

No. 1-1183  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----  
FORM 10-K  
ANNUAL REPORT

Pursuant to Section 13 of the Securities Exchange Act of 1934  
For the Fiscal Year Ended December 28, 1996

PepsiCo, Inc.  
Incorporated in North Carolina  
Purchase, New York 10577-1444  
(914) 253-2000

13-1584302  
(I.R.S. Employer Identification No.)  
-----

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

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Capital Stock, par value 1-2/3 cents per share	New York and Chicago Stock Exchanges
7-5/8% Notes due 1998	New York Stock Exchange

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

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

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

The number of shares of PepsiCo Capital Stock outstanding as of  
March 14, 1997 was 1,541,460,586.

Documents of Which Portions Are Incorporated by Reference -----	Parts of Form 10-K into Which of Documents Are Incorporated -----
Proxy Statement for PepsiCo's May 7, 1997 Annual Meeting of Shareholders	I, III

PART I

Item 1. Business

PepsiCo, Inc. (the "Company") was incorporated in Delaware in 1919 and  
was reincorporated in North Carolina in 1986. Unless the context indicates  
otherwise, when used herein the term "PepsiCo" shall mean the Company and  
its various divisions and subsidiaries. PepsiCo is engaged in the following  
businesses: beverages, snack foods and restaurants. In January, 1997, the  
Company announced that it would pursue a plan to spin off its restaurant  
businesses, consisting of Pizza Hut, Taco Bell and KFC, to shareholders as  
an independent publicly traded company. In 1996, the Company decided to  
dispose of its non-core restaurant businesses.

Beverages

PepsiCo's beverage business, which operates as Pepsi-Cola Company, is comprised of two business units: Pepsi-Cola North America ("PCNA"), and Pepsi-Cola Company International ("PCCI").

PCNA manufactures and sells beverage products, primarily soft drinks and soft drink concentrates, in the United States and Canada. PCNA sells its concentrates to licensed bottlers ("Pepsi-Cola bottlers"). Under appointments from PepsiCo, bottlers manufacture, sell and distribute, within defined territories, soft drinks and syrups bearing trademarks owned by PepsiCo, including PEPSI-COLA, DIET PEPSI, MOUNTAIN DEW, SLICE, MUG, ALL SPORT and, within Canada, 7UP and DIET 7UP (the foregoing are sometimes referred to as "Pepsi-Cola beverages"). The Pepsi/Lipton Tea Partnership, a joint venture of PCNA and Lipton, develops and sells tea concentrate to Pepsi-Cola bottlers and develops and markets ready-to-drink tea products under the LIPTON trademark. Such products are distributed by Pepsi-Cola bottlers throughout the United States and Canada. Pepsi-Cola bottlers distribute single-serve sizes of OCEAN SPRAY juice products throughout the United States pursuant to a distribution agreement.

Pepsi-Cola beverages are manufactured in approximately 175 plants located throughout the United States and Canada. PCNA operates approximately 65 plants, and manufactures, sells and distributes beverages throughout approximately 455 licensed territories, accounting for approximately 56% of the Pepsi-Cola beverages sold in the United States and Canada. Approximately 110 plants are operated by independent licensees or unconsolidated affiliates, which manufacture, sell and distribute approximately 44% of the Pepsi-Cola beverages sold in the United States and Canada. PCNA has a minority interest in 7 of these licensees, comprising approximately 70 licensed territories.

PCCI manufactures and sells beverage products, primarily soft drinks and soft drink concentrates, outside the United States and Canada. PCCI sells its concentrates to Pepsi-Cola bottlers. Under appointments from PepsiCo, bottlers manufacture, sell and distribute, within defined territories, beverages bearing PEPSI-COLA, 7UP, MIRINDA, DIET PEPSI, PEPSI MAX, MOUNTAIN DEW, DIET 7UP and other trademarks. PCCI operates approximately 30 plants bottling PepsiCo beverage products. There are approximately 560 plants operated by independent licensees or unconsolidated affiliates, bottling PepsiCo's beverage products. These products are available in 191 countries and territories outside the United States and Canada. Principal international markets include Argentina, Brazil, China, Mexico, Saudi Arabia, Spain, Thailand and the United Kingdom.

PCNA and PCCI make programs available to assist licensed bottlers in servicing markets, expanding operations and improving production methods and facilities. PCNA and PCCI also offer assistance to bottlers in the distribution, advertising and marketing of PepsiCo's beverage products and offer sales assistance through special merchandising and promotional programs and by training bottler personnel. PCNA and PCCI maintain control over the composition and quality of beverages sold under PepsiCo trademarks.

#### Snack Foods

PepsiCo's snack food business, which operates as The Frito-Lay Company, is comprised of Frito-Lay North America ("Frito-Lay") and Frito-Lay International ("FLI") (formerly known as PepsiCo Foods International).

Frito-Lay manufactures and sells a varied line of salty snack foods throughout the United States and Canada, including LAY'S and RUFFLES brand potato chips, DORITOS and TOSTITOS brand tortilla chips, FRITOS brand corn chips, CHEE.TOS brand cheese flavored snacks, ROLD GOLD brand pretzels and SUNCHIPS brand multigrain snacks.

Frito-Lay's products are transported from its manufacturing plants to major distribution centers, principally by company-owned trucks. Frito-Lay utilizes a "store-door-delivery" system, whereby its approximately 17,500 person sales force delivers the snacks directly to the store shelf. This system permits Frito-Lay to work closely with approximately 500,000 retail trade customers weekly and to be responsive to their needs. Frito-Lay believes this form of distribution is a valuable marketing tool and is essential for the proper distribution of products with a short shelf life.

FLI's products are available in 81 countries outside the United States and Canada through company-owned facilities and unconsolidated affiliates. On most of the European continent, PepsiCo's snack food business consists of Snack Ventures Europe, a joint venture between PepsiCo and General Mills, Inc., in which PepsiCo owns a 60% interest. FLI also sells a variety of snack food products which appeal to local tastes including, for example, WALKERS snack foods, which are sold in the United Kingdom, WEDEL sweet snacks, which are sold in Poland, and GAMESA cookies and ALEGRO sweet snacks, which are sold in Mexico. In addition, RUFFLES, CHEEOTOS, DORITOS, FRITOS and SUNCHIPS salty snack foods have been introduced to international markets. Principal international markets include Australia, Brazil, France, Mexico, the Netherlands, Poland, Spain and the United Kingdom.

## RESTAURANTS

PepsiCo's restaurant business principally consists of Pizza Hut North America ("PHNA"), Taco Bell North America ("TBNA"), KFC North America ("KFCNA") and PepsiCo Restaurants International ("PRI").

PHNA is engaged principally in the operation, development, franchising and licensing of a system of casual full service family restaurants, delivery/carryout units and kiosks throughout the United States, Canada, Guam and Saipan, operating under the name PIZZA HUT. The full service restaurants serve several varieties of pizza as well as pasta, salads and sandwiches. PHNA (through its subsidiaries and affiliates) operates approximately 4,800 PIZZA HUT restaurants, delivery/carryout units and other outlets in the United States and approximately 245 in Canada. Franchisees operate approximately 3,000 additional restaurants, delivery/carryout units and other outlets in the United States and approximately 165 in Canada, Guam and Saipan. Licensees operate approximately 1,000 kiosk outlets in the United States and approximately 155 kiosk outlets in Canada.

TBNA is engaged principally in the operation, development, franchising and licensing of a system of fast-service restaurants serving carryout and dine-in moderately priced Mexican-style food, including tacos, burritos, taco salads and nachos, throughout the United States and Canada, operating under the name TACO BELL. TBNA (through its subsidiaries and affiliates) operates approximately 2,900 TACO BELL outlets in the United States and approximately 75 in Canada. Franchisees operate approximately 2,250 additional units in the United States. Licensees operate approximately 1,750 special concept outlets in the United States and approximately 35 in Canada.

KFCNA is engaged principally in the operation, development, franchising and licensing of a system of carryout and dine-in restaurants featuring chicken throughout the United States and Canada, operating under the names KENTUCKY FRIED CHICKEN and/or KFC. KFCNA (through its subsidiaries and/or affiliates) operates approximately 2,000 restaurants in the United States and approximately 245 in Canada. Franchisees operate approximately 3,000 additional restaurants in the United States and approximately 570 in Canada. Licensees operate approximately 110 outlets in the United States and approximately 55 in Canada.

PRI is engaged principally in the operation and development of casual dining and fast-service restaurants, delivery units and kiosks which sell PIZZA HUT, KFC and, to a lesser extent, TACO BELL products outside the United States and Canada. PRI operates approximately 940 PIZZA HUT restaurants, delivery/carryout units and kiosks, franchisees operate approximately 1,550 units, and unconsolidated affiliates operate approximately 575 units. PIZZA HUT units are located in a total of 82 countries and territories outside of the United States and Canada. PRI also operates approximately 990 KFC restaurants and kiosks, franchisees operate approximately 2,500 restaurants and kiosks, and unconsolidated affiliates operate approximately 430 restaurants and kiosks. KFC units are located in 72 countries and territories outside of the United States and Canada. PRI also operates approximately 20 TACO BELL outlets, and franchisees and licensees operate approximately 75 outlets, in a total of 15 countries and territories outside of the United States and Canada. PRI's principal markets include Australia, Korea, Mexico, Puerto Rico, Spain, New Zealand and the United Kingdom.

PepsiCo also owns and operates other restaurant concepts in the United States. PHNA operates approximately 155 D'ANGELO SANDWICH SHOPS, and franchisees and licensees operate approximately 55 additional outlets. TBNA also operates approximately 75 CHEVYS Mexican restaurants and approximately 70 CALIFORNIA PIZZA KITCHEN restaurants.

PepsiCo Restaurant Services Group ("PRSG"), a new unit formed in 1996 which also includes the existing operations of PFS, PepsiCo's restaurant distribution operation, is responsible for the consolidation of many restaurant activities and furnishes food, supplies, equipment and services to approximately 16,000 company-operated, franchised and licensed PIZZA HUT, TACO BELL and KFC restaurants in the United States, Canada, Mexico and Poland. On January 23, 1997, the Company announced that it is exploring the possible sale of PFS.

#### COMPETITION

All of PepsiCo's businesses are highly competitive. PepsiCo's beverages and snack foods compete in the United States and internationally with widely distributed products of a number of major companies that have plants in many of the areas PepsiCo serves, as well as with private label soft drinks and snack foods and with the products of local and regional manufacturers. PepsiCo's restaurants compete in the United States and internationally with other restaurants, restaurant chains, food outlets and home delivery operations. PRSG competes in the United States and internationally with other food distribution companies. For all of PepsiCo's industry segments, the main areas of competition are price, quality and variety of products, and customer service.

#### EMPLOYEES

At December 28, 1996, PepsiCo employed, subject to seasonal variations, approximately 486,000 persons (including approximately 260,000 part-time employees), of whom approximately 335,000 (including approximately 200,000 part-time employees) were employed within the United States. PepsiCo believes that its relations with employees are generally good.

#### RAW MATERIALS AND OTHER SUPPLIES

The principal materials used by PepsiCo in its beverage, snack food and restaurant businesses are corn sweeteners, sugar, aspartame, flavorings, vegetable and essential oils, potatoes, corn, flour, tomato products, pinto beans, lettuce, cheese, butter, beef, pork and chicken products, seasonings and packaging materials. Since PepsiCo relies on trucks to move and distribute many of its products, fuel is also an important commodity. PepsiCo employs specialists to secure adequate supplies of many of these items and has not experienced any significant continuous shortages. Prices paid by PepsiCo for such items are subject to fluctuation. When prices increase, PepsiCo may or may not pass on such increases to its customers. Generally, when PepsiCo has decided to pass along price increases, it has done so successfully. There is no assurance that PepsiCo will be able to do so in the future.

#### GOVERNMENTAL REGULATIONS

The conduct of PepsiCo's businesses, and the production, distribution and use of many of its products, are subject to various federal laws, such as the Food, Drug and Cosmetic Act, the Occupational Safety and Health Act and the Americans with Disabilities Act. The conduct of PepsiCo's businesses is also subject to state, local and foreign laws.

## PATENTS, TRADEMARKS, LICENSES AND FRANCHISES

PepsiCo owns numerous valuable trademarks which are essential to PepsiCo's worldwide businesses, including PEPSI-COLA, PEPSI, DIET PEPSI, PEPSI MAX, MOUNTAIN DEW, SLICE, MUG, ALL SPORT, 7UP and DIET 7UP (outside the United States), MIRINDA, FRITO-LAY, LAY'S, DORITOS, RUFFLES, TOSTITOS, FRITOS, CHEE.TOS, ROLD GOLD, SUNCHIPS, SANTITAS, SMARTFOOD, SABRITAS, WALKERS, PIZZA HUT, TACO BELL, KENTUCKY FRIED CHICKEN and KFC. Trademarks remain valid so long as they are used properly for identification purposes, and PepsiCo emphasizes correct use of its trademarks. PepsiCo has authorized (through licensing or franchise arrangements) the use of many of its trademarks in such contexts as Pepsi-Cola bottling appointments, snack food joint ventures and wholly-owned operations and Pizza Hut, Taco Bell and KFC franchise agreements. In addition, PepsiCo licenses the use of its trademarks on collateral products for the primary purpose of enhancing brand awareness.

PepsiCo either owns or has licenses to use a number of patents which relate to certain of its products and the processes for their production and to the design and operation of various equipment used in its businesses. Some of these patents are licensed to others.

## RESEARCH AND DEVELOPMENT

PepsiCo expended \$115 million, \$96 million and \$152 million on research and development activities in 1996, 1995 and 1994, respectively.

## ENVIRONMENTAL MATTERS

PepsiCo continues to make expenditures in order to comply with federal, state, local and foreign environmental laws and regulations, which expenditures have not been material with respect to PepsiCo's capital expenditures, net income or competitive position.

## BUSINESS SEGMENTS

Information as to net sales, operating profits and identifiable assets for each of PepsiCo's industry segments and major geographic areas of operations, as well as capital spending, acquisitions and investments in unconsolidated affiliates, amortization of intangible assets and depreciation expense for each industry segment for 1996, 1995 and 1994 is contained in Item 8 "Financial Statements and Supplementary Data" in Note 19 on page F-30.

Item 2. PROPERTIES

BEVERAGES

PepsiCo's beverage segment operates approximately 110 plants throughout the world, of which approximately 100 are owned and 10 are leased, and unconsolidated affiliates operate approximately 110 plants. In addition, PepsiCo's beverage business operates approximately 370 warehouses or offices in the United States and Canada, of which approximately 260 are owned and approximately 110 are leased.

PepsiCo owns a research and technical facility in Valhalla, New York, for its beverage businesses. PepsiCo also owns the headquarters facilities for its beverage businesses in Somers, New York.

SNACK FOODS

Frito-Lay operates approximately 50 food manufacturing and processing plants in the United States and Canada, of which approximately 45 are owned and 5 are leased. In addition, Frito-Lay owns approximately 195 warehouses and distribution centers and leases approximately 50 warehouses and distribution centers for storage of food products in the United States and Canada. Approximately 1,600 smaller warehouses and storage spaces located throughout the United States and Canada are leased or owned. Frito-Lay owns its headquarters building and a research facility in Plano, Texas. Frito-Lay also leases offices in Dallas, Texas and leases or owns sales/regional offices throughout the United States. PepsiCo's snack food businesses also operate 70 plants and approximately 900 distribution centers, warehouses and offices outside of the United States and Canada.

RESTAURANTS

Through PHNA, TBNA, KFCNA and PRI, PepsiCo owns approximately 3,400 and leases approximately 6,900 restaurants, delivery/carryout units and other outlets in the United States and Canada, and owns approximately 900 and leases approximately 1,000 additional units outside the United States and Canada. PIZZA HUT, TACO BELL and KFC restaurants in the United States which are not owned are generally leased for initial terms of 15 or 20 years, and generally have renewal options, while PIZZA HUT delivery/carryout units in the United States generally are leased for significantly shorter initial terms with shorter renewal options. Unconsolidated affiliates operate approximately 1,000 units outside the United States and Canada. PHNA owns and leases office facilities in Wichita, Kansas; Dallas, Texas; and other locations, some of which are shared with PFS. TBNA leases its corporate headquarters in Irvine, California. KFCNA owns a research facility and its corporate headquarters building in Louisville, Kentucky. PFS owns 1 and leases 21 distribution centers and 1 manufacturing plant in the United States. PFS owns 1 and leases 2 distribution centers outside of the United States.

## GENERAL

The Company owns its corporate headquarters buildings in Purchase, New York.

With a few exceptions, leases of plants in the United States and Canada are on a long-term basis, expiring at various times, with options to renew for additional periods. Most international plants are leased for varying and usually shorter periods, with or without renewal options.

The Company believes that its properties and those of its subsidiaries and divisions are in good operating condition and are suitable for the purposes for which they are being used.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

Not applicable.

### EXECUTIVE OFFICERS OF THE COMPANY

The executive officers of the Company and their current positions and ages are as follows:

NAME	POSITION	AGE
Roger A. Enrico	Chairman of the Board and Chief Executive Officer	52
Karl M. von der Heyden	Vice Chairman of the Board and Chief Financial Officer	60
Randall C. Barnes	Senior Vice President and Treasurer	45
Robert L. Carleton	Senior Vice President and Controller	56
Edward V. Lahey, Jr.	Senior Vice President, General Counsel and Secretary	58
Indra K. Nooyi	Senior Vice President, Strategic Planning	41



Steven S Reinemund	Chairman and Chief Executive Officer of The Frito-Lay Company	48
Craig E. Weatherup	Chairman and Chief Executive Officer of Pepsi-Cola Company	51

Each of the above-named officers has been employed by PepsiCo in an executive capacity for at least five years except Indra K. Nooyi and Karl M. von der Heyden. Ms. Nooyi has held her current position at PepsiCo since 1994. Prior to joining PepsiCo, Ms. Nooyi spent four years as Senior Vice President of Strategy, Planning and Strategic Marketing for Asea Brown Boveri. Information regarding Mr. von der Heyden's business experience during the past five years is set forth in the Proxy Statement for the Company's 1997 Annual Meeting of Shareholders and is incorporated herein by reference.

Executive officers are elected by the Company's Board of Directors, and their terms of office continue until the next annual meeting of the Board or until their successors are elected and have qualified. There are no family relationships among the Company's executive officers.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Stock Trading Symbol - PEP

Stock Exchange Listings - The New York Stock Exchange is the principal market for PepsiCo Capital Stock, which is also listed on the Amsterdam, Chicago, Swiss and Tokyo Stock Exchanges.

Shareholders - At year-end 1996, there were approximately 207,000 shareholders of record.

Dividend Policy - Quarterly cash dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for 1997 are expected to be March 14, June 13, September 12 and December 12. Quarterly cash dividends have been paid since 1965, and dividends paid per share have increased for 24 consecutive years.

Cash Dividends Declared Per Share (in cents): (See Note 1)

Quarter	1996	1995
1	10	9
2	11 1/2	10
3	11 1/2	10
4	11 1/2	10
Total	44 1/2	39

Stock Prices - The high, low and closing prices for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each fiscal quarter of 1996 and 1995 were as follows (in dollars): (See Note 1)

1996	High	Low	Close
First Quarter	33 3/8	27 1/2	31 5/8
Second Quarter	34 1/2	29 11/16	33 1/8
Third Quarter	35 5/8	28 1/4	28 3/8
Fourth Quarter	32 7/8	28 1/8	29 5/8
1995	High	Low	Close
First Quarter	20 1/2	16 15/16	20 3/16
Second Quarter	24 1/2	19 1/2	23 5/16
Third Quarter	23 5/8	21 13/16	22 7/8
Fourth Quarter	29	23 1/8	27 15/16

Note 1: Cash dividends and stock prices have been adjusted to reflect the two-for-one stock split effective for shareholders of record at the close of business on May 10, 1996.

ITEM 6. SELECTED FINANCIAL DATA

Included on pages F-44 through F-50.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL CONDITION

MANAGEMENT'S ANALYSIS

INTRODUCTION

Management's Analysis is presented in four sections. The first section provides introductory comments, highlights items that significantly impact comparability of reported financial information and provides some perspective of our operations outside of the United States (pages 10-13). The second section analyzes the results of operations, first on a consolidated basis and then for each of our three industry segments (pages 13-31). The final two sections address our consolidated cash flows and financial condition, which also includes our Cautionary Statements (pages 31-36).

As described in Note 1 to the Consolidated Financial Statements, we had a two-for-one stock split in 1996. All share data in Management's Analysis have been adjusted to reflect the stock split.

#### CHANGE IN SEGMENT REPORTING

Beginning in the fourth quarter of 1996, we changed the segment reporting which supports our Management's Analysis to more closely reflect how we manage the business. As a result, our beverages and snack foods segments are now reported on a North American basis (U.S. and Canada combined) and an International basis (all other international) while the restaurants segment continues to be reported on a U.S. and international basis. Also, the net sales and operating profit we report externally now generally match the net sales and operating profit our operating units report to our senior management. The operating profit reported on this "Management Basis" does not reflect items the operating units are not held accountable for, such as the \$520 million initial impact of adopting Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", in 1995 (see Note 4). It also does not reflect insignificant allocations for corporate items directly attributable to the segments or exclude results from unconsolidated affiliates, both of which are required by Statement of Financial Accounting Standards No. 14 (SFAS 14), "Financial Reporting for Segments of a Business Enterprise." The Management Basis operating profit (page 19) includes a reconciliation to the operating profit disclosure required by SFAS 14, which is provided in Note 19. Prior year amounts and related management's analysis have been restated.

#### CERTAIN FACTORS AFFECTING COMPARABILITY

The following table summarizes items impacting comparability, which are described in Notes 2, 13 and 15. We believe the items included in the first section are so unusual and distortive that we do not include them when we evaluate the ongoing performances of our businesses.

(\$ in millions except per share amounts)	1996		Expense/(Income) 1995		1994	
	(a)	Per Share	(a)	Per Share	(a)	Per Share
<b>UNUSUAL ITEMS AND ACCOUNTING CHANGES</b>						
International beverages impairment, disposal and other charges	\$ 576	\$ 0.33				
Disposal of non-core U.S. restaurant businesses	246	0.12				
Gain on stock offering by an unconsolidated affiliate					\$(18)	\$(0.01)
Accounting changes (b)						
SFAS 121			\$520	\$ 0.24		
SFAS 112					84	0.03
Pension assets					(38)	(0.01)
	\$ 822	\$ 0.45	\$520	\$ 0.24	\$ 28	\$ 0.01
<b>OTHER ITEMS</b>						
Refranchising gains (c)	\$(139)	\$(0.05)	\$(93)	\$(0.03)		
Store closure costs	40	0.01	38	0.01	\$10	\$ -
Net refranchising (gains)/ losses	(99)	(0.04)	(55)	(0.02)	10	-
Reduced depreciation and amortization	(46)	(0.02)	(21)	(0.01)		
Recurring restaurant impairment charges	62	0.03				
Fifty-third week					(54)	(0.02)
	\$ (83)	\$(0.03)	\$(76)	\$(0.03)	\$(44)	\$(0.02)

(a) Pre-tax amounts.

(b) Initial impact of adopting SFAS 121 and cumulative effect of other accounting changes.

(c) Included initial franchise fees.

#### INTERNATIONAL BUSINESSES

Excluding the \$576 million of unusual impairment, disposal and other charges, ongoing international operating profit (including Canada), as measured on the Management Basis, represented 10%, 24% and 20% of our consolidated operating profit in 1996, 1995 and 1994, respectively. The decline in 1996 reflected an operating loss in International beverages compared to an operating profit in 1995. The 4% growth in 1995 was slowed by Mexico, formerly our largest international market, where the Mexican peso devalued approximately 50% in late 1994 and early 1995. Consumer demand declined dramatically in response to declining real incomes, increased unemployment and price increases taken to offset rising costs.

Our efforts to stimulate demand, reduce costs and reduce capital spending resulted in only a modest decline in peso operating profit. However, on a U.S. dollar basis, 1995 sales, income and identifiable assets in Mexico declined dramatically, reflecting the unfavorable translation effect of the much weaker peso, as summarized below:

(\$ in millions except per share amounts)

	1995 ----	1994 ----	% Decline -----
Net sales	\$1,228	\$2,023	39
Net income	\$ 55	\$ 175	69
Net income per share	\$ 0.03	\$ 0.11	73
Identifiable assets	\$ 637	\$ 995	36

#### RESULTS OF OPERATIONS

Volume is defined as the estimated effect on net sales and operating profit of the year-over-year change in company-owned Bottler Case Sales and concentrate unit sales in beverages, pound or kilo sales in snack foods and transaction counts in restaurants.

#### CONSOLIDATED REVIEW

##### NET SALES

(\$ in millions)	1996 ----	1995 ----	1994 ----	% Growth Rates -----	
				1996 ----	1995 ----
Net sales	\$31,645	\$30,255	\$28,351	5	7

Worldwide net sales rose \$1.4 billion in 1996 reflecting higher effective net pricing (including the effect of product, package and country mix) in each of our three business

segments and net volume gains of \$592 million. The higher effective net pricing was partially offset by an unfavorable foreign currency exchange impact, primarily reflecting the weaker peso and the strengthening of the U.S. dollar compared to the Japanese yen. The volume gains were driven by worldwide snack foods and North American beverages, partially offset by declines at U.S. restaurants. The sales growth rate was reduced by 1 point as we reduced our ownership of the restaurant system through refranchising and closing underperforming restaurants, as described in Management's Analysis - Restaurants beginning on page 26.

Worldwide net sales rose \$1.9 billion or 7% in 1995. The fifty-third week in 1994 reduced worldwide net sales growth by approximately 2 points. The growth benefited from higher effective net pricing in International snack foods, driven by Mexico, and in North American beverages, primarily to help offset higher prices for packaging. These benefits were partially offset by the unfavorable currency translation impact of the weaker peso on International snack foods. Volume gains in worldwide snack foods and beverages added \$934 million to net sales. Additional restaurant units contributed \$623 million to sales growth.

#### COST OF SALES

(\$ in millions)	1996	1995	1994
	----	----	----
Cost of sales	\$15,383	\$14,886	\$13,715
As a percent of net sales	48.6%	49.2%	48.4%

-----  
 Cost of sales as a percent of net sales decreased .6 of a point in 1996 primarily due to lower raw materials costs in North American beverages coupled with the leveraging effect of the higher effective net pricing.

The .8 of a point increase in cost of sales as a percent of net sales in 1995 was primarily due to higher packaging prices in North American beverages, the effect of which was partially mitigated by increased effective net pricing, and an unfavorable mix shift in International beverages sales from higher-margin concentrate to lower-margin packaged products. Cost of sales as a percent of net sales in International snack foods increased due to inflation-driven cost increases in Mexico, which were partially mitigated by price increases.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

(\$ in millions)	1996	1995	1994
	----	----	----
SG&A	\$12,593	\$11,546	\$11,123
As a percent of net sales	39.8%	38.2%	39.2%

-----  
 SG&A comprises selling and distribution expenses (S&D), advertising and marketing expenses (A&M), general and administrative expenses (G&A), other income and expense and equity income or loss from investments in unconsolidated affiliates. In 1996, A&M,

S&D and G&A all grew faster than net sales driving a 9% increase in SG&A, led by International beverages. Other income and expense included refranchising gains in excess of the costs of closing other restaurants (net refranchising gains) of \$99 million, compared to \$55 million in 1995. In addition, 1996 included recurring SFAS 121 noncash impairment charges of \$62 million related to restaurants. Losses from our unconsolidated affiliates, compared to earnings a year ago, primarily reflected our share of operating losses from Buenos Aires Embotelladora S.A. (BAESA). BAESA is one of our bottling joint ventures in Latin America.

In 1995, SG&A grew 4% due to A&M, S&D and G&A all growing at a slower rate than sales. The slower spending was driven by worldwide beverages and U.S. restaurants. G&A in worldwide beverages benefited from International cost containment initiatives, savings in North American beverages from a 1994 reorganization and leverage from the increased effective net pricing in North American beverages. Other income benefited from net refranchising gains of \$55 million, compared to store closure costs of \$10 million in 1994 and a gain on the sale of an International bottling plant in 1995.

AMORTIZATION OF INTANGIBLE ASSETS declined 5% in 1996 to \$301 million as a result of the reduced carrying amount of intangible assets in connection with the 1995 adoption of SFAS 121 (see Note 4), but increased 1% to \$316 million in 1995. This noncash expense reduced net income per share by \$0.14 in 1996 and \$0.15 in 1995.

UNUSUAL IMPAIRMENT, DISPOSAL AND OTHER CHARGES of \$822 million (\$716 million after-tax or \$0.45 per share) in 1996 were associated with International beverages (\$576 million) and the decision to dispose of our non-core U.S. restaurant businesses (\$246 million). See Note 3.

The 1995 charge of \$520 million (\$384 million after-tax or \$0.24 per share) was the initial, noncash impairment charge upon adoption of SFAS 121. See Note 4.

## OPERATING PROFIT

(\$ in millions)	% Growth Rates				
	1996	1995	1994	1996	1995
Operating Profit					
Reported	\$2,546	\$2,987	\$3,201	(15)	(7)
Ongoing*	\$3,368	\$3,507	\$3,201	(4)	10

\* Excluded the unusual impairment, disposal and other charges in 1996 and 1995 (see Note 3).

In 1996, reported operating profit declined \$441 million. Ongoing operating profit decreased \$139 million, primarily due to a combined segment operating profit decrease of \$95 million or 3%. The decline reflected increased costs in excess of higher effective net pricing in International beverages and North American snack foods and unfavorable currency translation impacts, partially offset by the \$177 million of volume gains. Also included in the segment operating profit results were reduced depreciation and amortization expense of \$46 million as a result of the reduced carrying amount of assets in connection with the adoption of SFAS 121, and \$99 million of net refranchising gains in 1996 compared to \$55 million in 1995, partially offset by the recurring SFAS 121 noncash impairment charge of \$62 million in 1996. Ongoing operating profit growth was also hampered by increased net corporate costs.

In 1995, reported operating profit declined \$214 million. Ongoing operating profit increased \$306 million or 10%. The fifty-third week in 1994 reduced the operating profit growth by approximately 2 points. The profit growth was driven by combined segment operating profit growth of \$283 million or 8%, which reflected volume growth of \$283 million (\$430 million excluding the impact of the fifty-third week) and \$76 million due to net additional restaurant units. These advances were partially offset by net unfavorable currency translation impacts, primarily related to the peso. The benefit of higher effective net pricing for all segments combined was almost entirely offset by increased product and operating costs, primarily in Mexico, and higher packaging prices in North American beverages. Ongoing operating profit growth benefited from reduced net corporate costs.

GAIN ON STOCK OFFERING BY AN UNCONSOLIDATED AFFILIATE of \$18 million (\$17 million after-tax or \$0.01 per share) in 1994 related to the public share offering by BAESA. See Note 17.



INTEREST EXPENSE, NET

(\$ in millions)				% Growth Rates	
	1996	1995	1994	1996	1995
Interest expense	\$(600)	\$(682)	\$(645)	(12)	6
Interest income	101	127	90	(20)	41
Interest expense, net	<u>\$(499)</u>	<u>\$(555)</u>	<u>\$(555)</u>	(10)	-

Interest expense, net, declined 10% in 1996 reflecting lower international debt levels and U.S. interest rates.

Interest expense, net in 1995 was even with 1994, reflecting the net impact of higher average interest rates offset by lower average borrowings.

PROVISION FOR INCOME TAXES

(\$ in millions)	1996	1995	1994
Reported			
Provision for			
Income Taxes	\$ 898	\$ 826	\$ 880
Effective Tax Rate	43.9%	34.0%	33.0%
Ongoing*			
Provision for			
Income Taxes	\$1,004	\$ 962	\$ 880
Effective Tax Rate	35.0%	32.6%	33.0%

\* Excluded the unusual impairment, disposal and other charges in 1996 and 1995 (see Note 3).

Our 1996 reported effective tax rate increased 9.9 points to 43.9%, driven by the low tax benefits associated with the unusual impairment, disposal and other charges. Our 1996 ongoing effective tax rate increased 2.4 points to 35.0%, primarily reflecting lower benefits in 1996 from the current year resolution of certain prior years audit issues and a decline in lower-taxed foreign income coupled with an increase in foreign losses with low tax benefits.

Our 1995 reported effective tax rate increased 1 point to 34.0%. Our 1995 ongoing effective tax rate declined slightly, reflecting benefits from the current year resolution of certain prior years audit issues. These benefits were partially offset by a higher foreign effective tax rate, primarily due to a provision in 1993 U.S. tax legislation and a decrease in the proportion of income taxed at lower foreign rates. The legislation limited the U.S. tax

credit on income we earned in Puerto Rico to 60% of the amount allowed under the previous tax law beginning on December 1, 1994. The legislation further reduces the limit ratably over the following four years to 40%. This provision reduced our 1995 earnings by \$58 million or \$0.04 per share.

INCOME AND INCOME PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES

(\$ in millions except per share amounts)				% Growth Rates	
	1996	1995	1994	1996	1995
	----	----	----	----	----
Reported					
Income	\$1,149	\$1,606	\$1,784	(28)	(10)
Income Per Share	\$ 0.72	\$ 1.00	\$ 1.11	(28)	(10)
Ongoing*					
Income	\$1,865	\$1,990	\$1,767	(6)	13
Income Per Share	\$ 1.17	\$ 1.24	\$ 1.10	(6)	13

\* Excluded the unusual impairment, disposal and other charges in 1996 and 1995 (see Note 3) and the 1994 BAESA gain (see Note 17).

INDUSTRY SEGMENTS - MANAGEMENT BASIS

(\$ in millions)	Growth Rate 1991-1996(a)	1996	1995	1994	1993	1992
<b>NET SALES</b>						
<b>Beverages</b>						
North America(b)	7%	\$ 7,725	\$ 7,400	\$ 7,031	\$ 6,404	\$ 5,932
International	15%	2,799	2,982	2,535	2,148	1,589
	9%	10,524	10,382	9,566	8,552	7,521
<b>Snack Foods</b>						
North America(b)	12%	6,618	5,863	5,356	4,674	3,922
International	15%	3,062	2,682	2,908	2,353	2,210
	13%	9,680	8,545	8,264	7,027	6,132
<b>Restaurants</b>						
U.S.	8%	9,110	9,206	8,696	8,025	7,112
International	22%	2,331	2,122	1,825	1,331	1,120
	10%	11,441	11,328	10,521	9,356	8,232
Combined Segments	10%	\$31,645	\$30,255	\$28,351	\$24,935	\$21,885
<b>OPERATING PROFIT(c)</b>						
<b>Beverages</b>						
North America(b)	12%	\$1,428	\$1,249	\$1,115	\$1,019	\$ 759
International	NM	(846)	117	136	97	45
	6%	582	1,366	1,251	1,116	804
<b>Snack Foods</b>						
North America(b)	13%	1,286	1,149	1,043	914	762
International	12%	346	301	354	285	221
	13%	1,632	1,450	1,397	1,199	983
<b>Restaurants</b>						
U.S.	4%	370	726	637	682	594
International	7%	153	112	86	109	134
	4%	523	838	723	791	728
Combined Segments - Management Basis	8%	2,737	3,654	3,371	3,106	2,515
<b>Adjustments</b>						
Equity (income)/loss		266	(14)	(38)	(30)	(40)
Initial impact of impairment accounting change (SFAS 121)			(520)			
Gain on stock offering by unconsolidated affiliate				(18)		
Other(d)		6	51	9	1	27
Total Adjustments		272	(483)	(47)	(29)	(13)
Combined Segments - SFAS 14 Basis(e)	10%	\$3,009	\$3,171	\$3,324	\$3,077	\$2,502

- (a) Five-year compounded annual growth rate. Operating profit growth rates excluded the impacts of the unusual impairment, disposal and other charges in 1996 affecting International beverages (\$576) and U.S. restaurants (\$246) (see Note 3) and the 1991 unusual charges of \$170 to streamline operations of North American snack foods (\$91), U.S. restaurants (\$43) and International snack foods (\$36).
- (b) North America is composed of operations in the U.S. and Canada.
- (c) The amounts for the years 1992-1996 represent reported amounts. See Note 19 - Items Affecting Comparability for 1996, 1995 and 1994. In addition, 1995 segment operating profit on the Management Basis excluded the \$520 charge for the initial, noncash impact of adopting SFAS 121, 1994 International beverages included an \$18 gain on a stock offering by BAESA and 1992 included \$193 of unusual charges to reorganize and streamline operations of North American beverages (\$115), International beverages (\$30) and certain International snack foods operations (\$48).
- (d) Adjustments directly allocable to industry segments but reported in Corporate.
- (e) Operating profit as defined by SFAS 14 and as disclosed in Note 19.

