000, were determined as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Unrealized holding gains on marketable securities	$ 1.4	$ 0.7	$ 2.0	$ 1.6
Less: adjustments to reclassify realized gains to net income	(0.4)	(0.8)	(0.8)	(1.2)
Net unrealized gains on marketable securities	$ 1.0	$ (0.1)	$ 1.2	$ 0.4
Unrealized losses on qualifying cash flow hedges	$ (1.0)	$ --	$ (1.4)	$ --
Less: adjustments to reclassify realized losses to net income	0.2	--	0.1	--
Net unrealized losses on qualifying cash flow hedges	$ (0.8)	$ --	$ (1.3)	$ --

Note 6 - Marketable Securities

During 2001, the Company made investments in marketable securities. These marketable securities are available for sale and consist primarily of investments in mutual funds. These investments are expected to be held less than twelve months and are classified as marketable securities in the condensed consolidated balance sheet.

Note 7 - Lease Commitments

In March 2000, the Company signed a ten-year lease for office space in a new headquarters building to be constructed in Chicago, Illinois. This new site is intended to replace the Company's current Chicago headquarters, which is leased through August of 2002. The new Chicago office is currently under construction and expected to be completed in 2002. The Company's obligations under the lease are contingent upon completion of the building and satisfaction of certain other obligations by the lessor.

Note 8 - Current and Pending Accounting Changes

In June 2001, the Financial Accounting Standards Board (FASB) voted to issue SFAS No. 142, “Goodwill and Intangible Assets,” which supersedes Accounting Principles Board (APB) Opinion No. 17, “Intangible Assets.” SFAS No. 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS No. 142 will apply to goodwill and intangible assets arising from transactions completed before and after its effective date. SFAS No. 142 is effective January 1, 2002. The Company is currently assessing SFAS No. 142 and has not yet made a determination of the impact its adoption will have on the consolidated financial statements.

In 2001 and the prior year, the Emerging Issues Task Force (EITF), a subcommittee of the FASB, discussed a number of topics related to certain expenses that the Company reports in merchandising expense, a component of selling, general and administrative (SG&A) expenses. In April 2001, the EITF issued EITF No. 00-25, “Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products.” This guidance requires certain promotional expenses paid to retailers by vendors to be classified in the income statement as a reduction of sales or as cost of goods sold. In May and November 2000, the EITF issued and amended, respectively, EITF No. 00-14, “Accounting for Certain Sales Incentives.” This guidance requires certain coupons, rebate offers and free products offered concurrently with a single exchange transaction with a customer to be recognized when incurred and reported as a reduction of sales. The EITF recently changed the required adoption of EITF No. 00-14 to the first quarter ending March 31, 2002, in order to coincide with the adoption of EITF No. 00-25. The Company expects the adoption of EITF No. 00-14 and EITF No. 00-25 to result in a reclassification of expenses and a restatement to reduce previously reported net sales and SG&A expenses. The Company expects that this reclassification will result in approximately an $800 million reduction in net sales, or approximately 15 percent of net sales, and a corresponding $800 million decrease in SG&A expenses in each of the three years ended December 31, 2001, 2000 and 1999. Earnings will not be affected and the Company does not expect the adoption of these accounting changes to have a material effect on reported growth rates.

On January 1, 2001, the Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 137 and SFAS No. 138. See Note 9 for additional information on the adoption of SFAS No. 133.

The Company also adopted EITF No. 00-22, “Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future,” for the quarter ending March 31, 2001. The impact of adopting EITF No. 00-22 was not material to first-half results and is not anticipated to be material in later quarters.

Note 9 - Derivative Financial and Commodity Instruments

The Company actively monitors its exposure to commodity price, foreign currency exchange rate and interest rate risks and uses derivative financial and commodity instruments to manage the impact of certain of these risks. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the commodity price, exchange rate or interest rate fluctuations alone, nor does it use instruments where there are not underlying exposures. The Company’s use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. Complex instruments involving leverage or multipliers are not used. Management believes that its use of derivative instruments to manage risk is in the Company's best interest.

