UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 4, 2004 (36 weeks)

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ______________ to ______________

Commission file number 1-1183

PEPSICO, INC.

(Exact name of registrant as specified in its charter)

North Carolina **(State or other jurisdiction of incorporate or organization)**	**13-1584302** **(I.R.S. Employer Identification No.)**
700 Anderson Hill Road, Purchase, New York **(Address of principal executive offices)**	**10577** **(Zip Code)**

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

N/A
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act.) YES ☒ NO ☐

Number of shares of Common Stock outstanding as of September 24, 2004: 1,684,479,645

Table of Contents

PEPSICO, INC. A ND SUBSIDIARIES

INDEX

Table of Contents

PART I—FINANCIAL INFORMATION
ITEM 1. Financial Statements

PEPSICO, INC. AND SUBSIDIARIES

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

	12 Weeks Ended		36 Weeks Ended	
	9/4/04	9/6/03	**9/4/04**	9/6/03
Net Revenue	**$7,257**	$6,830	**$20,458**	$18,898
Cost of sales	**3,300**	3,116	**9,324**	8,642
Selling, general and administrative expenses	**2,410**	2,307	**6,974**	6,445
Amortization of intangible assets	**35**	34	**100**	99
Merger-related costs	**—**	9	**—**	31
Operating Profit	**1,512**	1,364	**4,060**	3,681
Bottling equity income	**147**	136	**292**	246
Interest expense	**(41)**	(38)	**(113)**	(112)
Interest income	**15**	8	**37**	30
Income before income taxes	**1,633**	1,470	**4,276**	3,845
Provision for income taxes	**269**	458	**1,049**	1,191
Net Income	**$1,364**	$1,012	**$ 3,227**	$ 2,654
Net Income Per Common Share				
Basic	**$ 0.81**	$ 0.59	**$ 1.90**	$ 1.54
Diluted	**$ 0.79**	$ 0.58	**$ 1.86**	$ 1.53
Cash Dividends Declared Per Common Share	**$ 0.23**	$ 0.16	**$ 0.62**	$ 0.47

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

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

	36 Weeks Ended	
	9/4/04	9/6/03
Operating Activities		
Net income	**$3,227**	$2,654
Adjustments		
Depreciation and amortization	**863**	816
Stock-based compensation expense	**261**	289
Merger-related costs	**—**	31
Cash payments for merger-related and other restructuring charges	**(57)**	(81)
Bottling equity income, net of dividends	**(248)**	(216)
Deferred income taxes	**62**	82
Other, net	**268**	234
Net change in operating working capital	**(659)**	(282)
Net Cash Provided by Operating Activities	**3,717**	3,527
Investing Activities		
Capital spending	**(700)**	(844)
Sales of property, plant and equipment	**15**	13
Acquisitions and investments in noncontrolled affiliates	**(28)**	(41)
Divestitures	**—**	46
Short-term investments, by original maturity		
More than three months—purchases	**(28)**	(28)
More than three months—maturities	**34**	19
Three months or less, net	**(92)**	(157)
Net Cash Used for Investing Activities	**(799)**	(992)
Financing Activities		
Proceeds from issuances of long-term debt	**504**	53
Payments of long-term debt	**(175)**	(551)
Short-term borrowings, by original maturity		
More than three months—proceeds	**94**	156
More than three months—payments	**(111)**	(70)
Three months or less, net	**32**	(117)
Cash dividends paid	**(940)**	(795)
Share repurchases—common	**(2,475)**	(1,045)
Share repurchases—preferred	**(20)**	(10)
Proceeds from exercises of stock options	**846**	472
Net Cash Used for Financing Activities	**(2,245)**	(1,907)
Effect of Exchange Rate Changes	**(12)**	(15)
Net Increase in Cash and Cash Equivalents	**661**	613
Cash and Cash Equivalents—Beginning of year	**820**	1,638
Cash and Cash Equivalents—End of quarter	**$1,481**	$2,251

See accompanying Notes to the Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	(Unaudited) 9/4/04	12/27/03
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,481**	$ 820
Short-term investments, at cost	**1,272**	1,181
	2,753	2,001
Accounts and notes receivable, less allowance: 9/04—$93, 12/03—$105	**3,372**	2,830
Inventories		
Raw materials	**647**	618
Work-in-process	**243**	160
Finished goods	**708**	634
	1,598	1,412
Prepaid expenses and other current assets	**621**	687
Total Current Assets	**8,344**	6,930
Property, Plant and Equipment	**15,197**	14,755
Accumulated Depreciation	**(7,474)**	(6,927)
	7,723	7,828
Amortizable Intangibles, net	**617**	718
Goodwill	**3,786**	3,796
Other Nonamortizable Intangibles	**864**	869
	4,650	4,665
Investments in Noncontrolled Affiliates	**3,171**	2,920
Other Assets	**2,099**	2,266
Total Assets	**$26,604**	$25,327

Continued on next page.

PEPSICO, INC. AND SUBSIDIARIES

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

	(Unaudited) 9/4/04	12/27/03
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings obligations	**$ 253**	$ 591
Accounts payable and other current liabilities	**5,515**	5,213
Income taxes payable	**205**	611
Total Current Liabilities	**5,973**	6,415
Long-term Debt Obligations	**2,409**	1,702
Other Liabilities	**4,124**	4,075
Deferred Income Taxes	**1,313**	1,261
Total Liabilities	**13,819**	13,453
Preferred Stock, no par value	**41**	41
Repurchased Preferred Stock	**(83)**	(63)
Common Shareholders' Equity		
Common stock, par value 1 2/3 cents per share: Authorized 3,600 shares, issued 9/04 and 12/03—1,782 shares	**30**	30
Capital in excess of par value	**532**	548
Retained earnings	**18,133**	15,961
Accumulated other comprehensive loss	**(1,327)**	(1,267)
	17,368	15,272
Less: Repurchased shares, at cost: 9/04—95 shares, 12/03—77 shares	**(4,541)**	(3,376)
Total Common Shareholders' Equity	**12,827**	11,896
Total Liabilities and Shareholders' Equity	**$26,604**	$25,327

See accompanying Notes to the Condensed Consolidated Financial Statements.

PEPSICO, INC. AND SUBSIDIARIES

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

	12 Weeks Ended		36 Weeks Ended	
	9/4/04	9/6/03	**9/4/04**	9/6/03
Net Income	**$1,364**	$1,012	**$3,227**	$2,654
Other Comprehensive Income/(Loss)				
Currency translation adjustment	**3**	(185)	**(73)**	77
Cash flow hedges, net of related taxes:				
Net derivative gains	**9**	11	**11**	—
Reclassification of gains to net income	**(4)**	(1)	**—**	(7)
Other	**—**	—	**2**	1
	8	(175)	**(60)**	71
Comprehensive Income	**$1,372**	$ 837	**$3,167**	$2,725

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PEPSICO, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation and Our Divisions

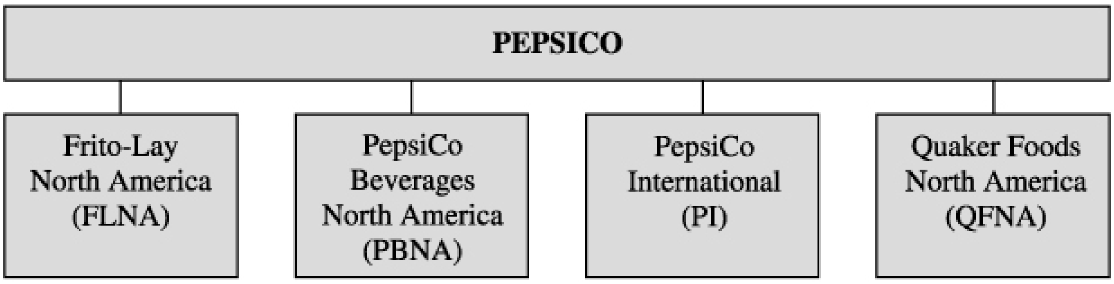
Basis of Presentation

Our Condensed Consolidated Balance Sheet as of September 4, 2004, the Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 36 weeks ended September 4, 2004 and September 6, 2003, and the Condensed Consolidated Statement of Cash Flows for the 36 weeks ended September 4, 2004 and September 6, 2003 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the year ended December 27, 2003. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks are not necessarily indicative of the results expected for the year.