NM - Not Meaningful.

Industry Segments

Beverages

(\$ in millions)	1996	1995	1994	% Growth Rates	
				1996	1995
Net Sales					
North America	\$ 7,725	\$ 7,400	\$7,031	4	5
International	2,799	2,982	2,535	(6)	18
	-----	-----	-----		
	\$10,524	\$10,382	\$9,566	1	9
	=====	=====	=====		
Operating Profit Reported					
North America	\$ 1,428	\$ 1,249	\$1,115	14	12
International	(846)	117	136	NM	(14)
	-----	-----	-----		
	\$ 582	\$ 1,366	\$1,251	(57)	9
	=====	=====	=====		
Ongoing*					
North America	\$ 1,428	\$ 1,249	\$1,115	14	12
International	(270)	117	118	NM	(1)
	-----	-----	-----		
	\$ 1,158	\$ 1,366	\$1,233	(15)	11
	=====	=====	=====		

\* Excluded unusual International impairment, disposal and other charges of \$576 in 1996 (see Note 3) and a BAESA gain of \$18 in 1994 (see Note 17).

NM - Not Meaningful

[Note: Unless otherwise noted, net sales and operating profit comparisons within the following discussions are based on ongoing operating profit and include the impact of the fifty-third week in 1994 (see Notes 2 and 19).]

System bottler case sales (BCS) of Pepsi Corporate brands is our standard volume measure. It represents company-owned brands as well as brands we have the right to produce, distribute and market nationally, and includes sales of packaged products and fountain syrup by company-owned and franchised bottlers. BCS was not impacted by the fifty-third week in 1994 because it is measured on a calendar year basis.

1996 vs. 1995

North America

-----

Sales in North America rose \$325 million. The gain reflected volume growth of \$215 million, led by carbonated soft drink (CSD) products, and higher effective net pricing.

North American BCS increased 4%, with solid increases in Brand Pepsi and the Mountain Dew brand. Alternative beverages, led by Aquafina bottled water and Hawaiian Punch fountain syrup, grew at a double-digit rate.

Profit in North America increased \$179 million. The growth reflected volume gains of \$117 million, lower product costs and the higher effective net pricing. Advertising and marketing expenses grew significantly faster than sales, primarily due to the Pepsi Stuff promotion. Selling and distribution expense grew at the same rate as sales and volume. Profit growth was aided by lapping charges taken in 1995, primarily for losses on supply contracts, take-or-pay co-packing penalties and a write-down of excess co-packing assets. A 1996 gain on the sale of an investment in a bottling cooperative and a 1996 settlement with a supplier for purchases made in prior years also helped profit growth.

Benefits of approximately \$130 million related to the 1992 U.S. restructuring were achieved in 1996 due to the centralization of purchasing and improved administrative and business processes. Benefits are expected to grow until fully realized in 1998, when they are expected to be about \$145 million annually. All benefits from the restructuring will continue to be reinvested in the business to strengthen our competitive position.

#### International

- - - - -

Our new strategy for International beverages is to focus on building our core business in markets in which we are already strong and in emerging markets where we believe the competitive playing field is essentially level. As a result, we took a restructuring charge of \$122 million, which is described in Note 3. Almost all of the charge is expected to be paid by the end of 1997. The restructuring is expected to generate about \$50 million in savings in 1997, and about \$80 million a year thereafter. See Cautionary Statements beginning on page 35. In addition, a largely noncash charge of \$454 million was recognized in 1996 related to the impairment of certain investments in unconsolidated affiliates (\$216 million), concentrate-related assets (\$129 million), assets not related to the core International beverage business (\$69 million) and our share of the unusual charges recorded by BAESA for restructuring actions and noncash accounting charges (\$40 million).

International sales declined \$183 million, primarily due to unfavorable currency translation impacts and lower volume of \$41 million. The volume decline reflected lower concentrate shipments to franchisees, partially offset by higher packaged product sales to retailers.

International BCS decreased 2%. Excluding the fourth quarter impact of the unexpected loss of our Venezuelan bottler in August 1996, BCS declined 1%. A single-digit decline in Latin America was partially offset by strong double-digit growth in China and India.

International beverages reported operating losses of \$846 million or a decline of \$963 million. Excluding the unusual charges, International beverages reported an ongoing operating loss of \$270 million or a decline of \$387 million. The ongoing operating loss reflected broad-based increases in advertising and marketing expenses, higher-than-normal expenses from fourth quarter balance sheet adjustments and actions, increased net losses from our unconsolidated affiliates and a volume decline of \$41 million. The increased net losses from our unconsolidated affiliates was driven by our 24% equity share of BAESA's operating losses.

## North America

-----  
 Sales in North America rose \$369 million or 5%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales growth reflected higher effective net pricing on most CSD packages, primarily in response to significantly higher packaging prices. Sales growth also benefited from increased volume, which contributed \$92 million.

North American BCS increased 4%, reflecting double-digit growth in the Mountain Dew brand, solid increases in Brand Pepsi and strong double-digit growth in alternative beverages, led by Lipton brand tea and the All Sport brand.

North American profit increased \$134 million or 12%. The fifty-third week in 1994 reduced the operating profit growth by approximately 2 points. Profit growth reflected the higher effective net pricing on CSD packages and concentrate which exceeded the increased packaging costs. Volume gains, driven by packaged products, contributed \$46 million (\$104 million excluding the impact of the fifty-third week) to the profit growth. Administrative expenses declined, reflecting savings from a 1994 consolidation of headquarters and field operations in the U.S. Selling and distribution expenses declined as a percentage of sales, in part reflecting higher pricing. Advertising and marketing expenses decreased, reflecting a reallocation of funds to support promotional discounts in the fountain channel, which is classified as a reduction of sales. In the aggregate, advertising and marketing expenses and fountain discounts was about even with the prior year.

In 1995, North America continued to execute actions related to the 1992 U.S. restructuring. Benefits in 1995 were offset by incremental costs associated with the continued development and implementation of the restructuring. Net benefits of approximately \$130 million were expected to begin to be realized in 1996 and to increase annually until fully realized in 1998.

## International

-----  
 International sales rose \$447 million or 18%. The fifty-third week in 1994 reduced the sales growth by approximately 1 point. Start-up operations, principally in Eastern Europe, and net acquisitions, primarily of bottling operations in Asia, together contributed 5 points to the sales growth. Sales growth also benefited from volume advances of \$205 million and higher effective net pricing.

International BCS grew 8%. This advance reflected broad-based growth partially offset by declines in Mexico, our largest International BCS market, and Argentina, both of which had adverse economic conditions.

International beverages reported a profit decrease of \$19 million or 14%. Ongoing operating profit declined \$1 million or 1%. The fifty-third week in 1994 reduced the ongoing operating profit decline by approximately 2 points. The slight decline in ongoing operating profit primarily reflected significantly weaker results in Mexico (discussed below). Excluding Mexico, ongoing operating profit increased \$64 million or 44%, reflecting increased volume, primarily concentrate, of \$58 million and the higher effective net pricing, partially offset by higher field operating costs and increased headquarters expenses. Profit was also aided by a gain on the sale of a bottling plant.

As discussed in Management's Analysis - International Businesses on page 13, results in Mexico were adversely impacted by economic difficulties resulting from the significant devaluation of the peso. Net sales in Mexico declined 37%, while 1995 operating results declined to a \$27 million operating loss, including losses of \$12 million from unconsolidated affiliates formed in 1995, compared to a \$38 million operating profit in 1994.

Snack Foods  
- - - - -

(\$ in millions)	% Growth Rates				
	1996	1995	1994	1996	1995
Net Sales					
North America	\$6,618	\$5,863	\$5,356	13	9
International	3,062	2,682	2,908	14	(8)
	-----	-----	-----		
	\$9,680	\$8,545	\$8,264	13	3
	=====	=====	=====		
Operating Profit					
North America	\$1,286	\$1,149	\$1,043	12	10
International	346	301	354	15	(15)
	-----	-----	-----		
	\$1,632	\$1,450	\$1,397	13	4
	=====	=====	=====		

[Note: Net sales and operating profit comparisons within the 1995 vs. 1994 discussions include the impact of the fifty-third week in 1994 (see Notes 2 and 19), while pound or kilo growth have been adjusted to exclude its impact.]

1996 vs. 1995

North America  
- - - - -

Sales in North America grew \$755 million. The sales increase reflected strong volume growth of \$495 million and higher effective net pricing across all core brands in late 1995 and late 1996. Volume grew in almost all core brands with low-fat and no-fat snacks accounting for over 45% of the sales growth.

Pound volume in North America advanced 9%, reflecting exceptional performance from the low-fat and no-fat categories. These categories contributed over 45% of the total pound growth, led by Baked Lay's brand potato crisps. Core brands, excluding their low-fat and no-fat versions, had mid-single-digit growth led by double-digit growth in Lay's brand potato chips and strong double-digit growth in Tostitos brand tortilla chips.

Profit in North America grew \$137 million. The profit increase reflected the volume growth, which contributed \$224 million, and the higher effective net pricing, which exceeded increased promotional price allowances and merchandising support. The growth rate of promotional price allowances moderated in the fourth quarter. These gains were partially offset by higher operating and manufacturing costs and increased administrative expenses. The increased operating costs reflected increased selling and distribution and advertising expenses. Selling and distribution expenses and manufacturing costs both reflected higher capacity costs and some inefficiencies incurred to capture the volume opportunities created when Anheuser-Busch exited the salty snack food business. These inefficiencies began to moderate in the fourth quarter. Operating expenses grew faster than sales for the year. The



increase in operating expenses coupled with higher administrative expenses, partially reflected investment spending to sustain strong volume growth. This increased investment spending, including costs of developing and testing new products, was partially offset by a gain on the sale of a non-core business.

#### International

International sales increased \$380 million. The sales increase reflected inflation-based pricing increases in Mexico and volume growth of \$157 million, partially offset by an unfavorable currency translation impact, led by the peso.

International kilo growth is reported on a systemwide basis, which includes both consolidated businesses and unconsolidated affiliates operating for at least one year. Salty snack kilos rose 8%, reflecting double-digit growth at Sabritas in Mexico and strong single-digit growth by Walkers in the U.K., our two largest salty snack businesses. Sweet snack kilos declined 2%, led by a single-digit decline at Gamesa in Mexico, due to market-wide contraction and a double-digit decline at Alegro, the sweet snack division of Sabritas.

International operating profit increased \$45 million. The increase reflected higher effective net pricing in advance of inflation-driven product and operating cost increases, primarily in Mexico, and the increased volumes of \$28 million. These gains were partially offset by increased administrative expenses and the net unfavorable currency translation impact. Advertising and marketing expenses increased, partially reflecting investment in global advertising and design.

Beginning in 1997, we will categorize Mexico as highly inflationary and, therefore, the U.S. dollar will be the functional currency. Although difficult to estimate, we expect the 1997 reported results of our Sabritas and Gamesa operations to be slightly lower than what they would have been had we retained the peso as our functional currency. See Cautionary Statements beginning on page 35.

#### 1995 vs. 1994

#### North America

Sales in North America grew \$507 million or 9%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The increase reflected volume growth of \$427 million and higher pricing across all core brands. Volume grew in almost all core brands, with low-fat and no-fat snacks accounting for almost 45% of the total sales growth.

Pound volume in North America advanced 11%, reflecting exceptional performance from the low-fat and no-fat categories. These categories contributed almost 45% of the total pound growth, led by Rold Gold brand pretzels and Baked Tostitos brand tortilla chips. Core brands, excluding their low-fat and no-fat versions, had solid single-digit growth, led by Doritos brand tortilla chips and Lay's brand potato chips.

Profit in North America grew \$106 million or 10%. The fifty-third week in 1994 reduced the profit growth by approximately 3 points. The profit increase reflected strong volume growth, which contributed \$196 million (\$247 million excluding the impact of the fifty-third week), and higher pricing that exceeded increased promotional price allowances and merchandising support. This growth was partially offset by increased operating costs, driven by higher selling, distribution and administrative expenses and increased marketing investment to promote strong volume momentum. Selling and distribution expenses grew at about the same rate as sales, while advertising and marketing costs grew slower than sales. The higher administrative expenses reflected investment spending to maintain volume

growth, including new manufacturing and delivery systems. The profit growth was also hampered by higher manufacturing costs, reflecting increased capacity costs and an unfavorable sales mix shift to lower-margin value-oriented packages.

#### International

- - - - -

As discussed in Management's Analysis - International Businesses on page 13, 1995 results in Mexico were adversely impacted by economic difficulties resulting from the significant devaluation of the peso. This effect was particularly dramatic on International snack foods results as Mexico represented almost 75% of its 1994 operating profit. Net sales in Mexico declined 39% in 1995, while operating profit declined \$113 million or 44% to \$142 million. As a result, Mexico represented about half of 1995 International snack foods profit. Since the change in results of Mexico had such a distortive effect on International results, the following net sales and operating profit discussions exclude the effects of Mexico where noted.

International sales decreased \$226 million or 8%. Excluding Mexico, sales grew more than 35%; the fifty-third week in 1994 reduced the sales growth by approximately 3 points. This growth reflected increased volumes of \$272 million, a favorable mix shift to higher-priced packages and products and acquisitions, which contributed \$43 million.

Salty snack kilos rose 10%, reflecting strong double-digit volume growth in Brazil, the U.K. and our joint ventures in the Netherlands and Spain. Sweet snack kilos grew 12%, led by a double-digit advance at Gamesa.

International operating profit decreased \$53 million. The fifty-third week in 1994 had no effect on operating profit. The principal cause of the decrease in operating profit was the economic difficulties in Mexico. Excluding Mexico, operating profit increased \$58 million or 58%. The fifty-third week in 1994 reduced this profit growth by approximately 2 points. Profit growth reflected the favorable mix shift to higher-priced packages and products and increased volumes of \$45 million, partially offset by higher manufacturing costs and increased administrative expenses.

#### RESTAURANTS

- - - - -

An update to our restaurant strategy is provided to set the context of the operating results discussion beginning on page 29.

#### STRATEGY UPDATE

- - - - -

In January 1997, we announced that we would pursue a plan to spin off our core restaurant businesses to our shareholders as an independent publicly-traded company. The new company will include both the U.S. and international operations of Pizza Hut, Taco Bell and KFC. We are exploring the possibility of selling PepsiCo Food Systems (PFS), our restaurant distribution operation. In the first quarter of 1996, we recorded a \$26 million charge related to a decision to dispose of Hot 'n Now (HNN). In the fourth quarter, we recognized an impairment loss of \$220 million as a result of our decision to sell our remaining non-core U.S. restaurant businesses which include California Pizza Kitchen (CPK), Chevys, D'Angelo Sandwich Shops (D'Angelo) and East Side Mario's (ESM). We reduced our investments in these businesses to estimated fair market value, less costs to sell. Estimated fair market value was based primarily upon the opinion of an investment banking firm. See Notes 3 and 4 and Cautionary Statements beginning on page 35.

In addition, we will continue to execute the strategy we initiated two years ago to reduce our percentage ownership in our restaurant businesses by selling company-operated restaurants to franchisees (refranchising) and closing underperforming units. Although this refranchising strategy reduces reported sales, it improves restaurants returns and profit by eliminating capital investment in stores while generating a franchise royalty revenue stream which, in some cases, exceeds the profit we had earned from the stores prior to refranchising. In addition, margins benefit from the closing of underperforming stores in the company-operated portfolio. Operating profit and cash flows benefit from the one-time refranchising gains (including initial franchise fees). Our restaurant companies have usually remained contingently liable for restaurant leases assigned as part of the refranchising activity; however, we believe any risk of loss under these assignments would not be material.

Restaurant Unit Activity  
Company-Operated and Joint Venture

	U.S. ----	International -----	Worldwide -----
December 31, 1994	10,500	3,119	13,619
New Builds & Acquisitions	427	347	774
Refranchising & Licensing	(302)	(12)	(314)
Closures	(272)	(40)	(312)
	-----	-----	-----
December 30, 1995*	10,353	3,414	13,767
New Builds & Acquisitions	213	241	454
Refranchising & Licensing	(605)	(50)	(655)
Transfers	(5)	-	(5)
Closures	(294)	(85)	(379)
	-----	-----	-----
December 28, 1996**	9,662 =====	3,520 =====	13,182 =====
Units as a percent of the total system			
December 31, 1994	54%	42%	51%
December 30, 1995	51%	42%	49%
December 28, 1996	46%	41%	45%

\* As of year-end 1995, closure costs had been recorded for 185 units (141-U.S., 44-international) which were expected to be closed in the future.

\*\* As of year-end 1996, closure costs had been recorded for 270 units (249-U.S., 21-international) which were expected to be closed in the future.

As a result of the unit activity, coupled with net new points of distribution added by our franchisees and licensees, our overall ownership percentage of total system units declined 4 points to 45% at year-end 1996 and 2 points to 49% at year-end 1995, driven by declines in the U.S. Total system units grew 4% and 6% in 1996 and 1995, respectively.

Refranchising and closures affected worldwide restaurants operating profit as follows:

(\$ in millions)	1996	1995	1994
	----	----	----
U.S.			
- - - - -			
Refranchising gains	\$134	\$ 89	\$ -
Store closure costs	(45)	(26)	(10)
	---	---	---
Net refranchising gains/(losses)	\$ 89	\$ 63	\$(10)
International			
- - - - -			
Refranchising gains	\$ 5	\$ 4	
Store closure costs	5	(12)	
	----	---	
Net refranchising gains/(losses)	\$ 10	\$ (8)	
Worldwide			
- - - - -			
Refranchising gains	\$139	\$ 93	\$ -
Store closure costs	(40)	(38)	(10)
	----	----	----
Net refranchising gains/(losses)	\$ 99	\$ 55	\$(10)
	====	====	====

In 1997, the refranchising program will be expanded at Pizza Hut U.S., Taco Bell U.S. and international restaurants and will also be extended to include KFC U.S. restaurants. See Cautionary Statements beginning on page 35.

OPERATING RESULTS

The operating results presented below include Pizza Hut, Taco Bell and KFC in both the U.S. and international results. In addition, U.S. results include PFS as well as CPK, Chevys, D'Angelo, ESM and HNN.

(\$ in millions)				% Growth Rates	
	1996	1995	1994	1996	1995
Net Sales					
U.S.	\$ 9,110	\$ 9,206	\$ 8,696	(1)	6
International	2,331	2,122	1,825	10	16
	-----	-----	-----		
	\$11,441	\$11,328	\$10,521	1	8
	=====	=====	=====		
Operating Profit Reported					
U.S.	\$ 370	\$ 726	\$ 637	(49)	14
International	153	112	86	37	30
	-----	-----	-----		
	\$ 523	\$ 838	\$ 723	(38)	16
	=====	=====	=====		
Ongoing*					
U.S.	\$ 616	\$ 726	\$ 637	(15)	14
International	153	112	86	37	30
	-----	-----	-----		
	\$ 769	\$ 838	\$ 723	(8)	16
	=====	=====	=====		

\*Excluded \$246 of charges related to the disposal of our non-core U.S. restaurant businesses (see Note 3).

[Note: Net sales and operating profit comparisons within the following discussions include the impact of the fifty-third week in 1994 (see Notes 2 and 19), while same store sales growth has been adjusted to exclude its impact.]

1996 vs. 1995

U.S.

Net sales decreased \$96 million. The decrease was driven by volume declines of \$286 million, partially due to lapping the second quarter 1995 introduction of Stuffed Crust pizza, and the unfavorable impact of fewer company units of \$272 million. These declines were partially offset by higher effective net pricing and the consolidation of CPK at the end of the second quarter of 1996. Same store sales decreased 4% and 2% at Pizza Hut and Taco Bell, respectively, reflecting fewer transaction counts. KFC's same store sales increased 6% due primarily to the impact of new products such as Tender Roast Chicken, Colonel's Crispy Strips and Chunky Chicken Pot Pies.

Reported operating profit declined \$356 million. Ongoing operating profit decreased \$110 million because of higher store operating costs, a volume decrease of \$166 million and recurring noncash SFAS 121 impairment charges of \$54 million. The higher store operating costs reflected increased labor and food costs, partially offset by reduced depreciation and amortization expense of \$30 million in connection with the adoption of SFAS 121. The above effects were partially offset by the higher effective net pricing which exceeded the

increased store operating costs, and by a net refranchising gain of \$89 million in 1996 compared to \$63 million in 1995.

#### INTERNATIONAL

-----  
International sales increased \$209 million, driven by the favorable impact of net additional company units of \$112 million, higher effective net pricing and increased volumes, which contributed \$52 million.

Operating profit increased \$41 million, reflecting the higher effective net pricing, a net refranchising gain in 1996 of \$10 million compared to a net refranchising loss in 1995 of \$8 million, \$18 million due to net additional company units and increased volumes of \$15 million. These benefits were partially offset by higher store operating costs, increased administrative and support costs and an \$8 million recurring noncash SFAS 121 impairment charge. The higher store operating costs, which exceeded the higher effective net pricing, primarily reflected increased food prices and higher labor costs and advertising expenses. These increased store operating costs were partially offset by reduced depreciation and amortization expense of \$10 million in connection with the adoption of SFAS 121. The profit growth also benefited from increased equity income.

1995 vs. 1994

#### U.S.

-----  
Net sales increased \$510 million or 6%. The fifty-third week in 1994 reduced the sales growth by approximately 1 point. The sales growth reflected \$378 million from net additional company units and higher effective net pricing, partially offset by \$52 million of volume declines. Same store sales increased 4% and 7% at Pizza Hut and KFC, respectively, driven by new products. Taco Bell's same store sales declined 4% due to fewer transaction counts.

Operating profit grew \$89 million or 14%. The fifty-third week in 1994 reduced the profit growth by approximately 5 points. The growth included a net refranchising gain of \$63 million in 1995 as well as \$12 million for the write-off of costs associated with sites that will not be developed (undeveloped sites). This compared to \$10 million of store closure costs and \$6 million of undeveloped site costs in 1994. Profit growth was also aided by the net additional company units, which contributed \$54 million, and lower depreciation and amortization expense of \$11 million in connection with the adoption of SFAS 121. These benefits were partially offset by the lower volumes of \$27 million (\$24 million excluding the impact of the fifty-third week) and increased overhead costs, primarily due to a \$17 million charge in 1995 to move Pizza Hut's U.S. headquarters from Wichita to Dallas.

#### INTERNATIONAL

-----  
International net sales increased \$297 million or 16%. The fifty-third week in 1994 reduced the sales growth by approximately 2 points. The sales increase primarily reflected additional units of \$244 million. International operating profit increased \$26 million or 30%. The fifty-third week in 1994 reduced the operating profit growth rate by approximately 5 points. The increased profit reflected higher effective net pricing and net additional company units that contributed

\$22 million. It also reflected reduced depreciation and amortization expense of \$6 million as a result of the 1995 adoption of SFAS 121. These gains were partially offset by higher store operating costs, increased administrative and support costs and a \$17 million reduction in volume (\$14 million excluding the impact of the fifty-third week). Profit growth was also hampered by \$8 million of net refranchising losses in 1995 and equity losses in 1995 compared to equity earnings in 1994.

CONSOLIDATED CASH FLOWS

Consolidated cash flows in 1996 reflected strong cash flows from operating activities of \$4.2 billion, cash from restaurant refranchising of \$355 million and cash from stock option exercises of \$323 million. The cash funded capital spending of \$2.3 billion, share repurchases of \$1.7 billion and dividend payments of \$675 million. Debt payments of \$801 million were substantially funded by short-term investment proceeds of \$775 million.

Graph: Net Cash Provided by Operating Activities, Refranchising of Restaurants and Exercises of Stock Options vs. Capital Spending, Share Repurchases, Cash Dividends Paid and Acquisitions

(\$ in millions)	1996	1995	1994
Sources:			
Operating activities	\$4,194	\$3,742	\$3,716
Refranchising of restaurants	355	165	-
Exercises of stock options	323	252	98
	-----	-----	-----
	\$4,872	\$4,159	\$3,814
	=====	=====	=====
Uses:			
Capital spending	\$2,287	\$2,104	\$2,253
Share repurchases	1,651	541	549
Dividends paid	675	599	540
Acquisitions	75	466	316
	-----	-----	-----
	\$4,688	\$3,710	\$3,658
	=====	=====	=====

NET CASH PROVIDED BY OPERATING ACTIVITIES increased \$452 million or 12% to \$4.2 billion in 1996 due primarily to operating working capital cash inflows of \$179 million in 1996 compared to net cash outflows of \$411 million in 1995. The change in operating working capital cash flows primarily reflected slower growth in accounts and notes receivable in 1996 compared to 1995, higher growth in accounts payable and other current liabilities and slower growth in inventories. The slower growth in accounts and notes receivable reflected lower sales by International beverages and a sale of \$134 million of U.S. trade accounts receivable in 1996 to take advantage of favorable effective financing rates. The growth in accounts payable and other current liabilities was driven primarily by accruals related to the 1996 unusual charges and timing of payments, partially offset by the impact of our accounts payable amount remaining about the same as 1995. These cash flow favorabilities were

partially offset by the tax-related decision to stop prefunding certain employee benefits at the end of 1995.

Net cash provided by operating activities in 1995 rose \$26 million or 1% over 1994 to \$3.7 billion, primarily reflecting improved income before noncash charges and credits largely offset by the effect of operating working capital cash outflows of \$411 million in 1995 compared to cash inflows of \$31 million in 1994.

NET CASH USED FOR INVESTING ACTIVITIES in 1996 decreased \$1.2 billion or 48% to \$1.3 billion compared to an \$89 million or 4% increase in 1995 to \$2.5 billion. The 1996 decline was principally due to the repatriation of funds we had held in Puerto Rico. We manage the investment activity in our short-term portfolios, which are primarily held outside the U.S., as part of our overall financing strategy. We continually reassess our alternatives to redeploy them considering investment opportunities and risks, tax consequences and current financing activity. As a result of the Small Business Job Protection Act of 1996, our exemption from U.S. Federal income tax on investment income generated in Puerto Rico was completely eliminated effective as of December 1, 1996. Accordingly, as our investments in Puerto Rico mature, we are repatriating the proceeds and using them to reduce outstanding commercial paper debt. We repatriated \$690 million in 1996.

Capital spending increased \$183 million, reflecting higher North American snack foods investments of \$195 million, primarily for capacity expansion. Increased spending in worldwide beverages of \$85 million was offset by decreased spending in worldwide restaurants, primarily in the U.S., of \$82 million. In 1995, capital spending declined \$149 million reflecting substantially reduced spending in restaurants. Increased 1995 North American snack foods spending, primarily for capacity expansion and new products, was partially offset by a decline in beverages. Capital spending outside of the U.S. represented 30%, 29% and 35% of total capital spending in 1996, 1995 and 1994, respectively.

Graph: Capital Spending by Segment  
(\$ in millions)

	Beverages	Snack Foods	Restaurants	Corporate	TOTAL
	-----	-----	-----	-----	-----
1996	\$648	\$973	\$ 657	\$ 9	\$2,287
1995	563	768	739	34	2,104
1994	664	527	1,059	3	2,253

Graph: Capital Spending: U.S. versus International  
(\$ in millions)

	1996	1995	1994
	----	----	----
U.S.	70%	71%	65%
International	30	29	35



NET CASH USED FOR FINANCING ACTIVITIES more than doubled in 1996 to \$2.9 billion, primarily reflecting a \$1.1 billion increase in our share repurchases and increased debt payments of \$498 million. Net cash used for financing activities in 1995 of \$1.2 billion was unchanged from the prior year.

Our share repurchase activity was as follows:

(in millions)	1996	1995	1994
	----	----	----
Cost	\$1,651	\$ 541	\$ 549
Shares repurchased			
Number of shares	54.2	24.6	30.0
% of shares outstanding at beginning of year	3.4%	1.6%	1.9%

At December 28, 1996, 51.4 million shares are available under the current repurchase authority granted by our Board of Directors.

FREE CASH FLOW is the measure we use internally to evaluate our cash flow performance.

(\$ in millions)	1996	1995	1994
	----	----	----
Net cash provided by operating activities	\$ 4,194	\$ 3,742	\$ 3,716
Cash dividends paid	(675)	(599)	(540)
Investing activities			
Capital spending	(2,287)	(2,104)	(2,253)
Refranchising of restaurants	355	165	-
Sales of property, plant and equipment	57	138	55
Other, net	(100)	(247)	(268)
	----	----	----
Free cash flow	\$ 1,544	\$ 1,095	\$ 710
	=====	=====	=====

In 1996, free cash flow increased \$449 million or 41%, reflecting the strong increase in net cash provided by operating activities. Higher proceeds from restaurant refranchising were offset by higher capital spending. In 1995, free cash flow advanced \$385 million or 35% due primarily to refranchising of restaurants and the lower capital spending.

#### CONSOLIDATED FINANCIAL CONDITION

ASSETS decreased \$920 million or 4% to \$24.5 billion. The decline reflected the repatriation of funds from our investment portfolio in Puerto Rico, the impact of the unusual impairment,

disposal and other charges of \$822 million (see Note 3) and the effects of the restaurant program to refranchise stores and close underperforming stores, partially offset by normal business growth. Short-term investments largely represent high-grade marketable securities portfolios held outside the U.S. As discussed, we are repatriating the funds from our portfolio in Puerto Rico as our investments mature and we are using them to reduce our short-term debt. Our Puerto Rico portfolio totaled \$126 million at year-end 1996 and \$816 million at year-end 1995. We expect to repatriate most of the year-end 1996 balance in 1997. The increase in prepaid expenses, deferred income taxes and other current assets principally reflected a reclassification of the carrying amount of our non-core U.S. restaurant long-lived assets, partially offset by a significant decline in current deferred income taxes. These non-core restaurants assets are now being held for disposal and carried at estimated fair market value.

LIABILITIES decreased \$230 million or 1% to \$17.9 billion. The decline reflected the pay-down of short-term debt with the funds repatriated from Puerto Rico, partially offset by increased accounts payable and other current liabilities, due in part to the International beverages restructuring charge.

At year-end 1996 and 1995, \$3.5 billion of short-term borrowings were reclassified as long-term, reflecting our intent and ability, through the existence of our unused revolving credit facilities, to refinance these borrowings. Our unused credit facilities, which exist largely to support the issuances of short-term borrowings, were \$3.5 billion at year-end 1996 and 1995. Effective January 10, 1997, we extended to 2002 \$3.3 billion of these credit facilities. Annually, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions.

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

We measure FINANCIAL LEVERAGE on both a market value and historical cost basis. We believe that the most meaningful measure of debt is on a net basis, which takes into account our investment portfolios held outside the U.S. These portfolios are managed as part of our overall financing strategy and are not required to support day-to-day operations. Net debt reflects the pro forma remittance of the portfolios (net of related taxes) as a reduction of total debt. Total debt includes the present value of operating lease commitments.

We also use market leverage to measure our long-term financial leverage. We define market leverage as net debt as a percent of net debt plus the market value of equity, based on the year-end stock price. Unlike historical cost measures, the market value of equity primarily reflects the estimated net present value of expected future cash flows that will both support debt and provide returns to shareholders.

The market net debt ratio was unchanged in 1996, largely because the 6% increase in our year-end stock price was offset by a 2% decline in our shares outstanding. In 1995, the market net debt ratio declined 8 points to 18% due primarily to a 54% increase in our stock price.

Measured on a historical cost basis, the ratio of net debt to net capital employed (defined as net debt, other liabilities, deferred income taxes and shareholders' equity) increased 2 points to 48% in 1996, reflecting a 3% decline in net capital employed. The 3-point decline to 46% in 1995 reflected a 2% decline in net debt and a 4% increase in net capital employed.

	1996	1995	1994
	----	----	----
Graph: MARKET NET DEBT RATIO	18%	18%	26%
	1996	1995	1994
	----	----	----
Graph: HISTORICAL NET DEBT RATIO	48%	46%	49%

Our negative operating working capital position, which reflects the cash sales nature of our restaurant operations partially offset by our more working capital intensive packaged goods businesses, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative \$313 million and negative \$94 million at year-end 1996 and 1995, respectively. The \$219 million increase in negative working capital in 1996 primarily reflected reclassifications of a portion of other liabilities and deferred income taxes to income taxes payable and accounts payable and other current liabilities, respectively, and a decline in operating working capital in our International beverages business. The increase was partially offset by the reclassification of our non-core U.S. restaurant long-lived assets held for disposal to prepaid expenses, deferred income taxes and other current assets in the Consolidated Balance Sheet. The decline in International beverages reflected higher accrued liabilities due to the restructuring charge, coupled with lower receivables from a decline in sales.

SHAREHOLDERS' EQUITY decreased \$690 million or 9% to \$6.6 billion. This change was the result of a \$1.3 billion increase in treasury stock, reflecting repurchases of 54.2 million shares offset by 22.7 million shares used for stock option exercises. This decrease was mitigated by a 5% increase in retained earnings due to \$1.1 billion in net income less dividends declared of \$695 million.

#### Cautionary Statements

-----  
From time to time, in written reports and oral statements, we discuss our expectations regarding future performance of the Company. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are also inherently uncertain, and investors must recognize that events could turn out to be significantly different from what we had expected. In addition, as discussed in the Management's Analysis:

- - The forecasted annual savings of \$50 million in 1997, and about \$80 million a year thereafter related to the International beverages restructuring charge (page 22) assumes that facilities are vacated and employees are terminated within the time frames used to develop the estimate.

- - The expectation that our reported results in Mexico will be slightly lower than what they would have been had we not changed our functional currency from the peso to the U.S. dollar (page 25) assumes that the peso will not devalue significantly in 1997.
- - The spin-off of our core restaurant businesses (page 26) is subject to receipt of a tax ruling by the Internal Revenue Service that would allow it to be tax free to our shareholders, various regulatory approvals, appropriate stock market conditions for distribution and final approval by our Board of Directors.
- - The impairment charge recorded to reduce our investment in our non-core U.S. restaurant businesses to estimated fair market value assumed certain sales prices based primarily upon the opinion of an investment banking firm. These estimates could vary significantly from the final sales prices (page 26).
- - Our ability to execute our restaurant refranchising program (page 28) depends on our ability to find investors to purchase our restaurants at prices we consider appropriate.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Information on page F-1.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age and background of each of the Company's directors nominated for reelection are contained under the caption "Election of Directors" in the Company's Proxy Statement for its 1997 Annual Meeting of Shareholders on pages 2 and 3 and are incorporated herein by reference. Pursuant to Item 401(b) of Regulation S-K, the executive officers of the Company are reported in Part I of this report.

Item 11. EXECUTIVE COMPENSATION

Information on compensation of the Company's directors and executive officers is contained in the Company's Proxy Statement for its 1997 Annual Meeting of Shareholders under the captions "Directors Compensation" and "Executive Compensation", respectively, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information on the number of shares of PepsiCo Capital Stock beneficially owned by each director and by all directors and officers as a group is contained under the caption "Ownership of Capital Stock by Directors and Officers" in the Company's Proxy Statement for its 1997 Annual Meeting of Shareholders and is incorporated herein by reference. As far as is known to the Company, no person owns beneficially more than 5% of the outstanding shares of PepsiCo Capital Stock.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

See Index to Financial Information on page F-1.

2. Financial Statement Schedule

See Index to Financial Information on page F-1.

3. Exhibits

See Index to Exhibits on page E-1.

(b) Reports on Form 8-K

PepsiCo filed a Current Report on Form 8-K dated September 30, 1996, attaching a press release dated September 26, 1996, regarding a series of long-term strategic actions intended to strengthen its competitiveness in the marketplace, improve the consistency of its financial performance and significantly improve shareholder returns, including a one-time charge of \$125 million dollars due to the restructuring of the international beverage business and a \$400 million dollar write-down of the carrying value of certain international beverage assets.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, PepsiCo has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 25, 1997

PepsiCo, Inc.