On January 1, 2001, the Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 137 and SFAS No. 138. In accordance with the provisions of SFAS No. 133, the Company recorded a transition adjustment upon adoption of the standard to recognize its derivative instruments at fair value, to recognize the ineffective portion of cash flow hedges and to recognize the differences (attributable to hedged risks) between the carrying values and fair values of related hedged assets and liabilities for fair value hedges. The effect of this transition adjustment was not material to either reported earnings or accumulated other comprehensive income. The net gains and losses related to hedge ineffectiveness also were not material.

Initially, upon adoption of the new derivative accounting standard, and prospectively as of the date new derivatives are entered into, the Company designates the derivative as either (1) a hedge of a recognized asset or liability or an unrecognized firm commitment (fair value hedge), or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). For fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item, are recorded in earnings and reported in the condensed consolidated statements of income, reinvested earnings and comprehensive income on the same line as the hedged item. Unlike fair value hedges, the effective portion of the changes in the fair value of the derivative that is designated as a cash flow hedge is recorded in accumulated other comprehensive income. When the hedged item is realized, the gain or loss included in accumulated other comprehensive income is reported on the same line in the condensed consolidated statements of income, reinvested earnings and comprehensive income as the hedged item. In addition, both the fair value changes excluded from the Company’s effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are immediately recognized in cost of goods sold.

The Company formally documents its hedge relationships, including identifying the hedge instruments and hedged items, as well as its risk management objectives and strategies for entering into the hedge transaction. Derivatives are recorded in the condensed consolidated balance sheets at fair value in other assets and other liabilities. This process includes matching the hedge instrument to the underlying hedged item (assets, liabilities, firm commitments or forecasted transactions). At hedge inception and at least quarterly thereafter, the Company assesses whether the derivatives used to hedge transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. When it is determined that a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting, and any gains or losses on the derivative instrument would be recognized in earnings during the period it no longer qualifies as a hedge.

Summarized below are the specific accounting policies by market risk category.

Commodity Price Risk
The Company uses commodity futures and options to reduce price exposures on commodity inventories or anticipated purchases of commodities. The Company regularly hedges purchases of oats, corn, corn sweetener and wheat. Beginning in 2001, the Company also initiated hedges for diesel fuel and corrugated packaging materials. These commodity contracts are accounted for as cash flow hedges when the hedged item represents a forecasted transaction or the variability in cash flows received or paid relates to a recognized asset or liability.

Foreign Currency Exchange Rate Risk
The Company uses forward contracts, purchased options and currency swap agreements to manage foreign currency exchange rate risk related to certain projected cash flows from foreign operations and net investments in foreign subsidiaries. Under SFAS No. 133, the instruments are carried at fair value in the condensed

consolidated balance sheets as a component of other current assets or other current liabilities. Changes in the fair value of derivative instruments that are used to manage exchange rate risk in foreign currency denominated cash flows and net investments in highly inflationary economies are recognized in the condensed consolidated statements of income, reinvested earnings and comprehensive income as foreign exchange loss or gain. Changes in the fair value of such instruments used to manage exchange rate risk on net investments in economies that are not highly inflationary are recognized in the condensed consolidated balance sheets as a component of accumulated other comprehensive income in common shareholders' equity.

Interest Rate Risk
The Company uses interest rate swap agreements to manage its exposure to changes in interest rates and to balance the mix of its fixed and floating rate debt. Interest rate swap agreements are accounted for as fair value hedges. Interest rate differentials to be received or paid on the swaps are recognized in the condensed consolidated statements of income, reinvested earnings and comprehensive income as a reduction or increase in interest expense, respectively. In accordance with the new derivative requirements, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item, are recorded in earnings and reported in the condensed consolidated statements of income, reinvested earnings and comprehensive income on the same line as the hedged item. Also, upon adoption of the new derivative guidelines, the settlement costs of terminated swap agreements were reclassified to accumulated other comprehensive income, and are being amortized over the life of the original swap agreements. As the settlement amounts are amortized, they are reclassified from accumulated other comprehensive income and reported as a component of interest expense in the condensed consolidated statements of income, reinvested earnings and comprehensive income.

In 2000, the Company entered into an interest rate swap agreement with a notional value of $13.4 million to exchange fixed for floating-rate debt. This swap agreement matures in May 2006.