Our significant interim accounting policies include the recognition of marketplace spending during the year incurred, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate. In addition, we now recognize division-related stock-based compensation in division results as division management are held accountable for this expense. Prior year results have been adjusted for comparability.

The following information is unaudited. 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. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 27, 2003 and, with respect to our long-term contractual commitments, with our Quarterly Report on Form 10-Q for the fiscal quarter ended June 12, 2004.

Our Divisions



	12 Weeks Ended		36 Weeks Ended	
	9/4/04	9/6/03	**9/4/04**	9/6/03
NET REVENUE				
Frito-Lay North America	**$2,325**	$2,218	**$ 6,704**	$ 6,395
PepsiCo Beverages North America	**2,147**	2,078	**5,999**	5,585
PepsiCo International	**2,430**	2,196	**6,719**	5,898
Quaker Foods North America	**355**	338	**1,036**	1,018
Division Net Revenue	**7,257**	6,830	**20,458**	18,896
Divested businesses	**—**	—	**—**	2
	$7,257	$6,830	**$20,458**	$18,898
OPERATING PROFIT				
Frito-Lay North America	**$ 616**	$ 577	**$ 1,686**	$ 1,579
PepsiCo Beverages North America	**542**	503	**1,460**	1,299
PepsiCo International	**370**	287	**995**	778
Quaker Foods North America	**111**	106	**325**	318
Division Operating Profit	**1,639**	1,473	**4,466**	3,974
Corporate unallocated	**(127)**	(100)	**(406)**	(288)
Merger-related costs	**—**	(9)	**—**	(31)
Divested businesses [(a)]	**—**	—	**—**	26
	$1,512	$1,364	**$ 4,060**	$ 3,681

	9/4/04	12/27/03
TOTAL ASSETS		
Frito-Lay North America	**$ 5,397**	$ 5,332
PepsiCo Beverages North America	**6,199**	5,856
PepsiCo International	**8,266**	8,109
Quaker Foods North America	**966**	995
Division Assets	**20,828**	20,292
Corporate	**2,908**	2,384
Bottling investments	**2,868**	2,651
	$26,604	$25,327

(a) Includes a gain of $25 million on the sale of Quaker Foods North America's Mission pasta business.

Table of Contents

Intangible Assets

	9/4/04	12/27/03
Amortizable intangible assets, net		
Brands	**$ 980**	$ 985
Other identifiable intangibles	**210**	212
	1,190	1,197
Accumulated amortization	**(573)**	(479)
	$ 617	$ 718

The change in the book value of nonamortizable intangible assets is as follows:

	Balance 12/27/03	Acquisitions	Translation & other	**Balance 9/4/04**
Frito-Lay North America				
Goodwill	$ 130	—	—	**$ 130**
PepsiCo Beverages North America				
Goodwill	2,157	—	1	**2,158**
Brands	59	—	—	**59**
	2,216	—	1	**2,217**
PepsiCo International				
Goodwill	1,334	9	(20)	**1,323**
Brands	808	—	(5)	**803**
	2,142	9	(25)	**2,216**
Quaker Foods North America				
Goodwill	175	—	—	**175**
Corporate				
Pension intangible	2	—	—	**2**
Total goodwill	$3,796	9	(19)	**$3,786**
Total brands	867	—	(5)	**862**
Total pension intangible	2	—	—	**2**
	$4,665	9	(24)	**$4,650**

Table of Contents

Stock-based Compensation

We account for stock options using the fair value method of accounting. For the 12 weeks, we recognized stock-based compensation expense of $86 million in 2004 and $89 million in 2003. For the 36 weeks, we recognized stock-based compensation of $261 million in 2004 and $289 million in 2003. These amounts are reflected in selling, general and administrative expenses.

Our weighted average Black-Scholes fair value assumptions are as follows:

	12 and 36 Weeks Ended	
	9/4/04	9/6/03
Expected life	**6 yrs.**	6 yrs.
Risk free interest rate	**3.3%**	3.1%
Expected volatility	**26%**	27%
Expected dividend yield	**1.80%**	1.15%

Pension and Retiree Medical Benefits

The components of net periodic benefit cost for pension and retiree medical plans are as follows:

	12 Weeks Ended			
	9/4/04	9/6/03	**9/4/04**	9/6/03
	Pension		**Retiree Medical**	
Service cost	**$51**	$41	**$ 9**	$ 7
Interest cost	**73**	66	**17**	17
Expected return on plan assets	**(90)**	(83)	**—**	—
Amortization of prior service cost	**2**	2	**(2)**	(1)
Amortization of experience loss	**21**	11	**4**	3
	57	37	**28**	26
Special termination benefits	**—**	1	**—**	—
Total expense	**$57**	$38	**$28**	$26

	36 Weeks Ended			
	9/4/04	9/6/03	**9/4/04**	9/6/03
	Pension		**Retiree Medical**	
Service cost	**$152**	$123	**$27**	$23
Interest cost	**219**	197	**50**	51
Expected return on plan assets	**(269)**	(249)	**—**	—
Amortization of prior service cost	**5**	4	**(6)**	(3)
Amortization of experience loss	**63**	33	**13**	9
	170	108	**84**	80
Special termination benefits	**—**	3	**—**	—
Total expense	**$170**	$111	**$84**	$80

Table of Contents

Net Income Per Common Share

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

	12 Weeks Ended			
	9/4/04		9/6/03	
	Income	**Shares [(a)]**	Income	Shares [(a)]
Net income	**$1,364**		$1,012	
Less: preferred dividends	**1**		1	
Net income available for common shareholders	**$1,363**	**1,692**	$1,011	1,721
Basic net income per common share	**$ 0.81**		$ 0.59	
Net income available for common shareholders	**$1,363**	**1,692**	$1,011	1,721
Dilutive securities:				
Stock options and restricted stock units[(b)]	**—**	**33**	—	21
ESOP convertible preferred stock	**1**	**2**	1	3
Diluted	**$1,364**	**1,727**	$1,012	1,745
Diluted net income per common share	**$ 0.79**		$ 0.58	

	36 Weeks Ended			
	9/4/04		9/6/03	
	Income	**Shares [(a)]**	Income	Shares [(a)]
Net income	**$3,227**		$2,654	
Less: preferred dividends	**2**		3	
Net income available for common shareholders	**$3,225**	**1,701**	$2,651	1,720
Basic net income per common share	**$ 1.90**		$ 1.54	
Net income available for common shareholders	**$3,225**	**1,701**	$2,651	1,720
Dilutive securities:				
Stock options and restricted stock units[(b)]	**—**	**31**	—	14
ESOP convertible preferred stock	**2**	**3**	2	3
Diluted	**$3,227**	**1,735**	$2,653	1,737
Diluted net income per common share	**$ 1.86**		$ 1.53	

(a) Weighted average common shares outstanding.

(b) Options to purchase 0.5 million shares for the 12 weeks and 9.7 million shares for the 36 weeks in 2004 and 33.1 million shares for the 12 weeks and 57.5 million shares for the 36 weeks in 2003 were not included in the calculation of earnings per share because these options were out-of-the-money. Out-of-the-money options were based upon average share prices of $51.98 for the 12 weeks and $51.70 for the 36 weeks in 2004 and $45.23 for the 12 weeks and $42.68 for the 36 weeks in 2003.

Impairment and Restructuring Charges

In the fourth quarter of 2003, we incurred a charge of $147 million ($100 million after-tax or $0.06 per share) in conjunction with actions taken to streamline our North American divisions and PepsiCo International. All terminations related to these actions have occurred. As of September 4, 2004, $11 million of these costs remain payable and are included in other current liabilities.