By: /s/ ROGER A. ENRICO  
-----  
Roger A. Enrico  
Chairman of the Board and Chief Executive Officer

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

SIGNATURE -----	TITLE -----	DATE -----
/s/ ROGER A. ENRICO Roger A. Enrico	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 25, 1997
/s/ KARL M. VON DER HEYDEN Karl M. von der Heyden	Vice Chairman of the Board and Chief Financial Officer (Principal Financial Officer)	March 25, 1997
/s/ ROBERT L. CARLETON Robert L. Carleton	Senior Vice President and Controller (Principal Accounting Officer)	March 10, 1997
/s/ JOHN F. AKERS John F. Akers	Director	March 25, 1997
/s/ ROBERT E. ALLEN Robert E. Allen	Director	March 10, 1997
/s/ D. WAYNE CALLOWAY D. Wayne Calloway	Director	March 25, 1997
/s/ RAY L. HUNT Ray L. Hunt	Director	March 25, 1997
/s/ JOHN J. MURPHY John J. Murphy	Director	March 25, 1997

/s/ STEVEN S REINEMUND Steven S Reinemund	Chairman and Chief Executive Officer of The Frito-Lay Company and Director	March 25, 1997
/s/ SHARON PERCY ROCKEFELLER Sharon Percy Rockefeller	Director	March 11, 1997
/s/ FRANKLIN A. THOMAS Franklin A. Thomas	Director	March 25, 1997
/s/ P. ROY VAGELOS P. Roy Vagelos	Director	March 10, 1997
/s/ CRAIG E. WEATHERUP Craig E. Weatherup	Chairman and Chief Executive Officer of Pepsi-Cola Company and Director	March 25, 1997
/s/ ARNOLD R. WEBER Arnold R. Weber	Director	March 17, 1997

INDEX TO EXHIBITS  
ITEM 14(a)(3)

EXHIBIT

- 3.1 Restated Articles of Incorporation of PepsiCo, Inc., which is incorporated herein by reference from Exhibit 3(i) to PepsiCo's Quarterly Report on Form 10-Q for the quarterly period ended June 15, 1996.
- 3.2 By-Laws of PepsiCo, Inc., as amended to July 25, 1996, which are incorporated herein by reference from Exhibit 3(ii) to PepsiCo's Quarterly Report on Form 10-Q for the quarterly period ended June 15, 1996.
- 4 PepsiCo, Inc. agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument defining the rights of holders of long-term debt of PepsiCo, Inc. and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Securities and Exchange Commission.
- 10.1 Description of PepsiCo, Inc. 1988 Director Stock Plan, which is incorporated herein by reference from Post-Effective Amendment No. 2 to PepsiCo's Registration Statement on Form S-8 (Registration No. 33-22970).
- 10.2 Copy of PepsiCo, Inc. 1987 Incentive Plan (the "1987 Plan"), which is incorporated by reference from Exhibit 10(b) to PepsiCo's Annual Form 10-K for the Fiscal Year ended December 26, 1992.
- 10.3 Copy of PepsiCo, Inc. 1979 Incentive Plan (the "Plan"), which is incorporated by reference from Exhibit 10(c) to PepsiCo's Annual Report on Form 10-K for the Fiscal year ended December 28, 1991.
- 10.4 Copy of Operating Guideline No. 1 under the 1987 Plan, as amended through July 25, 1991, which is incorporated by reference from Exhibit 10(d) to PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 28, 1991.
- 10.5 Copy of Operating Guideline No. 2 under the 1987 Plan and the Plan, as amended through January 22, 1987, which is incorporated herein by reference from Exhibit 28(b) to PepsiCo's Registration Statement on Form S-8 (Registration No. 33-19539).
- 10.6 Amended and Restated PepsiCo Long Term Savings Program, dated June 21, 1996.
- 10.7 Copy of PepsiCo, Inc. 1995 Stock Option Incentive Plan, which is incorporated herein by reference from PepsiCo's Registration Statement on Form S-8 (Registration No. 33-61731).
- 10.8 Copy of PepsiCo, Inc. 1994 Long-Term Incentive Plan, which is incorporated herein by reference from Exhibit A to PepsiCo's Proxy Statement for its 1994 Annual Meeting of Shareholders.



- 10.9 Copy of PepsiCo, Inc. Executive Incentive Compensation Plan, which is incorporated herein by reference from Exhibit B to PepsiCo's Proxy Statement for its 1994 Annual Meeting of Shareholders.
- 10.10 Copy of PepsiCo, Inc. Restaurant Deferred Compensation Plan, which is incorporated herein by reference from PepsiCo's Registration Statement on Form S-8 (Registration No. 333-01377).
- 11 Computation of Net Income Per Share of Capital Stock -- Primary and Fully Diluted.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 21 Active Subsidiaries of PepsiCo, Inc.
- 23 Report and Consent of KPMG Peat Marwick LLP.
- 24 Copy of Power of Attorney.
- 27 Financial Data Schedule.

PepsiCo, Inc. and Subsidiaries

FINANCIAL INFORMATION

FOR INCLUSION IN ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED DECEMBER 28, 1996

PEPSICO, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL INFORMATION  
Item 14(a)(1)-(2)

Item 14(a)(1) Financial Statements

	Page Reference
Consolidated Statement of Income for the fiscal years ended December 28, 1996 December 30, 1995 and December 31, 1994.....	F-2
Consolidated Statement of Cash Flows for the fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994.....	F-3
Consolidated Balance Sheet at December 28, 1996 and December 30, 1995.....	F-5
Consolidated Statement of Shareholders' Equity for the fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994.....	F-6
Notes to Consolidated Financial Statements.....	F-8
Management's Responsibility for Financial Statements.....	F-42
Report of Independent Auditors, KPMG Peat Marwick LLP.....	F-43
Selected Financial Data.....	F-44

Item 14(a)(2) Financial Statement Schedule

II Valuation and Qualifying Accounts and Reserves for the fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994.....	F-51
--	------

All other financial statements and schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the above listed financial statements or the notes thereto.

Consolidated Statement of Income

(in millions except per share amounts)  
PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	1996 (52 Weeks)	1995 (52 Weeks)	1994 (53 Weeks)
Net Sales.....	\$31,645	\$30,255	\$28,351
Costs and Expenses, net			
Cost of sales.....	15,383	14,886	13,715
Selling, general and administrative expenses.....	12,593	11,546	11,123
Amortization of intangible assets.....	301	316	312
Unusual impairment, disposal and other charges.....	822	520	-
Operating Profit.....	2,546	2,987	3,201
Gain on stock offering by an unconsolidated affiliate.....	-	-	18
Interest expense.....	(600)	(682)	(645)
Interest income.....	101	127	90
Income Before Income Taxes and Cumulative Effect of Accounting Changes.....	2,047	2,432	2,664
Provision for Income Taxes.....	898	826	880
Income Before Cumulative Effect of Accounting Changes.....	1,149	1,606	1,784
Cumulative Effect of Accounting Changes			
Postemployment benefits (net of income tax benefit of \$29).....	-	-	(55)
Pension assets (net of income tax expense of \$15).....	-	-	23
Net Income.....	\$ 1,149 =====	\$ 1,606 =====	\$ 1,752 =====
Income (Charge) Per Share			
Before cumulative effect of accounting changes.....	\$ 0.72	\$ 1.00	\$ 1.11
Cumulative effect of accounting changes			
Postemployment benefits.....	-	-	(0.03)
Pension assets.....	-	-	0.01
Net Income Per Share.....	\$ 0.72 =====	\$ 1.00 =====	\$ 1.09 =====
Average shares outstanding.....	1,606	1,608	1,608

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows (page 1 of 2)

(in millions)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	1996 (52 Weeks)	1995 (52 Weeks)	1994 (53 Weeks)
<hr/>			
Cash Flows - Operating Activities			
Income before cumulative effect of accounting changes.....	\$ 1,149	\$ 1,606	\$ 1,784
Adjustments to reconcile income before cumulative effect of accounting changes to net cash provided by operating activities			
Depreciation and amortization.....	1,719	1,740	1,577
Noncash portion of unusual impairment, disposal and other charges.....	601	520	-
Deferred income taxes.....	11	(111)	(67)
Other noncash charges and credits, net.....	535	398	391
Changes in operating working capital, excluding effects of acquisitions			
Accounts and notes receivable.....	(70)	(434)	(112)
Inventories.....	(28)	(129)	(102)
Prepaid expenses, deferred income taxes and other current assets.....	(30)	76	1
Accounts payable and other current liabilities.....	427	173	189
Income taxes payable.....	(120)	(97)	55
	-----	-----	-----
Net change in operating working capital.....	179	(411)	31
	-----	-----	-----
Net Cash Provided by Operating Activities.....	4,194	3,742	3,716
	-----	-----	-----
Cash Flows - Investing Activities			
Capital spending.....	(2,287)	(2,104)	(2,253)
Acquisitions and investments in unconsolidated affiliates.....	(75)	(466)	(316)
Refranchising of restaurants.....	355	165	-
Sales of property, plant and equipment.....	57	138	55
Short-term investments, by original maturity			
More than three months-purchases.....	(160)	(289)	(219)
More than three months-maturities.....	195	335	650
Three months or less, net.....	740	18	(10)
Other, net.....	(100)	(247)	(268)
	-----	-----	-----
Net Cash Used for Investing Activities.....	(1,275)	(2,450)	(2,361)
	-----	-----	-----

(Continued on following page)

Consolidated Statement of Cash Flows (page 2 of 2)

(in millions)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	1996 (52 Weeks)	1995 (52 Weeks)	1994 (53 Weeks)
<hr/>			
Cash Flows - Financing Activities			
Proceeds from issuances of			
long-term debt.....	1,773	2,030	1,285
Payments of long-term debt.....	(1,424)	(928)	(1,180)
Short-term borrowings, by original maturity			
More than three months-proceeds.....	747	2,053	1,304
More than three months-payments.....	(1,873)	(2,711)	(1,728)
Three months or less, net.....	(24)	(747)	114
Cash dividends paid.....	(675)	(599)	(540)
Share repurchases.....	(1,651)	(541)	(549)
Proceeds from exercises of stock options.....	323	252	98
Other, net.....	(46)	(42)	(44)
	-----	-----	-----
Net Cash Used for Financing Activities.....	(2,850)	(1,233)	(1,240)
	-----	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	(4)	(8)	(11)
	-----	-----	-----
Net Increase in Cash and Cash Equivalents.....	65	51	104
Cash and Cash Equivalents - Beginning of Year.....	382	331	227
	-----	-----	-----
Cash and Cash Equivalents - End of Year.....	\$ 447	\$ 382	\$ 331
	=====	=====	=====
<hr/>			
Supplemental Cash Flow Information			
Interest paid.....	\$ 573	671	591
Income taxes paid.....	\$ 679	790	663
<hr/>			

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

(in millions except per share amount)  
PepsiCo, Inc. and Subsidiaries  
December 28, 1996 and December 30, 1995

	1996	1995
-----		
ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 447	\$ 382
Short-term investments, at cost.....	339	1,116
	-----	-----
	786	1,498
Accounts and notes receivable, less allowance: \$183 in 1996 and \$150 in 1995.....	2,516	2,407
Inventories.....	1,038	1,051
Prepaid expenses, deferred income taxes and other current assets.....	799	590
	-----	-----
Total Current Assets.....	5,139	5,546
Property, Plant and Equipment, net.....	10,191	9,870
Intangible Assets, net.....	7,136	7,584
Investments in Unconsolidated Affiliates.....	1,375	1,635
Other Assets.....	671	797
	-----	-----
Total Assets.....	\$24,512	\$25,432
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities .....	\$ 4,626	\$ 4,137
Income taxes payable.....	487	387
Short-term borrowings.....	26	706
	-----	-----
Total Current Liabilities.....	5,139	5,230
Long-term Debt.....	8,439	8,509
Other Liabilities.....	2,533	2,495
Deferred Income Taxes.....	1,778	1,885
Shareholders' Equity		
Capital stock, par value 1 2/3(cent) per share: authorized 3,600 shares, issued 1,726 shares.....	29	29
Capital in excess of par value.....	1,201	1,045
Retained earnings.....	9,184	8,730
Currency translation adjustment and other.....	(768)	(808)
	-----	-----
	9,646	8,996
Less: Treasury stock, at cost: 181 shares and 150 shares in 1996 and 1995, respectively.....	(3,023)	(1,683)
	-----	-----
Total Shareholders' Equity.....	6,623	7,313
	-----	-----
Total Liabilities and Shareholders' Equity.....	\$24,512	\$25,432
	=====	=====

-----  
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity (page 1 of 2)

(in millions except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	Capital Stock			
	Issued		Treasury	
	Shares	Amount	Shares	Amount
Shareholders' Equity, December 25, 1993.....	1,726	\$29	(128)	\$ (913)
1994 Net income.....	-	-	-	-
Cash dividends declared (per share-\$0.35).....	-	-	-	-
Currency translation adjustment.....	-	-	-	-
Share repurchases.....	-	-	(30)	(549)
Stock option exercises, including tax benefits of \$27.....	-	-	10	81
Shares issued in connection with acquisitions.....	-	-	2	15
Pension liability adjustment, net of deferred taxes of \$5.....	-	-	-	-
Other.....	-	-	-	5
Shareholders' Equity, December 31, 1994.....	1,726	\$29	(146)	\$(1,361)
1995 Net income.....	-	-	-	-
Cash dividends declared (per share-\$0.39).....	-	-	-	-
Currency translation adjustment.....	-	-	-	-
Share repurchases.....	-	-	(24)	(541)
Stock option exercises, including tax benefits of \$91.....	-	-	20	218
Other.....	-	-	-	1
Shareholders' Equity, December 30, 1995.....	1,726	\$29	(150)	\$(1,683)
1996 Net income.....	-	-	-	-
Cash dividends declared (per share-\$0.445).....	-	-	-	-
Currency translation adjustment.....	-	-	-	-
Share repurchases.....	-	-	(54)	(1,651)
Stock option exercises, including tax benefits of \$145.....	-	-	23	310
Other.....	-	-	-	1
Shareholders' Equity, December 28, 1996.....	1,726	\$29	(181)	\$(3,023)

(Continued on next page)



Consolidated Statement of Shareholders' Equity (page 2 of 2)

(in millions except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994

	Capital in Excess of Par Value	Retained Earnings	Currency Translation Adjustment and Other	Total
-----				
Shareholders' Equity, December 25, 1993.....	\$ 865	\$6,542	\$(184)	\$6,339
-----				
1994 Net income.....	-	1,752	-	1,752
Cash dividends declared (per share-\$0.35).....	-	(555)	-	(555)
Currency translation adjustment.....	-	-	(295)	(295)
Share repurchases.....	-	-	-	(549)
Stock option exercises, including tax benefits of \$27.....	44	-	-	125
Shares issued in connection with acquisitions.....	14	-	-	29
Pension liability adjustment, net of deferred taxes of \$5.....	-	-	8	8
Other.....	(3)	-	-	2
-----				
Shareholders' Equity, December 31, 1994.....	\$ 920	\$7,739	\$(471)	\$6,856
-----				
1995 Net income.....	-	1,606	-	1,606
Cash dividends declared (per share-\$0.39).....	-	(615)	-	(615)
Currency translation adjustment.....	-	-	(337)	(337)
Share repurchases.....	-	-	-	(541)
Stock option exercises, including tax benefits of \$91.....	125	-	-	343
Other.....	-	-	-	1
-----				
Shareholders' Equity, December 30, 1995.....	\$1,045	\$8,730	\$(808)	\$7,313
-----				
1996 Net income.....	-	1,149	-	1,149
Cash dividends declared (per share-\$0.445).....	-	(695)	-	(695)
Currency translation adjustment.....	-	-	40	40
Share repurchases.....	-	-	-	(1,651)
Stock option exercises, including tax benefits of \$145.....	158	-	-	468
Other.....	(2)	-	-	(1)
-----				
Shareholders' Equity, December 28, 1996.....	\$1,201	\$9,184	\$(768)	\$6,623
=====				

See accompanying Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollars in millions except per share amounts)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Certain reclassifications were made to prior year amounts to conform with the 1996 presentation.

**PRINCIPLES OF CONSOLIDATION.** The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method and PepsiCo's share of the net income or loss of its unconsolidated affiliates is included in selling, general and administrative expenses.

**FISCAL YEAR.** PepsiCo's 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 ending December 31, 1994 consisted of 53 weeks.

**MARKETING COSTS.** Marketing costs are reported in selling, general and administrative expenses and include costs of advertising and other marketing activities. Marketing costs not deferred at year-end are charged to expense ratably in relation to sales over the year in which incurred. Advertising expenses were \$1.9 billion, \$1.8 billion and \$1.7 billion in 1996, 1995 and 1994, respectively. Advertising expenses deferred at year-end, which are classified in prepaid expenses, deferred income taxes and other current assets in the Consolidated Balance Sheet, were \$49 million and \$78 million in 1996 and 1995, respectively. Deferred advertising consists of media and personal service advertising-related prepayments, promotional materials in inventory and production costs of future media advertising; these assets are expensed in the year first used.

**RESEARCH AND DEVELOPMENT EXPENSES.** Research and development expenses, which are expensed as incurred, were \$115 million, \$96 million and \$152 million in 1996, 1995 and 1994, respectively.

**STOCK-BASED COMPENSATION.** PepsiCo measures stock-based compensation cost as the excess of the quoted market price of PepsiCo's capital stock at the grant date over the amount the employee must pay for the stock. PepsiCo's policy is to generally grant stock options at fair market value at the date of grant.

**STOCK SPLIT.** On May 1, 1996 PepsiCo's Board of Directors authorized a two-for-one stock split of PepsiCo's capital stock effective for shareholders of record at the close of business on May 10, 1996. The number of authorized shares was increased from 1.8 billion to 3.6 billion. The information in the Consolidated Financial Statements, as well as all other share data in this report, have been adjusted to reflect the stock split and the increase in authorized shares. The par value remains 1 2/3 cents per share, with capital in excess of par value reduced to reflect the total par value of the additional shares.

**NET INCOME PER SHARE.** Net income per share is computed by dividing net income by the weighted average number of shares and dilutive share equivalents (primarily stock options) outstanding (average shares outstanding).

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. The interest differential not yet settled in cash is reflected in the Consolidated Balance Sheet as a receivable or payable under the appropriate current asset or liability caption. If an interest rate swap position was 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 or would be recognized immediately if the underlying debt instrument was settled prior to maturity.

The differential to be paid or received on a currency swap related to non-U.S. dollar denominated debt is charged or credited to income as the differential occurs. This is fully offset by the corresponding gain or loss recognized in income 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 was to be terminated prior to maturity, the gain or loss realized upon termination would be immediately recognized in income.

A seven-year put option, issued in connection with the formation of a joint venture with the principal shareholder of Grupo Embotellador de Mexico, S.A. (GEMEX) in 1995, an unconsolidated franchised bottling affiliate in Mexico, is marked-to-market with gains or losses recognized currently as an adjustment to PepsiCo's share of the net income of unconsolidated affiliates. The offsetting amount adjusts the carrying amount of the put obligation which is classified in other liabilities in the Consolidated Balance Sheet.

Gains and losses on futures contracts designated as hedges of future commodity purchases are deferred and included in the cost of the related raw materials when purchased. Changes in the value of futures contracts that PepsiCo uses to hedge commodity purchases are highly correlated to the changes in the value of the purchased commodity. If the degree of correlation between the futures contracts and the purchase contracts were to diminish such that the two were no longer considered highly correlated, subsequent changes in the value of the futures contracts would be recognized in income.

CASH EQUIVALENTS. Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, largely held outside the U.S., 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 (PP&E) are stated at cost, except for PP&E that have been impaired, for which the carrying amount is reduced to estimated fair market value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

INTANGIBLE ASSETS. Intangible assets are amortized on a straight-line basis over appropriate periods, generally ranging from 20 to 40 years.

RECOVERABILITY OF LONG-LIVED ASSETS TO BE HELD AND USED IN THE BUSINESS. PepsiCo reviews most long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used in the business semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of

assets may not be recoverable. PepsiCo uses a history of operating losses as its primary indicator of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (Assets). PepsiCo has identified the appropriate grouping of Assets to be individual restaurants for the restaurants segment and, for each of the snack foods and beverages segments, Assets are generally grouped at the country level. An impaired Asset is written down to its estimated fair market value based on the best information available; PepsiCo generally measures estimated fair market value by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates.

PepsiCo's methodology for determining and measuring impairment of its investments in unconsolidated affiliates and enterprise level goodwill was changed in 1996 to conform with the methodology it uses when applying the provisions of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," except (a) the recognition test for an investment in an unconsolidated affiliate compares the investment to a forecast of PepsiCo's share of the unconsolidated affiliate's undiscounted cash flows including interest and taxes, compared to undiscounted cash flows before interest and taxes used for all other long-lived assets and (b) enterprise level goodwill is evaluated at a country level for the restaurants segment, instead of by individual restaurant. The change in methodology did not have a material impact in 1996.

Note 2 - ITEMS AFFECTING COMPARABILITY OF INCOME BEFORE CUMULATIVE  
EFFECT OF ACCOUNTING CHANGES

	1996		1995		1994	
	(a)	Per Share	(a)	Per Share	(a)	Per Share
	---	-----	---	-----	---	-----
<b>Unusual Items</b>						
Unusual impairment, disposal and other charges.....	\$ 822	\$ 0.45	\$520	\$ 0.24		
Gain on stock offering by an unconsolidated affiliate.....					\$(18)	\$(0.01)
	-----	-----	-----	-----	-----	-----
	\$ 822	\$ 0.45	\$520	\$ 0.24	\$(18)	\$(0.01)
	=====	=====	=====	=====	=====	=====
<b>Other Items</b>						
Refranchising gains	\$(139)	\$(0.05)	\$(93)	\$(0.03)		
Store closure costs.....	40	0.01	38	0.01	\$ 10	\$ -
	-----	-----	-----	-----	-----	-----
Net refranchising (gains)/losses.....	(99)	(0.04)	(55)	(0.02)	10	-
Reduced depreciation and amortization	(46)	(0.02)	(21)	(0.01)		
Recurring restaurant impairment charges	62	0.03				
Fifty-third week.....					(54)	(0.02)
	-----	-----	-----	-----	-----	-----
	\$ (83)	\$(0.03)	\$(76)	\$(0.03)	\$(44)	\$(0.02)
	=====	=====	=====	=====	=====	=====

(a) Pre-tax amounts.

See Note 3 for information regarding unusual impairment, disposal and other charges.

See Note 17 for information regarding the 1994 gain from a public share offering by Buenos Aires Embotelladora S.A. (BAESA), our Latin American bottling joint venture.

Net refranchising (gains)/losses reflected PepsiCo's strategy to reduce its ownership in its restaurant businesses by selling company-operated restaurants to franchisees and closing underperforming units. See Management's Analysis - Restaurants beginning on page 26.

Reduced depreciation and amortization reflected the reduced carrying amount of PepsiCo's long-lived assets to be held and used in the business as a result of the fourth quarter 1995 adoption of SFAS 121. See Items Affecting Comparability - Unusual Impairment, Disposal and Other Charges in Note 19 for the estimated impact of the reduced depreciation and amortization on segment operating profit.

See Note 4 for information regarding the 1996 recurring restaurant impairment charges.

The fifty-third week in 1994 increased 1994 net sales by an estimated \$434 million. See Items Affecting Comparability - Fiscal Year in Note 19 for the estimated impact of the fifty-third week on segment net sales and operating profit.

Note 3 - UNUSUAL IMPAIRMENT, DISPOSAL AND OTHER CHARGES

	1996		1995	
	(a)	Per Share	(a)	Per Share
International beverages	\$576	\$0.33		
Non-core U.S. restaurant businesses.....	246	0.12		
Initial adoption of SFAS 121.....			\$520	\$0.24
	\$822	\$0.45	\$520	\$0.24
	=====	=====	=====	=====

(a) Pre-tax amounts.

PepsiCo recognized unusual impairment, disposal and other charges of \$822 million (\$716 million after-tax or \$0.45 per share) in 1996. The International beverages charge included \$454 million (\$429 million after-tax or \$0.27 per share) related primarily to investments in unconsolidated affiliates and concentrate-related and non-core assets (primarily packaging) and its 24% equity share of unusual charges recorded by BAESA. In addition, it included a restructuring charge of \$122 million (\$98 million after-tax or \$0.06 per share) related to a fourth quarter reorganization into 10 business units and reduction of support staff. The charge primarily reflected severance-related costs, relocation costs for employees who, in 1996, accepted offers to relocate and facility closing costs. Included in the International beverages charges are impairment charges of \$373 million (see Note 4).

The non-core U.S. restaurant businesses charge of \$246 million (\$189 million after-tax or \$0.12 per share) was a result of a decision made by PepsiCo in the fourth quarter of 1996 to dispose of its non-core U.S. restaurant businesses; California Pizza Kitchen (CPK), Chevys, D'Angelo Sandwich Shops (D'Angelo) and East Side Mario's (ESM) and a first quarter decision to dispose of Hot 'n Now (HNN). The charge was primarily composed of impairment charges and estimated disposal costs (see Note 4). The remaining carrying amount of the assets of these non-core U.S. restaurant businesses of \$333 million is included in 1996 in Prepaid expenses, deferred income taxes and other current assets in the Consolidated Balance Sheet as PepsiCo plans to dispose of them in 1997. The non-core U.S. restaurant businesses contributed \$394 million, \$297 million and \$281 million to net sales in 1996, 1995 and 1994, respectively. Excluding the unusual impairment, disposal and other charges in 1996 and 1995, the non-core U.S. restaurant businesses incurred operating losses of \$10 million, \$42 million and \$40 million in 1996, 1995 and 1994, respectively.

PepsiCo early adopted SFAS 121 as of the beginning of the fourth quarter of 1995. The initial, noncash charge upon adoption of SFAS 121 was \$520 million (\$384 million after-tax or \$0.24 per share). See Note 4.

Note 4 - IMPAIRMENT OF LONG-LIVED ASSETS

Impairment charges of \$681 million (\$396 million after-tax or \$0.25 per share) in 1996 and \$520 million (\$384 million after-tax or \$0.24 per share) in 1995 included in the Consolidated Statement of Income are set forth below:

	1996	1995
International beverages		
Investments in unconsolidated affiliates.....	\$210	\$ -
Concentrate-related assets.....	110	-
Non-core assets.....	53	-
	-----	-----
	373	-
Non-core U.S. restaurant businesses	246	-
Initial adoption of SFAS 121.....	-	520
	-----	-----
Unusual charges.....	619	520
Restaurants-recurring SFAS 121 charges.....	62	-
	-----	-----
	\$681	\$520

The unusual charges and the recurring restaurant charges are included in unusual impairment, disposal and other charges and selling, general and administrative expenses, respectively, in the Consolidated Statement of Income.

The impairment charges represented a reduction of the carrying amounts of impaired Assets to their estimated fair market value. For assets to be held and used in the business, estimated fair market value was generally determined by using discounted estimated future cash flows. The estimated fair market value for assets to be disposed of was determined by using estimated selling prices based primarily upon the opinion of an investment banking firm, less costs to sell. Considerable management judgment is necessary to estimate fair market value. Accordingly, actual results could vary significantly from such estimates.

The International beverages assets were deemed impaired due to a reduction in forecasted cash flows that was attributable to increased competitive activity and weakened macroeconomic factors in various geographic regions and an estimate of the fair market value, less estimated costs to sell, of certain non-core businesses PepsiCo decided to dispose of.

The charges for PepsiCo's non-core U.S. restaurant businesses were a result of decisions made by PepsiCo to dispose of its non-core U.S. restaurant businesses: CPK, Chevys, D'Angelo, ESM and HNN. See Note 3.

The recurring SFAS 121 restaurant charge resulted from the semi-annual impairment evaluations of all restaurants that either initially met the "two-year history of operating losses" impairment indicator that PepsiCo uses to identify potentially impaired restaurants or were previously evaluated for impairment and, due to changes in circumstances, a current forecast of future cash flows would be expected to be significantly lower than the forecast used in the prior evaluation.

PepsiCo early adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," as of the beginning of the fourth quarter of 1995. The initial charge resulted from PepsiCo grouping assets at a lower level than under its previous accounting policy for evaluating and measuring impairment. This initial charge affected worldwide

restaurants, International beverages and, to a much lesser extent, International snack foods and certain unconsolidated affiliates.

As a result of the reduced carrying amount of certain long-lived assets due to the adoption of SFAS 121, depreciation and amortization expense for the fourth quarter of 1995 was reduced by \$21 million (\$15 million after-tax or \$0.01 per share) and for the first three quarters of 1996 by \$46 million (\$29 million after-tax or \$0.02 per share). See Items Affecting Comparability in Note 19.

Note 5 - INVENTORIES

	1996	1995
Raw materials and supplies.....	\$ 571	\$ 550
Finished goods.....	467	501
	-----	-----
	\$1,038	\$1,051
	=====	=====

The cost of 33% of 1996 inventories and 32% of 1995 inventories was computed using the last-in, first-out (LIFO) method. The carrying amount of total LIFO inventories was lower than the approximate current cost of those inventories by \$8 million at year-end 1996 and \$11 million at year-end 1995.

Note 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	1996	1995
Land.....	\$ 1,294	\$ 1,327
Buildings and improvements.....	5,838	5,668
Capital leases, primarily buildings.....	418	531
Machinery and equipment.....	9,503	8,598
Construction in progress.....	787	627
	-----	-----
	17,840	16,751
Accumulated depreciation.....	(7,649)	(6,881)
	-----	-----
	\$10,191	\$ 9,870
	=====	=====

Note 7 - INTANGIBLE ASSETS, NET

	1996	1995
Reacquired franchise rights.....	\$3,684	\$3,826
Trademarks.....	742	711
Other identifiable intangibles.....	220	286
Goodwill.....	2,490	2,761
	-----	-----
	\$7,136	\$7,584
	=====	=====

Identifiable intangible assets primarily arose from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets. Accumulated amortization, included in the amounts above, was \$2.1 billion



and \$1.8 billion at year-end 1996 and 1995, respectively.

Note 8 - ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	1996	1995
Accounts payable.....	\$1,565	\$1,556
Accrued compensation and benefits.....	847	815
Accrued selling and marketing.....	573	469
Other current liabilities.....	1,641	1,297
	-----	-----
	\$4,626	\$4,137
	=====	=====

Note 9 - LEASES

PepsiCo has noncancelable commitments under both capital and long-term operating leases, primarily for restaurant units. Capital and operating lease commitments expire at various dates through 2087 and, in many cases, provide for rent escalations and renewal options. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance. Sublease income and sublease receivables were insignificant.

Future minimum commitments under noncancelable leases are set forth below:

	1997	1998	1999	2000	2001	Later Years	Total
Capital	\$ 47	67	36	34	31	239	\$ 454
Operating	\$356	317	276	243	220	1,139	\$2,551

At year-end 1996, the present value of minimum payments under capital leases was \$263 million, after deducting \$1 million for estimated executory costs and \$190 million representing imputed interest.

The details of rental expense are set forth below:

	1996	1995	1994
Minimum.....	\$464	\$452	\$433
Contingent.....	28	27	32
	----	----	----
	\$492	\$479	\$465
	=====	=====	=====

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Note 10 - SHORT-TERM BORROWINGS AND LONG-TERM DEBT

	1996	1995
<hr/>		
SHORT-TERM BORROWINGS		
Commercial paper (5.4% and 5.7%)(A).....	\$ 1,176	\$ 2,006
Current maturities of long-term debt issuances (A)(B).....	1,918	1,405
Other borrowings (6.0% and 7.4%)(A)(C).....	432	795
Amount reclassified to long-term debt (D).....	(3,500)	(3,500)
	-----	-----
	\$ 26	\$ 706
	=====	=====
LONG-TERM DEBT		
Short-term borrowings, reclassified (D).....	\$ 3,500	\$ 3,500
Notes due 1997-2011 (6.4% and 6.4%) (A).....	3,111	3,886
Various foreign currency debt, due 1997-2001 (5.5% and 5.6%) (A)(C).....	1,448	677
Zero coupon notes, \$1.5 billion due 1997-2012 (7.9% and 11.1% annual yield to maturity) (A).....	930	395
Euro notes due 1997-1999 (5.5% and 5.7%) (A).....	700	550
Swiss franc perpetual Foreign Interest Payment bonds (E).....	39	214
Capital lease obligations (See Note 9).....	263	294
Other, due 1997-2020 (7.1% and 7.4%).....	366	398
	-----	-----
	10,357	9,914
Less current maturities of long-term debt issuances (B).....	(1,918)	(1,405)
	-----	-----
	\$ 8,439	\$ 8,509
	=====	=====
<hr/>		

The interest rates in the above table included the effects of associated interest rate and currency swaps at year-end 1996 and 1995. See Note 11 for a discussion of PepsiCo's use of interest rate and currency swaps, its management of the inherent credit risk and fair value information related to debt and interest rate and currency swaps.

The carrying amount of long-term debt includes any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which are currently significant to PepsiCo.

The annual maturities of long-term debt through 2001, excluding capital lease obligations and the reclassified short-term borrowings, are: 1997-\$1.9 billion, 1998-\$1.9 billion, 1999-\$1.1 billion, 2000-\$952 million and 2001-\$218 million.

(A) The following table indicates the notional amount and weighted average interest rates, by category, of interest rate swaps outstanding at year-end 1996 and 1995, respectively. The weighted average variable interest rates that PepsiCo pays, which are primarily indexed to either commercial paper or LIBOR rates, were based on rates as of the respective balance sheet date and are subject to change. Terms of interest rate swaps generally match the terms of the debt they modify. The swaps terminate at various dates through 2011.

	1996	1995
Receive fixed-pay variable		
Notional amount.....	\$3,976	\$2,657
Weighted average receive rate.....	6.6%	6.8%
Weighted average pay rate.....	5.5%	5.7%
Receive variable-pay variable		
Notional amount.....	\$ 552	\$ 577
Weighted average receive rate.....	5.5%	5.7%
Weighted average pay rate.....	5.7%	5.8%
Receive variable-pay fixed		
Notional amount.....	\$ 215	\$ 215
Weighted average receive rate.....	5.6%	5.8%
Weighted average pay rate.....	8.2%	8.2%

The following table identifies the composition of total debt (excluding capital lease obligations and before the reclassification of amounts from short-term borrowings) after giving effect to the impact of interest rate swaps. All short-term borrowings are considered variable interest rate debt for purposes of this table.

	1996		1995	
	Carrying Amount	Weighted Average Interest Rate	Carrying Amount	Weighted Average Interest Rate
Variable interest rate debt				
Short-term borrowings.....	\$3,504	5.7%	\$4,177	6.4%
Long-term debt.....	2,573	5.5%	2,103	5.8%
	6,077	5.6%	6,280	6.2%
Fixed interest rate debt.....	2,125	7.9%	2,641	7.4%
	\$8,202	6.2%	\$8,921	6.6%

(B) Included certain long-term notes aggregating \$110 million, which are reasonably expected to be called, without penalty, by PepsiCo in 1997. The 1996 amount was \$248 million. The expectation is based upon the belief of PepsiCo management that, based upon projected yield curves, our counterparties to interest rate swaps, which were entered into to modify these notes, will exercise their option to early terminate the swaps without penalty. Also included in 1995 is the \$214 million carrying amount of the Swiss franc perpetual Foreign Interest Payment bonds in 1995, which were expected to be redeemed in 1996. At year-end 1996, \$39 million of these bonds were still outstanding and are classified as long-term debt (see (E) below).

(C) PepsiCo has entered into currency swaps to hedge its currency exposure on non-U.S. dollar denominated debt. At year-end 1996, the aggregate carrying amount of the debt was \$1.8 billion and the receivables and payables under related currency swaps were \$54 million and \$59 million, respectively, resulting in a net effective U.S. dollar liability of \$1.8 billion with a weighted average interest rate of 5.6%, including the

effects of related interest rate swaps. At year-end 1995, the carrying amount of this debt aggregated \$696 million and the receivables and payables under related currency swaps aggregated \$5 million and \$12 million, respectively, resulting in a net effective U.S. dollar liability of \$703 million with a weighted average interest rate of 5.8%, including the effects of related interest rate swaps.

(D) At year-end 1996 and 1995, PepsiCo had unused revolving credit facilities covering potential borrowings aggregating \$3.5 billion expiring in 2001 and 2000, respectively. Effective January 10, 1997, PepsiCo extended to 2002 \$3.3 billion of the credit facilities. At year-end 1996 and 1995, \$3.5 billion of short-term borrowings were classified as long-term debt, reflecting PepsiCo's intent and ability, through the existence of the unused credit facilities, to refinance these borrowings. These credit facilities exist largely to support the issuances of short-term borrowings and are available for general corporate purposes.

(E) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 was 7 1/2% through 1996, and 5.6% through 2006. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying amount. Interest payments are made in U.S. dollars and are calculated by applying the coupon rate to the original U.S. dollar principal proceeds. This debt was included in current maturities of long-term debt (see (B) above) at year-end 1995 because the bondholders had the right to cause PepsiCo to redeem the debt in 1996 on its 10-year anniversary date. During 1996, \$175 million of this debt was redeemed.

#### Note 11 - FINANCIAL INSTRUMENTS

##### Derivative Instruments

PepsiCo's policy prohibits the use of derivative instruments for trading purposes and PepsiCo has procedures in place to monitor and control their use.