In 1999, the Company entered into cancelable interest rate swap agreements with a notional value of $80.0 million. In 2000, the counterparties exercised their options to cancel these agreements effective March 15, 2001.

<u>Note 10 - Earnings Per Share</u>

Reconciliations of basic earnings per share (EPS) to diluted EPS were as follows:

Dollars in Millions (Except Per Share Data) and Shares in Thousands	Six Months Ended June 30, 2001		2000	
	Income	Shares	Income	Shares
Net income	$279.4		$152.9	
Less: Preferred dividends - net of tax	2.0		2.1	
Net income available for common	$277.4	132,251	$150.8	131,732
Net income per common share	$ 2.10		$ 1.14	

Net income available for common	$277.4	132,251	$150.8	131,732
Effect of dilutive securities:				
Stock options	-	4,530	-	3,129
Non-vested awards	-	233	-	224
ESOP Convertible Preferred Stock	0.9	1,782	1.0	1,944
Diluted	$278.3	138,796	$151.8	137,029
Net income per common share - diluted	$ 2.00		$ 1.11	

The increase in average common shares outstanding at June 30, 2001, compared to June 30, 2000, reflects the exercise of employee stock options.

As of June 30, 2000, certain stock options were excluded from the computation of diluted EPS because the exercise prices were higher than the average market price.

Note 11 - Merger with PepsiCo

On December 2, 2000, the Company, PepsiCo, Inc. (PepsiCo) and BeverageCo, Inc., a direct wholly-owned subsidiary of PepsiCo, entered into an Agreement and Plan of Merger, which was amended on March 15, 2001 (the merger agreement). On August 1, 2001, the Company and PepsiCo received unconditional clearance from the U.S. Federal Trade Commission to merge and the merger was finalized on August 2, 2001. Pursuant to the merger agreement and subject to the terms and conditions set forth therein, BeverageCo, Inc. was merged with and into the Company, with the Company being the surviving corporation of that merger. As a result of the merger, the Company is a wholly-owned subsidiary of PepsiCo. The merger has been structured as a stock-for-stock tax-free reorganization and is intended to qualify as a pooling of interests business combination for accounting purposes.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On August 2, 2001, we completed a merger transaction with The Quaker Oats Company. 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.

The unaudited pro forma condensed combined statements of income combine PepsiCo's historical results for the 24 weeks ended June 16, 2001 and June 10, 2000 with Quaker's historical results for the six months ended June 30, 2001 and 2000. The unaudited pro forma condensed combined balance sheet combines the historical balance sheets of PepsiCo as of June 16, 2001 and Quaker as of June 30, 2001.

The pro forma adjustments reflect the application of pooling-of-interests accounting for a business combination. The unaudited pro forma condensed combined financial information and the accompanying notes should be read together with the historical financial statements and related notes of PepsiCo and Quaker which are both incorporated herein by reference in this Current Report on Form 8-K.

The unaudited pro forma condensed combined financial information is provided for informational purposes only and does not purport to represent what the combined financial position and results of operations would actually have been had merger and other pro forma adjustments in fact occurred on the dates indicated. The following unaudited pro forma condensed combined financial information gives effect to the merger as if the transaction had occurred for the statements of income as of December 26, 1999 and for the balance sheet as of June 16, 2001. The unaudited pro forma condensed combined statements of income do not include the impact of nonrecurring charges or credits directly attributable to the transaction. There have been no transactions between PepsiCo and Quaker requiring adjustment in the unaudited pro forma condensed combined financial information.

For financial accounting purposes, the merger has been accounted for using the pooling-of-interests method of accounting. Accordingly, (1) the historical cost basis of the assets and liabilities of PepsiCo and Quaker have been carried forward to the combined company, (2) results of operations of the combined company will include the income of PepsiCo and Quaker for the entire fiscal period in which the combination occurs and (3) the historical results of operations of the separate companies for fiscal periods before the merger have been combined and reported as the results of operations of the combined company. As described in Note 4 to "Unaudited Pro Forma Condensed Combined Financial Information" on page 122 of this Exhibit, certain adjustments and reclassifications of Quaker’s financial statement amounts have been made to conform with the accounting policies and financial statement presentation of PepsiCo.