Table of Contents

Supplemental Cash Flow Information

	36 Weeks Ended	
	9/6/04	9/6/03
Interest paid	**$ 91**	$108
Income taxes paid[a]	**$1,268**	$561
Acquisitions:		
Fair value of assets acquired	**$ 30**	$102
Cash paid and debt assumed	**(28)**	(40)
Liabilities assumed	**$ 2**	$ 62

[a] 2004 includes approximately $760 million related to our 2003 settlement with the Internal Revenue Service.

Income Taxes

In the third quarter, we recognized $221 million of tax benefits related to a reduction in foreign tax accruals following the resolution of certain open tax issues with foreign tax authorities and a refund claim related to prior U.S. tax settlements.

Subsequent Event

On September 30, 2004, we announced plans to consolidate Frito-Lay North America's (FLNA) manufacturing network in connection with FLNA's ongoing productivity program. The number of FLNA plants will be reduced from 43 to 39 with production moved to other plants.

Table of Contents

ITEM 2. Management's Discussion and Analysis

FINANCIAL REVIEW

Our discussion and analysis is an integral part of understanding our financial results. Also refer to Basis of Presentation and Our Divisions in the Notes to the Condensed Consolidated Financial Statements. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes and tax rates are based on unrounded amounts.

Our Critical Accounting Policies

In addition to the critical accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended December 27, 2003, the following should be considered.

Sales Incentives

We offer sales incentives through various programs to our customers and consumers. These incentives are recorded as a reduction of the sales price of our products. Certain sales incentives are recognized at the time of the sale while other incentives, such as bottler funding and customer volume rebates, are recognized during the year incurred, generally in proportion to revenue, based on annual targets. Anticipated payments are estimated based on historical experience with similar programs. In addition, certain marketing costs are also recognized during the year incurred, generally in proportion to revenue.

Effective Tax Rate

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Our estimated annual effective tax rate also reflects our best estimate of the ultimate outcome of tax audits. Significant or unusual items are separately recognized in the quarter in which they occur.

Stock-Based Compensation

We account for stock options using the fair value method of accounting. For the 12 weeks, we recognized stock-based compensation expense of $86 million in 2004 and $89 million in 2003. For the 36 weeks, we recognized stock-based compensation expense of $261 million in 2004 and $289 million in 2003. These amounts are reflected in selling, general and administrative expenses. The reduction in our expense is due to changes in our new executive compensation plan. However, total executive compensation expense, when considering all components, is not expected to significantly differ from 2003. See our 2003 Annual Report on Form 10-K for more information on our new executive compensation plan.

Beginning in 2004, our divisions planned for stock-based compensation in division results and senior management evaluates division performance on that basis. As a result, division-related stock-based compensation expense is allocated to our divisions as an incremental employee benefit cost, and prior year division results have been adjusted for comparability. The expense allocated to our divisions excludes the impact of changes in our Black-Scholes assumptions which reflect market conditions over which division management has no control. Any variance between the allocated expense and our actual expense is recognized in corporate unallocated expenses. For our 2004 Black-Scholes assumptions, see *Stock-based Compensation* in the Notes to the Condensed Consolidated Financial Statements.

Our Business Risks

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

Our operations outside of the United States generate approximately 35% of our net revenue. As a result, we are exposed to foreign currency risks. During the 36 weeks, net favorable foreign currency, primarily increases in the British pound and euro, partially offset by declines in the Mexican peso, contributed over 1 percentage point to net revenue growth. We expect the impact from the British pound and euro to continue to moderate and the unfavorable impact from the Mexican peso to remain.

While there is continued pricing pressure on commodities, we expect to be able to mitigate this risk in the near term for the majority of our commodities through a combination of hedging programs, purchasing commitments and productivity initiatives. As a result, we expect our year-over-year costs for our most significant commodities in total to be roughly flat.

Cautionary statements regarding our trends and future results are included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the fiscal year ended December 27, 2003.

Results of Operations – Consolidated Review

In the discussions of net revenue and operating profit below, effective net pricing reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by $221 million of tax benefits recognized in the 12 weeks ended September 4, 2004. See *Income Taxes* in the Notes to the Condensed Consolidated Financial Statements for a discussion of these benefits. In addition, the year-over-year comparisons are affected by prior year costs associated with our merger with Quaker of $9 million ($6 million after-tax) for the 12 weeks and $31 million ($25 million after-tax or $0.01 per share) for the 36 weeks ended September 6, 2003. In addition, we sold our Quaker Foods North America's Mission pasta business. This transaction resulted in a net gain of $25 million ($16 million after-tax and $0.01 per share) in the first quarter of 2003 which was included in our divested business results.

Table of Contents

Subsequent Event

On September 30, 2004, we announced plans to consolidate Frito-Lay North America's (FLNA) manufacturing network in connection with FLNA's ongoing productivity program. The number of FLNA plants will be reduced from 43 to 39 with production moved to other plants. The plant closures are expected to occur in October with approximately 780 jobs eliminated and 250 jobs added for the relocated production. We expect to incur a pre-tax charge of approximately $160 million, comprised of approximately $105 million of asset impairments, approximately $30 million of severance and other employee costs, and approximately $25 million of other costs. We will separately report these charges in our financial statements. These costs will largely be incurred in the fourth quarter, and the employee and other costs portions of the charge will be paid in cash during the fourth quarter and into 2005.

Volume

Since our divisions each use different measures of physical unit volume, a common servings metric is used to reflect our consolidated physical unit volume. Total servings increased 4% for the 12 weeks, with worldwide beverages and worldwide snacks each growing 4%. For the 36 weeks, total division servings grew 6%, with worldwide beverages growing 7% and worldwide snacks growing almost 6%.

Consolidated Results

Total Net Revenue and Operating Profit

	12 Weeks Ended			36 Weeks Ended		
	9/4/04	9/6/03	Change	**9/4/04**	9/6/03	Change
Total net revenue	**$7,257**	$6,830	6%	**$20,458**	$18,898	8%
Division operating profit	**$1,639**	$1,473	11%	**$ 4,466**	$ 3,974	12%
Corporate unallocated	**(127)**	(100)	27%	**(406)**	(288)	41%
Merger-related costs	**—**	(9)		**—**	(31)	
Divested businesses	**—**	—		**—**	26	
Total operating profit	**$1,512**	$1,364	11%	**$ 4,060**	$ 3,681	10%
Division operating profit margin	**22.6%**	21.6%	1.0	**21.8%**	21.0%	0.8
Total operating profit margin	**20.8%**	20.0%	0.8	**19.8%**	19.5%	0.3

12 Weeks

Net revenue increased 6% primarily due to volume gains, favorable effective net pricing across all divisions, and net favorable foreign currency movements. The volume gains contributed almost 3 percentage points, favorable effective net pricing contributed over 2 percentage points and the net favorable foreign currency contributed nearly 1 percentage point to revenue growth.

Table of Contents

Total operating profit increased 11% and margin increased 0.8 percentage point. Division operating profit increased 11% and margin increased 1.0 percentage point. These gains primarily reflect leverage from the revenue growth. Increased Corporate unallocated pension costs partially offset the revenue growth.

36 Weeks

Net revenue increased 8% primarily due to volume gains, favorable mix, primarily at PBNA, and net favorable foreign currency movements. The volume gains contributed 4 percentage points, the favorable mix contributed almost 2 percentage points, and the net favorable foreign currency contributed over 1 percentage point.

Total operating profit increased 10% and margin increased 0.3 percentage point. Division operating profit increased 12% and margin increased 0.8 percentage point. These gains primarily reflect leverage from the revenue growth. Increased Corporate unallocated expenses partially offset the revenue growth.

Corporate unallocated expenses increased 41% primarily reflecting higher pension costs of $52 million, higher costs related to our Business Process Transformation initiative, an unfavorable comparison to a prior year legal settlement gain, and foreign exchange losses compared to gains in the prior year.