PepsiCo's use of derivative instruments is primarily limited to interest rate and currency swaps, which are entered into with the objective of reducing borrowing costs. PepsiCo enters into interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances. These swaps are generally entered into concurrently with the issuance of the debt they are intended to modify. The notional amount, interest payment dates and maturity dates of the swaps generally match the principal, interest payment dates 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. PepsiCo's credit risk related to interest rate and currency swaps is considered low because they are only entered into with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. See Note 10 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

Fair Value

-----

The carrying amounts and fair values of PepsiCo's financial instruments are as follows:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	-----	-----	-----	-----
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 447	\$ 447	\$ 382	\$ 382
Short-term investments.....	\$ 339	\$ 339	\$1,116	\$1,116
Other assets (noncurrent investments) .....	\$ 15	\$ 15	\$ 23	\$ 23
<b>LIABILITIES</b>				
<b>Debt</b>				
Short-term borrowings and long-term debt, net of capital leases.....	\$8,202	\$8,298	\$8,921	\$9,217
<b>Debt-related derivative instruments</b>				
Open contracts in asset position.....	(91)	(122)	(25)	(96)
Open contracts in liability position.....	62	74	13	26
Net debt.....	\$8,173	\$8,250	\$8,909	\$9,147
<b>Other liabilities</b>				
(GEMEX put option).....	\$ 28	\$ 28	\$ 30	\$ 30
Guarantees.....	-	\$ 25	-	\$ 4

The carrying amounts in the above table are included in the Consolidated Balance Sheet under the indicated captions, except for debt-related derivative instruments (interest rate and currency 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. Noncurrent investments mature at various dates through 2000.

Because of the short maturity of cash equivalents and short-term investments, the carrying amount approximates fair value. The fair value of noncurrent investments is based upon market quotes. The fair value of debt, debt-related derivative instruments and guarantees is estimated using market quotes, valuation models and calculations based on market rates. The fair value of the GEMEX put option (see Note 1) is based upon a valuation model.

Note 12 - EMPLOYEE STOCK OPTIONS

PepsiCo grants stock options to employees pursuant to three different incentive plans - the SharePower Stock Option Plan (SharePower), the Long-Term Incentive Plan (LTIP) and the Stock Option Incentive Plan (SOIP). All stock option grants are authorized by the Compensation Committee of

PepsiCo's Board of Directors (the Committee), which is comprised of outside directors.

Under SharePower, approved by the Board of Directors and effective in 1989, essentially all full-time employees, other than executive officers and short-service employees, may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over 5 years from the grant date and must be exercised within 10 years of the grant date. SharePower options of 12 million were granted to approximately 130,000 employees in 1996; 16 million to 134,000 employees in 1995; and 23 million to 128,000 employees in 1994.

The shareholder-approved 1994 LTIP succeeds and continues the principal features of the shareholder-approved 1987 LTIP (the 1987 Plan). PepsiCo ceased making grants under the 1987 Plan at the end of 1994. Together, these plans comprise the LTIP. At year-end 1996, there were 121 million shares available for future grants under the LTIP.

Most LTIP stock options are granted every other year to senior management employees. Most of these options become exercisable after 4 years and must be exercised within 10 years from their grant date. In addition, the LTIP allows for grants of performance share units (PSUs). The value of a PSU is fixed at the value of a share of stock at the grant date and vests for payment 4 years from the grant date, contingent upon attainment of prescribed Corporate performance goals. PSUs are not directly granted, as certain stock options granted may be exchanged by employees for a specified number of PSUs within 60 days of the option grant date. At year-end 1996, 1995 and 1994, there were 916,100, 1,198,200 and 1,258,400 PSUs outstanding, respectively. Payment of PSUs are made in cash and/or stock as approved by the Committee. Amounts expensed for PSUs were \$5 million for both 1996 and 1995 and \$7 million in 1994.

In 1995, the Committee approved the 1995 SOIP for middle-management employees. SOIP stock options are expected to be granted annually and are exercisable after 1 year and must be exercised within 10 years after their grant date. At year-end 1996, there were 37 million shares available for future grants under the SOIP. In 1994, grants similar to those under the SOIP were made under the LTIP to a more limited number of middle-management employees.

Effective in 1996, PepsiCo adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." As permitted under SFAS 123, PepsiCo will continue to measure stock-based compensation cost as the excess of the quoted market price of PepsiCo's capital stock at the grant date over the amount the employee must pay for the stock.

SFAS 123 requires disclosure of pro forma net income and pro forma net income per share as if the fair value-based method had been applied in measuring compensation cost for stock-based awards granted in 1996 and 1995. Management believes that 1996 and 1995 pro forma amounts are not representative of the effects of stock-based awards on future pro forma net income and pro forma net income per share because those pro forma amounts exclude the pro forma compensation expense related to unvested stock options granted before 1995.

Reported and pro forma net income and net income per share amounts are set forth below:

	1996	1995
Reported		
Net income	\$1,149	\$1,606
Net income per share	\$ 0.72	\$ 1.00
Pro forma		
Net income	\$1,081	\$1,590
Net income per share	\$ 0.67	\$ 0.99

The fair values of the options granted were estimated on the date of their grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	1996	1995
Risk free interest rate	6.0%	6.2%
Expected life	6 years	5 years
Expected volatility	20%	20%
Expected dividend yield	1.5%	1.75%

Stock option activity for 1996, 1995 and 1994 is set forth below:

(Options in thousands)

	1996		1995		1994	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	160,662	\$16.10	165,162	\$14.60	133,570	\$13.43
Granted	51,305	31.19	26,390	22.70	55,740	17.34
Exercised	(22,687)	14.19	(21,181)	11.91	(9,744)	10.01
Surrendered for PSUs	(431)	29.91	(201)	20.67	(3,082)	19.48
Forfeited	(11,632)	23.13	(9,508)	17.69	(11,322)	16.79
Outstanding at end of year	177,217	20.22	160,662	16.10	165,162	14.60
Exercisable at end of year	80,482	14.92	65,474	12.63	69,107	11.66
Weighted-average fair value of options granted during the year	\$ 8.89		\$ 5.53			



Stock options outstanding at December 28, 1996:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 4.38 to \$ 8.79	14,163	2.51 yrs.	\$ 6.55	11,089	\$ 7.01
\$ 8.82 to \$17.63	63,658	5.35	14.70	49,653	14.41
\$18.16 to \$35.56	99,396	8.32	25.70	19,740	20.65
	-----			-----	
	177,217	6.79	20.22	80,482	14.92
	=====			=====	

Note 13 - POSTEMPLOYMENT BENEFITS OTHER THAN TO RETIREES

Effective the beginning of 1994, PepsiCo adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." The principal effect to PepsiCo resulted from accruing severance benefits to be provided to employees of certain business units who are terminated in the ordinary course of business over the expected service lives of the employees. Previously, these benefits were accrued upon the occurrence of an event. Severance benefits resulting from actions not in the ordinary course of business will continue to be accrued when those actions occur. The cumulative effect charge upon adoption of SFAS 112, which relates to years prior to 1994, was \$84 million (\$55 million after-tax or \$0.03 per share).

Note 14 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

PepsiCo provides postretirement health care benefits to eligible retired employees and their dependents, principally in the U.S. Retirees who have 10 years of service and attain age 55 while in service with PepsiCo are eligible to participate in the postretirement benefit plans. The plans are not funded and were largely noncontributory through 1993.

Effective in 1993 and 1994, PepsiCo implemented programs intended to stem rising costs and introduced retiree cost-sharing, including adopting a provision that limits its future obligation to absorb health care cost inflation. These amendments resulted in an unrecognized prior service gain of \$191 million, which is being amortized on a straight-line basis over the average remaining employee service period of approximately 10 years as a reduction in postretirement benefit expense beginning in 1993.

The components of postretirement benefit expense for 1996, 1995 and 1994 are set forth below:

	1996	1995	1994
Service cost of benefits earned.....	\$ 15	\$ 13	\$ 19
Interest cost on accumulated postretirement benefit obligation.....	46	46	41
Amortization of prior service gain.....	(20)	(20)	(20)
Amortization of net loss/(gain).....	2	(1)	6
	----	----	----
	\$ 43	\$ 38	\$ 46
	====	====	====

The components of the 1996 and 1995 postretirement benefit liability recognized in the Consolidated Balance Sheet are set forth below:

	1996	1995
Actuarial present value of postretirement benefit obligation		
Retirees.....	\$(288)	\$(344)
Fully eligible active plan participants.....	(103)	(96)
Other active plan participants.....	(166)	(171)
	----	----
Accumulated postretirement benefit obligation.....	(557)	(611)
Unrecognized prior service gain.....	(115)	(132)
Unrecognized net (gain)/loss.....	(17)	68
	----	----
	\$(689)	\$(675)
	====	====

The discount rate assumptions used to compute the accumulated postretirement benefit obligation were 7.8% and 7.7% in 1996 and 1995, respectively.

As a result of the plan amendments discussed above, separate assumed health care cost trend rates are used for employees who retire before and after the effective date of the amendments. The assumed health care cost trend rate for employees who retired before the effective date was 8.1% for 1997, declining gradually to 5.5% in 2010 and thereafter. For employees retiring after the effective date, the trend rate was 7.0% for 1997, declining to zero in 2004 and thereafter. A 1 point increase in the assumed health care cost trend rate would have increased the 1996 postretirement benefit expense by \$2 million and would have increased the 1996 accumulated postretirement benefit obligation by \$23 million.

#### Note 15 - PENSION PLANS

PepsiCo sponsors noncontributory defined benefit pension plans covering substantially all full-time U.S. employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the U.S. plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for U.S. income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed-income obligations. The U.S. plans' assets included 12.2

million and 13.7 million shares of PepsiCo capital stock in 1996 and 1995, with a market value of \$344 million and \$350 million, respectively. In the interest of maintaining an appropriate level of diversification within the U.S. plans' asset portfolio, 1.5 million shares of PepsiCo capital stock were sold during the 1996 plan year to offset the large increase in market value of PepsiCo capital stock holdings relative to other portfolio assets. Dividends on PepsiCo capital stock of \$5 million were received by the U.S. plans in both 1996 and 1995.

The components of net pension expense for U.S. company-sponsored plans are set forth below:

	1996	1995	1994
Service cost of benefits earned.....	\$ 80	\$ 60	\$ 70
Interest cost on projected benefit obligation.....	110	92	84
Return on plan assets			
Actual (gain)/loss.....	(192)	(338)	20
Deferred gain/(loss).....	65	221	(131)
	(127)	(117)	(111)
Amortization of net transition gain.....	(19)	(19)	(19)
Net other amortization.....	12	5	9
	\$ 56	\$ 21	\$ 33
	=====	=====	=====

Reconciliations of the funded status of the U.S. plans to the pension liability recognized in the Consolidated Balance Sheet are set forth below:

	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1996	1995	1996	1995
-----				
Actuarial present value of benefit obligation				
Vested benefits.....	\$(1,159)	\$ (824)	\$ (53)	\$(270)
Nonvested benefits.....	(154)	(110)	(5)	(30)
	-----	-----	-----	-----
Accumulated benefit obligation.....	(1,313)	(934)	(58)	(300)
Effect of projected compensation increases.....	(175)	(155)	(80)	(78)
	-----	-----	-----	-----
Projected benefit obligation.....	(1,488)	(1,089)	(138)	(378)
Plan assets at fair value.....	1,547	1,152	17	267
	-----	-----	-----	-----
Plan assets in excess of (less than) projected benefit obligation.....	59	63	(121)	(111)
Unrecognized prior service cost.....	65	37	23	51
Unrecognized net (gain)/loss .....	(53)	(20)	38	34
Unrecognized net transition (gain)/loss.....	(35)	(51)	-	(3)
Adjustment required to recognize minimum liability.....	-	-	-	(26)
	-----	-----	-----	-----
Prepaid (accrued) pension liability.....	\$ 36	\$ 29	\$ (60)	\$ (55)
	=====	=====	=====	=====
-----				

The assumptions used to compute the U.S. information above are set forth below:

	1996	1995	1994
-----			
Expected long-term rate of return on plan assets.....	10.0%	10.0	10.0
Discount rate - projected benefit obligation.....	7.7%	7.7	9.0
Future compensation growth rate.....	3.2%-6.6%	3.3-6.6	3.3-7.0
-----			

The components of net pension expense for international company-sponsored plans are set forth below:

	1996	1995	1994
Service cost of benefits earned.....	\$ 13	\$ 11	\$ 15
Interest cost on projected benefit obligation.....	19	16	15
Return on plan assets			
Actual (gain)/loss.....	(39)	(31)	8
Deferred gain/(loss).....	10	6	(32)
	----	----	----
	(29)	(25)	(24)
Net other amortization.....	1	-	2
	----	----	----
	\$ 4	\$ 2	\$ 8
	====	====	====

Reconciliations of the funded status of the international plans to the pension liability recognized in the Consolidated Balance Sheet are set forth below:

	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1996	1995	1996	1995
Actuarial present value of benefit obligation				
Vested benefits.....	\$(179)	\$(144)	\$(30)	\$(34)
Nonvested benefits.....	(5)	(2)	(4)	(1)
	----	----	----	----
Accumulated benefit obligation.....	(184)	(146)	(34)	(35)
Effect of projected compensation increases.....	(34)	(23)	(13)	(12)
	----	----	----	----
Projected benefit obligation.....	(218)	(169)	(47)	(47)
Plan assets at fair value.....	289	235	17	18
	----	----	----	----
Plan assets in excess of (less than) projected benefit obligation.....	71	66	(30)	(29)
Unrecognized prior service cost.....	4	3	-	-
Unrecognized net loss/(gain).....	24	16	5	4
Unrecognized net transition (gain)/loss.....	(1)	(1)	3	4
Adjustment required to recognize minimum liability.....	-	-	(3)	(2)
	----	----	----	----
Prepaid (accrued) pension liability.....	\$ 98	\$ 84	\$(25)	\$(23)
	====	====	====	====

The assumptions used to compute the international information above are set forth below:

	1996	1995	1994
Expected long-term rate of return on plan assets.....	11.4%	11.3	11.3
Discount rate - projected benefit obligation.....	8.4%	8.8	9.3
Future compensation growth rate.....	3.0%-10.5%	3.0-11.8	3.0-8.5

The discount rates and rates of return for the international plans represent weighted averages.

In 1994, PepsiCo changed the method for calculating the market-related value of plan assets used in determining the return-on-assets component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization. Under the previous accounting method, the calculation of the market-related value of assets reflected amortization of the actual capital return on assets on a straight-line basis over a five-year period. Under the new method, the calculation of the market-related value of assets reflects the long-term rate of return expected by PepsiCo and amortization of the difference between the actual return (including capital, dividends and interest) and the expected return over a five-year period. PepsiCo believes the new method is widely used in practice and is preferable because it results in calculated plan asset values that more closely approximate fair value, while still mitigating the effect of annual market-value fluctuations. This change resulted in a noncash benefit in 1994 of \$38 million (\$23 million after-tax or \$0.01 per share) representing the cumulative effect of the change related to years prior to 1994.

#### Note 16 - INCOME TAXES

The details of the provision for income taxes on income before cumulative effect of accounting changes are set forth below:

	1996	1995	1994
Current:			
Federal.....	\$520	\$ 706	\$642
Foreign.....	262	154	174
State.....	105	77	131
	-----	-----	-----
	887	937	947
	-----	-----	-----
Deferred:			
Federal.....	102	(92)	(64)
Foreign.....	(55)	(18)	(2)
State.....	(36)	(1)	(1)
	-----	-----	-----
	11	(111)	(67)
	-----	-----	-----
	\$898	\$ 826	\$880
	=====	=====	=====

U.S. and foreign income before income taxes and cumulative effect of accounting changes are set forth below:

	1996	1995	1994
U.S.....	\$2,015	\$1,792	\$1,762
Foreign.....	32	640	902
	-----	-----	-----
	\$2,047	\$2,432	\$2,664
	=====	=====	=====

PepsiCo operates centralized concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The U.S. amount in the above table included approximately 73%, 70% and 50% in 1996, 1995 and 1994, respectively, (consistent with the income subject to U.S. tax) of the income from sales of concentrate manufactured in Puerto Rico. The increases in 1996 and 1995 reflected the effects of the 1993 U.S. Federal income tax legislation, which limited the U.S. Federal tax credit on income earned in Puerto Rico. See Management's Analysis - Provision for Income Taxes beginning on page 17 for a discussion of the reduction of the U.S. Federal tax credit associated with beverage concentrate operations in Puerto Rico.

A reconciliation of the U.S. Federal statutory tax rate to PepsiCo's effective tax rate is set forth below:

	1996	1995	1994
U.S. Federal statutory tax rate.....	35.0%	35.0%	35.0%
State income tax, net of Federal tax benefit.....	2.8	2.0	3.2
Effect of lower taxes on foreign results (including Puerto Rico and Ireland).....	(0.9)	(3.0)	(5.4)
Adjustment to the beginning-of-the-year deferred tax assets valuation allowance.....	-	-	(1.3)
Settlement of prior years' audit issues.....	(2.4)	(4.1)	-
Effect of unusual impairment, disposal and other charges.....	8.9	1.4	-
Non-deductible amortization of U.S. goodwill.....	1.1	1.0	0.8
Other, net.....	(0.6)	1.7	0.7
	----	----	----
Effective tax rate.....	43.9%	34.0%	33.0%
	=====	=====	=====

In accordance with generally accepted accounting principles, deferred tax liabilities have not been recognized for bases differences that are essentially permanent in duration related to investments in foreign subsidiaries and unconsolidated affiliates. These differences, which consist primarily of unremitted earnings intended to be indefinitely reinvested, aggregated approximately \$4.0 billion at year-end 1996 and \$4.5 billion at year-end 1995, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

The details of the 1996 and 1995 deferred tax liabilities (assets) are set forth below:

	1996	1995
Intangible assets other than nondeductible goodwill.....	\$ 1,635	\$ 1,631
Property, plant and equipment.....	387	496
Safe harbor leases.....	143	165
Zero coupon notes.....	103	100
Other.....	394	257
	-----	-----
Gross deferred tax liabilities.....	2,662	2,649
	-----	-----
Net operating loss carryforwards.....	(503)	(418)
Postretirement benefits.....	(254)	(248)
Casualty claims.....	(123)	(119)
Various current liabilities and other.....	(749)	(790)
	-----	-----
Gross deferred tax assets.....	(1,629)	(1,575)
Deferred tax assets valuation allowance.....	560	498
	-----	-----
Net deferred tax assets.....	(1,069)	(1,077)
	-----	-----
Net deferred tax liability.....	\$ 1,593	\$ 1,572
	=====	=====
Included in		
Prepaid expenses, deferred income taxes and other current assets.....	\$ (185)	\$ (313)
Deferred income taxes.....	1,778	1,885
	-----	-----
	\$ 1,593	\$ 1,572
	=====	=====

The valuation allowance related to deferred tax assets increased by \$62 million in 1996 primarily due to additions related to current year operating losses and temporary differences in a number of foreign and state jurisdictions.

Net operating loss carryforwards totaling \$2.5 billion at year-end 1996 are available to reduce future tax of certain subsidiaries and are related to a number of foreign and state jurisdictions. Of these carryforwards, \$21 million expire in 1997, \$2.2 billion expire at various times between 1998 and 2010 and \$291 million may be carried forward indefinitely.

Tax benefits associated with exercises of stock options of \$145 million in 1996, \$91 million in 1995 and \$27 million in 1994 were credited to shareholders' equity.

#### Note 17 - STOCK OFFERING BY AN UNCONSOLIDATED AFFILIATE

In 1993, PepsiCo entered into an arrangement with the principal shareholders of Buenos Aires Embotelladora S.A. (BAESA), a franchised bottler which currently has operations in Argentina, Brazil, Chile, Costa Rica and Uruguay, to form a joint venture. PepsiCo contributed certain assets, primarily bottling operations in Chile and Uruguay, while the principal shareholders contributed all of their shares in BAESA, representing 73% of the voting control and 43% of the ownership interest. Through this arrangement, PepsiCo's beneficial ownership in BAESA, which is accounted for by the equity method, was 26%. Under PepsiCo's partnership



agreement with the principal shareholders of BAESA, voting control of BAESA will be transferred to PepsiCo no later than December 31, 1999.

On March 24, 1994, BAESA completed a public offering of 3 million American Depositary Shares (ADS) at \$34.50 per ADS, which are traded on the New York Stock Exchange. In conjunction with the offering, PepsiCo and certain other shareholders exercised options for the equivalent of 2 million ADS. As a result of these transactions, PepsiCo's ownership in BAESA declined to 24%. The transactions generated cash proceeds for BAESA of \$136 million. The resulting one-time, noncash gain to PepsiCo was \$18 million (\$17 million after-tax or \$0.01 per share).

#### Note 18 - CONTINGENCIES

PepsiCo is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition. PepsiCo was contingently liable under guarantees for \$338 million and \$283 million at year-end 1996 and 1995, respectively. At year-end 1996, \$74 million represented contingent liabilities to lessors as a result of PepsiCo assigning its interest in real estate leases as a condition to the refranchising of company-operated restaurants. The \$74 million represented the present value of the minimum payments of the assigned leases, excluding any renewal option periods, discounted at PepsiCo's pre-tax cost of debt. On a nominal basis, the contingent liability resulting from the assigned leases was \$115 million. The balance of the contingent liabilities primarily reflected guarantees to support financial arrangements of certain unconsolidated affiliates, and other restaurant franchisees.

#### Note 19 - BUSINESS SEGMENTS

PepsiCo operates on a worldwide basis within three industry segments: beverages, snack foods and restaurants. However, as discussed in Note 21 and Management's Analysis - Restaurants beginning on page 26, PepsiCo announced in 1997 that it would pursue a spin off of its Pizza Hut, Taco Bell and KFC businesses to its shareholders as an independent publicly-traded company and explore the possibility that PFS would be sold separately. In addition, decisions were made in 1996 to sell PepsiCo's non-core U.S. restaurant businesses (see Note 3).

##### Beverages

- - - - -

The beverage segment (beverages) markets and distributes its Pepsi-Cola, Diet Pepsi, Mountain Dew and other brands worldwide, and 7UP, Diet 7UP, Mirinda, Pepsi Max and other brands internationally. Beverages manufactures concentrates of its brands for sale to franchised bottlers worldwide. Beverages operates bottling plants and distribution facilities located in North America and in various International markets for the production and distribution of company-owned and licensed brands. Beverages also manufactures and distributes ready-to-drink Lipton tea products in North America.

Beverages products are available in 191 countries and territories outside North America, including emerging markets such as China, the Czech Republic, Hungary, India, Poland, Russia and Slovakia. Principal International markets include Argentina, Brazil, China, Mexico, Saudi Arabia, Spain, Thailand and the U.K. Investments in unconsolidated affiliates are primarily in franchised bottling and distribution operations. Internationally, the largest investments in unconsolidated affiliates are GEMEX (Mexico), General Bottlers (Poland), Serm Suk (Thailand) and SOPRESA (Venezuela) as well as the aggregate of several investments in China. The primary investment in the U.S. is General Bottlers.

#### Snack Foods

- - - - -

The snack food segment (snack foods) manufactures, distributes and markets salty and sweet snacks worldwide, with Frito-Lay representing the North American business. Products primarily manufactured and distributed in North America include Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Fritos brand corn chips, Chee.tos brand cheese flavored snacks, Rold Gold brand pretzels, a variety of dips and salsas and other brands. Low-fat and no-fat versions of several core brands are also manufactured and distributed in North America. Snack Foods products are available in 81 countries and territories outside North America. Principal International markets include Australia, Brazil, France, Mexico, the Netherlands, Poland, Spain and the U.K. International snack foods manufactures and distributes salty snacks in almost all countries and sweet snacks in certain countries, primarily in France, Mexico and Poland. Snack Foods has investments in several unconsolidated affiliates outside the U.S., the largest of which are Snack Ventures Europe (SVE), a joint venture with General Mills, Inc., which has operations on the continent of Europe, and an investment in Simba, a snack food operation in South Africa.

#### Restaurants

- - - - -

The restaurant segment (restaurants) is engaged principally in the operation, development, franchising and licensing of the worldwide Pizza Hut, Taco Bell and KFC concepts. Restaurants also operates other non-core U.S. businesses including CPK, Chevys, D'Angelo, ESM and HNN. PepsiCo Restaurant Services Group (PRSG), a new unit formed in 1996 which also includes the existing operations of PFS, PepsiCo's restaurant distribution operation, is responsible for the consolidation of many restaurants activities. The activities include licensing arrangements in non-traditional locations, real estate and asset management and accounting services for the U.S. operations in addition to worldwide procurement. PFS provides food, supplies and equipment to company-operated, franchised and licensed units, principally in the U.S. Net sales and the related estimated operating profit of PFS' franchisee and licensee operations have been included in U.S. restaurants results.

Pizza Hut, Taco Bell and KFC operate throughout the U.S. Pizza Hut, KFC and, to a lesser extent, Taco Bell operate in 94 countries and territories outside the U.S. Principal international markets include Australia, Canada, Japan, Korea, Mexico, New Zealand, Spain and the U.K. Restaurants has investments in several unconsolidated affiliates outside the U.S., the most significant of which are located in Japan and the U.K.

Unallocated expenses, net included corporate headquarters expenses, minority interests, primarily in the Gamesa (Mexico) and Wedel (Poland) snack food businesses, foreign exchange translation and transaction gains and losses and other items not allocated to the business segments. Corporate identifiable assets consist principally of cash and cash equivalents and short-term investments, primarily held outside the U.S.

PepsiCo has invested in about 85 unconsolidated affiliates in which it exercises significant influence but not control. As noted above, the investments are primarily international and principally within PepsiCo's three industry segments.

PepsiCo's year-end investments in unconsolidated affiliates totaled \$1.4 billion in 1996 and \$1.6 billion in 1995. The decrease in 1996 reflected the unusual impairment, disposal and other charges of \$256 million recorded by International beverages (see below) and the consolidation of CPK, previously an unconsolidated equity investment, at the end of the second quarter of 1996. Significant investments in unconsolidated affiliates at year-end 1996 included a combined \$306 million in General Bottlers U.S. and Poland, \$206 million in GEMEX, \$140 million in a KFC Japan joint venture and \$99 million in SVE.

#### ITEMS AFFECTING COMPARABILITY

##### UNUSUAL IMPAIRMENT, DISPOSAL AND OTHER CHARGES

Beverages and restaurants operating profit and equity (loss) income included \$320 million, \$246 million and \$256 million, respectively, of unusual impairment, disposal and other charges in 1996. The charges included in beverages operating profit and equity (loss) income reflected impairment, disposal and other costs related to International investments in unconsolidated affiliates and concentrate-related and non-core assets as well as costs associated with a restructuring of International operations. The restaurants charge reflected management's decisions in 1996 to dispose of all of its non-core U.S. restaurant businesses: CPK, Chevys, D'Angelo, ESM and HNN. See Note 3.

PepsiCo adopted SFAS 121 as of the beginning of the fourth quarter of 1995. See Note 4. The initial, noncash charges reduced operating profit as follows:

	1995
	----
Beverages.....	\$ 62
Snack Foods .....	4
Restaurants(a).....	437
	----
Combined Segments .....	503
Equity (Loss) Income(b).....	17
	---
	\$520

- (a) HNN and Chevys incurred \$103 of this charge, with HNN responsible for almost all of the charge.
- (b) Primarily related to CPK.

As a result of the reduced carrying amount of certain of PepsiCo's long-lived assets to be held and used in the business in connection with the 1995 adoption of SFAS 121, depreciation and amortization expense for the first three quarters of 1996 and the fourth quarter of 1995 was reduced by \$46 million and \$21 million, respectively, as follows:

	1996	1995
	----	----
Beverages	\$ 6	\$ 4
Restaurants	40	16
Equity (Loss) Income	-	1
	---	---
	\$46	\$21
	===	===

#### RECURRING RESTAURANT IMPAIRMENT

Restaurants operating profit in 1996 included impairment charges of \$62 million as a result of the ongoing application of SFAS 121 to long-lived assets held and used in the business. See Note 4.

#### NET REFRANCHISING GAINS

Restaurants operating profit in 1996 and 1995 included net gains of \$99 million and \$55 million, respectively, from refranchising of restaurants in excess of the cost of closing other restaurants. These gains compared to \$10 million of costs in 1994 to close stores.

#### FISCAL YEAR

Fiscal year 1994 consisted of 53 weeks, and the years 1995 and 1996 consisted of 52 weeks. The fifty-third week increased 1994 consolidated net sales by an estimated \$434 million and beverages, snack foods and restaurants net sales by \$119 million, \$143 million and \$172 million, respectively. The fifty-third week increased 1994 consolidated operating profit by an estimated \$65 million and beverages, snack foods and restaurants operating profit by \$17 million, \$26 million and \$23 million, respectively, and increased unallocated expenses, net by \$1 million.

	1996	1995	1994
<b>NET SALES</b>			
Beverages	\$10,524	\$10,382	\$ 9,566
Snack Foods	9,680	8,545	8,264
Restaurants	11,441	11,328	10,521
	-----	-----	-----
	\$31,645	\$30,255	\$28,351
	=====	=====	=====
<b>OPERATING PROFIT (a)</b>			
Beverages	\$ 890	\$ 1,309	\$ 1,217
Snack Foods	1,608	1,432	1,377
Restaurants	511	430	730
	-----	-----	-----
Combined Segments	3,009	3,171	3,324
Equity (Loss) Income	(266)	(3)	38
Unallocated Expenses, net	(197)	(181)	(161)
	-----	-----	-----
Operating Profit	\$ 2,546	\$ 2,987	\$ 3,201
	=====	=====	=====

(a) See Items Affecting Comparability beginning on page F-32.

	Net Sales		
	1996	1995	1994
Europe	\$ 2,865	\$ 2,783	\$ 2,177
Canada	1,340	1,299	1,244
Mexico	1,334	1,228	2,023
Other	3,658	3,437	2,782
Total International	9,197	8,747	8,226
United States	22,448	21,508	20,125
Combined Segments	\$31,645	\$30,255	\$28,351

	Segment Operating Profit (Loss)		
	1996(c)	1995(c)	1994
Europe	\$ (90)	\$ (65)	\$ 17
Canada	134	86	82
Mexico	116	80	261
Other	(73)	342	258
Total International	87	443	618
United States	2,922	2,728	2,706
Combined Segments	\$ 3,009	\$ 3,171	\$ 3,324

	Identifiable Assets		
	1996	1995	1994
Europe	\$ 3,159	\$ 3,127	\$ 3,062
Canada	1,354	1,344	1,342
Mexico	661	637	995
Other	2,628	2,629	2,196
Total International	7,802	7,737	7,595
United States	14,728	14,505	14,218
Combined Segments	22,530	22,242	21,813
Investments in Unconsolidated Affiliates	1,375	1,635	1,295
Corporate	607	1,555	1,684
	\$24,512	\$25,432	\$24,792

(b) The results of centralized concentrate manufacturing operations in Puerto Rico and Ireland have been allocated based upon sales to the respective geographic areas.

(c) The unusual impairment, disposal and other charges reduced combined segment operating profit by \$822 (United States - \$246, Europe - \$69, Mexico - \$4, Other - \$503) in 1996 and \$503 (United States - \$302, Europe - \$119, Mexico - \$21, Canada - \$30, Other - \$31) in 1995 (see



	1996	1995	1994
Amortization of Intangible Assets			
Beverages	\$ 164	\$ 166	\$ 165
Snack Foods	41	41	42
Restaurants	96	109	105
	-----	-----	-----
	\$ 301	\$ 316	\$ 312
	=====	=====	=====
Depreciation Expense			
Beverages	\$ 440	\$ 445	\$ 385
Snack Foods	346	304	297
Restaurants	546	579	539
Corporate	7	7	7
	-----	-----	-----
	\$ 1,339	\$ 1,335	\$ 1,228
	=====	=====	=====
Identifiable Assets			
Beverages	\$ 9,816	\$10,032	\$ 9,566
Snack Foods	6,279	5,451	5,044
Restaurants	6,435	6,759	7,203
Investments in Unconsolidated Affiliates	1,375	1,635	1,295
Corporate	607	1,555	1,684
	-----	-----	-----
	\$24,512	\$25,432	\$24,792
	=====	=====	=====
Capital Spending (d)			
Beverages	\$ 650	\$ 566	\$ 677
Snack Foods	973	769	532
Restaurants	665	750	1,072
Corporate	9	34	7
	-----	-----	-----
	\$ 2,297	\$ 2,119	\$ 2,288
	=====	=====	=====
United States	\$ 1,613	\$ 1,496	\$ 1,492
International	684	623	796
	-----	-----	-----
	\$ 2,297	\$ 2,119	\$ 2,288
	=====	=====	=====
Acquisitions and Investments in Unconsolidated Affiliates (e)			
Beverages	\$ 75	\$ 323	\$ 195
Snack Foods	-	82	12
Restaurants	1	70	148
	-----	-----	-----
	\$ 76	\$ 475	\$ 355
	=====	=====	=====
United States	\$ 16	\$ 73	\$ 88
International	60	402	267
	-----	-----	-----
	\$ 76	\$ 475	\$ 355
	=====	=====	=====

(d) Included immaterial, noncash amounts related to capital leases, largely in the restaurants segment.

(e) Included immaterial noncash amounts related to treasury stock and debt issued.





Note 20 - SELECTED QUARTERLY FINANCIAL DATA

(\$ in millions except per share amounts, unaudited)

(page 1 of 4)

	First Quarter (12 Weeks)	
	1996(a)	1995(a)
Net sales.....	\$ 6,554	6,157
Gross profit.....	\$ 3,348	3,135
Unusual impairment, disposal and other charges(b).....	\$ 26	-
Operating profit.....	\$ 706	629
Net income.....	\$ 394	321
Net income per share.....	\$ 0.24	0.20
Cash dividends declared per share.....	\$ 0.10	0.09
Stock price per share(c)		
High.....	\$ 33 3/8	20 1/2
Low.....	\$ 27 1/2	16 15/16
Close.....	\$ 31 5/8	20 3/16

	Second Quarter (12 Weeks)	
	1996(a)	1995
Net sales.....	\$ 7,691	7,245
Gross profit.....	\$ 3,995	3,694
Operating profit.....	\$ 986	869
Net income.....	\$ 583	487
Net income per share.....	\$ 0.36	0.30
Cash dividends declared per share.....	\$ 0.115	0.10
Stock price per share (c)		
High.....	\$ 34 1/2	24 1/2
Low.....	\$29 11/16	19 1/2
Close.....	\$ 33 1/8	23 5/16

	Third Quarter (12 Weeks)	
	1996(a)	1995(a)
Net sales.....	\$ 7,867	7,648
Gross profit.....	\$ 4,050	3,897
Unusual impairment, disposal and other charges(b).....	\$ 390	-
Operating profit.....	\$ 560	1,031
Net income.....	\$ 144	617
Net income per share.....	\$ 0.09	0.39
Cash dividends declared per share.....	\$ 0.115	0.10
Stock price per share (c)		
High.....	\$ 35 5/8	23 5/8
Low.....	\$ 28 1/4	21 13/16
Close.....	\$ 28 3/8	22 7/8

	Fourth Quarter (16 Weeks)	
	1996(a)	1995(a)
Net sales.....	\$ 9,533	9,205
Gross profit.....	\$ 4,869	4,643
Unusual impairment, disposal and other charges(b).....	\$ 406	520
Operating profit.....	\$ 294	458
Net income .....	\$ 28	181
Net income per share.....	\$ 0.03	0.11
Cash dividends declared per share.....	\$ 0.115	0.10
Stock price per share (c)		
High.....	\$32 7/8	29
Low.....	\$28 1/8	23 1/8
Close.....	\$29 5/8	27 15/16

	Full Year (52 Weeks)	
	1996(a)	1995(a)
Net sales.....	\$31,645	30,255
Gross profit.....	\$16,262	15,369
Unusual impairment, disposal and other charges(b).....	\$ 822	520
Operating profit.....	\$ 2,546	2,987
Net income.....	\$ 1,149	1,606
Net income per share.....	\$ 0.72	1.00
Cash dividends declared per share.....	\$ 0.445	0.39
Stock price per share (c)		
High.....	\$35 5/8	29
Low.....	\$27 1/2	16 15/16
Close.....	\$29 5/8	27 15/16

## Notes:

- (a) Included certain items affecting comparability as summarized below. Net refranchising gains represent gains from sales of restaurants to franchisees in excess of costs of closing other restaurants. The depreciation and amortization reduction for the first three quarters of 1996 arose from the adoption of SFAS 121, at the beginning of the fourth quarter of 1995, which reduced the carrying amount of certain long-lived assets to be held and used in the business (see Note 4). The restaurant impairment charges represent the ongoing application of SFAS 121 (see Note 4).