PEPSICO, INC. AND THE QUAKER OATS COMPANY
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
24 WEEKS ENDED JUNE 16, 2001
(in millions, except per share data)

	PepsiCo (historical)	Quaker (historical)	Pro forma adjustments(3)	Pro forma combined
Net Sales	$9,820	$2,741	$(518)	$12,043
Costs and Expenses				
Cost of sales	3,822	1,218	(226)	4,814
Selling, general and administrative expenses	4,277	1,046	(192)	5,131
Amortization of intangible assets	71	-	3	74
Impairment and restructuring charges	-	9	(1)	8
Operating Profit	1,650	468	(102)	2,016
Bottling equity income, net	68	-	-	68
Interest expense	(81)	(30)	6	(105)
Interest income	30	2	-	32
Foreign exchange loss, net	-	(4)	4	-
Income Before Income Taxes	1,667	436	(92)	2,011
Provision for Income Taxes	517	157	(31)	643
Net Income	1,150	279	(61)	1,368
Preferred Dividends, net of tax	-	2	-	2
Net Income Available for Common	$1,150	$ 277	$ (61)	$ 1,366
Net Income Per Common Share-basic	$ 0.79	$ 2.10		$ 0.77
Average shares outstanding-basic (4)	1,455	132	180	1,767
Net Income Per Common Share-diluted	$ 0.77	$ 2.00		$ 0.75
Average shares outstanding-diluted (4)	1,486	139	189	1,814

The accompanying notes are an integral part of this Unaudited Pro Forma Condensed Combined Financial Information.

PEPSICO, INC. AND THE QUAKER OATS COMPANY
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
24 WEEKS ENDED JUNE 10, 2000
(in millions, except per share data)

	PepsiCo (historical)	Quaker (historical)	Pro forma adjustments(3)	Pro forma combined
Net Sales	$9,119	$2,570	$(498)	$11,191
Costs and Expenses				
Cost of sales	3,568	1,160	(224)	4,504
Selling, general and administrative expenses	4,023	979	(192)	4,810
Amortization of intangible assets	64	-	4	68
Impairment and restructuring charges	-	177	(5)	172
Operating Profit	1,464	254	(81)	1,637
Bottling equity income, net	59	-	-	59
Interest expense	(103)	(27)	5	(125)
Interest income	28	3	-	31
Foreign exchange loss, net	-	(2)	2	-
Income Before Income Taxes	1,448	228	(74)	1,602
Provision for Income Taxes	463	75	(26)	512
Net Income	985	153	(48)	1,090
Preferred Dividends, net of tax	-	2	-	2
Net Income Available for Common	$ 985	$ 151	$ (48)	$ 1,088
Net Income Per Common Share-basic	$ 0.68	$ 1.14		$ 0.62
Average shares outstanding-basic (4)	1,446	132	184	1,762
Net Income Per Common Share-diluted	$ 0.67	$ 1.11		$ 0.61
Average shares outstanding-diluted (4)	1,470	137	191	1,798

The accompanying notes are an integral part of this Unaudited Pro Forma Condensed Combined Financial Information.

PEPSICO, INC. AND THE QUAKER OATS COMPANY
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
JUNE 16, 2001
(in millions)

	PepsiCo (historical)	Quaker (historical)	Pro forma adjustments	Pro forma combined
Current Assets				
Cash and cash equivalents	$ 344	$ 120	$ (20)(3) (1)(2)	$ 443
Short-term investments, at cost	1,013	265	(38)(3)	1,240
	1,357	385	(59)	1,683
Accounts and notes receivable, net	2,162	448	(26)(3)	2,584
Inventories	1,178	358	(11)(3)	1,525
Prepaid expenses and other current assets	727	251	(4)(3) (30)(1)	944
Total Current Assets	5,424	1,442	(130)	6,736
Property, Plant and Equipment	9,888	1,926	-	11,814
Accumulated Depreciation	(4,338)	(830)	4 (3)	(5,164)
	5,550	1,096	4	6,650
Intangible Assets, net	4,778	225	1 (3)	5,004
Investments in Unconsolidated Affiliates	2,869	-	-	2,869
Other Assets	882	83	(10)(3)	955
Total Assets	$19,503	$ 2,846	$ (135)	$22,214
Current Liabilities				
Short-term borrowings	$ 198	$ 156	$ -	$ 354
Accounts payable and other current liabilities	3,660	886	(131)(3) 95 (1)	4,510
Income taxes payable	127	-	102 (3)	229
Total Current Liabilities	3,985	1,042	66	5,093
Long-term Debt	1,933	640	(1)(3)	2,572
Other Liabilities	3,603	522	(14)(3)	4,111