Other Consolidated Results

	12 Weeks Ended			36 Weeks Ended		
	9/4/04	9/6/03	Change	**9/4/04**	9/6/03	Change
Bottling equity income	**$ 147**	$ 136	9 %	**$ 292**	$ 246	19 %
Interest expense, net	**$ (26)**	$ (30)	(10)%	**$ (76)**	$ (82)	(6)%
Tax rate	**16.5%**	31.1%	(14.6)	**24.5%**	31.0%	(6.5)
Net income	**$ 1,364**	$ 1,012	35 %	**$ 3,227**	$ 2,654	22 %
Net income per common share – diluted	**$ 0.79**	$ 0.58	36 %	**$ 1.86**	$ 1.53	22 %

12 Weeks

Bottling equity income increased 9% reflecting increased earnings from our anchor bottlers.

Interest expense, net of interest income, decreased 10% primarily reflecting favorable rates and higher average cash balances, largely offset by higher average debt balances.

The tax rate decreased 14.6 percentage points primarily due to income tax benefits of $221 million related to a reduction in foreign tax accruals following the resolution of certain open tax issues with foreign tax authorities and a refund claim related to prior U.S. tax settlements. These items accounted for 13.5 percentage points of the decrease in our rate. Increased benefit from our concentrate operations and favorable changes arising from agreements reached with the Internal Revenue Service in the fourth quarter of 2003 also contributed to the decline in rate.

Net income increased 35% and the related net income per share increased 36%. The tax benefits of $221 million contributed 22 percentage points of the increase in both net income and earnings per share with our solid operating results contributing the remainder of the increase.

36 Weeks

Bottling equity income increased 19% reflecting increased earnings from our anchor bottlers and favorable comparisons from our international bottling investments driven by a nationwide strike in Venezuela in early 2003.

Interest expense, net of interest income, decreased 6% reflecting favorable rates, partially offset by the unfavorable comparison to 2003 gains in the market value of investments used to economically hedge a portion of our deferred compensation liability.

The tax rate decreased 6.5 percentage points primarily due to the income tax benefits of $221 million discussed above. These items accounted for 5.2 percentage points of the decrease in our rate. Increased benefit from our concentrate operations and favorable changes arising from agreements reached with the Internal Revenue Service in the fourth quarter of 2003 also contributed to the decline in rate.

Net income and the related net income per share each increased 22%. These increases primarily reflect our solid operating results and the tax benefits of $221 million noted above. The tax benefits contributed 8 percentage points of the increase in both net income and earnings per share. Increased earnings from our bottling investments and the absence of merger-related costs in 2004 also contributed to the growth.

Results of Operations – Division Review

The results and discussions below are based on how our Chief Executive Officer evaluates the performance of our divisions. Prior year amounts exclude the results of divested businesses. For additional information on our divisions, see *Our Divisions* in the Notes to our Condensed Consolidated Financial Statements.

[Table of Contents](#)

Frito-Lay North America

	12 Weeks Ended			36 Weeks Ended		
	9/4/04	9/6/03	Change	**9/4/04**	9/6/03	Change
Net revenue	**$2,325**	$2,218	5%	**$6,704**	$6,395	5%
Operating profit	**$ 616**	$ 577	7%	**$1,686**	$1,579	7%

12 Weeks

Net revenue grew 5% reflecting volume growth of 2% and positive effective net pricing, primarily as a result of salty snack pricing actions. Declines in Quaker snacks reduced volume by approximately 1 percentage point and net revenue growth by about 0.5 percentage point. Pound volume grew primarily due to double-digit growth in Tostitos, the late third quarter 2003 introduction of Lay's Stax, double-digit growth in Variety Pack, and single-digit growth in Lay's Classic potato chips and branded dips. These gains were partially offset by single-digit declines in Doritos and double-digit declines in Rold Gold and Quaker Toastables.

Operating profit grew 7% primarily reflecting the pricing actions. Cost leverage generated from ongoing productivity initiatives was largely offset by higher commodity costs, driven by corn oil.

On September 1, 2004, we introduced our new "Smart Spot" program which helps consumers identify products in our portfolio that contribute to a healthier lifestyle. Approximately 10% of net revenue meets the new Smart Spot criteria. These products experienced high single-digit revenue growth in the third quarter and the balance of the portfolio had mid single-digit revenue growth. See our website at www.smartspot.com for additional information on our new Smart Spot program.

36 Weeks

Net revenue grew 5% reflecting volume growth of 2% and positive effective net pricing due to salty snack pricing actions and favorable mix. Declines in Quaker snacks reduced volume by approximately 1 percentage point and net revenue growth by about 0.5 percentage point. Pound volume grew primarily due to new products, single-digit growth in Lay's Classic potato chips and Tostitos, and strong double-digit growth in Variety Pack and Munchies snack mix. Lay's Stax and Doritos Rollitos led the new product growth. These gains were partially offset by single-digit declines in Doritos and Fritos and double-digit declines in Rold Gold and Quaker Toastables.

Operating profit grew 7% reflecting the pricing actions. Cost leverage generated from ongoing productivity initiatives was largely offset by higher commodity costs, driven by corn oil.

Products qualifying for our new Smart Spot program represented approximately 10% of net revenue. These products experienced low double-digit revenue growth and the balance of the portfolio had mid single-digit revenue growth.

PepsiCo Beverages North America

	12 Weeks Ended			36 Weeks Ended		
	9/4/04	9/6/03	Change	**9/4/04**	9/6/03	Change
Net revenue	**$2,147**	$2,078	3%	**$5,999**	$5,585	7%
Operating profit	**$ 542**	$ 503	8%	**$1,460**	$1,299	12%

12 Weeks

Volume decreased 1% reflecting a 4% decline in our bottlers' sales of carbonated soft drinks, partially offset by non-carbonated beverage growth of 5%. The key factors contributing to the decline in our carbonated soft drinks are the timing of the Labor Day and Memorial Day holidays, an unfavorable comparison due to new product introductions in the prior year, and a significant increase in retail pricing. Our bottlers' sales of our carbonated soft drinks are reported on a monthly basis, with the third quarter comprising June, July and August. As a result of this timing, the sales week leading up to Labor Day occurred in the fourth quarter this year versus the third quarter last year. Also, the post Memorial Day week, when volumes tend to be lower, occurred in the third quarter this year versus the second quarter last year. These holiday timing differences shifted approximately one percentage point of volume out of the third quarter.

The carbonated soft drink performance reflects declines in both Trademark Pepsi and Trademark Mountain Dew, partially offset by growth in Trademark Sierra Mist. Trademark Pepsi declined in the mid single-digits primarily due to a decline in regular Pepsi and an unfavorable comparison due to the third quarter 2003 national launch of Pepsi Vanilla, partially offset by growth in Diet Pepsi and the introduction of Pepsi Edge in the third quarter. Trademark Mountain Dew declined in the mid single-digits reflecting declines in both Mountain Dew Code Red and LiveWire, partially offset by growth in Diet Mountain Dew and the third quarter introduction of Mountain Dew Pitch Black. Sierra Mist grew in the low single-digits for the quarter. The non-carbonated beverage growth was fueled by bottler-distributed Tropicana juice drinks which were introduced in the first quarter, high single-digit growth in Gatorade, and double-digit growth in Propel. Tropicana Pure Premium and Aquafina also contributed to growth. Aquafina's low single-digit growth reflected a competitive pricing environment.

Net revenue increased 3%. Favorable product mix shift contributed 2 percentage points of growth, and our total shipments, which were not impacted by the holiday timing issue discussed above, contributed one percentage point. The mix benefit primarily reflects the migration to non-carbonated beverages. The benefit from concentrate and fountain price increases taken in the first quarter was largely offset by increased promotional spending. Operating profit increased 8% primarily reflecting the net revenue growth.

Products qualifying for our new Smart Spot program represented nearly two thirds of net revenue. These products, as well as the balance of the portfolio, grew in line with overall division revenue growth.