	1996			1995		
	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share
Net refranchising gains						
First quarter	\$ 46	\$28	\$0.02	\$ 3	\$ 2	\$ -
Second quarter	38	25	0.01	-	-	-
Third quarter	25	15	0.01	(3)	(2)	-
Fourth quarter	(10)	(7)	-	55	29	0.02
Full year	\$ 99	\$61	\$0.04	\$55	\$29	\$0.02
Depreciation and amortization reduction						
First quarter	\$ 15	\$10	\$0.01			
Second quarter	18	12	-			
Third quarter	13	7	0.01			
Full year	\$ 46	\$29	\$0.02			
Restaurant impairment charges						
Second quarter	\$ 18	\$12	\$0.01			
Fourth quarter	44	28	0.02			
Full year	\$ 62	\$40	\$0.03			

Notes continued on next page

## Notes(cont'd):

(b) Included unusual impairment, disposal and other charges (see Note 3) as follows:

	1996			1995		
	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share
International beverages						
Impairment, disposal and other charges						
Third quarter	\$390	\$376	\$0.23			
Fourth quarter	64	53	0.04			
Full year	\$454	\$429	\$0.27			
Restructuring						
Fourth quarter	\$122	\$ 98	\$0.06			
Full year	\$122	\$ 98	\$0.06			
Disposal of non-core restaurant businesses						
First quarter	\$ 26	\$ 17	\$0.01			
Fourth quarter	220	172	0.11			
Full year	\$246	\$189	\$0.12			
Initial impact of adopting SFAS 121						
Fourth quarter				\$520	\$384	\$0.24
Full year				\$520	\$384	\$0.24
Total						
First quarter	\$ 26	\$ 17	\$0.01			
Third quarter	390	376	0.23			
Fourth quarter	406	323	0.21	\$520	\$384	\$0.24
Full year	\$822	\$716	\$0.45	\$520	\$384	\$0.24

(c) Represented the high, low and closing prices for a share of PepsiCo capital stock on the New York Stock Exchange adjusted for the 1996 two-for-one stock split (see Note 1).

## Note 21 - SUBSEQUENT EVENTS

In January 1997, PepsiCo announced that it would pursue a plan to spin off its restaurant businesses to its shareholders as an independent publicly-traded company. The new company will include both the U.S. and international operations of PepsiCo's core restaurant concepts - Pizza Hut, Taco Bell and KFC. PepsiCo is exploring the possibility that PFS, our restaurant distribution operation, will be sold separately. Subject to a

tax ruling by the Internal Revenue Service that would allow the spin off to be tax free to shareholders, various regulatory approvals, appropriate stock market conditions for distribution, and final approval from PepsiCo's Board of Directors, PepsiCo expects to complete these activities by the end of 1997.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick 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 management representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. PepsiCo's 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, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 28, 1996 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders  
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 28, 1996 and December 30, 1995 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 28, 1996. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 28, 1996 and December 30, 1995, and the results of its operations and its cash flows for each of the years in the three-year period ended December 28, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, PepsiCo, Inc. in 1995 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As discussed in Notes 15 and 13 to the consolidated financial statements, PepsiCo, Inc. in 1994 changed its method for calculating the market-related value of pension plan assets used in the determination of pension expense and adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," respectively.

/s/ KPMG PEAT MARWICK LLP

KPMG Peat Marwick LLP  
New York, New York  
February 4, 1997



-----  
 SELECTED FINANCIAL DATA  
 (in millions except per share and employee amounts, unaudited)  
 PepsiCo, Inc. and Subsidiaries  
 -----

(Page 1 of 7)

	Growth Rates		
	Compounded		Annual
	10-Year 1986-96	5-Year 1991-96	1-Year 1995-96
<b>SUMMARY OF OPERATIONS</b>			
Net sales.....	13%	10%	5%
Operating profit.....	12%	4%	(15)%
Gain on stock offering by an unconsolidated affiliate (k).....			
Interest expense, net.....			
Income from continuing operations before income taxes and cumulative effect of accounting changes.....	11%	4%	(16)%
Income from continuing operations before cumulative effect of accounting changes.....	9%	1%	(28)%
Cumulative effect of accounting changes (l).....			
Net income.....	10%	1%	(28)%
<b>CASH FLOW DATA</b>			
Dividends paid.....	15%	14%	13%
Free cash flow(m).....	18%	21%	41%
Share repurchases.....			
Acquisitions and investments in unconsolidated affiliates.....			
<b>PER SHARE DATA AND OTHER SHARE INFORMATION</b>			
Income from continuing operations before cumulative effect of accounting changes.....	9%	1%	(28)%
Cumulative effect of accounting changes (l).....			
Net income.....	10%	1%	(28)%
Cash dividends declared.....	16%	14%	14%
Book value per share at year-end.....	13%	4%	(8)%
Market price per share at year-end.....	21%	12%	6%
Number of shares repurchased.....			
Shares outstanding at year-end.....			
Average shares outstanding used to calculate income (charge) per share (n).....			
<b>BALANCE SHEET</b>			
Total assets.....	12%	5%	(4)%
Long-term debt.....	12%	2%	(1)%
Total debt (o).....	11%	1%	(8)%
Shareholders' equity.....			
<b>STATISTICS</b>			
Return on average shareholders' equity (p).....			
Market net debt ratio (q).....			
Historical cost net debt ratio (r).....			
Employees.....	9%	7%	1%

-----  
 SELECTED FINANCIAL DATA  
 (in millions except per share and employee amounts, unaudited)  
 PepsiCo, Inc. and Subsidiaries  
 -----

(Page 2 of 7)

	1996(a)(b)	1995(b)(c)	1994(d)(e)
-----			
SUMMARY OF OPERATIONS			
Net sales.....	\$31,645	30,255	28,351
Operating profit.....	\$ 2,546	2,987	3,201
Gain on stock offering by an unconsolidated affiliate (k).....	-	-	18
Interest expense, net.....	(499)	(555)	(555)
	-----	-----	-----
Income from continuing operations before income taxes and cumulative effect of accounting changes.....	\$ 2,047	2,432	2,664
	=====	=====	=====
Income from continuing operations before cumulative effect of accounting changes.....	\$ 1,149	1,606	1,784
Cumulative effect of accounting changes (l).....	\$ -	-	(32)
Net income.....	\$ 1,149	1,606	1,752
CASH FLOW DATA			
Dividends paid.....	\$ 675	599	540
Free cash flow(m).....	\$ 1,544	1,095	710
Share repurchases.....	\$ 1,651	541	549
Acquisitions and investments in unconsolidated affiliates.....	\$ 75	466	316
PER SHARE DATA AND OTHER SHARE INFORMATION			
Income from continuing operations before cumulative effect of accounting changes.....	\$ 0.72	1.00	1.11
Cumulative effect of accounting changes (l).....	\$ -	-	(0.02)
Net income.....	\$ 0.72	1.00	1.09
Cash dividends declared.....	\$ 0.445	0.39	0.35
Book value per share at year-end.....	\$ 4.29	4.64	4.34
Market price per share at year-end.....	\$29 5/8	27 15/16	18 1/8
Number of shares repurchased.....	54.2	24.6	30.0
Shares outstanding at year-end.....	1,545	1,576	1,580
Average shares outstanding used to calculate income (charge) per share (n).....	1,606	1,608	1,608
BALANCE SHEET			
Total assets.....	\$24,512	25,432	24,792
Long-term debt.....	\$ 8,439	8,509	8,841
Total debt (o).....	\$ 8,465	9,215	9,519
Shareholders' equity.....	\$ 6,623	7,313	6,856
STATISTICS			
Return on average shareholders' equity (p).....	16%	23	27
Market net debt ratio (q).....	18%	18	26
Historical cost net debt ratio (r).....	48%	46	49
Employees.....	486,000	480,000	471,000

-----  
 SELECTED FINANCIAL DATA  
 (in millions except per share and employee amounts, unaudited)  
 PepsiCo, Inc. and Subsidiaries  
 -----

(Page 3 of 7)

	1993(f)	1992(g)(h)	1991(i)
<b>SUMMARY OF OPERATIONS</b>			
Net sales.....	\$ 24,935	21,885	19,218
Operating profit.....	\$ 2,907	2,371	2,112
Gain on stock offering by an unconsolidated affiliate (k).....	-	-	-
Interest expense, net.....	(484)	(472)	(452)
Income from continuing operations before income taxes and cumulative effect of accounting changes.....	\$ 2,423	1,899	1,660
Income from continuing operations before cumulative effect of accounting changes.....	\$ 1,588	1,302	1,080
Cumulative effect of accounting changes (l).....	\$ -	(928)	-
Net income.....	\$ 1,588	374	1,080
<b>CASH FLOW DATA</b>			
Dividends paid.....	\$ 462	396	343
Free cash flow(m).....	\$ 653	824	593
Share repurchases.....	\$ 463	32	195
Acquisitions and investments in unconsolidated affiliates.....	\$ 1,011	1,210	641
<b>PER SHARE DATA AND OTHER SHARE INFORMATION</b>			
Income from continuing operations before cumulative effect of accounting changes.....	\$ 0.98	0.81	0.68
Cumulative effect of accounting changes (l).....	\$ -	(0.58)	-
Net income.....	\$ 0.98	0.23	0.68
Cash dividends declared.....	\$ 0.305	0.255	0.23
Book value per share at year-end.....	\$ 3.97	3.35	3.52
Market price per share at year-end.....	\$20 15/16	21 1/8	16 7/8
Number of shares repurchased.....	24.8	2.0	12.8
Shares outstanding at year-end.....	1,598	1,598	1,578
Average shares outstanding used to calculate income (charge) per share (n).....	1,620	1,613	1,605
<b>BALANCE SHEET</b>			
Total assets.....	\$ 23,706	20,951	18,775
Long-term debt.....	\$ 7,443	7,965	7,806
Total debt (o).....	\$ 9,634	8,672	8,034
Shareholders' equity.....	\$ 6,339	5,356	5,545
<b>STATISTICS</b>			
Return on average shareholders' equity (p).....	27%	24	21
Market net debt ratio (q).....	22%	19	21
Historical cost net debt ratio (r).....	50%	49	51
Employees.....	423,000	372,000	338,000

-----  
 SELECTED FINANCIAL DATA  
 (in millions except per share and employee amounts, unaudited)  
 PepsiCo, Inc. and Subsidiaries  
 -----

(Page 4 of 7)

	1990(j)	1989	1988(e)
-----			
SUMMARY OF OPERATIONS			
Net sales.....	\$17,516	15,049	12,381
Operating profit.....	\$ 2,042	1,773	1,342
Gain on stock offering by an unconsolidated affiliate (k) .....	118	-	-
Interest expense, net.....	(506)	(433)	(222)
	-----	-----	-----
Income from continuing operations before income taxes and cumulative effect of accounting changes.....	\$ 1,654	1,340	1,120
	=====	=====	=====
Income from continuing operations before cumulative effect of accounting changes.....	\$ 1,091	901	762
Cumulative effect of accounting changes (l) .....	\$ -	-	-
Net income.....	\$ 1,077	901	762
CASH FLOW DATA			
Dividends paid.....	\$ 294	242	199
Free cash flow(m).....	\$ 561	672	978
Share repurchases.....	\$ 148	-	72
Acquisitions and investments in unconsolidated affiliates.....	\$ 631	3,297	1,416
PER SHARE DATA AND OTHER SHARE INFORMATION			
Income from continuing operations before cumulative effect of accounting changes.....	\$ 0.69	0.57	0.49
Cumulative effect of accounting changes (l) .....	\$ -	-	-
Net income.....	\$ 0.68	0.57	0.49
Cash dividends declared.....	\$ 0.192	0.16	0.133
Book value per share at year-end.....	\$ 3.11	2.46	2.01
Market price per share at year-end.....	\$12 7/8	10 43/64	6 5/8
Number of shares repurchased.....	12.6	-	12.4
Shares outstanding at year-end.....	1,577	1,582	1,577
Average shares outstanding used to calculate income (charge) per share (n).....	1,597	1,592	1,580
BALANCE SHEET			
Total assets.....	\$17,143	15,127	11,135
Long-term debt.....	\$ 5,900	6,077	2,656
Total debt (o) .....	\$ 7,526	6,943	4,107
Shareholders' equity.....	\$ 4,904	3,891	3,161
STATISTICS			
Return on average shareholders' equity (p) .....	25%	26	27
Market net debt ratio (q) .....	24%	26	24
Historical cost net debt ratio (r) .....	51%	54	43
Employees.....	308,000	266,000	235,000

-----  
 SELECTED FINANCIAL DATA  
 (in millions except per share and employee amounts, unaudited)  
 PepsiCo, Inc. and Subsidiaries  
 -----

(Page 5 of 7)

	1987	1986
-----		
SUMMARY OF OPERATIONS		
Net sales.....	\$ 11,018	9,017
Operating profit.....	\$ 1,128	829
Gain on stock offering by an unconsolidated affiliate (k).....	-	-
Interest expense, net.....	(182)	(139)
	-----	-----
Income from continuing operations before income taxes and cumulative effect of accounting changes.....	\$ 946	690
	=====	=====
Income from continuing operations before cumulative effect of accounting changes.....	\$ 605	464
Cumulative effect of accounting changes (l).....	\$ -	-
Net income.....	\$ 595	458
CASH FLOW DATA		
Dividends paid.....	\$ 172	160
Free cash flow(m).....	\$ 418	301
Share repurchases.....	\$ 19	158
Acquisitions and investments in unconsolidated affiliates.....	\$ 372	1,680
PER SHARE DATA AND OTHER SHARE INFORMATION		
Income from continuing operations before cumulative effect of accounting changes.....	\$ 0.39	0.30
Cumulative effect of accounting changes (l).....	\$ -	-
Net income.....	\$ 0.38	0.29
Cash dividends declared.....	\$ 0.112	0.105
Book value per share at year-end.....	\$ 1.61	1.32
Market price per share at year-end.....	\$5 41/64	4 3/8
Number of shares repurchased.....	3.8	40.4
Shares outstanding at year-end.....	1,562	1,562
Average shares outstanding used to calculate income (charge) per share (n).....	1,579	1,573
BALANCE SHEET		
Total assets.....	\$ 9,023	8,027
Long-term debt.....	\$ 2,579	2,633
Total debt (o) .....	\$ 3,225	2,865
Shareholders' equity.....	\$ 2,509	2,059
STATISTICS		
Return on average shareholders' equity (p) .....	27%	24
Market net debt ratio (q) .....	22%	28
Historical cost net debt ratio (r).....	41%	46
Employees.....	225,000	214,000

(in millions except per share and employee amounts, unaudited)

PepsiCo, Inc. and Subsidiaries  
-----

All share and per share amounts reflect a two-for-one stock split in 1996 and three-for-one stock splits in 1990 and 1986. Additionally, PepsiCo made numerous acquisitions in most years presented and a few divestitures in certain years. Such transactions did not materially affect the comparability of PepsiCo's operating results for the periods presented, except for certain large acquisitions made in 1986, 1988 and 1989 and the \$246 (\$189 after-tax or \$0.12 per share) of charges included in 1996 as a result of the decisions made to dispose of PepsiCo's non-core U.S. restaurant businesses. See Note 3.

- (a) Included unusual impairment, disposal and other charges of \$822 (\$716 after-tax or \$0.45 per share). See Note 3. Also included the benefit of reduced depreciation and amortization expense for the first three quarters of 1996 of \$46 (\$29 after-tax or \$0.02 per share) as a result of the initial impact of adopting SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" at the beginning of the fourth quarter of 1995. See (c) below.
- (b) Included a net refranchising gain of \$99 (\$61 after-tax or \$0.04 per share) and \$55 (\$29 after-tax or \$0.02 per share) in 1996 and 1995, respectively.
- (c) Included the initial, noncash charge of \$520 (\$384 after-tax or \$0.24 per share) upon adoption of SFAS 121 at the beginning of the fourth quarter. As a result of the reduced carrying amount of certain long-lived assets to be held and used in the business, depreciation and amortization expense for the fourth quarter was reduced by \$21 (\$15 after-tax or \$0.01 per share). See Note 4.
- (d) Included a benefit of changing to a preferable method for calculating the market-related value of plan assets in 1994, which reduced full-year pension expense by \$35 (\$22 after-tax or \$0.01 per share).
- (e) Fiscal years 1994 and 1988 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years. The fifty-third week increased 1994 earnings by approximately \$54 (\$35 after-tax or \$0.02 per share) and 1988 earnings by approximately \$23 (\$16 after-tax or \$0.01 per share).
- (f) Included a \$30 charge (\$0.02 per share) to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. Federal tax legislation.
- (g) Included \$193 (\$129 after-tax or \$0.08 per share) in unusual charges to reorganize and streamline worldwide beverages and certain International snack foods operations.
- (h) Included increased postretirement benefits expense of \$52 (\$32 after-tax or \$0.02 per share) as a result of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Included the impact of adopting SFAS 109, "Accounting for Income Taxes," which reduced pre-tax income by \$21 and the provision for income taxes by \$34.
- (i) Included \$170 in unusual charges (\$120 after-tax or \$0.07 per share) primarily to streamline operations in worldwide snack foods and KFC in the U.S.

(in millions except per share and employee amounts, unaudited)

PepsiCo, Inc. and Subsidiaries  
-----

- (j) Included \$83 in unusual charges (\$49 after-tax or \$0.03 per share) for costs of closing restaurants, U.S. trade receivables exposures, accelerated contributions to the PepsiCo Foundation and a reduction in the carrying amount of an unconsolidated international Pizza Hut affiliate.
- (k) The \$18 gain (\$17 after-tax or \$0.01 per share) in 1994 arose from a public share offering by BAESA, an unconsolidated franchised bottling affiliate in South America. See Note 17. The \$118 gain (\$53 after-tax or \$0.03 per share) in 1990 arose from an initial public offering of new shares by an unconsolidated KFC joint venture in Japan and a sale by PepsiCo of a portion of its shares.
- (l) Represented the cumulative effect of adopting in 1994 SFAS 112, "Employers' Accounting for Postemployment Benefits," and changing to a preferable method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization (see Notes 13 and 15, respectively) and adopting in 1992 SFAS 106 (\$575 (\$357 after-tax or \$0.22 per share)) and SFAS 109 (\$571 tax charge (\$0.35 per share)). Prior years were not restated for these changes in accounting.
- (m) Defined as net cash provided by operating activities reduced by cash dividends paid and adjusted for the following investing activities: capital spending, refranchising of restaurants, sales of property, plant and equipment and other, net. Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.
- (n) See Net Income Per Share in Note 1.
- (o) Total debt includes short-term borrowings and long-term debt, which for 1987 through 1990 included a nonrecourse obligation.
- (p) The return on average shareholders' equity is calculated using income from continuing operations before cumulative effect of accounting changes.
- (q) The market net debt ratio represents net debt as a percent of net debt plus the market value of equity, based on the year-end stock price. Net debt is total debt, which for this purpose includes the present value of long-term operating lease commitments, reduced by the pro forma remittance of investment portfolios held outside the U.S. For 1987 through 1990, total debt was also reduced by the nonrecourse obligation in the calculation of net debt.
- (r) The historical cost net debt ratio represents net debt (see (q) above) as a percent of capital employed (net debt, other liabilities, deferred income taxes and shareholders' equity).

PEPSICO, INC. AND SUBSIDIARIES

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS AND RESERVES Years Ended December 28, 1996, December 30, 1995 and December 31, 1994

(in millions)

	Additions				Balance at end of year
	Balance at beginning of year	Charged to costs and expenses	Other additions	Deduct-ions from reserves	
			(1)	(2)	
Deductions from assets:					
1996					
Allowance for doubtful accounts	\$ 150	\$ 62	\$ 9	\$ 38	\$ 183
Valuation allowance for deferred tax assets	\$ 498	\$ 99	\$ 12	\$ 49	\$ 560
1995					
Allowance for doubtful accounts	\$ 151	\$ 49	\$ 6	\$ 56	\$ 150
Valuation allowance for deferred tax assets	\$ 319	\$ 150	\$ 29	\$ -	\$ 498
1994					
Allowance for doubtful accounts	\$ 128	\$ 59	\$ 8	\$ 44	\$ 151
Valuation allowance for deferred tax assets	\$ 249	\$ 69	\$ 1	\$ -	\$ 319

(1) Other additions to the allowances principally related to acquisitions and reclassifications.

(2) Principally accounts written off.



PEPSICO LONG TERM SAVINGS PROGRAM

As Amended and Restated  
Effective July 1, 1992, Except as Otherwise Noted

Table of Contents

		Page
ARTICLE I	Foreword	I-1
ARTICLE II	Definitions and Construction	
2.1	Definitions	I-1
2.2	Construction	II-18
ARTICLE III	Eligibility and Participation	
3.1	Eligibility	III-1
3.2	Participation	III-2
3.3	Break In Service	III-3
ARTICLE IV	Contributions and Deferral Amounts	
4.1	Deferral Amount	IV-1
4.2	Dollar Limits on Elective Deferrals	IV-2
4.3	Limitation on Deferral Percentage	IV-5
4.4	Rollover Contributions	IV-9
4.5	Maximum Allocations	IV-10
4.6	Excess Allocations	IV-16
4.7	Fund for Exclusive Benefit of Participants	IV-16
ARTICLE VI	Interests of Participants	
5.1	Accounts of Participants	V-1
5.2	Investment of Participant Accounts	V-1

5.3	Adjusting Account Balances	V-11
ARTICLE VI	Distributions to Participants	
6.1	Termination of Employment	VI-1
6.2	Death	VI-1
6.3	Withdrawals	VI-1
6.4	Form of Distributions	VI-6
6.5	Errors in Participant's Accounts	VI-6
6.6	Commencement of Payments	VI-6
6.7	Payment for Benefit of Disabled or Incapacitated Person	VI-10
6.8	No Other Benefits or Withdrawals	VI-11
6.9	Participants Who Cannot Be Located	VI-11

Table of Contents (continued)

ARTICLE VII	Plan Loans	
7.1	Eligibility for Plan Loans	VII-1
7.2	Application Procedure	VII-1
7.3	Loan Amount	VII-2
7.4	Maximum Number of Outstanding Loans and Refinancing	VII-3
7.5	Effect on Participant's Investment	VII-3
7.6	Fees	VII-4
7.7	Interest Rate	VII-4
7.8	Term and Repayment	VII-5
7.9	Loan Default	VII-6
7.10	Nondiscrimination	VII-7
7.11	Collins Food International, Inc.	VII-7
7.12	Miscellaneous	VII-7
ARTICLE VIII	Determination of Beneficiary	
8.1	Certain Married Participants	VIII-1
8.2	Other Participants	VIII-3
ARTICLE IX	Administration	
9.1	Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration	IX-1
9.2	Administration	IX-1
9.3	Claims Procedure	IX-2
9.4	Records and Reports	IX-3
9.5	Other Administrative Powers and Duties	IX-3
9.6	Rules and Decisions	IX-4
9.7	Procedures	IX-4
9.8	Authorization of Benefit Distributions	IX-5
9.9	Application and Forms for Distributions	IX-5
ARTICLE X	Trust Fund	X-1
ARTICLE XI	Amendment of the Plan	XI-1
ARTICLE XII	Termination of the Plan	XII-1
ARTICLE XIII	Miscellaneous	
13.1	Participants' Rights; Acquittance	XIII-1
13.2	Nonalienation of Benefits	XIII-1
13.3	Actions Involving the Trust	XIII-2
13.4	Qualification of Plan as a Condition	XIII-3
13.5	Successor to the Company	XIII-3

13.6	Transfer of Plan Assets	XIII-4
13.7	Indemnification	XIII-4
13.8	Action by the Company	XIII-4
13.9	Application Law	XIII-4
13.10	Interpreting the Plan	XIII-5
ARTICLE XIV	Top-Heavy Plan Provisions	
14.1	Application	XIV-1
14.2	Definitions	XIV-1
14.3	Allocation of Minimum Contribution	XIV-2
ARTICLE XV	Signature	XV-1
APPENDIX		
Appendix		
Article A	KFC-Collins	A-1
Article B	KFC Hourly Employees	B-1
Article C	Pizza Hut Employees	C-1
Article D	Prior Definitions of Eligible Pay	D-1
SCHEDULE 1	Designated Employers for Nonrestaurant Salaried Employees	1-1
SCHEDULE 2	Designated Employers for Nonrestaurant Hourly and Commissioned Employees	2-1
SCHEDULE 3	Designated Employers for Restaurant Employees	3-1
SCHEDULE 4	Designated Employers for Transportation Employees	4-1
SCHEDULE 5	Designated Hourly Employees of the Company	5-1

ARTICLE I  
Foreword

The PepsiCo Long Term Savings Program permits eligible employees to defer receipt of a portion of their Eligible Pay in order to promote savings on a tax-favored basis. The Plan provides for distributions in the event of termination of employment, death, or attainment of age 59-1/2. In addition, in certain circumstances, withdrawals are permitted in the event of hardship.

The Plan has been established by PepsiCo, Inc. for the benefit of its salaried Employees and certain union employees and certain salaried, commissioned sales and hourly Employees of each subsidiary designated by PepsiCo, Inc. which adopts this Plan as an Employer.

The PepsiCo Long Term Savings Program was initially established effective January 1, 1983, and was subsequently amended. Effective December 31, 1991, the Kentucky Fried Chicken Corporation Long Term Savings Program, the Pizza Hut Long Term Savings Program, the Pepsi-Cola Operating Company Long Term Savings Program and the Taco Bell Long Term Savings Program (the "Merged Plans") were merged into the PepsiCo Long Term Savings Program (the "Plan"). The Plan was amended and restated effective July 1, 1992. Except as otherwise provided herein, this amendment and restatement is effective as of July 1, 1992, and applies to persons who are Participants in the Plan on or after that date. Except as so provided, the rights and benefits with respect to persons who terminated participation in the Plan or the Merged Plans prior to the date a provision is effective shall be governed by the prior provisions of the Plan and the Merged Plans. The provisions set forth in the following Articles apply to all Participants except to the extent otherwise provided. To provide for the investment of contributions to this Plan and other tax-favored savings plans maintained by it and its subsidiaries and affiliates, PepsiCo, Inc. has established the Master Trust described in Article X.

ARTICLE II  
Definitions and Construction

2.1 Definitions: This section provides definitions for certain words and phrases listed below. These definitions can be found on the pages indicated.

	Page
	----
(a) Account	II-2
(b) Authorized Leaves of Absence	II-2
(c) Annuity Starting Date	II-2
(d) Beneficiary	II-2
(e) Board	II-2
(f) Code	II-2
(g) Company	II-2
(h) Company Stock	II-2
(i) Effective Date	II-3
(j) Elective Deferral	II-3
(k) Eligible Pay	II-3
(l) Employee	II-10
(m) Employer	II-11
(n) Employment	II-11
(o) Employment Commencement Date	II-11
(p) ERISA	II-11
(q) Excess Contributions	II-11
(r) Excess Elective Deferrals	II-12
(s) Fiduciaries	II-12
(t) Highly Compensated Employee	II-12
(u) Hour of Service	II-13
(v) Investment Expense	II-14
(w) Limitation Year	II-14
(x) Merged Plans	II-14
(y) Non-Highly Compensated Employee	II-14
(z) Participant	II-14
(1) Active Participant	II-14
(2) Inactive Participant	II-14
(aa) PepsiCo Organization	II-14
(bb) Plan	II-14
(cc) Plan Administrator	II-15
(dd) Plan Year	II-15
(ee) Recordkeeper	II-15
(ff) Retired Employee	II-15
(gg) Rollover Account	II-15
(hh) Rollover Contributions	II-15

(ii)	Salary Deferral Account	II-15
(jj)	Salary Deferral Contributions	II-15
(kk)	Severance from Service Date	II-16
(ll)	Termination of Employment	II-16
(mm)	Trust (or Trust Fund)	II-16
(nn)	Trustee	II-16
(oo)	Valuation Date	II-16
(pp)	Year of Service	II-16

Where the following words and phrases in bold face and underlined appear in this Plan with initial capitals they shall have the meaning set forth below, unless a different meaning is plainly required by context.

(a) **Account**: A Participant's total interest in  
-----

the Plan, the aggregate of the Participant's Salary Deferral Account and Rollover Account (and any other accounts that may be provided for in the Appendix).

(b) **Authorized Leaves of Absence**: Any absence:

(i) that is authorized by an Employer under its standard personnel practices; and (ii) during which the individual's base pay is continued by the Employer. It is intended that all persons under similar circumstances shall be treated alike in the granting of such Authorized Leaves of Absence.

(c) **Annuity Starting Date**: The first day on  
-----

which all events have occurred that entitle the Participant to payment of a benefit.

(d) **Beneficiary**: Any person or persons (natural  
-----

or otherwise) determined under Article VIII to be entitled to receive benefits hereunder upon the death of a Participant.

(e) **Board**: The Board of Directors of the Company.  
-----

(f) **Code**: The Internal Revenue Code of 1986, as  
-----  
amended from time to time.

(g) **Company**: PepsiCo, Inc., a corporation  
-----

organized and existing under the laws of the State of North Carolina, or its successor or successors.

(h) **Company Stock**: The capital stock issued by  
-----

the Company.

(i) Effective Date: The date upon which this

-----  
amendment and restatement is generally effective, July 1, 1992. Certain identified provisions are effective on different dates as noted herein. Provisions made effective prior to July 1, 1992 amend the corresponding terms of both the Plan and the Merged Plans as of the date indicated, and any reference in such provisions to the Plan shall be taken as a reference to both the Plan and the Merged Plans (unless the context clearly indicates to the contrary).

(j) Elective Deferral: With respect to any

-----  
taxable year, a Participant's Elective Deferral is the sum of all employer contributions made on his behalf pursuant to an election to defer under any (i) qualified cash or deferred arrangement (as defined in Code section 401(k), (ii) simplified employee pension cash or deferred arrangement (as defined in Code section 408(k)), (iii) eligible deferred compensation plan under Code section 457, (iv) plan described in Code section 501(c)(18), and (v) any employer contribution made on the behalf of a Participant for the purchase of an annuity contract under Code section 403(b) pursuant to a salary reduction agreement.

(k) Eligible Pay: Effective January 1, 1993, for

-----  
each Plan Year, a Participant's Eligible Pay shall be determined as follows:

(1) Participants Other Than Those Employed by the KFC Division: With respect to all Participants other than those employed by the KFC division, Eligible Pay shall be determined as follows:

(i) In the case of a Participant who is a salaried Employee considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, Eligible Pay shall mean:

(A) If the Participant was an Employee on the Eligible Pay determination date (or dates), (hereinafter referred to



as the determination date), designated by the Plan Administrator, with respect to Employees employed by the Frito division,

(I) the Participant's annual base salary in effect on the Eligible Pay determination date in the preceding Plan Year, plus

(II) any lump sum amount received by the Participant prior to the Salary Determination Date and during such preceding Plan Year under the PepsiCo Executive Incentive or PepsiCo's or subsidiary's Middle Management Incentive Plan, including any trimester Frito-Lay Management Incentive Plan payments received by the Participant.

(B) If the Participant was not an Employee on the Eligible Pay determination date in the preceding Plan Year, the Participant's annual base salary on his Employment Commencement Date.

(ii) In the case of a Participant who is a salaried Employee not considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, and in the case of a Participant who is an hourly Employee, Eligible Pay shall mean:

(A) If the Participant was an Employee on or before the Eligible Pay determination date in the preceding Plan Year, the greater of:

(I) the Participant's W-2 earnings, plus any amounts designated as "Choice Pay" ("Flexible Pay" in the case of Frito-Lay and its subsidiaries, collectively "Flexible Pay") and contributed by salary reduction

agreement to the Employer's Benefits Plus program or this Plan, in each case through the Eligible Pay determination date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator or

(II) the Participant's W-2 earnings plus Flexible Pay during the calendar year immediately prior to such preceding Plan Year.

(B) If the Participant was not an Employee on or before the Eligible Pay determination date, the Participant's annual base salary or hourly wage rate on his Employment Commencement Date, annualized in accordance with rules adopted by the Plan Administrator.

(iii) In the case of a Participant who is classified as a commissioned ("route sales") Employee, Eligible Pay shall mean:

(A) If the Participant was an Employee on or before the Eligible Pay determination date, the greater of:

(I) the Participant's W-2 earnings, plus any amounts of Flexible Pay through the Eligible Pay determination date during the preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator, or

(II) the Participant's W-2 earnings plus Flexible Pay during the Calendar year immediately prior to such preceding Plan Year.

(B) If the Participant was not an Employee on or before the Eligible Pay determination date for the preceding Plan Year, the Participant's weekly guarantee on his Employment

Commencement Date, annualized in accordance with rules adopted by the Plan Administrator.

(iv) In the case of a Participant who is an hourly Employee of the Pizza Hut division, Eligible Pay shall mean:

(A) If the Participant was an Employee on the Eligible Pay determination date designated by the Plan Administrator with respect to Pizza Hut division Employees, the sum of:

(I) the Participant's annualized hourly wage rate in effect on the Eligible Pay determination date, plus

(II) any overtime paid prior to the Eligible Pay determination date but within the same calendar year, annualized in accordance with rules adopted by the Plan Administrator.

(B) If the Participant was not an Employee on the eligible Pay determination date with respect to Pizza Hut division Employees, the sum of the amounts under (I) and (II) above but determined as of the Participant's Employment Commencement Date.

(2) Participants Employed by the KFC Division: With respect to a Participant employed by the KFC division of the Company, his Eligible Pay shall be determined as follows:

(i) The Participant's salary or wages, including forms of pay delivered in alternative manners such as piecework and payment by mileage for drivers, overtime, shift differentials, commissions, bonuses received under the PepsiCo Executive

Incentive Plan or the Company's or a subsidiary's Middle Management Incentive Plan, and

(ii) Any amount not included in (i) above which is contributed by the Employer on behalf of the Participant pursuant to a salary reduction agreement and which is not includable in gross income under Code sections 125, 402(e)(4), or 402(g).

The amounts under subparagraphs (i) and (ii) shall be taken from payroll records for the full calendar year that precedes the Plan Year by 2 years. For example, for the 1993 Plan Year, "Eligible Pay" shall be determined from amounts earned for the full calendar year ending December 31, 1990. For a Participant who has only a partial year's earnings during the full calendar year 2 years prior to the Plan Year, the partial year's earnings shall be annualized. For a Participant with no earnings during the full calendar year 2 years prior to the Plan Year, Eligible Pay shall equal the Participant's base salary or wages, not including alternative forms of base pay, overtime, shift differentials, commissions or bonuses on the later of: (A) the "Eligible Pay determination date" designated by the Plan Administrator with respect to Employees other than those employed by a restaurant division or a Frito division, or (B) the Participant's Employment Commencement Date.

(iii) In the case of a Participant who is an hourly Employee of the KFC division, Eligible Pay shall mean:

(A) If the Participant was an Employee on the Eligible Pay determination date designated by the Plan Administrator with respect to KFC division Employees, the sum of:

(I) the Participant's annualized hourly wage rate in effect on the Eligible Pay determination date, plus

(II) Any overtime paid prior to the Eligible Pay determination date but within the same calendar year, annualized in accordance with rules adopted by the Plan Administrator.

(B) If the Participant was not an Employee on the Eligible Pay determination date with respect to KFC division Employees, the sum of the amounts under (I) and (II) above but determined as of the Participant's Employment Commencement Date.

(3) Special Rules for Determining Eligible

Pay:

(i) For purposes of paragraphs (1) through (3) above and except for salary reduction amounts designated as Flexible Pay under an Employer's Benefits Plus program that are used to buy benefits and amounts contributed under the Plan, salary or wages shall not include amounts or the value of benefits received, or deemed received, under any performance share plan, stock option plan or similar plan or under any pension or welfare benefit plan maintained by the Employer, whether such plan is qualified or non-qualified and whether such amounts are deferred or not deferred.

(ii) In the case of Employees who transfer from one Employer to another during the year, Eligible Pay of such Employees shall be the amount of annualized base salary or hourly wage rate on the transfer date plus annualized overtime, commission pay received prior to the transfer date and prior to the determination date and the amount of any lump sum bonus paid from an Employer's Incentive Compensation program.

(iii) Notwithstanding the foregoing provisions of this subsection, in the case of an Employee who elects to make nonqualified

deferrals under the PepsiCo Executive Income Deferral Program for an upcoming Plan Year, the Employee's Eligible Pay for such Plan Year shall not be greater than his current base pay and the prior year's bonus under the Employer's incentive compensation program, decreased by any nonqualified deferrals elected for the upcoming Plan Year, and increased by amounts that will be received as distributions from the PepsiCo Executive Income Deferral Program for such Plan Year.