Deferred Income Taxes	1,344	-	11 (3)	1,355
Preferred Stock, net		43	1 (3)	44
Deferred Compensation - preferred		(14)	-	(14)
Common Shareholders' Equity				
Common stock	29	840	(839)(2)	30
Capital in excess of par value	1,104	155	(1,271)(2) 14 (6) (2)(3)	-
Retained earnings	16,182	1,264	(125)(1) (6,644)(2) (14)(6) (61)(3)	10,602
Accumulated other comprehensive loss	(1,334)	(128)	(3)(3)	(1,465)
Deferred compensation	-	(13)	-	(13)
	15,981	2,118	(8,945)	9,154
Less: Repurchased common shares, at cost	(7,343)	(1,505)	8,753 (2) (6)(3)	(101)
Total Common Shareholders' Equity	8,638	613	(198)	9,053
Total Liabilities and Shareholders' Equity	$19,503	$ 2,846	$ (135)	$22,214

The accompanying notes are an integral part of this Unaudited Pro Forma Condensed Combined Financial Information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Adjustments reflect estimated transaction costs of approximately $125 million (pre-tax) associated with the merger. These costs consist primarily of fees and expenses of investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees, and financial printing and other related charges. These expenses have not been reflected in the unaudited pro forma condensed combined statements of income as they are considered to be nonrecurring costs directly related to the merger.

2. Adjustments reflect:

   - the cancellation of Quaker treasury shares;
   - the issuance of approximately 306 million shares of PepsiCo common stock for Quaker common stock; and
   - a cash payment for fractional shares.

   Under the pooling-of-interests accounting method, the issuance of the 306 million shares resulted in the retirement of approximately 256 million of repurchased common shares and the issuance of the 306 million new shares. The cost of the retired repurchased common stock in excess of the capital in excess of par value balance was recorded as an adjustment to retained earnings.

3. Adjustments reflect:

   - the impact of changing Quaker's fiscal calendar to conform to PepsiCo's as described below;
   - adjustments to conform accounting policies applicable to interim reporting of the two companies; and
   - the reclassification of certain Quaker balance sheet and statement of income amounts to conform with the financial statement presentation of PepsiCo.

   These changes have no impact on full year net income.

   The unaudited pro forma condensed combined statements of income combine PepsiCo's results for the 24 weeks ended June 16, 2001 and June 10, 2000 with Quaker's results for the six months ended June 30, 2001 and 2000. The unaudited pro forma condensed combined balance sheet as of June 16, 2001 combines the balance sheets of PepsiCo as of June 16, 2001 and Quaker as of June 30, 2001. Quaker's fiscal calendar was adjusted to conform to PepsiCo's fiscal calendar. Accordingly, adjustments have been made to eliminate Quaker's activity subsequent to May 31, 2001 and 2000, respectively.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION (continued)

4. The pro forma combined per share amounts and weighted average common shares reflect:

   - the combined weighted average of PepsiCo common stock and Quaker common stock for all periods presented, 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 stock; and

   - the issuance of 13.2 million shares of PepsiCo repurchased common stock in order to qualify for pooling-of-interests accounting treatment.

5. We estimate that we will incur approximately $450 million to $550 million of restructuring and integration costs. Substantially all of these costs will be charged to operations subsequent to the merger and, therefore, are not reflected in the unaudited pro forma condensed combined financial information.

6. Adjustment reflects stock option exercises from June 17, 2001 through August 2, 2001.

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