36 Weeks

Net revenue increased 7% and volume increased 3%. The volume increase reflects non-carbonated beverage growth of 10%, partially offset by a marginal decline in carbonated soft drinks. The non-carbonated beverage growth was fueled by the bottler-distributed Tropicana juice drinks, as well as double-digit growth in Gatorade, Aquafina and Propel. Tropicana Pure Premium increased slightly for the period. The carbonated soft drink performance reflects low single-digit declines in both Trademark Mountain Dew and Trademark Sierra Mist, partially offset by a marginal increase in Trademark Pepsi. The decline in Trademark Mountain Dew reflects declines in both Mountain Dew Code Red and LiveWire, mostly offset by growth in Diet Mountain Dew, the introduction of Mountain Dew Pitch Black, and growth in regular Mountain Dew. The performance of Trademark Pepsi reflects growth in Diet Pepsi and the benefit from the third quarter 2003 introduction of Pepsi Vanilla, mostly offset by declines in both regular Pepsi and Pepsi Twist. Favorable product mix shift contributed 3 percentage points to net revenue growth. This mix benefit primarily reflects a migration to non-carbonated beverages. The benefit from concentrate and fountain price increases taken in the first quarter was partially offset by increased promotional spending.

Operating profit increased 12% reflecting the net revenue growth, partially offset by additional costs related to our restructuring actions initiated in the fourth quarter of 2003 and higher advertising and marketing costs.

Products qualifying for our new Smart Spot program represented nearly two thirds of net revenue. These products, as well as the balance of the portfolio, grew in line with overall division growth.

PepsiCo International

	12 Weeks Ended			36 Weeks Ended		
	9/4/04	9/6/03	Change	**9/4/04**	9/6/03	Change
Net revenue	**$2,430**	$2,196	11%	**$6,719**	$5,898	14%
Operating profit	**$ 370**	$ 287	29%	**$ 995**	$ 778	28%

12 Weeks

International snacks volume grew almost 7%, comprised of 6% in our Latin America region, 6% in our Europe, Middle East and Africa region and 14% in our Asia Pacific region. These gains were driven by successful local innovation and promotional initiatives resulting in high single-digit growth at Sabritas in Mexico, double-digit growth in India, Venezuela, Turkey and Egypt, and continued growth at Gamesa in Mexico. This growth was partially offset by a slight decline in Walkers in the U.K. as a result of weak performance in wholesale and convenience channels.

Beverage volume grew 11%, comprised of 10% in our Europe, Middle East and Africa region, 16% in our Asia Pacific region and 9% in our Latin America region. Broad-based increases were led by double-digit growth in the Middle East, China, Mexico, Russia, Japan and India. Both carbonated soft drink and non-carbonated beverages grew at double-digit rates.

Net revenue grew 11% driven by the broad-based volume increases and favorable mix. Foreign currency contributed 2 percentage points of growth driven by the favorable British pound and euro, partially offset by the unfavorable Mexican peso.

Operating profit grew 29% driven largely by the volume and favorable mix. The favorable comparison of reserve actions taken in 2003 on potentially unrecoverable beverage assets contributed 10 percentage points of growth. Unfavorable foreign currency reduced operating profit growth by less than 1 percentage point driven by the unfavorable Mexican peso partially offset by the favorable British pound and Euro.

36 Weeks

International snacks volume grew 9%, comprised of 8% in our Latin America region, 7% in our Europe, Middle East and Africa region and 20% in our Asia Pacific region. These gains were driven by double-digit snack growth at Sabritas in Mexico and in Brazil in large part driven by successful Yu-Gi-Oh promotions and innovation initiatives. Other contributors to snack growth were strong double-digit advances in India and Egypt, low single-digit growth at Gamesa in Mexico, double-digit growth in Turkey and Venezuela, along with low single-digit growth at Walkers in the U.K.

Beverage volume grew 12%, comprised of 13% in our Europe, Middle East and Africa region, 15% in our Asia Pacific region and 9% in our Latin America region. Broad-based increases were led by double-digit growth in the Middle East and China, high single-digit growth in Mexico and double-digit growth in India, Russia, Venezuela and Germany. Favorable comparisons to the 2003 national strike in Venezuela and German deposit law impact contributed to the growth in Venezuela and Germany. Both carbonated soft drink and non-carbonated beverages grew at double-digit rates.

Net revenue grew 14% driven by the broad-based volume growth. Foreign currency contributed almost 4 percentage points of growth primarily driven by the favorable British pound and euro, partially offset by the unfavorable Mexican peso.

Operating profit grew 28% driven largely by the volume. The favorable comparison of certain reserve actions taken in 2003 on potentially unrecoverable beverage assets contributed 4 percentage points of growth. Foreign currency contributed nearly 2 percentage points of growth primarily driven by the favorable British pound and euro, partially offset by the unfavorable Mexican peso.

Table of Contents

Quaker Foods North America

	12 Weeks Ended			36 Weeks Ended		
	9/4/04	9/6/03	Change	**9/4/04**	9/6/03	Change
Net revenue	**$355**	$338	5%	**$1,036**	$1,018	2%
Operating profit	**$111**	$106	4%	**$ 325**	$ 318	2%

12 Weeks

Net revenue increased 5% and volume increased 3%. The volume increase was driven by high single-digit growth in both Oatmeal and Life cereal and double-digit growth in Rice-A-Roni, partially offset by a mid single-digit decline in Cap’n Crunch. The strong performances in Oatmeal and Rice-A-Roni were largely due to new product introductions.

Operating profit increased 4% reflecting the net revenue growth, partially offset by higher advertising and marketing costs.

Products qualifying for our new Smart Spot program represented approximately 40% of net revenue and had double-digit revenue growth. The balance of the portfolio experienced low single-digit revenue growth.

36 Weeks

Net revenue increased 2% and volume increased 1%. The volume increase reflects mid single-digit growth in Oatmeal and double-digit growth in Life cereal, partially offset by a high single-digit decline in Cap’n Crunch. Favorable Canadian exchange rates also contributed 1% to revenue growth.

Operating profit grew 2% reflecting the increased volume and a favorable shift to higher margin products, partially offset by an unfavorable cost of sales comparison.

Products qualifying for our new Smart Spot program represented approximately 40% of net revenue and had high single-digit revenue growth. The balance of the portfolio experienced a low single-digit revenue decline.

OUR LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

During the 36 weeks, our operations provided $3.7 billion of cash reflecting our solid business results and working capital management, partially offset by a significant tax payment. As a result of our 2003 settlement with the IRS, we paid taxes of approximately $760 million in the second quarter of 2004. A portion of this payment represented deductible interest, which will lower our estimated tax payments during 2004 by approximately $150 million.

Investing Activities

During the 36 weeks, we used $799 million, primarily reflecting capital spending of $700 million. Capital spending was lower than in the prior year due to 2003 spending for Lay's Stax production capacity and our new concentrate plant. We expect full year capital spending to be less than $1.5 billion.

Financing Activities

During the 36 weeks, we used $2.2 billion, primarily reflecting common share repurchases of $2.5 billion and dividend payments of $940 million, partially offset by proceeds from the exercise of stock options of $846 million and proceeds from the issuance of long-term debt of $504 million. For the full year, we expect to spend approximately $3.0 billion on share repurchases.

Management Operating Cash Flow

Management operating cash flow is the primary measure management uses to monitor cash flow performance. It is not a measure calculated under generally accepted accounting principles in the United States. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. The table below reconciles net cash provided by operating activities as reflected in our Condensed Consolidated Statement of Cash Flows to our management operating cash flow.

	36 Weeks Ended	
	9/4/04	9/6/03
Net cash provided by operating activities	**$3,717**	$3,527
Capital spending	**(700)**	(844)
Sales of property, plant and equipment	**15**	13
Management operating cash flow	**$3,032**	$2,696

Management operating cash flow, inclusive of the second quarter tax payment, increased 12% from the prior year and was driven by our solid results, working capital management, and lower capital spending, and was used primarily to repurchase shares and pay dividends. For the full year, we expect management operating cash flow to grow driven by the strength of our underlying business performance. As expected, in mid-September, we made a $400 million discretionary contribution to our U.S. pension plans. We currently expect to continue to return approximately all of our management operating cash flows to our shareholders through share repurchases and dividends. See *Our Business Risks* for certain factors that may impact our operating cash flows.

Report of Independent Registered Public Accounting Firm

The Board of Directors
PepsiCo, Inc.