(iv) For any Plan Year beginning on or after January 1, 1989, the Eligible Pay of each Participant taken into account under the Plan shall not be less than \$10,000 and shall not exceed \$200,000, the latter as adjusted by the Secretary of the Treasury. In determining the Eligible Pay of a Participant for purposes of the \$200,000 limitation set forth in the preceding sentence, the rules of section 414(q)(6) of the Code shall apply, except in applying such rules, the term "family" shall include only the spouse of the Participant and any lineal descendants of the Participant who have not attained age 19 before the close of the Plan Year. If, as a result of the application of such rules, the adjusted \$200,000 limitation is exceeded, then the limitation shall be prorated among the affected individuals in proportion to each such individual's Eligible Pay as determined under this Section prior to the application of this limitation.

(v) For any Plan Year beginning on or after January 1, 1994, the Eligible Pay of each Participant taken into account under the Plan shall not be less than \$10,000 and shall not exceed \$150,000, the latter as adjusted by the Secretary of the Treasury. In determining the Eligible Pay of a Participant for purposes of the \$150,000 limitation set forth in the preceding sentence, the rules of section 414(q)(6) of the Code shall apply, except in applying such rules, the term "family" shall include only the spouse of the Participant and any lineal descendants of the

Participant who have not attained age 19 before the close of the Plan Year. If, as a result of the application of such rules, the adjusted \$150,000 limitation is exceeded, then the limitation shall be prorated among the affected individuals in proportion to each such individual's Eligible Pay as determined under this Section prior to the application of this limitation.

References in the Plan to deferrals of Eligible Pay, or Salary Deferral Contributions from Eligible Pay, shall be read as referring to deferrals of a Participant's current Employee compensation not in excess of Eligible Pay, determined as above.

(1) Employee: Any person who is: receiving remuneration for personal services currently rendered in the employment of an Employer (or who would be receiving such remuneration except for an Authorized Leave of Absence), and who is described in one of the following paragraphs:

(1) A United States citizen whose primary place of employment is within the 50 states or the District of Columbia (collectively referred to in this subsection as "the U.S.");

(2) An alien who has been lawfully admitted for permanent residence in the U.S. (referred to in this subsection as a "resident alien") and whose primary place of employment is within the U.S., but excluding any person working as a designate or in a U.S. assignment that the Employer classifies as primarily for training or temporary;

(3) A United States citizen or resident alien relocated by the Employer to a primary place of employment outside the U.S. and classified by the Employer as an United States expatriate;

(4) Effective January 1, 1994, a resident alien:

(i) who is employed in a position that is classified as a globalist under the personnel practices of an Employer,

(ii) who works for an Employer outside of his home country, and

(iii) who previously worked for an Employer (or an unrelated multinational employer) in another country that was neither his home country nor the U.S.; and

(5) Effective September 1, 1994, a third-country national (as defined below) who is a resident alien or whose primary place of employment is within the U.S.

For purposes of this subsection, a "third-country national" shall mean an alien who works for an Employer outside of his home country, and who previously worked for an Employer in another country that was not his home country.

(m) Employer: The Company and any subsidiary  
-----

which is authorized by the Company to participate herein and which adopts the Plan for its Employees, in accordance with any conditions required by the Company. Any such subsidiary shall be designated on the attached Schedules 1, 2, 3, 4, or 5, which specify the classes of Employees with respect to which it is considered an Employer. However, no subsidiary acquired after the Effective Date shall be an Employer with respect to Employees who are not currently eligible to enroll in the subsidiary's Benefits Plus program unless the subsidiary is individually designated on the applicable Schedule.

(n) Employment: Service with an Employer.  
-----

(o) Employment Commencement Date: The date on  
-----

which an Employee first performs an Hour of Service for a member of the PepsiCo Organization.

(p) ERISA: Public Law 93-406, the Employee  
-----

Retirement Income Security Act of 1974, as amended from time to time.

(q) Excess Contributions: With respect to any  
-----

Plan Year, the excess of:

(1) The aggregate amount of Employer contributions paid to the Plan as Salary Deferral Contributions on behalf of Highly Compensated Employees for such Plan Year, over

(2) The maximum amount of such contributions permitted by the limitations contained in Section 4.3(a) (determined by reducing such contributions made on behalf of such Highly Compensated Employees in order



of their Average Deferral Percentages, beginning with the Highly Compensated Employee(s) with the highest Average Deferral Percentage).

(r) Excess Elective Deferrals: Those Elective

-----  
Deferrals that are includable in an individual's gross income under Code section 402(g) because they exceed the dollar limitation in effect for the year under such Code section. Excess Elective Deferrals shall be treated as annual additions under the Plan for purposes of Section 4.5.

(s) Fiduciaries: The named fiduciaries, as

-----  
defined in section 402 of ERISA, who shall be the Plan Administrator and the Trustee, and other parties designated as fiduciaries, as defined in section 3(21) of ERISA, by such named fiduciaries in accordance with the terms of the Plan and the Trust (but only with respect to the specific responsibilities of each in connection with the Plan and Trust).

(t) Highly Compensated Employee:

-----  
(1) General Definition: Effective for Plan years beginning on or after January 1, 1987, any Employee who during the relevant Plan Year or the preceding Plan Year:

(i) Was, at any time, a 5 percent owner (as defined in Code section 416(i)(1));

(ii) Received compensation from an Employer in excess of \$75,000 (as adjusted pursuant to Code section 415(d));

(iii) Received compensation from an Employer in excess of \$50,000 (as adjusted pursuant to Code section 415(d)) and was a member of the group consisting of the top 20 percent of the employees when ranked on the basis of compensation paid during the relevant year (i.e., the top-paid group), or

(iv) Was an officer of an Employer and received compensation greater than 50 percent of the dollar limitation in effect under Code section 415(b)(1)(A) for such Plan Year.

(2) Certain Current Year Exclusions: In applying paragraph (1) with respect to the current Plan Year, any Employee not described in subparagraphs (ii) or (iv) above for the preceding Plan Year (without regard to this sentence) shall not be treated as described in subparagraphs (ii) or (iv) for the current Plan Year unless such Employee is among the 100 Employees receiving the greatest compensation from the Employer for the current Plan Year. In addition, subparagraph (iii) shall not apply in determining who are Highly Compensated Employees for the current Plan Year.

(3) Determination of Officers: For purposes of applying subparagraph (iv) of paragraph (1) above, no more than 50 Employees, or, if less, the greater of 3 Employees or 10 percent of all Employees, shall be treated as officers. In addition, if, for any year, no officer of the Employer is described in subparagraph (a)(iv) above, the officer of the Employer with the greatest compensation shall be treated as an officer described in subparagraph (a)(iv) above.

(4) Former Employees: A former Employee shall be treated as a Highly Compensated Employee if:

(i) Such Employee was a Highly Compensated Employee when such Employee separated from service, or

(ii) Such Employee was a Highly Compensated Employee at any time after attaining age 55.

(5) Treatment of Certain Family Members: Any family member of a 5 percent owner or one of the 10 Highly Compensated Employees receiving the greatest compensation from the Employer during the relevant year shall be aggregated with such 5 percent owner or top-ten Highly Compensated Employee for purposes of Section 4.3 of the Plan. In such case, the family member and 5 percent owner or top 10 Highly Compensated Employee shall be treated as a single Employee having compensation and Plan contributions equal to the sum of such compensation and contributions of the

family member and 5 percent owner or top 10 Highly Compensated Employee. For purposes of this subsection, family member includes the spouse, lineal ascendants and descendants of the Employee and the spouses of such lineal ascendants and descendants.

(6) Compensation: For purposes of this subsection, compensation means an Employee's compensation as determined under Code section 415(c)(3), increased by elective contributions that are: (i) made on behalf of the Employee under this Plan, a Merged Plan, another section 401(k) plan or a cafeteria plan of his Employer, and (ii) that are excludable from income under Code sections 125 or 402(a)(8).

The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top-paid group, the top 100 employees, the number of employees treated as officers and the compensation that is considered, will be made in accordance with Code section 414(q) and the regulations thereunder.

(u) Hour of Service: Each hour for which an  
-----

Employee is:  
-----

(1) Paid, or entitled to payment, by the Employer for the performance of duties.

(2) Directly or indirectly compensated or entitled to compensation by the Employer for reasons other than the performance of duties (such as vacation, holidays, sickness, jury duty, disability, lay-off, military duty or leave of absence) irrespective of whether the employment relationship has terminated unless such compensation is solely for the purposes of complying with applicable workers' compensation or disability insurance laws; or

(3) Awarded back-pay or back-pay is agreed to by the Employer without regard to mitigation of damages, except that no Hour of Service shall be credited under this paragraph for any period for which the Employee is credited with an Hour of Service under paragraph (1) or (2) above.

In addition, each hour for which a leased employee, within the meaning of Code section 414(n), is paid or entitled to payment by the Employer for the performance of duties shall be considered an Hour of Service.

(v) Investment Expenses: All expenses related to

-----  
the management and maintenance, on a separate basis, of the individual investment options under the Plan. The term "Investment Expenses" shall not include general fees for management and maintenance of the Trust as a whole.

(w) Limitation Year: The 12-month period

-----  
commencing on January 1 and ending on December 31.

(x) Merged Plans: The Kentucky Fried Chicken

-----  
Corporation Long Term Savings Program, the Pizza Hut Long Term Savings Program, the Taco Bell Long Term Savings Program and the Pepsi-Cola Operating Company Long Term Savings Program, as in effect prior to their merger into this Plan on December 31, 1991.

(y) Non-Highly Compensated Employee: Effective

-----  
for Plan Years beginning on or after January 1, 1987, any Employee who is not a Highly Compensated Employee.

(z) Participant: Any individual who is either an

-----  
Active Participant or an Inactive Participant.

(1) Active Participant: Any eligible Employee, as defined in Section 3.1, who has a current election in effect to make Salary Deferral Contributions in accordance with Article IV.

(2) Inactive Participant: Any individual (other than an Active Participant) who has an Account under the Plan.

(aa) PepsiCo Organization: The controlled group

-----  
of corporations of which the Company is a member, as defined in Code Section 414(b) and regulations issued thereunder.

(bb) Plan: The PepsiCo Long Term Savings

-----

Program, the Plan set forth herein, as it may be amended from time to time. The Plan Administrator may also designate certain informal names for the Plan, such as "Save-Up", for use in communications regarding the Plan.

(cc) Plan Administrator: The Company, or its

-----

successor or successors, which shall have authority to administer the Plan as provided in Article IX.

(dd) Plan Year: The 12-month period commencing

-----

on January 1 and ending on December 31. From December 1, 1988 to December 31, 1991, the Plan Year commenced on December 1.

(ee) Recordkeeper: The party designated by the Plan Administrator to maintain records of Participants' Accounts in accordance with procedures established by the Plan Administrator.

(ff) Retired Employee: Any person: (i) who has

-----

received, while age 55 or over, a qualifying lump sum distribution from a defined benefit pension plan sponsored by an Employer, and (ii) who was an Employee eligible to participate in this Plan immediately prior to his retirement from the Employer. For purposes of this subsection, a qualifying lump sum distribution shall refer to lump sums other than single sum distributions with a value of \$3,500 or less, determined in accordance with Code section 417(e).

(gg) Rollover Account: The account maintained to

-----

record any rollover contributions pursuant to Section 4.4, and any adjustments relating thereto. A Participant's Rollover Account shall at all times be fully vested.

(hh) Rollover Contributions: Contributions to the

-----

Plan that are made pursuant to Section 4.4.

(ii) Salary Deferral Account: The account

-----

maintained for a Participant to record amounts deferred pursuant to the election described in Section 4.1, as well as any adjustments relating to such amount. A Participant's Salary Deferral Account shall at all times be fully vested.

(jj) Salary Deferral Contributions: Any  
-----

Employer contributions made to the Plan at the election of a Participant, in lieu of cash compensation, pursuant to Section 4.1.

(kk) Severance from Service Date: An  
-----

Employee's Severance from Service Date shall occur on the earlier of:

(1) The date the Employee quits, retires, is discharged or dies; or

(2) The first anniversary of the date the Employee is absent from service with an Employer (with or without pay) for any reason other than a quit, retirement, discharge or death, such as vacation, holiday, sickness, disability, leave of absence or layoff.

(ll) Termination of Employment: The cessation  
-----

of an Employee's employment with an Employer or other member of the PepsiCo Organization, whether by quit, resignation, discharge, retirement, disability or indefinite layoff. However, such term shall not include an Authorized Leave of Absence or the transfer from the Employment of one Employer that maintains this Plan to another such Employer, or to employment with any other member of the PepsiCo Organization.

(mm) Trust (or Trust Fund): The fund  
-----

established pursuant to the Trust instrument to receive and to invest amounts credited to Participants' Accounts and from which distributions will be made.

(nn) Trustee: The individual or corporation  
-----

appointed by the Company pursuant to the Trust instrument to hold the Trust Fund.

(oo) Valuation Date: Each business day,  
-----

except that the Trustee may temporarily suspend valuations when it deems it to be necessary in accordance with Section 5.2(b). In all cases, however, there shall be a Valuation Date on the last business day of the Plan Year.

(pp) Year of Service: Each 12-month period of service in the period of service commencing on an Employee's Employment Commencement Date

and ending on his Severance from Service Date, subject to the following special rules.

(1) If an Employee has a Severance from Service Date as a result of a quit, discharge or retirement and then returns to the employment of the PepsiCo Organization within 12 months from his Severance from Service Date, the Employee's period of severance shall be counted as part of his period of service.

(2) If an Employee terminates employment because of a quit, discharge or retirement (during any other absence from service of 12 months or less) and then returns to the employment of the PepsiCo Organization within 12 months from the date on which he was first absent, the Employee's period of severance shall be counted as part of his period of service.

(3) If an Employee has a break in service (as defined below), his Years of Service prior to such break in service shall only be taken into account if he has a Year of Service following his rehire (determined under the preceding provisions of this subsection as if his employment first commenced on his date of rehire). A "break in service" is a 12-month period beginning on an Employee's Severance from Service Date during which the Employee is not credited with an Hour of Service.

2.2 Construction: The terms of this Plan shall be construed in accordance with this section.

(a) Gender and Number: The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender and the singular shall include the plural, unless the context clearly indicates to the contrary.

(b) Headings: The headings of sections and subsections are for ease of reference only and shall not be construed to limit or modify the detailed provisions thereof.

ARTICLE III

Eligibility and Participation

3.1 Eligibility: This section, as modified by the Appendix, specifies who is eligible to participate in the Plan (the "eligible Employees").

(a) General Rule: The following Employees shall be eligible to participate in the Plan if they are currently eligible to enroll in their Employer's Benefits Plus program: All full-time and part-time salaried Employees of an Employer and all full-time hourly, commissioned sales or transportation Employees of an Employer.

(b) Ineligible Employees: Notwithstanding the general rule in (a) above, the following Employees shall not be eligible to participate in the Plan:

(1) Any Employee whose terms and conditions of employment are determined by collective bargaining with a union representing such persons and with respect to whom inclusion in this Plan has not been specifically provided for in such collective bargaining agreement;

(2) Any Employee who is a leased employee within the meaning of Code section 414(n);

(3) Effective December 1, 1989, any Highly Compensated Employee who has not attained age 21 and completed a Year of Service;

(4) Any individual who is an independent contractor; and

(5) Effective on and after January 1, 1996, any Employee of an Employer designated on Part 1 of the attached Schedule 3 who is a Highly Compensated Employee (or who is reasonably projected to be a Highly Compensated Employee based on the best available data).

An independent contractor who is recharacterized by the Internal Revenue Service as a common law employee will not be considered described in paragraph (4) for periods on and after the recharacterization. Such individual also will not be considered described in paragraph (4) for periods before the recharacterization, unless the Employer



had classified the individual as an independent contractor in good faith, and the individual was part of a group of independent contractors identified by similar work requirements. An individual's ineligibility under the previous sentence shall have no bearing on whether the individual is an excludable employee for purposes of the nondiscrimination tests under Code sections 410(b) and 401(a)(4).

(c) Certain Part-Time Employees: Effective July 1, 1995, any Employee who would be an eligible Employee if he were classified by his Employer as full-time (with no other changes in his status and circumstances) shall be eligible to participate in the Plan.

For purposes of this section, an Employee who is an associate, casual, part-time or temporary employee is not considered to be full-time.

### 3.2 Participation:

(a) Commencement of Active Participation: An eligible Employee shall become an Active Participant upon enrolling in the Plan.

(1) An eligible Employee's enrollment in the Plan shall be made by electing to defer a portion of his Eligible Pay, in accordance with Section 4.1(b). An eligible Employee's qualifying election to participate actively in the Plan shall be effective as soon as practicable for his Employer.

(2) Notwithstanding paragraph (1) above, the election of an Employee eligible under Section 3.1(c) shall not be effective before the first January 1 or July 1 following his attainment of age 21 and his completion of a 12-month period of employment (measured as described below) in which he is credited with at least 1,000 Hours of Service (referred to as a "year of eligibility service"). The 12-month period between the date the Employee first completes one Hour of Service and the first anniversary thereof shall be used initially to determine his eligibility to participate in the Plan; thereafter, his eligibility to participate in the Plan shall be determined by reference to whether he completes 1,000 or more Hours of Service in any Plan Year, beginning with the first Plan

Year commencing after he first completes one Hour of Service. An employee who completes 1,000 or more Hours of Service in both the initial 12-month eligibility computation period and the first Plan Year commencing after he first completes one Hour of Service shall be credited with two years of eligibility service for purposes of this section.

(b) Termination of Participation: An Active Participant shall continue to participate actively in the Plan until he revokes his enrollment or his enrollment ends as a result of his Termination of Employment or transfer to a position that is ineligible for participation. When active participation ceases, an individual with a balance in his Plan Account shall continue as an Inactive Participant until his Account has been distributed.

(c) Resumption of Active Participation: Subject to Section 3.3, any individual whose active participation has terminated pursuant to subsection (b) may return to active participation by reinstating his enrollment (following his return to service as an eligible Employee, if applicable).

3.3 Break in Service: This section shall apply in the case of an Employee described in Section 3.1(c) who has a break in service, as defined below. In determining such Employee's post-break participation in the Plan, the Employee's pre-break years of eligibility service shall be restored only after he has a year of eligibility service following his rehire (determined under Section 3.2 as if his employment first commenced on his date of rehire). For purposes hereof, a "break in service" shall mean a 12-consecutive-month computation period during which an Employee is credited with 500 or less Hours of Service. The applicable computation period for determining breaks in service shall be the 12-month period beginning on the Employee's date of employment and Plan Years commencing after such date of employment.

ARTICLE IV  
Contributions and Deferral Amounts

4.1 Elective Deferrals: An Employee who is eligible under Section 3.1 and who has Eligible Pay may elect to defer a portion of his Eligible Pay in accordance with the following subsections.

(a) Deferral Amount: Subject to the limitations established by this Article, each Active Participant may defer in any Plan Year up to 10 percent (15 percent, effective January 1, 1996) of his Eligible Pay in accordance with this section. In the event a Participant elects to defer a portion of his Eligible Pay under the Plan, it will be designated for contribution by the Employer to the Trust on behalf of the Participant, and for deposit in his Salary Deferral Account. All amounts deposited to a Participant's Salary Deferral Account shall at all times be fully vested.

(b) Election to Defer: Each Employee who qualifies as an eligible Employee under Section 3.1 may elect to defer a portion of his Eligible Pay in accordance with subsection (d). An eligible Employee shall make this election by:

(1) Completing and returning the enrollment form, or utilizing the telephone enrollment system, provided by the Plan Administrator,

(2) Designating a portion of his Eligible Pay to be contributed by his Employer to the Plan, and

(3) Indicating how such amounts are to be invested under Section 5.2.

An eligible Employee's election under this subsection shall be effective as soon as practicable for his Employer and shall remain in effect until it is modified or terminated under subsection (c) below, or until his active participation terminates in accordance with Section 3.2(b).

(c) Changes in Deferral Election: Subject to subsection (d), an Active Participant may elect to increase, decrease or terminate the amount of his deferral at any

time by completing and returning a change of election form, or using the telephone enrollment system to designate the revised deferral rate to be contributed to the Plan. A Participant's election under this subsection shall be effective as soon as practicable for his Employer.

(d) Election Procedures: To be effective, an election made pursuant to subsection (b) or (c) above must be made in the manner specified by the Plan Administrator. In addition, the election shall specify the amount of the deferral desired for each Plan Year in the form of a whole dollar amount, a percentage of Eligible Pay, or a combination of the two as specified by the Plan Administrator from time to time (effective prior to 1996, only the whole dollar amount form shall be available), subject to the limitation in subsection (a) above. Any election purporting to defer more than the maximum percentage of Eligible Pay permitted under subsection (a) shall be treated as an election to defer such maximum percentage of Eligible Pay. Notwithstanding the preceding sentence, the Plan Administrator shall not give effect to elections that do not meet the minimum standards for completeness and accuracy the Plan Administrator establishes from time to time.

(e) Payroll Deductions: A Participant's Salary Deferral Contributions shall be withheld from his Eligible Pay through automatic payroll deductions. The amount to be withheld in any pay period shall be a ratable share of the Participant's currently effective salary deferral election for the entire Plan Year. Salary Deferral Contributions may not be withheld after they have been actually or constructively received by the Participant.

#### 4.2 Dollar Limits on Elective Deferrals:

Notwithstanding Section 4.1, a Participant's Elective Deferrals shall be limited as provided in this section.

(a) Initial Limit: Effective for calendar years beginning on and after January 1, 1987, a Participant's Elective Deferrals under the Plan shall be limited to \$7,000 or, if greater, the adjusted amount in effect under Code section 402(g) for the preceding calendar year.

(b) Additional Limit: Effective for Plan Years beginning after 1987, a Participant's Elective Deferrals, which are made in any calendar year to the Plan or any

other arrangement maintained by the Employer, shall be limited to the amount permissible under Code section 402(g) for taxable years beginning in such calendar year.

(c) Distribution of Excess Elective Deferral:

(1) Assignment: If the Elective Deferral made on behalf of a Participant under all plans in which such individual is a participant, whether or not maintained by the Employer, exceeds the dollar limitation contained in Code section 402(g), such Participant may assign to this Plan any Excess Elective Deferral made during a taxable year of the Participant no later than March 1 following the close of, and with respect to, the taxable year in which such Excess Elective Deferral was made by:

(i) Notifying the Plan Administrator in writing of the Elective Deferral made under any plan other than this Plan,

(ii) Allocating in writing such Excess Elective Deferral between or among such other plans and this Plan, and

(iii) Stating in writing that if such Excess Elective Deferral allocable to the Plan is not distributed, the deferral limitations of Code section 402(g) will be exceeded for the Participant's taxable year with respect to which such Elective Deferral occurred.

(2) Distribution: Upon notification in accordance with paragraph (1), the Plan Administrator shall distribute any Excess Elective Deferral allocated to the Plan (plus any income and minus any loss allocable thereto) to the relevant Participant no later than April 15 of the calendar year following the close of the taxable year of the Participant with respect to which such Excess Elective Deferral was made.

(3) Determination of Income or Loss: Excess Elective Deferrals shall be adjusted for any income or loss through the end of the taxable year of the Participant with respect to which such Excess Elective Deferral was

made. The income or loss allocable to a Participant's Excess Elective Deferral is the income or loss allocable to the Participant's Salary Deferral Account for such taxable year, multiplied by a fraction, the numerator of which is the Participant's Excess Elective Deferrals for such taxable year and the denominator of which is the Participant's account balance attributable to Salary Deferral Contributions as of the end of the taxable year without regard to any income or loss occurring during such taxable year.

To the extent necessary to ensure compliance with subsection (b) above, the Plan Administrator shall distribute Excess Elective Deferrals to a Participant, notwithstanding the fact that the Participant has not assigned such Excess Elective Deferrals to this Plan by the deadline specified in subsection (c)(1). Such distribution shall be accomplished as contemplated in subsection (c)(2) above.

#### 4.3 Limitation on Deferral Percentage:

(a) Limitation: Notwithstanding anything herein to the contrary, in any Plan Year beginning on or after January 1, 1987, the Average Deferral Percentage of the eligible Employees who are Highly Compensated Employees for such Plan Year shall not exceed the greater of (1) or (2) below:

(1) The Average Deferral Percentage of the eligible Employees who are Non-Highly Compensated Employees for such Plan Year multiplied by 1.25, or

(2) The Average Deferral Percentage of the eligible Employees who are Non-Highly Compensated Employees for such Plan Year multiplied by 2.0, provided, however, that in this case the Average Deferral Percentage of the eligible Employees who are Highly Compensated Employees shall not exceed the Average Deferral Percentage of the eligible Employees who are Non-Highly Compensated Employees by more than 2 percentage points.

(b) Average Deferral Percentage: For purposes of subsection (a) above, the Average Deferral Percentage for a specified group of Employees for a Plan Year shall mean the average of the ratios (calculated separately for each Participant in such group) of:

(1) The amount of the Salary Deferrals made on behalf of the Employee for the Plan Year (including Excess Elective Deferrals of Highly Compensated Employees), to

(2) The Employee's compensation for the Plan Year (whether or not the Employee was a Participant for the entire Plan Year).

For Plan Years beginning on or after January 1, 1989, the Average Deferral Percentage shall be computed to the nearest one hundredth of one percent.

(c) Special Rules: In applying the limits set forth in subsection (a) above, the following rules shall apply:

(1) For purposes of this subsection, compensation means compensation as defined in Code section 414(s). For Plan Years in which Excess Contributions and Income are distributed pursuant to subsection (e), compensation means compensation as defined in Treas. Reg. 1.415-2(d)(11)(ii). For Plan Years beginning on or after January 1, 1989, compensation shall be limited to \$200,000 (adjusted at the same time and in such manner as permitted under Code section 415(d)) provided that for Plan Years beginning on or after January 1, 1994, compensation is limited to \$150,000 (adjusted at the same time and in such manner as permitted under Code section 415(d)).

(2) If a Highly Compensated Employee is eligible to participate under more than one cash or deferred arrangement described in Code section 401(k) maintained by the Employer, all such cash or deferred arrangements shall be treated as one for purposes of calculating such Employee's Average Deferral Percentage.

(3) For purposes of determining the Deferral Percentage of a Highly Compensated Employee who is a 5 percent owner or one of the 10

most highly-paid Highly Compensated Employees, as described in Section 2.1(t)(5), the Salary Deferral Contributions and compensation of such Employee shall include the Salary Deferral Contributions and compensation for the Plan Year of such Highly Compensated Employee's Family Members, as described in Code section 414(q)(6). Family Members, with respect to such Highly Compensated Employees, shall be disregarded as separate Employees in determining the Average Deferral Percentage both for eligible Employees who are Non-Highly Compensated Employees and for eligible Employees who are Highly Compensated Employees.

(d) Adjustment of Salary Deferrals: If during a Plan Year the Plan Administrator determines that there is a likelihood that the Average Deferral Percentage of the Highly Compensated Employees will exceed the limitation specified in subsection (a), then the Plan Administrator may prospectively reduce or limit the deferrals of the Highly Compensated Employees to such amount and beginning as of such pay period during the Plan Year as is deemed necessary by the Plan Administrator in its sole discretion to prevent the limitation in subsection (a) from being exceeded for the Plan Year. The Plan Administrator may terminate (in whole or in part) any reduction or limitation on deferrals under this subsection which is no longer necessary to prevent the limitation specified in subsection (a) from being exceeded for the Plan Year. Whenever necessary during the Plan Year, the Plan Administrator may institute further reductions or limitations on deferrals, or reinstate reductions or limitations on deferrals, to the extent required to prevent the limitation in subsection (a) from being exceeded.

(e) Distribution of Excess Contributions and Income: If the Average Deferral Percentage of the eligible Employees who are Highly Compensated Employees exceeds the limitations of subsection (a) for any Plan Year, then notwithstanding any other provision of the Plan, any Excess Contributions for such Plan Year



(plus any income and minus any loss allocable thereto) shall be distributed to the appropriate Highly Compensated Employees and, where applicable, family members, not later than two and one-half months following the Plan Year with respect to which such Excess Contributions were made.

(1) Determination of Income or Loss: Excess Contributions shall be adjusted for any income or loss through the end of the Plan Year for which the Excess Contributions occurred. The income or loss allocable to a Participant's Excess Elective Deferral shall be as follows:

(i) For the Plan Year beginning in 1987, the Employer may use any reasonable and consistently applied method for computing the income allocable to any Excess Contributions for such Plan Year.

(ii) For Plan Years beginning on or after January 1, 1988, the income or loss allocable to Excess Contributions is the income or loss allocable to the Participant's Salary Deferral Account for the Plan Year for which the Excess Contributions occurred multiplied by a fraction, the numerator of which is the Participant's Excess Contributions for such Plan Year and the denominator of which is the Participant's account balance attributable to Salary Deferral Contributions as of the end of the Plan Year without regard to any income or loss occurring during such Plan Year.

(2) Special Rules:

(i) In the event family members are aggregated for purposes of this section, distributions to such family members of any Excess Contributions shall be made in the manner prescribed by the regulations under Code section 401(k).

(ii) Any distribution of Excess Contributions and income thereon shall be made to Highly Compensated Employees on the basis of the re-

spective portions of the total Excess Contributions attributable to each such Employee.

(iii) Any distribution of Excess Contributions and income thereon may and shall be made without regard to any other provision of this Plan restricting distributions.

(f) Determination By Plan Administrator:

Notwithstanding the foregoing provisions of this section, any determination required by this section shall be made by the Plan Administrator, and the determination by such Plan Administrator of the method of compliance with subsection (a) and reduction of deferrals in excess of that permitted by subsection (a), in accordance with subsection (d), and the determination of any Excess Contribution to be distributed pursuant to subsection (e), shall be final, binding, and conclusive as to all Participants, former Participants, Beneficiaries, and any other person or entity associated with or benefiting from this Plan.

(g) Priority of Application of Sections: Section 4.2 shall be applied before this section.

4.4 Rollover Contributions: At the request of a Participant, a Retired Employee or an Employee who is eligible under Section 3.1 (or could be upon the completion of any requirements with respect to age or service), the Plan may accept a rollover of cash amounts from another qualified plan described in section 401(a) of the Code, including an individual retirement account or annuity whose assets came solely from a qualified plan. Any such rollover amount will be held for the Participant, Employee, or Retired Employee, as the case may be, in a Rollover Account established for his benefit. A person who makes such a rollover contribution to the Plan, but who is not otherwise eligible to make (or who chooses not to make) a deferral election under Section 4.1(b), shall be considered an Inactive Participant. The Plan Administrator and the Trustee may request such information from the Participant, Employee, or Retired Employee, as the case may be, any documents or opinion of counsel which it, in its discretion, deems necessary to determine that a proper rollover

contribution will be made. Amounts in a Rollover Account shall be invested as designated by the Participant pursuant to Section 5.2(c). The amounts in the Rollover Account shall be distributed at the same time and in the same manner as amounts in the Salary Deferral Account.

4.5 Maximum Allocations:

(a) The amount of Annual Additions (as defined in subsection (d) below) which may be credited to the Participant under this Plan during any Limitation Year shall not exceed the lesser of \$30,000 (or, if greater, one-fourth of the defined benefits dollar limitation set forth in Code section 415(b)(1) as in effect for the Limitation Year) or 25% of the Participant's Annual Compensation (as defined in subsection (e) below) for the applicable Limitation Year.

(b) For any Participant in the Plan who is also a participant in one or more defined benefit plans (as defined in section 414(j) of the Code) maintained by the Company or by the Employer, the sum of the fractions in (1) and (2) below, computed as of the close of the Limitation Year, may not exceed 1.0, where the fractions are determined as follows:

(1) The Projected Annual Benefit (as defined in subsection (d) below) of the Participant under such defined benefit plans, divided by the lesser of:

(i) the product of the dollar limitation determined for the Limitation Year under Code sections 415(b) and (d) multiplied by 1.25 (or 1.0, if the Plan is a Top-Heavy Plan, as defined by Section 14.2(c)), or

(ii) 140 percent of the Participant's Average Compensation (as defined in subsection (d) below), including any adjustments under Code section 415(b) plus

(2) The sum of the Annual Addition to such Participant's accounts under this Plan and all other defined contribution plans maintained by

the Employer for such Limitation Year and for all Prior Years (as defined in subsection (d) below) divided by the sum of the lesser of the following amounts determined for such Plan Year and all Prior Years:

- (i) the product of the Dollar Limitation (as defined in subsection (d) below) in effect for the year multiplied by 1.25 (or 1.0, if the Plan is a Top-Heavy Plan, as defined by Section 14.2(c)), or
- (ii) 35 percent of the Participant's Annual Compensation for the year.

(c) In the event that a Participant's Annual Addition under this Plan, when added to the Annual Addition under any other defined contribution plan (as defined in section 414(i) of the Code) or the Projected Annual Benefit under any defined benefit plan maintained by the Employer, exceeds the limitations specified in Section 4.5(a) or (b), appropriate reductions in such Annual Addition or Projected Annual Benefit shall be made in the following order:

- (1) First, under any defined benefit plan(s) maintained by the Employer,
- (2) To the extent that additional reductions are still necessary, under this Plan, and
- (3) To the extent that any additional reductions are still necessary, under a PepsiCo employee stock ownership plan.

(d) For purposes of this Section 4.5, the following definitions and rules of interpretation shall apply:

- (1) Effective for years beginning after December 31, 1986, the "Annual Addition" of a Participant means the sum credited to a Participant's account for any year of (i) employer contributions; (ii) employee contributions; (iii) forfeitures and (iv) amounts described in Code sections 415(l)(2) and 419A(d)(2). Notwithstanding the foregoing, for years beginning prior to

January 1, 1987, only that portion of the employee's contributions equal to the lesser of: (A) the portion of his employee contributions (if any) during such year in excess of 6 percent of his annual compensation, or (B) one-half of his employee contributions during such plan year shall be considered an "Annual Addition." The Annual Addition for any year beginning prior to January 1, 1987, shall not be recomputed to treat all employee contributions as an Annual Addition.

(2) "Projected Annual Benefit" means the Annual Benefit (as defined in paragraph (3) below) to which a Participant would be entitled under a defined benefit plan (after giving effect to any limitation on such benefit contained in such plan that may be applicable to the Participant) on the assumptions that he continues employment until his Normal Retirement Date thereunder, that his compensation continues at the same rate as in effect for the Limitation Year under consideration until such Normal Retirement Date, and that all other relevant factors used to determine benefits under such plan remain constant for all future Limitation Years.

(3) The "Annual Benefit" of a Participant means the annual amount payable under a defined benefit plan computed in accordance with the following rules:

(i) Where the Annual Benefit payable under a defined benefit plan is other than in the form of either a single life annuity or a qualified joint and survivor annuity within the meaning of Code section 417(b) it shall be adjusted to an actuarial equivalent benefit in the form of a single life annuity.

(ii) In the case of a benefit under a defined benefit plan which begins prior to the Participant's Social Security Retirement Age (as defined below), such benefit shall be adjusted so that it is the

actuarial equivalent of a benefit commencing at the Participant's Social Security Retirement Age for purposes of applying the Code section 415(b) dollar maximum.

(iii) In the case of a benefit under a defined benefit plan which begins after the Participant's Social Security Retirement Age, such benefit shall be adjusted to the actuarial equivalent of a benefit commencing at the Participant's Social Security Retirement Age for purposes of applying the Code section 415(b) dollar maximum.

(iv) For years beginning prior to January 1, 1987, subparagraph (B) shall be applied by substituting "age 62" for "the Participant's Social Security Retirement Age," and subparagraph (C) shall be applied by substituting "age 65" for "the Participant's Social Security Age."

(4) "Average Compensation" means a Participant's average compensation for the period of 3 consecutive Plan Years (or the actual number of consecutive years of employment for Participants employed by an Employer less than 3 consecutive years) during which the Participant had the greatest aggregate Annual Compensation.

(5) "Prior Year" means a year, preceding the current Limitation Year, in which the Participant was in the service of the Employer. For purposes of the preceding sentence, "year" shall mean (in the event the Plan was in existence during such year) a Limitation Year, or (in the event the Plan was not in existence during such year) a 12-month period which begins and ends on the same dates as the Limitation Year.

(6) "Dollar Limitation" means the limitation provided in Code section 415(c)(1)(A) (adjusted in accordance with Internal Revenue Service Regulations) as in effect for the particular Plan Year.

(7) "Social Security Retirement Age" means age 65 in the case of a Participant who attains age 62 before January 1, 2000; age 66 in the case of a Participant who attains age 62 after December 31, 1999 but before January 1, 2017; and age 67 in the case of a Participant who attains age 62 after December 31, 2016.