We have reviewed the accompanying Condensed Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of September 4, 2004 and the related Condensed Consolidated Statements of Income and Comprehensive Income for the twelve and thirty-six weeks ended September 4, 2004 and September 6, 2003 and the Condensed Consolidated Statement of Cash Flows for the thirty-six weeks ended September 4, 2004 and September 6, 2003. These interim condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, 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.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 27, 2003, and the related Consolidated Statements of Income, Common Shareholders' Equity and Cash Flows for the year then ended not presented herein; and in our report dated February 9, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 27, 2003, is fairly presented, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

KPMG LLP

New York, New York
September 30, 2004

ITEM 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be included in our periodic filings with the SEC.

In addition, there were no significant changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect these internal controls over financial reporting during the period covered by this report.

PART II OTHER INFORMATION AND SIGNATURES

ITEM 1. Legal Proceedings

We are party to a variety of legal proceedings arising in the normal course of business, including the matters discussed below. While the results of proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, results of operations or cash flows.

On November 5, 2003, we announced that Frito-Lay, Inc. received notification from the staff of the U.S. Securities and Exchange Commission (the “SEC”) indicating that the Staff was considering recommending that the SEC bring a civil injunctive action against Frito-Lay and one of its non-executive sales employees who signed documents requested by The Fleming Companies in 2001-2002 involving payments of $400,000, which Fleming allegedly used to accelerate its revenue recognition.

On April 30, 2004, we announced that Frito-Lay and Pepsi-Cola Company received notification from the SEC indicating that the Staff was proposing to recommend that the SEC bring a civil action alleging that a non-executive employee at Pepsi-Cola and another at Frito-Lay signed documents in early 2001 prepared by Kmart acknowledging payments in the amount of $3 million from Pepsi-Cola and $2.8 million from Frito-Lay. Kmart allegedly used these documents to prematurely recognize the $3 million and $2.8 million in revenue.

Frito-Lay and Pepsi-Cola are cooperating fully with the investigations and have provided written responses to the SEC Staff notices setting forth the factual and legal bases for their belief that no enforcement actions should be brought against them. Based on an internal review of these matters, no officers of PepsiCo, Pepsi-Cola or Frito-Lay are involved. None of these matters involve any allegations regarding PepsiCo’s accounting for its transactions with The Fleming Companies or Kmart or PepsiCo’s financial statements.

Table of Contents

ITEM 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

A summary of our repurchases (in millions, except average price per share) during the quarter under the $7 billion repurchase program authorized by our Board of Directors and publicly announced on March 29, 2004, and expiring on March 31, 2007, is as follows:

	Shares Repurchased	Average Price Per Share	Authorization Remaining
6/12/04			$6,148
6/13/04—7/10/04	5.7	54.27	(309)
			5,839
7/11/04—8/7/04	4.7	51.47	(242)
			5,597
8/8/04—9/4/04	3.6	50.17	(182)
	14.0	52.27	$5,415

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits – See Index to Exhibits on page 30.

(b) Reports on Form 8-K

1. On July 15, 2004, we furnished a Current Report on Form 8-K pursuant to *Item 12. Results of Operations and Financial Condition* attaching our press release dated July 15, 2004 announcing our financial results for the second quarter of 2004.
2. On September 2, 2004, we furnished a Current Report on Form 8-K pursuant to *Item 7.01. Regulation FD Disclosure* attaching our press release dated September 1, 2004 announcing our expected results for the third quarter of 2004.
3. On September 3, 2004, we filed a Current Report on Form 8-K pursuant to *Item 1.01. Entry into a Material Definitive Agreement* announcing PepsiCo's agreement with Al E. Bru and *Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers* attaching our press release dated September 1, 2004 announcing the retirement of Al E. Bru as Chairman and Chief Executive Officer of Frito-Lay and the appointment of Irene B. Rosenfeld as Chairman and Chief Executive Officer of Frito-Lay.

Pursuant to the requirement 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: October 1, 2004	/S/ PETER A. BRIDGMAN
	Peter A. Bridgman Senior Vice President and Controller
Date: October 1, 2004	/S/ ROBERT E. COX
	Robert E. Cox Vice President, Deputy General Counsel and Assistant Secretary

INDEX TO EXHIBITS
ITEM 6 (a)

EXHIBITS

Exhibit 10	Agreement between PepsiCo, Inc. and Abelardo E. Bru dated September 3, 2004
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges
Exhibit 15	Accountants' Acknowledgment
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

September 3, 2004

Mr. Abelardo E. Bru
By Hand

Dear Al:

This letter describes the terms and conditions of your active employment with Frito-Lay, Inc. (with PepsiCo, Inc., its subsidiaries, divisions, affiliates, predecessors and successors, the “Company”) and confirms the arrangements relating to your retirement and transition from the Company. The material terms and conditions of this letter agreement have been approved by the Compensation Committee of the Board of Directors.

1. Status and Responsibilities.

(a) Between September 1, 2004 and February 1, 2005, you will serve as Vice Chairman of PepsiCo, Inc., reporting to PepsiCo’s Chairman and Chief Executive Officer.

(b) Having satisfied the requirements for early retirement (at least age 55 with more than 10 years of service), on February 1, 2005 (your “Retirement Date”), you will retire from the Company and will be entitled to early retirement benefits under the normal provisions of the PepsiCo Salaried Employees Retirement Plan and the Pension Equalization Plan (collectively, the “Retirement Plans”).

(c) From your Retirement Date through February 1, 2008 (the “Consulting Period”), you agree to be available to consult with the Company and to provide such consulting services as shall reasonably be requested by the Chief Executive Officer of PepsiCo Inc., regarding the global snack food businesses. You also agree during this period to respond to inquiries or reasonable requests for assistance from the Company related to matters that arose during your employment. You will be reimbursed for pre-approved reasonable and appropriate business expenses incurred by you in connection with such services as the Company requests of you.

2. Compensation and Benefits.

(a) 2004 Salary and Bonus. Until your Retirement Date, your current base salary will continue to be paid in accordance with normal payroll procedures. Your 2004 bonus will be paid in the normal course and your total bonus amount will be no less than the bonus amount calculated based on the team performance of Frito-Lay.

(b) Personal Benefits (Health, etc.). You and your covered dependents will continue to be covered under the Company’s personal benefit coverages (including, without limitation, medical, dental, life insurance and long-term disability benefits) applicable to active employees through your Retirement Date, subject to your continued payment of all applicable employee contributions. As you have satisfied the requirements for early retirement, beginning on your Retirement Date, you and your covered dependents will be eligible for the personal benefit coverages that are in effect for retirees, as modified by the Company from time to time. Please note that retiree benefits are neither fixed nor guaranteed and may be amended or terminated by the Company at any time.

(c) Retirement Plans. Your benefit under the Retirement Plans shall be calculated on, and be payable as soon as administratively practicable (but not more than 45 days) following, your Retirement Date based on your earnings through your Retirement Date and your age and service through the end of the Consulting Period.

(d) Equity Awards. The Company has provided you with a schedule of your outstanding equity awards, and you and the Company have confirmed the accuracy of that schedule. As a portion of your November 22, 2002 stock option award is scheduled to vest during the Consulting Period, you will be permitted to vest in those options. All of your other equity-based awards will be subject to the normal treatment (e.g., vesting, exercisability, forfeiture, etc.) established under the terms and conditions of those awards as determined on your Retirement Date In light of your planned retirement on February 1, 2005, should you choose to exercise any stock options during the balance of 2004, the limitations regarding the form of exercise under the company's Exercise and Hold Policy shall not apply.

(e) Consulting Period Compensation. During your Consulting Period, you will receive a payment of $160,000 per month.

Any compensation and benefits provided to you under Sections 2(c), 2(d) and 2(e) that are in addition to the compensation and benefits you otherwise would be entitled to in the absence of this letter agreement (the "Transition Payments") are in consideration of your promises and obligations you have under this letter agreement and are subject to your satisfying all of your obligations under this letter agreement. You will not be entitled to any salary, bonus or other payments or benefits after the Retirement Date, except as provided in this Section 2 or as otherwise set out in this letter agreement.