(8) For purposes of Section 4.5(b)(1)(i) above, if as of the last Plan Year ending before January 1, 1983, a Participant's accrued benefit (within the meaning of Section 235(g)(4) of the Tax Equity and Fiscal Responsibility Act of 1982) under the Employer's defined benefit plans is greater than \$90,000 (and also such other amount as may apply pursuant to automatic adjustments of the \$90,000 figure), then Section 4.5(b)(1)(i) shall be applied by substituting such accrued benefit for \$90,000 where it appears therein.

(9) For purposes of computing the maximum allocation under either subsection (a) or (b), all defined benefit plans (whether or not terminated) of the Employer shall be treated as one defined benefit plan, and all defined contribution plans (whether or not terminated) of the Employer shall be treated as one defined contribution plan.

(10) When the term "Employer" is used in this section, it shall mean the Employer and any other corporation or division which is a member of a controlled group of corporations (within the meaning of Code Section 414(b), as modified by Code section 415(h)) of which the Employer is also a member.

(e) Annual Compensation: A Participant's annual compensation as determined solely for purposes of this section and Article XIV of the Plan.

(1) A Participant's Annual Compensation shall include:

(i) The Participant's earned income, wages, salaries, and fees for professional services, and other amounts received for personal services actually rendered in the course of employment with the Employer maintaining the plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips and bonuses, fringe benefits, reimbursements, and expense allowances);

(ii) Amounts described in Code sections 104(a)(3), 105(a) and 105(h), but only to the extent that such amounts are includable in the gross income of the Participant;

(iii) Amounts paid or reimbursed by the Employer for moving expenses incurred by a Participant, but only to the extent that such amounts are not deductible by the Participant under Code section 217;

(iv) The value of a non-qualified stock option granted to a Participant, but only to the extent that the value of the option is includable in the gross income of the Participant for the taxable year in which granted; and

(v) The amount includable in the gross income of a Participant upon making the election described in Code section 83(b).

(2) A Participant's Annual Compensation shall not include:

(i) Employer contributions to a plan of deferred compensation which are not included in the Participant's gross income for the taxable year in which contributed or Employer contributions under a simplified employee pension plan to the extent such contributions are



deductible by the Participant, or any distributions from a plan of deferred compensation;

(ii) Amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Participant either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(iii) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(iv) Other amounts which received special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in section 403(b) of the Code (whether or not the amounts are actually excludable from the gross income of the Participant).

Compensation for any limitation year is the compensation actually paid or includable in gross income during such year.

4.6 Excess Allocations: If pursuant to Section 4.5 there is an excess Annual Addition under this Plan with respect to a Participant for a Limitation Year, such excess Annual Addition shall be disposed of by distributing to the Participant such Participant's Elective Deferrals for the Limitation Year (and related earnings thereon) to the extent necessary to eliminate such excess.

4.7 Fund for Exclusive Benefit of Participants: Except as otherwise provided hereinafter (i) all assets of the Trust Fund, including investment income, shall be retained for the exclusive benefit of Participants and Beneficiaries, and shall be used to pay benefits to such persons or to pay administrative expenses of the Plan and Trust to the extent not paid by the Employer, and (ii) contributions made by the Employer may not under any circumstances revert to or inure to the benefit of the Employer; except that, and notwithstanding anything contained herein to the contrary, contributions (a) made by the Employer by mistake of fact, or (b) conditioned upon the deductibility of the contribution under Code section 404, shall be returned to the Employer within 1 year of the mistaken payment or the disallowance of the deduction (to the extent disallowed), whichever is applicable. Each contribution by the Employer is expressly made contingent on the deductibility of such contribution for the year with respect to which the contribution is made.

ARTICLE V  
Interests of Participants

5.1 Accounts of Participants: The Plan Administrator, or its agent, shall maintain separate accounts on its books, for recordkeeping purposes only, for each Participant. A given Participant may have two accounts if he has: (i) deferred a percentage of his Eligible Pay pursuant to Section 4.1, and (ii) made a rollover contribution pursuant to Section 4.4, i.e., a Salary Deferral Account, and a Rollover Account. The maintenance of individual accounts is only for accounting purposes, and a segregation of the assets of the Trust Fund to each account shall not be required (except as the Trustee deems necessary under the Brokerage Option). Distributions and withdrawals from a Participant's Account shall be charged to the appropriate account at the time the transaction is processed.

5.2 Investment of Participant Accounts: The investment options under the Plan are described in subsection (a), subject to the limitations set forth in subsection (b) and other provisions of the Plan.

(a) Investment Options: In accordance with the rules provided in subsection (c) below, a Participant shall direct the investment of the amounts credited to his Account to any of the following separate investment options within the Trust Fund for which he is eligible at the time:

(1) The Security Plus Fund: This investment option, available effective January 1, 1992, is an investment portfolio comprised of investment funds and contracts issued by highly rated banks and insurance companies and short-term securities. The objective of the Fund is to provide, over a period of time, a higher rate of return than average money market funds, while preserving principal and providing liquidity. The Fund's rate of return will fluctuate and is not intended to provide a guaranteed rate of return. The Participant's interest in the fund will be denominated as "units". The value of a unit in this Fund will be \$1.00. The number of units credited to a Participant will fluctuate based upon the

performance of the Fund. As of January 1, 1992, two 1991 Guaranteed Income Fund contracts, both issued by Metropolitan Life, were transferred to the Security Plus Fund. In addition to the transferred investment contracts, the Fund is expected to invest primarily in: (A) short-term investment funds (including government short-term investment funds) that invest in certificates of deposit, time deposits, bankers' acceptances, commercial paper, U.S. Treasury and agency securities, and mortgage and asset-backed securities; and (B) new investment contracts issued by highly-rated insurance companies, banks, and other financial institutions. The transfer of funds invested in the Security Plus Fund to other separate investment options within the Trust Fund shall be subject to the following restrictions:

(i) No amounts invested in the Security Plus Fund may be transferred by a Participant directly to the Brokerage Option. No amounts invested in the Security Plus Fund may be transferred by a Participant indirectly to the Brokerage Option, i.e., by first transferring the amounts to some other investment option (or options) under the Plan, unless such amounts remain invested in the intervening investment option (or options) for at least 3 months;

(ii) A Participant can transfer amounts from the Security Plus Fund into some other investment option (or options) under the Plan no more than 12 times during the Plan Year; and

(iii) Withdrawals of amounts invested in the Security Plus Fund are subject to the limitations specified in Section 6.3(c).

(2) The Equity Index Fund: This investment option is a diversified stock fund, invested primarily in the Vanguard Institutional Index Fund. It is a passively managed fund designed to mirror the performance of Standard and Poor's 500 Index, a broadly-based average of stock market

performance. Investments in this investment option are subject to fluctuations, and there is no guarantee of future performance. The Participant's interest in the Fund will be denominated as "units". The value of a unit in this Fund will fluctuate based on the performance of the Fund. The number of units credited to a Participant will not fluctuate based upon the performance of the Fund.

(3) The Equity-Income Fund: This Fund is primarily invested in the Fidelity Equity-Income Fund, which invests primarily in income-producing stocks. The Fund's chief objective is to provide reasonable income, although some consideration is given to capital appreciation. Amounts invested in this investment option are subject to fluctuations, and there is no guarantee of future performance. The Participant's interest in the Fund will be denominated as "units". The value of a unit in this Fund will fluctuate based on the performance of the Fund. The number of units credited to a Participant will not fluctuate based upon the performance of the Fund. Notwithstanding anything to the contrary herein, if with respect to any calendar quarter ("quarter") Fidelity Institutional Retirement Services Company makes a payment pursuant to its Plan Expense Reimbursement Agreement with the Company, such payment shall be allocated to certain Participants who have an interest in the Equity Income Fund as provided in (i) or (ii) below, as applicable.

(i) Effective for any such payment made with respect to a quarter beginning after June 30, 1996, the projected amount payable with respect to each business day in a quarter shall be allocated on a daily basis to Participants in proportion to their interest in the Fund on such business day. If the actual amount of payment for a quarter differs from the projected amount allocated, then as soon as practicable after the actual payment is received appropriate adjustments will be made in affected Participants' Accounts that remain in the Plan.

(ii) Any such payment made with respect to an earlier quarter shall be allocated to Participants who have an interest in the

Equity-Income Fund on the last business day of such quarter in proportion to their interest in the Fund on such date.

For purposes of (i) and (ii) above, a Participant's interest in the Equity-Income Fund on a day shall be determined before adjustments in Accounts are made for that day in accordance with Section 5.3.

(4) The PepsiCo Capital Stock Fund: This investment option is invested primarily in Company Stock. Earnings will be applied primarily to the purchase of additional shares of Company Stock. The objective of the Fund is to parallel the total return (stock price appreciation/depreciation plus dividends) of Company Stock. Amounts invested in this investment option are subject to fluctuations, and there is no guarantee of future performance.

A Participant's interest in the Fund will be denominated as "units". The initial value of a unit (as of February 29, 1992) in this Fund is \$10.00 and thereafter the value of a unit will fluctuate in response to various factors including, but not limited to, the price of and dividends paid on Company Stock, earnings and losses on other investments in the Fund, the mix of assets in the Fund and Fund expenses. The number of units credited to a Participant's account will not fluctuate based upon the performance of the Fund. Shares of PepsiCo Capital Stock held in the Fund and dividends and other distributions on PepsiCo Capital Stock are not specifically allocated to Participant accounts. Each Participant's investment in the PepsiCo Capital Stock Fund will be based on the proportion of his investment in the Fund to the total investment in the Fund of all Plan Participants.

All dividends on shares of Company Stock in the Fund are paid to the Fund. Dividends on these shares are added to the Fund without the purchase of additional units in the Fund. The Trustee shall use the dividend income to purchase additional shares of Company Stock for the Fund or to meet the cash demands of the Fund. Any Company Stock received by the Trustee as a stock split or dividend, or as a result of a reorganization or other recapitalization of PepsiCo, will be added to the assets of the Fund. Any other property (other than shares of

Company Stock) received by the Trustee may be sold by the Trustee and the proceeds added to the Fund. Any rights to subscribe to additional shares of Company Stock shall be sold by the Trustee and the proceeds credited to the Fund.

Participants who have invested in the Fund may direct the Trustee how to vote (or tender, if applicable) Company Stock. The Trustee will determine each Participant's proportional share of the Company Stock in the Fund (based on the number of units allocated to the Participant's Accounts) and solicit the Participant's instructions. The Trustee shall vote (and/or tender) this stock according to the Participant's directions. The Trustee shall not vote stock in the Fund for which it does not receive directions.

The Company shall assist the Trustee in furnishing Participants investing in the PepsiCo Capital Stock Fund with proxy materials, notices and information statements at the time voting rights are to be exercised. In general, the materials to be furnished Participants shall be the same as those provided to security holders.

Shares of Company Stock will be purchased for the Fund in the open market or in privately negotiated transactions, at prices not in excess of the fair market value of the Company Stock on the date of purchase. Sales of shares will also be made in the open market or in privately negotiated transactions at prices not lower than the fair market value of Company Stock on the date of sale. The Trustee, or its designated agent, may limit the daily volume of purchases and sales to the extent it believes it will be in the interest of Participants to do so.

(5) The Brokerage Option:

(i) Description of Funds: This investment option will be administered by State Street Bank and the agents it employs as securities brokers to execute Participants' trades. This option permits certain Participants and Beneficiaries to invest all or a portion of their interest in the Plan in additional choices for self-directed investment. The Plan Administrator shall publish written rules and procedures for the election of

these additional choices by Participants and Beneficiaries, and may revise such rules and procedures at any time and for any reason. The investments expected to be available under the Brokerage Option are generally as follows: securities traded on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ exchange, and certain mutual funds as specified by the Plan Administrator.

(A) The following investments will not be available through the Brokerage Option: Non-taxable bonds; options; futures; commodities; limited partnerships which are unlisted on the New York or American Stock Exchange or the NASDAQ exchange; foreign securities which are unlisted on the New York or American Stock Exchange or the NASDAQ exchange; commercial paper; bank investments (such as certificates of deposits and bank investment contracts); physical assets (such as coins, art, jewelry, and real estate); insurance investment or insurance investment funds; mutual funds not specified by the Plan Administrator; and securities of the Company or its subsidiaries (even if listed on the New York or American Stock Exchange or the NASDAQ exchange).

(B) The following trading practices are prohibited under the Brokerage Option: Short sales, margin trades, third party trades, direct trades, and any trades occurring outside the procedures established by the Plan Administrator.

(ii) Restrictions: Each Participant who participates in the Brokerage Option shall have his interest in the Plan reduced by any brokerage commissions and fees (including fees charged on account of one or more investments in a mutual fund) payable on their individual transactions and shall also have his interest in the Plan reduced by an access fee (initially \$4.20) for each month or part thereof that the Participant participates in the Brokerage Option. Such access fee will be taken from

the Plan in the following order: Security Plus Fund, Equity-Index Fund, Equity Income Fund, PepsiCo Capital Stock Fund and the Brokerage Option. The Plan Administrator, and its agent, are authorized to sell securities or other assets held within a Participant's Account for the purpose of paying the commissions and fees described in this subsection. Investment in the Brokerage Option is subject to the following restrictions:

(A) To commence investing under this program, the Participant must first be eligible to enroll in the Brokerage Option. A Participant is eligible to enroll if he has at least \$1,000.00 in his Participant Account; completes and returns the application as required by the Plan Administrator or its agent; and his initial transfer election into the Brokerage Option is at least \$1,000. Subsequent transfers to and from the Brokerage Option must be at least \$250 unless such transfer is to close the Participant's account under the Brokerage Option. All transfers to the Brokerage Option must be from prior savings.

(B) No amounts invested either in the Security Plus Fund or in the Guaranteed Income Fund may be directly transferred to the Brokerage Option, and no amounts invested either in the Security Plus Fund or in the Guaranteed Income Fund may be indirectly transferred to the Brokerage Option, i.e., by first transferring the amounts to some other investment fund (or funds) under the Plan, unless such amounts remain invested in the intervening fund (or funds) for at least 3 months.

(C) Except as provided in the last sentence of this clause (C), no security or investment held by a Participant's account within the Brokerage Option may be transferred or distributed directly to the Participant. The Participant must initially sell the security or investment. The Trustee will place the proceeds of such



sale in a short-term investment fund, designed to generate a money market rate of return, within the Brokerage Option. The proceeds will remain in such account until the Participant instructs the Plan Administrator or its agent to transfer all or a portion of such proceeds into one or more of the other separate investment options within the Trust Fund provided that the investment option chosen by the Participant permits contributions. The crediting of earnings within the short-term investment fund and the transfer of funds to other investment funds within the Trust Fund may be delayed until after the settlement period for the class of security sold by the Participant, ranging from one to five business days. In-kind distributions are permitted in the event of a complete distribution of a Participant's interest as specified under Section 6.1 or 6.2.

(6) The Guaranteed Income Fund: This fund is established through contractual arrangements with one or more insurance companies or other financial institutions. Effective January 1, 1992, the Guaranteed Income Fund no longer accepts additional deposits. As of January 1, 1992, two 1991 Guaranteed Income Fund contracts, both issued by Metropolitan Life, were transferred to the Security Plus Fund. The return on amounts that remain invested in the Guaranteed Income Fund is determined in accordance with the contract (or contracts) applicable to the year in which the amounts were invested. Guarantees of principal and interest are provided solely by the insurance company or other financial institution issuing the contract. The transfer of funds invested in the Guaranteed Income Fund to other separate investment funds within the Trust Fund will be restricted in the following manner:

(i) No amounts invested in the Guaranteed Income Fund for any Plan Year may be transferred by a Participant directly into the Security Plus Fund or the Brokerage Option. No amounts invested in the Guaranteed Income Fund for any Plan Year may be transferred by a Participant

indirectly to the Security Plus Fund or the Brokerage Option, i.e., by first transferring the amounts to some other investment fund (or funds) under the Plan, unless such amounts remain invested in the intervening fund (or funds) for at least 3 months; and (ii) A Participant can transfer amounts from the Guaranteed Income Fund into some other investment fund (or funds) under the Plan no more than 12 times during the Plan Year.

(b) Maintaining Liquidity: Notwithstanding subsection (a) above, for the purpose of providing liquidity in each of the separate investment options (other than the Brokerage Option) under the Plan, the Trustee may invest a portion of each fund or investment option under the Plan in cash or short-term securities. The percentage of assets held for this purpose is normally expected to range from 2-10 percent, but under extraordinary circumstances the percentages may be substantially higher. Consequently, the mix of cash, securities and other investments in each of the investment funds could vary significantly at any given time and the performance of any particular fund may not match the performance of the fund or stock, as the case may be, outside the Plan. In the unlikely event that the amount of liquid assets held by these funds is insufficient to satisfy the immediate demand for liquidity under the Plan, the Trustee, in consultation with the Plan Administrator, may temporarily limit or suspend transfers of any type (including withdrawals and distributions) to or from the investment options specified in subsection (a). In any such case, the Plan Administrator shall temporarily change the Plan's Valuation Date or, in its discretion, the Valuation Date for a specific option. During this period, contributions to any affected option may be redirected to substitute investments chosen by the Trustee.

(c) Procedures for Investment Directions: A Participant may direct the investment of the amounts credited to him under the Plan into the investment options described in subsection (a) only in accordance with this subsection. A Participant shall direct the investment, or change the direction of the investment, of his future or existing investment by directing the Plan Administrator through the telephone enrollment system

provided by the Plan Administrator for such purpose (or through any other method made available by the Plan Administrator) and by specifying whether the Participant's investment instructions apply to existing savings, future contributions or both.

(1) The Participant will have sole responsibility for the investment of his savings and for transfers among the available investment funds, and no named fiduciary or other person will have any liability for any loss or diminution in value resulting from the Participant's exercise of such investment responsibility. In addition, because Participants control the investment of Participant Accounts, the Plan is intended to be covered to the maximum extent possible by section 404(c) of ERISA and related Department of Labor regulations, which provide that Plan fiduciaries may be relieved of liability for any losses that are the result of investment instructions given by a Participant or Beneficiary.

(2) In the case of an option other than the Brokerage Option, a Participant's investment instruction or change in investment instruction shall take effect as of the end of the day on which the Participant gives such instruction or change to the Plan Administrator (or its agent), provided the Participant executes such instruction or change by 3:00 p.m. (Eastern time) on a business day. If the Participant executes his instruction or change on a Saturday, Sunday, holiday or after 3:00 p.m. (Eastern time) on a business day, such instruction or change will become effective on the next following business day.

(3) In the case of the Brokerage Option, a Participant's investment instruction or change within the Brokerage Option or fund transfers into the Brokerage Option shall be effective in accordance with rules set forth by the Plan Administrator consistent with the rules that govern the exchange or fund in which Participants invest.

Any investment direction submitted by a Participant must specify, in whole percentages (1 to 100), the percentage of his accounts to be invested in any or all of the separate investment funds maintained under the Plan. If a Participant fails to submit a statement of direction properly directing the investment of 100 percent of his accounts, and such failure

is not corrected, the Participant shall not be eligible to participate actively, or to continue to participate actively, in the Plan; provided, however, that amounts previously invested pursuant to a properly executed statement of investment direction shall continue to remain invested in the Fund or Funds so elected. The rules for transfers set forth in paragraphs (2) and (3) above are subject to the last 3 sentences of subsection (b) above.

(d) Miscellaneous:

(1) It is expressly permissible under this Plan for Trust assets to be invested in qualifying employer securities, as that term is defined in section 407(d)(5) of ERISA, up to and including 100 percent of the total Trust assets. If Company Stock is purchased other than on the open market, the Company Stock shall be valued in good faith and based on all relevant factors, including the sales prices of such stock, as reported on the New York Stock Exchange, on the date of purchase.

(2) The separate investment funds made available under the Trust Fund and their rules of operation and valuation may be changed from time to time by agreement between the Company and the Trustee.

(3) As of each Valuation Date, the Trustee will determine the fair market value of the assets in each separate investment fund of the Trust Fund, relying upon such evidence of valuation as the Trustee deems appropriate.

5.3 Adjusting Account Balances: As of the close of business on each Valuation Date (before adjusting for contributions, distributions and investment transfers), Participants' Accounts shall be charged or credited with:

- (a) Investment Expenses,
- (b) Investment income, and
- (c) Gains and losses in asset values,

to the extent they have occurred with respect to each separate option (and each separate investment within the Brokerage Option) since the preceding Valuation Date. Thereafter, the final Account balances as of the Valuation Date will be determined by adjusting the amounts determined under the preceding sentence for contributions, distributions and investment transfers. The allocation of

Investment Expenses and investment results as of a Valuation Date shall be in proportion to the final Account balances in the fund or investment as of the preceding Valuation Date. Gains and losses in assets values as of a Valuation Date shall be determined in accordance with rules of the Plan Administrator and may not reflect the closing values of the assets on such Valuation Date.

ARTICLE VI  
Distributions To Participants

6.1 Termination of Employment: Subject to Section 6.2, a Participant who incurs a Termination of Employment under the Plan shall be entitled to receive the entire amount of his interest in the Plan computed as of: (i) the Valuation Date on which the final distribution form for the Participant is processed by the Recordkeeper, or (ii) if the Participant's interest in the Plan is \$3,500 or less, the Valuation Date on which the Recordkeeper processes the distribution of the Participant's Account (such distribution to be processed as soon as practicable after the 90 days specified in section 6.6(d)). Subject to Section 6.6(a), the Participant's interest at Termination of Employment shall be payable to the Participant as a lump sum distribution as soon as practicable.

6.2 Death: Subject to Section 7.1(b), in the event of the death of a Participant, the entire amount, if any, of the interest of such Participant in the Plan shall be paid as provided in Section 6.1, except that it shall be payable to such Participant's Beneficiary or Beneficiaries determined in accordance with Article VIII.

6.3 Withdrawals: Subject to the restriction on direct withdrawals from the Brokerage Option specified in Subsection (c) below, a Participant who has made a Salary Deferral Contribution or a Rollover Contribution may withdraw certain amounts credited to his Salary Deferral Account and Rollover Account to the extent permitted by this section.

(a) Hardship Withdrawals: In the case of a Participant who has not yet attained the age of 59-1/2, withdrawals shall only be permitted on account of the Participant's hardship. For this purpose, a withdrawal is made on account of hardship only if the Plan Administrator (or its delegate) determines the withdrawal is: (A) made on account of an immediate and heavy financial need of the Participant, and (B) necessary to satisfy this financial need. Such determinations are intended to follow applicable regulations and rulings issued by the Internal Revenue Service.

(1) Immediate and Heavy Financial Need: The determination of whether a Participant has an immediate and heavy financial need shall be based on all of the relevant facts and circumstances. In addition, a distribution shall be deemed to be made on account of an immediate and heavy financial need of the Participant if the distribution is on account of:

(i) Expenses for medical care (within the meaning of Code section 213(d)) incurred by the Employee, the Employee's spouse or dependents;

(ii) A cost directly related to the purchase (excluding mortgage payments) of a principal residence for the Employee;

(iii) Payment of tuition and related educational fees for the next 12 months of post-secondary education for the Employee, the Employee's spouse, children or dependents; or

(iv) The need to prevent the eviction of the Employee from, or a foreclosure on the mortgage of, the Employee's principal residence.

For purposes of this paragraph, "dependent" means an Employee's dependent within the meaning of Code section 152.

(2) Necessary for the Need: A withdrawal shall be considered necessary to satisfy a need described in paragraph (1) only to the extent: (A) the amount of the withdrawal is not in excess of the amount required to relieve such need, and (B) the need cannot be satisfied from other resources that are reasonably available to the Participant. Determinations under this paragraph shall be based on all of the relevant facts and circumstances. A distribution generally may be treated as necessary to satisfy a financial need if the Plan Administrator (or its delegate) relies upon the Participant's written

representation (unless the Plan Administrator has actual knowledge to the contrary) that the need cannot reasonably be relieved:

(i) Through reimbursement or compensation by insurance or otherwise;

(ii) By liquidation of the Participant's assets;

(iii) By cessation of Salary Deferral Contributions;

(iv) By other distributions or nontaxable loans from plans maintained by an employer, or by borrowing from commercial sources on reasonable commercial terms, in an amount sufficient to satisfy the need.

For this purpose, a need cannot be treated as reasonably relieved from the sources listed above if the effect would be to increase the amount of the need.

(3) Maximum Withdrawal: The amount that may be made available to a Participant for hardship withdrawal may not exceed:

(i) The sum of:

(A) the Participant's total Salary Deferral Contributions,

(B) any earnings on the Participant's Salary Deferral Contributions credited to the Participant's Account on December 31, 1988, and

(C) the Participant's total Rollover Contributions (and contributions on behalf of the Participant to any other accounts that may be provided for in the Appendix) plus any earnings thereon; reduced by

(ii) The amount of any prior withdrawals and distributions to or on behalf of the Participant.



The amounts specified in this paragraph (except that specified in subparagraph (i)(B)) are to be determined as of the Valuation Date on which the withdrawal is processed.

(4) Administrative Procedures: A withdrawal request under this subsection shall be made on the form specified for this purpose by the Plan Administrator. For a withdrawal to be approved, this form must be fully completed and the Participant must provide such additional information as the Plan Administrator (or its delegate) shall request. The hardship withdrawal shall be paid to the Participant as promptly as practicable after its approval and shall not exceed the value of the Participant's distributable interest.

(b) Post-Age 59-1/2 Withdrawals: In the case of a Participant who has attained age 59-1/2, such Participant shall be eligible to withdraw amounts from his Account by submitting to the Plan Administrator a request in such form and manner as the Plan Administrator may provide, specifying the amount to be withdrawn; provided, however, that a Participant shall be ineligible to make a withdrawal under this subsection more than 2 times within the same calendar year. Distribution shall be made to the Participant as soon as practicable after the withdrawal request is received by the Plan Administrator, based upon the Participant's balance in his Account as of the Valuation Date the withdrawal is processed.

(c) Order of Asset Liquidation for all Withdrawals: In the event the Participant's Account is invested in more than one investment option, a partial withdrawal will be distributed pro-rata from each of the investment options from which withdrawals are available subject to the following requirements: amounts invested in the Security Plus Fund must be withdrawn before amounts invested in the Guaranteed Income Fund can be withdrawn, and amounts invested in the Guaranteed Income Fund shall be withdrawn in reverse order of the Participant's investment in the

underlying contracts, i.e., the most recent contract shall be liquidated first. In addition, withdrawals directly from the Brokerage Account are not permitted.

6.4 Form of Distributions: Distributions under the Plan on account of Termination of Employment or death shall be made in cash, except to the extent that a Participant elects to receive: (i) his interest in the PepsiCo Capital Stock Fund in whole shares of Company Stock; or (ii) securities held in his Brokerage Option as permitted in Section 5.2(a)(5)(ii)(C). An election to receive an in-kind distribution shall not apply to fractional shares, uninvested cash or amounts invested for liquidity purposes, and shall not be available with respect to hardship withdrawals under section 6.3(a).

6.5 Errors in Participant's Accounts: When an error or omission is discovered in an account of a Participant, the Plan Administrator and the Trustee shall be authorized to make such equitable adjustments as may be appropriate as of the Plan Year in which the error or omission is discovered.

6.6 Commencement of Payments: Notwithstanding anything in the Plan to the contrary, the distribution of a Participant's benefits hereunder shall be determined in accordance with the provisions of this section and shall otherwise comply with Code section 401(a)(9) and the regulations under section 401(a)(9) including section 1.401(a)(9)-2. In addition, any provisions of the Plan that reflect Code section 401(a)(9) (including subsection (b) below) override any other distribution options in the Plan that are inconsistent with Code section 401(a)(9).

(a) Consent Requirements: Effective as of January 1, 1985, if the value of a Participant's total interest in the Plan exceeds \$3,500 at the time a distribution is to be made, then such interest shall not be distributed hereunder prior to the Participant's attainment of age 65 or death unless the Participant consents in writing, on a form prescribed by the Plan Administrator, to the earlier distribution of his interest in the Plan. However, upon termination of the Plan, the Participant's interest may, without the Participant's consent, be distributed to him or transferred to

another defined contribution plan (other than an employee stock ownership plan as defined in Code section 4975(e)(7)) maintained by the Employer.

(b) Code Section 401(a)(14) Provisions: Subject to subsection (c) below, distribution of a Participant's interest in the Plan shall not commence later than the 60th day after the close of the latest of the following:

(1) The Plan Year in which the Participant attains age 65,

(2) The Plan Year in which occurs the tenth anniversary of the date his participation commenced,

(3) The Plan Year in which occurs the Participant's Termination of Employment, or

(4) The Plan Year containing the date to which the Participant has elected in writing to defer commencement of his Plan distribution.

If a distribution otherwise payable to a Participant or his Beneficiary hereunder remains unpaid because the Plan Administrator (after making reasonable efforts) cannot locate the Participant or Beneficiary, the amount so distributable shall be treated as a forfeiture under the Plan. Following its forfeiture, such amount shall be used to pay any expense of Plan administration which may be charged to the Plan in accordance with ERISA. In the event the Participant or his Beneficiary is located subsequent to the forfeiture of his Account, such Account shall be restored, without adjustment for earnings or losses, and payment to the Participant or Beneficiary shall be made no later than 60 days after the date on which the Plan Administrator locates the Participant or Beneficiary.

(c) Code Section 401(a)(9) Provisions:

(1) A Participant's total interest in the Plan must be distributed to him no later than the Participant's required beginning date.

(i) In the case of a Participant who is not a percent owner after 1979, the "required beginning date" shall be determined as follows:

(A) If the Participant attains age 70-1/2 after 1987, the required beginning date is the April 1 following the calendar year in which the Participant attains age 70-1/2 (but not before April 1, 1990).

(B) If the Participant attains age 70-1/2 before 1988, the required beginning date is the April 1 following the calendar year in which occurs the later of his Termination of Employment or attainment of age 70-1/2.

(ii) In the case of a Participant who is a 5 percent owner after 1979, the required beginning date is the April 1 following the later of:

(A) the calendar year in which the Participant attains age 70-1/2, or

(B) the first calendar year in which the Participant either becomes a 5 percent owner or terminates employment.

For purposes of this paragraph, a 5-percent owner is any Participant who is a 5-percent owner as defined in section 416(i) of the Code (determined in accordance with section 416 but without regard to whether the Plan is top-heavy) at any time during the Plan Year ending with or within the calendar year in which such owner attains age 66-1/2 or any subsequent Plan Year.

(2) In the event a Participant dies on or after his Annuity Starting Date but before actual payment has commenced, the Participant's total interest in the Plan (if any) shall be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's date of

death occurs. Notwithstanding the preceding sentence, if the Participant's designated beneficiary is his surviving spouse and the surviving spouse dies after the Participant, but before payments to such spouse begin, the provisions of this subsection 6.6(c)(2) shall be applied as if the surviving spouse were the Participant.

(d) Cashout Distributions: Subject to the last sentence of this subsection, upon a Participant's death or other Termination of Employment, the value of the Participant's total interest in the Plan shall be automatically distributed to him in a lump-sum cash distribution as soon as practicable following the earlier of (i) the date the Participant reaches age 65 (or such later date as permitted by the Plan Administrator in accordance with Code section 401(a)(14)); or (ii) 90 days after the Participant's Termination of Employment. However, such a Participant (or where the Participant has died, his Beneficiary as determined under Article VIII) can effect an earlier distribution by submitting a properly completed final distribution form in the manner specified by the Plan Administrator. By submitting a properly completed final distribution form, the Participant may elect to receive an in-kind distribution as provided in Section 6.4. Notwithstanding any provision of this Section 6.6(d) to the contrary, if such Participant is disabled (within the meaning of the PepsiCo Long Term Disability Plan) or has a total interest in the Plan in excess of \$3,500 and has not died, a distribution of his total interest in the Plan will not occur until the earlier of: (i) the date the Participant attains age 65 (or such later date as permitted by the Plan Administrator in accordance with Code section 401(a)(14)); or (ii) the date the Participant submits a properly completed final distribution form in the manner specified by the Plan Administrator.

6.7 Payment for Benefit of Disabled or Incapacitated Person: Whenever, in the opinion of the Plan Administrator or its agent, a person entitled to receive any payment of a benefit hereunder is under a legal disability or is incapacitated in any way so as to be unable

to manage his financial affairs, the Plan Administrator or its agent may direct the Trustee to make payments to such person or to his legal representative or to a relative or friend of such person for his benefit, or the Plan Administrator or its agent may direct the Trustee to apply the payment for the benefit of such person in such manner as the Plan Administrator or its agent considers advisable. Any payment of a benefit or installment thereof in accordance with the provisions of this section shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

6.8 No Other Benefits or Withdrawals: Except as expressly provided for in this Article VI or the Appendix, no individual, whether a Participant, former Participant, Beneficiary or otherwise, shall be entitled to any distribution or withdrawal of funds from the Trust Fund.

6.9 Participants Who Cannot Be Located: If the Plan Administrator after the passage of a period of time (which period shall be established by the Plan Administrator in accordance with reasonable administrative practices) and reasonable due diligence is unable to locate an inactive Participant or Beneficiary to whom a payment is due under this Article VI, the amount of the Account due such person shall be treated as a forfeiture hereunder, provided that any such forfeited benefits shall be subject to reinstatement if the inactive Participant or Beneficiary ever makes a valid claim for the benefit. If a claim is made for a benefit that was forfeited under this Section 6.9, the benefit to be restored shall be the dollar value of the Account that was forfeited, determined as of the date the forfeiture occurred without any interest, earnings or adjustments in value occurring after the date of forfeiture. This Section 6.9 shall be administered by the Plan Administrator in accordance with any restrictions mandated by law. Forfeitures occurring pursuant to this Section 6.9 shall be used to pay Plan expenses as described in Section 9.2 and, to the extent not so used or reserved for such use, shall be allocated to Participants in the manner determined by Plan amendment.

ARTICLE VII  
Plan Loans

7.1 Eligibility for Plan loans: Subject to the restrictions set forth in this Article VII, the opportunity to take a Plan loan shall be made available to any Participant who, at the time such loan is to be made:

(a) is actively employed by an Employer who has agreed to participate in the loan program;

(b) has a minimum account balance of \$2,000 in the Plan;

(c) has not defaulted on a Plan loan within the prior two years; and

(d) consents to and authorizes repayment of the loan through payroll deductions.

Employers that are not participating in the loan program may be designated by the Plan Administrator from time to time. The requirement of subsection (a) above shall be deemed satisfied in the case of a Participant who is not currently employed if the Participant is a party in interest within the meaning of ERISA section 3(14). For purposes of subsection (c) above, the time of default shall be determined under Section 7.9

7.2 Application Procedure: A Participant shall apply for a loan by calling into the telephone system established by the Plan Administrator and providing the requested information ("Telephone Application"). As soon as practicable after the Participant's Telephone Application, the Plan Administrator shall send such Participant a promissory note, an authorization form for withholding loan payments from the Participant's pay, a document granting the Plan a security interest in the Participant's Plan account, and any other documents the Plan Administrator deems appropriate ("Application Forms"). The promissory note shall state the amount and term of the loan, the applicable interest rate and repayment

schedule, and other information as determined by the Plan Administrator. To complete the application, the Participant must properly fill out, sign and return the Application Forms so that they are received by the Plan Administrator within 30 days of the date of the Application Forms are prepared by the Plan. The Plan Administrator shall approve a Participant's loan application if the Participant:

- (a) is eligible for a loan pursuant to Article 7.1,
- (b) has properly completed and timely returned the Application Forms, and
- (c) is requesting a loan that meets the terms of this Article VII and the summary plan description for this Plan.

An approved loan will be disbursed as soon as practicable after the Plan Administrator has received the Application Forms from the Participant.

7.3 Loan Amount: A Plan loan shall not be less than \$1,000 nor, when aggregated with all other outstanding loans to such borrowing Participant from qualified retirement plans of the Company and any affiliated companies, exceed the least of (rounded down to the nearest hundred):

- (a) \$50,000 (reduced by the excess of (i) the Participant's highest outstanding loan balance during the preceding one-year period ending on the day before the date the loan was made, over (ii) the outstanding balance of loans from the Plan on the date the loan is made);
- (b) 50% of the Participant's account balance under the Plan;
- (c) 100% of the value of the Participant's investments in the following "Core" Funds: PepsiCo Capital Stock, Security Plus, Equity-Index and Equity Income; or
- (d) the maximum loan amount that can be amortized by the Participant's net pay (determined under Section 7.8).



The value of the Participant's account balance and investment in the Core Funds shall be based on the market values of such items at the time of the participant's Telephone Applications or the issuance of the loan, whichever is less.