3. Non-Disclosure.

In the course of your employment with the Company, you acknowledge that you have received (and may continue to receive during the Consulting Period) "Confidential Information." "Confidential Information" consists of information relating to the Company's business that derives economic value, actual or potential, from not being generally known to others, including, but not limited to, technical or nontechnical data, a formula (including cost and/or pricing formula), pattern (including pricing and discount history), compilation, program, device, method (including cost and/or pricing methods, marketing programs and operating methods), technique, drawing, process, financial data, or a list of actual or potential customers or suppliers. You agree that, until the end of the Consulting Period, you will hold and maintain all Confidential Information in confidence, and you will not use or disclose in any manner whatsoever (other than within the scope of your employment with or your services rendered to the Company) any of such information to any third party except (i) with the prior written consent of the Company, or (ii) as required at law or under compulsion of judicial or administrative subpoena, after notice by you to the Company of such required disclosure.

4. Non-Competition, Non-Disparagement and Non-Solicitation.

You agree that, until the end of the Consulting Period, you will not, without the prior written consent of the Company, either directly or indirectly:

(i) participate or have any interest in, own, manage, operate, control, be connected with as a stockholder, director, officer, employee, partner or consultant, or otherwise engage, invest or participate (collectively, "Participate") in any business entity that markets, sells, distributes or produces Covered Products (including, without limitation, the Coca-Cola Company, Coca-Cola Enterprises or its franchisees or affiliates, Nestle, S.A., Kraft Foods Inc., Bahlsen, Procter & Gamble, Wise Foods, Inc., Cadbury Schwepps, or any entity associated or affiliated with the foregoing entities); provided, however, that with the prior written consent of the Company, which consent shall not be unreasonably withheld, you shall be permitted to Participate in a business entity that makes retail sales or consumes Covered Products without in any way competing with the Company;

(ii) do any act materially injurious to the reputation of the Company or which is intended to divert customers or suppliers from the Company; or

(iii) solicit any Company employee to leave the Company's employment or to accept any position with any other entity.

Any dispute, controversy or claim arising out of, or relating to the proviso at the end of Section 4(i) shall be settled exclusively by binding arbitration by a single arbitrator, conducted in the State of New York in accordance with the rules of the American Arbitration Association then in effect. If you and the Company are unable to mutually agree upon the arbitrator, the arbitrator shall be chosen in accordance with the rules of the American Arbitration Association. The arbitrator's fees shall be split equally between the parties.

The provisions of this Section 4 shall not apply to prevent you and your immediate family from collectively being holders of up to five percent (5%) in the aggregate of any class of securities of any corporation engaged in the prohibited activities described above, provided that such securities are listed on a national securities exchange or registered under securities laws of Canada or the United States. You agree that the covenants you have made in this Section are reasonable with respect to their duration and description.

For purposes of this Section 4, "Covered Products" shall mean any product which falls into one or more of the following categories, so long as the Company is producing, marketing, selling or licensing such product anywhere in the world: beverages, including without limitation carbonated soft drinks, tea, water, juice drinks, sports drinks and coffee drinks; juices; snacks, including salty snacks, sweet snacks and cookies; or any product or service which you have reason to know was under development by the Company during your employment with the Company.

5. Remedies for Breach of Section 3 or 4 .

You acknowledge that a breach or threatened breach by you of the terms of Sections 3 or 4 of this letter agreement would result in material and irreparable injury to the Company, and that it would be difficult or impossible to establish the full monetary value of such damage. Therefore, the Company shall be entitled to injunctive relief in the event of any such breach or threatened breach. The undertakings and obligations contained in Sections 3, 4 and 5 shall continue as written even if other provisions of this letter agreement terminate sooner.

6. Releases.

(a) You agree to release and discharge the Company, and all of its respective past, present and future directors, officers, employees, agents, plans, trusts, administrators, stockholders and trustees from any and all claims, losses or expenses you may have or have had or may later claim to have had against them, whether known or unknown, arising out of anything that has occurred up through the date you sign this letter agreement, any claims, losses or expenses arising out of your employment with the Company or the termination of your employment; provided, however, that you expressly do not release or discharge the Company from any claims, losses or expenses you may have, for workers' compensation benefits, pension benefits, health care, life insurance, disability, other similar benefits, or for the stock awards that you vest in as a result of your retirement or in accordance with the second sentence of Section 2(d). You understand and agree that, except for the claims expressly excluded from this release, you will not be entitled hereafter to pursue any claims arising out of any alleged violation of your rights while employed by the Company, including, but not limited to, claims for reinstatement, back pay, losses or other damages to you or your property resulting from any alleged violations of state or federal law, such as (but not limited to) claims arising under Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e et seq., as amended (prohibiting discrimination on account of race, sex, national origin or religion); the Americans With Disabilities Act of 1990, 42 U.S.C. §12101 et seq. (prohibiting discrimination on account of disability); the Age Discrimination in Employment Act, 29 U.S.C. § 621, et seq. (prohibiting discrimination on account of age); the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq.; the Equal Pay Act, 29 U.S.C. § 206(d); the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1001 et seq. (protecting employee benefits); as these laws may be amended from time to time; and any other federal, state or local law, rule, regulation, administrative guidance or common law doctrine claim relating to your employment.

By signing this letter agreement and accepting the Transition Payments provided, you agree that, except for any claims expressly excluded from this release, you will not hereafter pursue any individual claims (whether brought by you, an administrative agency, or any other person on your behalf or which includes you in any class) against the Company and any of its past, present and future respective directors, officers, employees, plans, trusts, agents, administrators, stockholders and trustees, by means of a lawsuit, complaint, charge or otherwise, in any state or federal court or before any state or federal agency, including, by way of example and not limitation, the Equal Employment Opportunity Commission, the Department of Labor or any state Human Rights Agencies, for or on account of anything, whether known or unknown, foreseen or unforeseen, which has occurred up to the effective date of this letter agreement. This release does not include any claims for breach of this letter agreement or any claims that may arise after the date you execute this letter agreement.

You agree that the Company may terminate your continued eligibility for Transition Payments under this agreement if you materially breach the terms of Section 3, 4 or 6 of this letter agreement. You also specifically agree that if you file or assert any claim related to your employment against the Company and/or any of its respective past, present and future officers, directors, employees, agents, plans, trusts, administrators, stockholders and trustees for any reason other than claims for workers' compensation benefits, for retirement benefits, for health care, life, disability or other similar benefits or for violation of this letter agreement, you will repay all Transition Payments you have received. In addition, you agree to indemnify and hold the Company and its respective past, present and future officers, directors, employees, plans, trusts, administrators and trustees harmless from any claim, loss or expense (including attorneys' fees) incurred by them arising out of your breach of any portion of this letter agreement.

(b) In consideration of your agreements hereunder, the Company agrees to release and discharge you and your personal representatives, administrators, trustees, heirs and assigns from any and all claims, losses or expenses it may have or have had or may later claim to have had against you or them, whether known or unknown, arising out of anything that has occurred up through the date you sign this letter agreement. This release does not include any claims for breach of this letter agreement or any claims that may arise after the date you execute this letter agreement. In addition, the Company agrees to indemnify and hold you and your personal representatives, administrators, trustees, heirs and assigns harmless from any claim, loss or expense (including attorneys' fees) incurred by you or them as a result of the Company's breach of any portion of this letter agreement or the failure by the Company to provide any of the compensation and benefits referenced herein in accordance with the terms and conditions of this letter agreement.

7. Review and Revocation.

This letter agreement affects important rights and obligations, and we advise you to consult with an attorney before you sign. In order to give you time to review and consider these arrangements, we will hold this offer open for twenty-one (21) days. For a period of up to and including seven (7) days after the date you sign this letter agreement, you may revoke it entirely. If you decide to revoke this letter agreement, you must deliver to the undersigned a signed notice of revocation on or before the end of this seven-day period. Upon delivery to the undersigned of a timely notice of revocation, this letter agreement shall be canceled.

8. Consulting Services.

Subject to the provisions of Section 3 and 4 hereof, the services to be provided by you during the Consulting Period pursuant to section 1(c) shall not preclude you from engaging in any other commercial or business activity during the Consulting Period. You and the Company shall mutually determine the time and location at which you shall perform any consulting services, and you shall provide any requested services as soon as reasonably practicable following any such request. The Company shall use its reasonable best efforts not to require your performance of consulting services in any manner that unreasonably interferes with any of your other commercial or business activities. You shall not, solely by virtue of the consulting services provided hereunder, be considered to be an officer or employee of the Company after the Retirement Date, and you shall not have the power or authority to contract in the name of or bind the Company.

9. Indemnification / Insurance.

The Company shall indemnify you (including, without limitation, with respect to any services you provide during the Consulting Period) in accordance with Section 3.7 of the PepsiCo, Inc. By-Laws.

The Company shall maintain customary director and officer liability insurance covering you for acts and omissions during the time of your employment with the Company to the same extent it does so for similarly situated executives.

10. Representation.

By signing below, you acknowledge that you understand and voluntarily accept the arrangements described herein. You acknowledge and agree that you have had the opportunity to review this letter agreement with an attorney, that you fully understand this letter agreement, and that you signed it knowingly and voluntarily. You also acknowledge that you have not received any promise or inducement to sign this letter agreement except as expressly set forth herein. Finally, you represent that during your transition period as Vice Chairman, a non-Board of Directors position, and through your Consulting Period, you are committed to carrying out your responsibilities in a diligent and professional manner and in accordance with PepsiCo’s Worldwide Code of Conduct.

11. Miscellaneous.

(a) In the event of your death prior to the end of the Consulting Period, your designated beneficiaries and/or estate, as appropriate, will be entitled to receive all compensation and benefits outlined herein (including, without limitation, the payments referenced in Sections 2(e) hereof) in accordance with the terms and conditions of the applicable plan or program and this letter agreement.

(b) Anything to the contrary herein notwithstanding, the Company shall, and is hereby authorized to, withhold or deduct from any amounts payable by the Company to you, your beneficiary or your legal representative under this letter agreement, any federal, state or municipal taxes, social security contributions or other amounts required to be withheld by law, and to remit such amounts to the proper authorities. The Company is also hereby authorized to withhold or deduct appropriate amounts with respect to any benefit plans or programs or other elections made by you.

(c) This letter agreement contains all of the undertakings and agreements between the Company and you pertaining to your retirement and transition from the Company and supersedes all previous undertakings and agreements, whether oral or in writing, between the Company and you on the same subject. No provision of this letter agreement may be changed or waived unless such change or waiver is agreed to in writing, signed by you and a duly authorized employee of the Company. Except as otherwise specifically provided in this letter agreement, no waiver by either the Company or you of any breach by the other of any condition or provision shall be deemed a waiver of a similar or dissimilar provision or condition at the same time or any prior or subsequent time.

(d) No rights or obligations under this letter agreement can be assigned or transferred by you, except as expressly provided in Section 11(a) hereof. This letter agreement shall be binding upon and shall be for the benefit of the Company, its successors and assigns and you and, in the event of your death, your estate or legal representative.

(e) In the event that pursuant to a final determination by a court of competent jurisdiction any portion of this letter agreement shall be found to be invalid or unenforceable for any reason, the remaining portions of this letter agreement will be unaffected thereby and will remain in full force and effect to the fullest extent permitted by law.

(f) This letter agreement shall be deemed a contract made under, and for all purposes to be governed by and construed in accordance with, the laws of the State of New York, without reference to principles of conflicts of laws. The captions are utilized for convenience only, and do not operate to explain or limit the provisions of this letter agreement.

Al, we would appreciate you indicating your understanding and acceptance of this letter agreement by signing below.

Very truly yours,

PepsiCo, Inc.

By: /s/ Margaret D. Moore

Margaret D. Moore
Senior Vice President, Human Resources

I agree to and accept the terms and
provisions of this letter agreement.

/s/ Abelardo E. Bru

Abelardo E. Bru

Date: September 3, 2004

EXHIBIT 12

PEPSICO, INC. AND SUBSIDIARIES
Computation of Ratio of Earnings to Fixed Charges
(in millions except ratio amounts, unaudited)

	36 Weeks Ended	
	9/4/04	9/6/03
Earnings:		
Income before income taxes	**$4,276**	$3,845
Unconsolidated affiliates interests, net	**(246)**	(211)
Amortization of capitalized interest	**6**	6
Interest expense	**113**	112
Interest portion of rent expense [a]	**56**	48
Earnings available for fixed charges	**$4,205**	$3,800
Fixed Charges:		
Interest expense	**$ 113**	$ 112
Capitalized interest	**1**	3
Interest portion of rent expense [a]	**56**	48
Total fixed charges	**$ 170**	$ 163
Ratio of Earnings to Fixed Charges [b]	**24.70**	23.47

(a) One-third of net rent expense is the portion deemed representative of the interest factor.
(b) Based on unrounded amounts.

Accountant's Acknowledgment

The Board of Directors of PepsiCo, Inc.

We hereby acknowledge our awareness of the use of our report dated September 30, 2004 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve and thirty-six weeks ended September 4, 2004, 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, Inc. 2003 Long-Term Incentive Plan, 333-109509
- PepsiCo SharePower Stock Option Plan, 33-35602, 33-29037, 33-42058, 33-51496, 33-54731 & 33-66150 & 333-109513
- Director Stock Plan, 33-22970 & 333-110030
- 1979 Incentive Plan and the 1987 Incentive Plan, 33-19539
- 1994 Long-Term Incentive Plan, 33-54733
- PepsiCo, Inc. 1995 Stock Option Incentive Plan, 33-61731, 333-09363 & 333-109514
- 1979 Incentive Plan, 2-65410
- PepsiCo, Inc. Long Term Savings Program, 2-82645, 33-51514 & 33-60965
- PepsiCo 401(K) Plan, 333-89265
- PepsiCo Puerto Rico 1165(e) Plan, 333-56524
- Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union #173), 333-65992
- The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors, 333-66632
- The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees, 333-66634
- The PepsiCo 401(k) Plan for Salaried Employees, 333-76196
- The PepsiCo 401(k) Plan for Hourly Employees, 333-76204
- The PepsiCo Share Award Plan, 333-87526

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
October 1, 2004

EXHIBIT 31

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this quarterly report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for PepsiCo and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) (paragraph omitted pursuant to SEC Release Nos. 33-8238, 34-47986, 33-8392 and 34-49313);
   c) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
   d) Disclosed in this quarterly report any change in PepsiCo's internal control over financial reporting that occurred during PepsiCo's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, PepsiCo's internal control over financial reporting; and
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PepsiCo's auditors and audit committee of PepsiCo's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PepsiCo's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal control over financial reporting.

Date: October 1, 2004

/S/ STEVEN S REINEMUND

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc. (PepsiCo);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of PepsiCo as of, and for, the periods presented in this quarterly report;
4. PepsiCo's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for PepsiCo and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PepsiCo, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) (paragraph omitted pursuant to SEC Release Nos. 33-8238, 34-47986, 33-8392 and 34-49313);
   c) Evaluated the effectiveness of PepsiCo's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
   d) Disclosed in this quarterly report any change in PepsiCo's internal control over financial reporting that occurred during PepsiCo's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, PepsiCo's internal control over financial reporting; and
5. PepsiCo's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PepsiCo's auditors and audit committee of PepsiCo's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PepsiCo's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in PepsiCo's internal control over financial reporting.

Date: October 1, 2004

/S/ INDRA K. NOOYI

Indra K. Nooyi
President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended September 4, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven S Reinemund, Chairman and Chief Executive Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 1, 2004

/S/ STEVEN S REINEMUND

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the “Corporation”) on Form 10-Q for the quarterly period ended September 4, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Indra K. Nooyi, President and Chief Financial Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 1, 2004

/S/ INDRA K. NOOYI

Indra K. Nooyi
President and Chief Financial Officer