7.4 Maximum Number of Outstanding Loans and Refinancing:

(a) A Participant shall not have more than one loan outstanding from the Plan at any time. Subject to subsection (b), no loan may be made to a Participant until the repayment of any previous loan to such Participant.

(b) A Participant with an outstanding loan from the Plan is eligible to apply for a refinanced loan, provided the refinanced loan is issued at least two year (six months, effective as soon as practicable after October 20, 1995) after issuance of the outstanding loan. A refinanced loan shall meet all the requirements for a loan set forth in this Article VII. Its proceeds shall first be applied to repay the balance of the outstanding loan, with any remainder payable to the Participant as cash. The interest rate, fees, term and repayment schedule applicable to a refinanced loan shall be determined without reference to the original loan.

7.5 Effect on Participant's Investment: A loan shall constitute a segregated investment solely of the Account of the borrowing Participant.

(a) When initially made, a loan shall be funded from the borrowing Participant's Core Fund investments, prorated based on the Participant's balance in each Core Fund.

(b) All repayments of principal and related interest any gains and losses on a loan shall be credited to the borrowing Participant's account. Loan repayments shall be invested in accordance with the Participant's current investment direction for Salary Deferral Contributions. If the Participant does not have an investment in direction in effect on the date of the Participant's Loan Application, the Participant must provide an investment

direction as part of his loan application. When a selected investment is no longer available, or when otherwise necessary, loan repayments shall be invested in the manner specified by the Plan Administrator from time to time.

(c) A loan shall be adequately secured at all times. All loans are secured by the portion of the borrowing Participant's Account that is invested in the Participant's loan. If the principal amount of a loan immediately after its issuance does not exceed 50 percent of the Participant's Account as of such time, the loan shall be deemed adequately secured at all times hereunder.

7.6 Fees. Following the issuance of a loan, the borrowing Participant shall pay a one-time origination fee. For each month or part thereof the loan remains outstanding the borrowing Participant shall pay a monthly administration fee. Such fee shall be deducted from the Participant's Account at the end of the applicable month. They shall be charged against the position of the Account that is not invested in the loan, in accordance with rules adopted by the Plan Administrator. The fees applicable to a Participant's loan shall be determined on the date of the Participant's Telephone Application and shall not change while such loan is outstanding.

7.7 Interest Rate. Plan loans shall bear a reasonable rate of interest that provides the Plan with a return commensurate with the interest rates charged by persons in the business of lending money for loans which would be made under similar circumstances as part of a similar nationwide loan program. To this end, the Plan Administrator shall adopt rules and procedures for redetermining on a monthly basis the interest rate applicable to new Plan loans. The interest rate for any loan shall be fixed for the period of the loan and shall be determined as of the date of the related Telephone Application. No interest rate shall be less than the applicable federal rate in effect under Section 1274(d) of the Code, as of the day on which the loan was initiated, compounded annually.

#### 7.8 Term and Repayment.

(a) Term. Subject to subsections (c) through (e), the term of a loan shall be not less than 1 year nor greater than 4 years, measuring from the date of issuance.

(b) Repayment. Subject to subsections (c) through (e), a borrowing Participant shall repay his outstanding loan by making substantially level amortization payments at the interval determined by the Plan Administrator. When a Participant is receiving net pay, this shall be the interval of the Participant's regular payroll checks from the Employer, and loan repayments (and any outstanding loan amounts that are due and payable) shall be withheld from the Participant's net pay to the extent possible. For this purpose, "net pay" shall mean a Participant's pay from an Employer, reduced by applicable taxes and such other payroll deductions that are accorded priority by the Plan Administrator. Notwithstanding the preceding provisions, direct payment to the Plan Administrator shall be required in the case of a Participant who is on an authorized leave of absence or long term disability, or a Participant who becomes a foreign service employee. For purposes of this subsection, a loan is not considered outstanding following its default.

(c) Prepayment. A Participant may prepay his entire outstanding loan balance without penalty after first notifying the Plan Administrator. Upon notification, the Plan Administrator shall make the necessary administrative arrangements to permit repayment and shall advise the Participant of the payment-in-full amount and its due date. No partial prepayments are permitted, and no payment-in-full amount will be accepted after its due date.

(d) Terminating Employees. Notwithstanding subsections (a) and (b), an outstanding loan shall become immediately due and payable in full if the borrowing Participant retires, dies or otherwise terminates employment. For purposes of this subsection, a Participant's employment shall be deemed to continue: (1) while he is receiving long term disability benefits and making loan repayment directly to the Plan Administrator, or (2) while he is repaying his loan through payroll deduction from salary continuation or other similar payments.

(e) Termination of Loan Program. In the event the Plan terminates or the portion of the Plan applicable to a Participant terminates, the Participant's loan shall become due and payable in full immediately.

7.9 Loan Default. A loan shall be in default if:

(a) the borrowing Participant is delinquent on more than 12 weeks of scheduled loan repayment amounts;

(b) the loan becomes due and payable and the Participant fails to pay the outstanding principal amount plus accrued interest within 60 days;

(c) the term of the loan has been extended to more than 56 months as a result of the Participant's failure or inability to make timely loan payments; or

(d) there occurs such other circumstances as the Plan Administrator considers to be a default in order to protect the interests of the Plan.

A default on a Plan loan occurs on the date the first of the preceding conditions is met. If a default on a Participant's Plan loan occurs, the Plan shall have the right to foreclose on the Participant's security interest in his Account, and shall do so on or

after the first distributable event for such Participant described in Article VI (other than a hardship distribution event pursuant to Section 6.3(a)).

7.10 Nondiscrimination. Loans shall be made available to all Participants who meet the requirements set forth in section 7.1 on a reasonably equivalent basis, except that the Plan Administrator may make reasonable distinctions based on other obligations of the Participant, state law requirements affecting payroll deductions and other factors that may adversely affect the ability to assure repayment through payroll deduction. The Plan Administrator may refuse a requested loan where it determines that timely repayment of the loan through payroll deduction is not assured.

7.11 Collins Food International, Inc. With respect to a borrowing Participant: (i) who was employed by Collins Food International, Inc. before becoming employed by Kentucky Fried Chicken Corporation and (ii) who has a loan outstanding under the Plan, the provisions of this Article VII shall apply. In addition, the terms of the promissory note for such outstanding loan shall govern to the extent not in conflict with this Plan or applicable federal law.

7.12 Miscellaneous.

(a) Additional Documentation. A Participant shall execute any additional documents as required by the Plan Administrator that correct ministerial errors in the Application Forms, or that are required for proper administration of the loan.

(b) Agent of Plan Administrator. The Plan Administrator may designate an exclusive agent for purposes of administration of some or all of the loan program, and to such extent any references in this Article VII to the Plan Administrator shall mean the designated agent.

(c) Power to Amend Outstanding Loans. It is specifically intended that the Company's power to amend the Plan set forth in Article XI

applies to loans from this Plan that are outstanding (including loans in default) at the time of the amendment.

VII-8

ARTICLE VIII  
Determination of Beneficiary

A Participant's Beneficiary under the Plan shall be determined in accordance with this Article. In the event of a Participant's death, any interest of the Participant in the Plan shall be payable to such Beneficiary in accordance with Section 6.2.

8.1 Certain Married Participants: A Participant's Beneficiary shall be determined in accordance with this Section if: (i) the Participant is married on the date of his death, and (ii) the Participant is credited with at least one Hour of Service after August 22, 1984.

(a) Deaths After November 13, 1984:

(1) Qualified Designations: If a Participant covered by this section dies after November 13, 1984, and has a Qualified Designation (as hereinafter defined) in effect on the date of his death, then such Participant's Beneficiary shall be the person or persons designated by the Participant in the most recent Qualified Designation on file with the Plan Administrator. For purposes of this subsection, a "Qualified Designation" is any Designation of Beneficiary form filed by a Participant which names someone other than the Participant's spouse as a primary beneficiary, and which meets the requirements of subparagraphs (i) or (ii) below:

(i) A Participant's Designation of Beneficiary form meets the requirements of this subparagraph if:

(A) such designation is consented to in writing by the spouse to whom the Participant is married on the date of his death,

(B) the spouse's consent acknowledges the effect of the designation,

(C) the spouse's consent is witnessed by a notary public or an official designated by the Plan Administrator, and

(D) the designation is signed by the Participant and satisfies any other requirements which are prescribed by the Plan Administrator.

(ii) A Participant's Designation of Beneficiary form meets the requirements of this subparagraph if:

(A) at the time such form is filed, it is established to the satisfaction of the Plan Administrator (or its authorized representative) that the consent required under subparagraph (i) may not be obtained because the Participant's spouse cannot be located or because of such other circumstances as may be specified by Internal Revenue Service Regulations,

(B) the Participant is legally separated or the Participant has been abandoned (within the meaning of local law) and (I) the Participant has a court order to such effect, and (II) there is no qualified domestic relations order (within the meaning of Code section 414(p)) which requires spousal consent to the Participant's elections covered by this section, and

(C) the designation is signed by the Participant and satisfies any other requirements which are prescribed by the Plan Administrator.

Consent by a spouse, or establishment that a spouse's consent cannot be obtained, shall be effective only with respect to such individual spouse. If the spouse is legally incompetent to give consent, consent may be given by the spouse's legal guardian (even if the guardian is the



Participant). Once a spouse has given consent to an election of the Participant, such consent shall be irrevocable.

(2) No Qualified Designation: If a Participant covered by this Section dies after November 13, 1984, and does not have a Qualified Designation in effect on the date of his death, then notwithstanding any Designation of Beneficiary form the Participant may have completed, such Participant's sole Beneficiary shall be his spouse. A Participant's Qualified Designation shall not be considered to be in effect hereunder if all the Participant's designated Beneficiaries have predeceased the Participant.

(b) Deaths Before November 14, 1984: If a Participant described in this Section dies before November 14, 1984, then notwithstanding any Designation of Beneficiary form the Participant may have completed, such Participant's Beneficiary for one-half of his interest in the Plan shall be such Participant's spouse. If the amount payable to the Participant's spouse pursuant to the preceding sentence would exceed \$3,500, then notwithstanding any other provision contained herein, such one-half of the Participant's interest shall be payable to the spouse as a life annuity unless the spouse consents in writing to the distribution of such amount as a lump sum. The remaining one-half of the Participant's interest in the Plan shall be payable to the Participant's Beneficiary determined in accordance with Section 8.2 (as if such Section applied with respect to the Participant).

8.2 Other Participants: A Participant's Beneficiary shall be determined in accordance with this Section if: (i) the Participant is not married on the date of his death, or (ii) the Participant is not credited with an Hour of Service after August 22, 1984.

(a) Except as provided in subsections (b) and (c) below, the Beneficiary of a Participant covered by this Section shall be the person or persons designated by the Participant on the most recent Designation of Beneficiary form on

file with the Plan Administrator. A Designation of Beneficiary form shall not be taken into account under this section unless it has been signed by the Participant.

(b) In the case of a Participant covered by this Section who is married at death, any Designation of Beneficiary form executed by such Participant after December 31, 1984 shall not be effective hereunder unless such form meets the requirements of Section 8.1(a)(1)(i) or (ii).

(c) In the event benefits became payable upon the death of a Participant described in this Section and no Beneficiary has been properly designated as provided in subsections (a) and (b), or if all such designated Beneficiaries shall have predeceased the Participant, then the Participant's sole Beneficiary hereunder shall be his estate.

ARTICLE IX  
Administration

9.1 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration: The Fiduciaries shall have only those specific powers, duties, responsibilities, and obligations as are specifically given them under this Plan or the Trust instrument. The Plan Administrator shall have the sole responsibility for the administration of the Plan, which responsibility is specifically described in this Plan and the Trust instrument, except where an agent is appointed to perform administrative duties as specifically agreed to by the Plan Administrator and the agent. Subject to Section 5.2(c)(1), the Trustee shall have the sole responsibility for the administration of the Trust and the management of the assets held under the Trust as specifically provided in the Trust instrument, except where an investment manager has been appointed or as provided otherwise in the Trust instrument. Each Fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust instrument, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each Fiduciary may rely upon any direction, information or action of another Fiduciary as being proper under this Plan or the Trust, and is not required under this Plan or the Trust instrument to inquire into the propriety of any direction, information or action. It is intended under this Plan and the Trust instrument that each Fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust instrument and shall not be responsible for any act or failure to act of another Fiduciary. No Fiduciary guarantees the Trust in any manner against investment loss or depreciation in asset value.

9.2 Administration: The Plan shall be administered by the Plan Administrator which may appoint or employ individuals to assist in the administration of the Plan and which may appoint or employ any other agents it deems advisable, including legal counsel, actuaries and auditors to serve at the Plan Administrator's direction. All usual and reasonable expenses of maintaining, operating and administering the Plan and the Trust, including the expenses of the Plan Administrator and the

Trustee (and their agents), shall be paid from the Trust (whether directly or by reimbursement to the Company or the Employer), except to the extent the Company or the Employer elect to pay such expenses.

9.3 Claims Procedure: The Plan Administrator, or a party designated by the Plan Administrator, shall have the exclusive discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits and to determine the amount of such benefits, and its decision on such matters are final and conclusive. Any exercise of this discretionary authority shall be reviewed by a court under the arbitrary and capricious standard, (i.e., the abuse of discretion standard). If, pursuant to this discretionary authority, an assertion of any right to a benefit by a Participant or beneficiary is wholly or partially denied, the Plan Administrator, or a party designated by the Plan Administrator, will provide such claimant a comprehensible written notice setting forth:

(a) The specific reason or reasons for such denial;

(b) Specific reference to pertinent Plan provisions on which the denial is based;

(c) A description of any additional material or information necessary for the claimant to submit to perfect the claim and an explanation of why such material or information is necessary; and

(d) A description of the Plan's claim review procedure. The claim review procedure is available upon written request by the claimant to the Plan Administrator, or the designated party, within 60 days after receipt by the claimant of written notice of the denial of the claim, and includes the right to examine pertinent documents and submit issues and comments in writing to the Plan Administrator, or the designated party. The decision on review will be made within 60 days after receipt of the request for review, unless circumstances warrant an extension of time not to exceed an additional 60 days, and shall be in writing and drafted in a manner calculated to be

understood by the claimant, and include specific reasons for the decision with references to the specific Plan provisions on which the decision is based.

If circumstances warrant, the Plan Administrator shall provide the claimant a written notice, prior to the end of the 90-day period for processing the claim, extending such period by up to an additional 90 days and indicating the circumstances requiring the extension and the date by which the Plan Administrator expects to render its decision. If the Plan Administrator fails to provide a comprehensible written notice stating that the claim is wholly or partially denied and setting forth the information described in (a) through (d) above within the 90-day processing period and if no extension of such 90-day period is made, the claim shall be deemed denied. Once the claim is deemed denied, the Participant shall be entitled to the claims review procedure described in subsection (d) above. Such review procedure shall be available upon written request by the claimant to the Plan Administrator within 60 days after the claim is deemed denied. Any claim referenced in this section that is reviewed by a court, arbitrator, or any other tribunal shall be reviewed solely on the basis of the record before the Plan Administrator. In addition, any such review shall be conditioned on the claimants having fully exhausted all rights under this section.

9.4 Records and Reports: The Plan Administrator shall exercise such authority and responsibility as it deems appropriate in order to comply with ERISA and government regulations issued thereunder relating to records of Participants' service and benefits; notifications to Participants; reports to, or registration with, the Internal Revenue Service; reports to the Department of Labor; and such other documents and reports as may be required by ERISA.

9.5 Other Administrative Powers and Duties: The Plan Administrator shall have such powers and duties as may be necessary or desirable to discharge its functions hereunder, including:

(a) To exercise its discretionary authority to construe and interpret the Plan, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits hereunder;

(b) To prescribe procedures to be followed by Participants or Beneficiaries filing applications for benefits;

(c) To prepare and distribute, in such manner as the Plan Administrator determines to be appropriate, information explaining the Plan;

(d) To receive from employees and agents and from Participants such information as shall be necessary for the proper administration of the Plan;

(e) To receive, review and keep on file (as it deems convenient or proper) reports of the financial condition, and of the receipts and disbursements, of the Trust from the Trustee;

(f) To appoint or employ individuals or other parties to assist in the administration of the Plan and any other agents it deems advisable, including accountants, actuaries and legal counsel; and

(g) To delegate to other persons or entities, or to designate or employ persons to carry out any of the Plan Administrator's fiduciary duties or responsibilities or other functions under the Plan.

9.6 Rules and Decisions: The Plan Administrator may adopt such rules and procedures as it deems necessary, desirable, or appropriate. To the extent practicable, all rules and decisions of the Plan Administrator shall be uniformly and consistently applied to all Participants in similar circumstances. When making a determination or calculation, the Plan Administrator shall be entitled to rely upon information furnished by a Participant or beneficiary, the legal counsel of the Plan Administrator, or the Trustee.

9.7 Procedures: The Plan Administrator shall keep all necessary records and forward all necessary communications to the Trustee. The Plan Administrator may adopt such regulations as it deems desirable for the administration of the Plan.

9.8 Authorization of Benefit Distributions: The Plan Administrator shall issue directions to the Trustee concerning all benefits which are to be paid from the Trust pursuant to the provisions of the Plan, and shall warrant that all such directions are in accordance with this Plan.

9.9 Application and Forms for Distributions: The Plan Administrator may require a Participant to complete and file with the Plan Administrator an application for a distribution and all other forms approved by the Plan Administrator, and to furnish all pertinent information requested by the Plan Administrator. The Plan Administrator may rely upon all such information so furnished it, including the Participant's current mailing address, age and marital status.

ARTICLE X  
Trust Fund

All contributions made by the Employers, or the Company on behalf of the Employers, under this Plan shall be paid to the Trustee and deposited in the Trust Fund or with an insurance company or a financial institution pursuant to a contract to be held and invested in accordance with the Trust instrument. Assets of other plans maintained by the PepsiCo Organization, which meet the requirements of Code section 401, may be commingled, for investment purposes only, through one or more master trust arrangements with the assets of this Plan. The Company shall have the right to appoint an investment manager or investment managers (as defined in section 3(38) of ERISA) to manage all or any part of the assets of the Trust Fund.

X-1



ARTICLE XI  
Amendment of the Plan

The Company shall have the right at any time by instrument in writing, duly executed and acknowledged and delivered to the Trustee, to modify, alter or amend this Plan in whole or in part. However, except as permissible under the Code and ERISA, no amendment shall:

(a) Reduce the amounts in any Participant's Account because of forfeiture or reduce the vested right or interest to which any Participant or Beneficiary is then entitled under this Plan;

(b) Eliminate an optional form of benefit with respect to a Participant's Account as of the date of the amendment;

(c) Cause or authorize any part of the Trust Fund to revert or be refunded to the Employer; or

(d) Cause any assets of the Trust to be used for, or diverted to, purposes other than for the exclusive benefit of Participants and their Beneficiaries (other than such part as is required to pay taxes and expenses of administration).

To the extent permitted under the Code, the Company shall have the right to amend the Plan at any time, retroactively or otherwise, in such respects and to such extent as may be necessary to qualify it under existing and applicable laws and regulations in order to make available to the Employers the tax benefits associated with qualified plans, including the full deduction for tax purposes of the Employer contributions made hereunder. A participating Employer shall not have the right to amend the Plan. Notwithstanding any provision herein to the contrary, the Company may by such amendment decrease or otherwise affect the rights of Participants hereunder if, and to the extent, necessary to accomplish such purpose.

ARTICLE XII  
Termination of the Plan

The Plan herein provided for has been established by the Company with the bona fide intention that it shall be continued in operation indefinitely. However, the Company reserves the right at any time to terminate or to partially terminate the Plan. In addition, a participating Employer may cease participation in the Plan with respect to its Employees.

Should the Company decide to terminate the Plan, the Trustee shall be notified of such event in writing and shall proceed at the direction of the Plan Administrator to handle the assets of the Trust Fund, as follows:

First, to the extent determined by the Plan Administrator, to pay any due and accrued expenses and liabilities of the Trust and any expenses involved in the termination.

Second, to pay to Participants in the Plan who are active Employees affected by such termination the amount of their interest in the Trust Fund, as soon as permitted by applicable law, as determined by the Plan Administrator. If some or all of the Participants may not receive distributions of their interest at the time of such termination or cessation, the Plan Administrator may in its sole discretion direct the Trustee to segregate each such Participant's interest to a savings account, certificate of deposit, or other suitable investment for distribution at the appropriate future time.

Notwithstanding the foregoing, the Trustee shall not be required to make any distribution from the Trust in the event the Plan is terminated until such time as the Internal Revenue Service shall have determined in writing that such termination will not adversely affect the prior qualification of the Plan.

In the event of a termination or partial termination of this Plan instituted either by the Company or the Internal Revenue Service, or in the event of a complete discontinuance of contributions under this Plan, the right of each affected Participant to benefits accrued to the date of such termination, to the extent then funded, shall be nonforfeitable. In the case of a partial termination, this provision shall apply only to the portion of the Plan terminated and only to Participants affected by such partial termination.

ARTICLE XIII  
Miscellaneous

13.1 Participants' Rights; Acquittance: Except to the extent required or provided for by a mandatory law as in effect and applicable hereto from time to time, neither the establishment of the Trust hereby created, nor any modification thereof, nor the creation of any fund or account, nor the payment of any distributions, shall be construed as giving to any Participant or other person any legal or equitable right against the Employer, or any officer or employee thereof, or the Trustee or the Plan Administrator except as herein provided; nor shall any Participant have any legal right, title or interest in this Trust or any of its assets, except in the event and to the extent that amounts may actually be distributable to him hereunder, and the same limitations shall be applicable with respect to distributions upon death which may be payable to the Beneficiaries of a Participant. Under no circumstances shall the terms of employment of any Participant be modified or in any way affected hereby. This Plan and Trust shall not constitute a contract of employment nor afford any individual any right to be retained in the employ of the Employer.

13.2 Nonalienation of Benefits:

(a) In General: Except as provided in subsection (b) below, benefits payable under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to benefits payable hereunder, shall be void. The Trust Fund shall not in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements or torts of any person entitled to benefits hereunder.

(b) Qualified Domestic Relations Orders: To the extent mandated by law, the Plan Administrator shall comply with a qualified domestic relations order, as defined by Code section 414(p)(1)(A), which requires that all or part of a Participant's

interest in the Plan be paid to an alternate payee, i.e., the spouse, former spouse, child or other dependent of such Participant. If the Plan Administrator receives an order which purports to be a qualified domestic relations order, the Plan Administrator shall in accordance with such procedures and rules as it may establish: (i) determine the qualified status of such qualified domestic relations order under Code section 414(p)(6), and (ii) if satisfied that the qualified domestic relations order meets the requirements of Code section 414(p), direct the Trustee to comply with the qualified domestic relations order and pay amounts from the Trust Fund in accordance therewith. A qualified domestic relations order may not require the Plan to make a distribution to an alternate payee prior to the date the Participant terminates employment or, if earlier, the date the Participant attains age 50. However, the Plan may make a distribution to an alternate payee prior to such date in accordance with permissive terms of a qualified domestic relations order. Except as otherwise expressly provided in a qualified domestic relations order, no consent by a Participant or alternate payee shall be required in applying the provisions of Section 6.6 to an alternate payee's interest in the Plan. For purposes of the investment options under Article V and the determination of the amount of a distribution under Article VI, an alternate payee, with respect to his interest in the Plan, shall be treated as a Participant would with respect to his Account.

Neither the Plan, the Company, the Employer, the Plan Administrator nor the Trustee shall be liable in any manner to any person, including any Participant or Beneficiary, for complying with a domestic relations order that is considered a qualified domestic relations order in accordance with the provisions of Code section 414(p).

13.3 Actions Involving the Trust: In any action or proceeding involving the Trust Fund, or any property constituting part or all thereof, or the administration thereof, the Company, the Employer, the Plan Administrator, and the Trustee shall be the only necessary parties and no employees or former employees of the Employer or their Beneficiaries or any

other person having or claiming to have an interest in the Trust Fund or under the Plan shall be entitled to any notice or service of process.

Any final judgment which is not appealed or appealable that may be entered in any such action or proceeding shall be binding and conclusive on the parties hereto, the Plan Administrator, the Trustee and all persons having or claiming to have any interest in the Trust Fund or under the Plan.

13.4 [Reserved]

13.5 Successor to the Company: In the event of the dissolution, merger, consolidation or reorganization of the Company, provision may be made by which the Plan and Trust will be continued by the successor; and, in that event, such successor shall be substituted for the Company under the Plan. The substitution of the successor shall constitute an assumption of Plan liabilities by the successor and the successor shall have all the powers, duties and responsibilities of the Company under the Plan.

13.6 Transfer of Plan Assets: In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to another trust fund, held under any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants of this Plan, the assets of the Trust Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) Each Participant would, if either this Plan or the other plan then terminated, receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer, if the Plan had then terminated;

(b) Resolutions of the Board of Directors of the Employer of the affected Participants, shall authorize such transfer of assets; and, in the case of the new or successor employer of the affected Participants, its resolutions shall include an assumption of liabilities with respect to such Participant's inclusion in the new employer's plan, and

(c) Such other plan and trust are qualified under sections 401(a) and 501(a) of the Code.

13.7 Indemnification: Unless the Board of Directors of the Company shall determine otherwise, the Company shall indemnify, to the full extent permitted by law, any employee acting in good faith within the scope of his employment in carrying out the administration of the Plan.

13.8 Action by the Company: Any action by the Company, including any amendment authorized to be made under Article XI, shall be made by a resolution adopted by the Company's Board of Directors. In addition, any person or persons authorized by the Board may take action on behalf of the Company. Any such resolution of the Board of Directors shall be effective provided it is adopted in accordance with the bylaws (or other governing authority) of the Company. Any action taken by any other person or persons shall be effective provided it is executed in accordance with the authorization of the Board.

13.9 Applicable Law: The provisions of the Plan shall be construed and administered according to, and its validity and enforceability shall be determined under, ERISA. In the event ERISA does not preempt state law in a particular circumstance, the laws of the State of New York shall govern.

13.10 Interpreting the Plan: This Plan shall be interpreted in accordance with the rules of this section and Section 2.2.

(a) Compounds of the Word "Here": The words "hereof", "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Plan, not to any particular provision or section.

(b) Examples: Whenever an example is provided or the text uses the term "including" followed by a specific item or items, or there is a passage having similar effect, such passages of the Plan shall be construed as if the phrase "without limitation" followed such example or term (or otherwise applied to such passage in a manner that avoids limits on its breadth of application).

(c) Fiduciary Discretion: With respect to the powers, duties and responsibilities allocated to the named Fiduciaries under the Plan, the Plan Administrator and the Trustee shall have full discretionary authority to implement and perform such powers, duties and responsibilities.

Specific references in the Plan to the Plan Administrator's or the Trustee's discretion in a particular context shall create no inference that the Plan Administrator's or Trustee's discretion in any other respect, or in connection with any other provisions, is less complete or broad.

(d) Invalid Provisions: If any provision of this Plan is, or is hereafter declared to be void, voidable, invalid or otherwise unlawful, the remainder of the Plan shall not be affected thereby.

ARTICLE XIV  
Top-Heavy Plan Provisions

14.1 Application: In the event that the Plan is determined to be a Top-Heavy Plan (as hereinafter defined), this Article XIV shall become effective as of the first day of the Plan Year in which the Plan is a Top-Heavy Plan.

14.2 Definitions:

(a) Key Employee: During any year that the Plan is a Top-Heavy Plan, an Employee (including any Beneficiary of an Employee) is a Key Employee if, at any time during the Plan Year or any of the 4 preceding Plan Years, he is (or was):

(1) An officer of the Employer whose Annual Compensation (as hereinafter defined) exceeds 50 percent of the dollar limitation in effect for such year under Code section 415(b)(1)(A);

(2) One of the 10 employees having Annual Compensation of more than the dollar limitation in effect for such year under Code section 415(c)(1)(A), having individual ownership interests in the Employer of more than 1/2 of 1 percent, and owning the largest interests in the Employer;

(3) A 1 percent owner of the Employer having Annual Compensation from the Employer of more than \$150,000; or

(4) A 5 percent owner of the Employer. Ownership shall be determined according to Code section 416(i)(1)(B). For purposes of paragraph (1) above, no more than 50 Employees (or if less, the greater of 3 or 10 percent of the Employees) shall be treated as officers. For purposes of paragraph (2) above, if 2 Employees have the same ownership interest, the Employee with the higher Annual Compensation shall be treated as having the larger interest. For purposes of Paragraph (1), (2) and (3), annual compensation means compensation as defined in Code section 415(c)(3), but including amounts contributed by the Employer



pursuant to a salary reduction agreement which are excludable from the employee's gross income under Code section 125 or 402(a)(8).

(b) Minimum Contribution - For a Plan Year, the lesser of 3 percent of a Participant's Annual Compensation or, if this Plan does not enable a defined benefit plan in the Required Aggregation Group (as determined below) to satisfy the requirements of Code section 401(a)(4) or 410, a percentage of a Participant's Annual Compensation equal to the percentage at which contributions are made (or required to be made) under the Plan and all other plans in the Required Aggregation Group (as defined below) for the Key Employee for whom such percentage is highest.

(c) Top-Heavy Plan: For any Plan Year beginning after December 31, 1983, a plan that is required in such year to satisfy the requirements of Code section 416 because the aggregate of the account balances of all Key Employees in the Plan exceeds 60 percent of the aggregate of the account balances of all Participants in the Plan, such determination to be made in accordance with the procedures described in Code section 416(g) and the regulations thereunder as of the last day of the preceding Plan Year (or in the case of the first Plan Year, as of the last day of such Plan Year) (the "determination date"). For purposes of determining whether the Plan is a Top-Heavy Plan, the Plan must be aggregated with all other plans maintained by the Employer which are required to be aggregated with the Plan in order for the Plan to meet the requirements of Code sections 401(a)(4) or 410, and all other plans maintained by the Employer in which a Key Employee is a Participant (the "Required Aggregation Group"). In addition, the Plan may also be aggregated with any other plans maintained by the Employer so long as such aggregation would not prevent the aggregated group from satisfying the requirements of Code sections 401(a)(4) or 410 (the "Permissive Aggregation Group").

14.3 Allocation of Minimum Contribution: For any year in which the Plan is a Top-Heavy Plan, the Minimum Contribution as defined in Section 14.2(b) hereof shall be made to the account of each Participant who is a non-Key Employee, unless the Participant accrues the defined benefit minimum required by Code section 416 for such year under a defined benefit plan maintained by the Employer. Such Minimum Contribution shall be made to the account of each non-Key Employee Participant who is employed on the last day of such Plan Year without regard to such Participant's Hours of Service during such Plan Year. The

Employer and the Plan Administrator shall determine under which plan a Participant shall receive the Minimum Contribution if the Employee is a Participant in more than one plan maintained by the Employer.

14.4 Vesting: If for any Plan Year the Plan is a Top-Heavy Plan, a Participant's vested interest in the Plan for such Plan Year and all preceding Plan Years shall not be less than as determined under the following vesting schedule:

Years of Service	Vested Percentage	Forfeited Percentage
Less than 2	0%	100%
2	20%	80%
3	40%	60%
4	60%	40%
5 or more	100%	0%

If the Plan ceases to be a Top-Heavy Plan, the vesting schedule in this Section 14.4 shall not apply, provided that any portion of the Participant's interest in the Plan that was nonforfeitable before the Plan ceases to be a Top-Heavy Plan shall remain nonforfeitable, and further provided that any Participant who has 3 or more Years of Service at the time the Plan ceases to be a Top-Heavy Plan shall have the right to elect during the Election Period (as hereinafter defined) to continue to have his vested interest determined in accordance with the vesting schedule contained in this Section 14.4.

For the purposes of this Section 14.4, Years of Service shall include service prior to the Effective Date, and shall include service during the Election Period. The Election Period shall be the period during which such Participant may make such vesting schedule election and shall begin on the date of the adoption of the amendment which changes the vesting schedule and shall end on the latest of:

(a) The date which is 60 days after the adoption of the amendment which changes the vesting schedule;

(b) The date which is 60 days after the effective date of the amendment which changes the vesting schedule; or

(c) The date which is 60 days after the date such Participant is notified in writing of the amendment which changes the vesting schedule.

ARTICLE XV  
Signature

The above amended and restated Plan is hereby adopted and approved, to be effective as of July 1, 1992 (except as otherwise indicated), this 29th day of June, 1994.

PEPSICO, INC.

By: /s/ J. ROGER KING

-----

J. Roger King  
Senior Vice President,  
Personnel

Approved:

/s/ ALAN ROCKOFF

-----

Law Department

/s/ SYLVESTER HOLMES

-----

Tax Department

SCHEDULE 1

PEPSICO  
LONG TERM SAVINGS PROGRAM

Designated Employers for Nonrestaurant Salaried Employees  
(As of 1/1/94)

Atlantic Soft Drink Company, Inc.  
Beamon Bottling Co.  
Belfast Bottling Co. of Reno  
Beverage Products Corporation  
Frito-Lay, Inc.  
Frito-Lay, Texas, Inc.  
Gamble, Inc.  
General Cinema Beverages of North Florida, Inc.  
General Cinema Beverages of Youngstown, Inc.  
Laurel Group, Ltd  
Mann Bottling Company, Inc.  
National Beverages, Inc.  
Pepsi-Cola Bottling Company of Alaska  
Pepsi-Cola Bottling Company of Everett  
Pepsi-Cola Bottling Company of Los Angeles  
Pepsi-Cola Bottling Company of St. Louis, Inc.  
Pepsi-Cola Bottling Commodities, Inc.  
Pepsi-Cola Metropolitan Bottling Company, Inc.  
    (only at certain locations as designated  
    by the Plan Administrator)  
Pepsi-Cola Operating Company  
Pepsi-Cola Personnel, Inc. (only at certain  
    locations as designated by the Plan Administrator)  
Recot, Inc.  
Rice Bottling Enterprises, Inc.  
Shelbyville Bottling Co.  
Smartfoods, Inc.  
Western Bottling Co., Inc.

SCHEDULE 2

PEPSICO  
LONG TERM SAVINGS PROGRAM

Designated Employers for Nonrestaurant Hourly and Commissioned Employees  
(As of 1/1/94)

Atlantic Soft Drink Company, Inc.  
Beamon Bottling Co.  
Belfast Bottling Co. of Reno  
Beverage Products Corporation  
Frito-Lay, Inc.  
Frito-Lay, Texas, Inc.  
Gamble, Inc.  
General Cinema Beverages of North Florida, Inc.  
General Cinema Beverages of Youngstown, Inc.  
Laurel Group, Ltd  
Mann Bottling Company, Inc.  
National Beverages, Inc.  
Pepsi-Cola Bottling Company of Alaska  
Pepsi-Cola Bottling Company of Everett  
Pepsi-Cola Bottling Company of Los Angeles  
Pepsi-Cola Bottling Company of St. Louis, Inc.  
Pepsi-Cola Bottling Commodities, Inc.  
Pepsi-Cola Metropolitan Bottling Company, Inc.  
(only at certain locations as designated  
by the Plan Administrator)  
Pepsi-Cola Operating Company  
Pepsi-Cola Personnel, Inc. (only at certain  
locations as designated by the Plan Administrator)  
Recot, Inc.  
Rice Bottling Enterprises, Inc.  
Shelbyville Bottling Co.  
Smartfoods, Inc.  
Western Bottling Co., Inc.

SCHEDULE 3

PEPSICO  
LONG TERM SAVINGS PROGRAM

Designated Employers for Restaurant Employees  
(As of 1/1/94)

Part 1:

Pizza Hut, Inc. and its domestic locations and subsidiaries,  
Except for locations formerly owned by the Herb Blankenship  
Franchise; Middleton Enterprises, Inc. and its subsidiaries; and  
Employees who work for Pizza Hut of Cincinnati); and  
Including Delops, Inc. (eff. 3/1/96); D'Angelos Sandwich  
Shops, Inc. (eff. 3/1/96); and Progressive Food, Inc. (eff.  
3/1/96)

Kentucky Fried Chicken Corporation (and its domestic locations  
and subsidiaries except for locations formerly owned by the Fitzpatrick  
Franchise)

KFC Corporation  
KFC Enterprises, Inc.  
KFC National Management Company  
Kentucky Fried Chicken of California, Inc.  
Kentucky Fried Chicken of Southern California, Inc.  
Kentucky Fried Chicken Corporate Holdings, Ltd.  
NKFC, Inc.  
QSR, Inc.  
Taco Bell Corp. (and its domestic subsidiaries)  
Taco Bell Enterprises, Inc.  
Calny, Inc.  
Taco Bell of California, Inc.  
Taco Del Sur, Inc.  
Tenga Taco, Inc.

PepsiCo, Inc. (only with respect to those Employees of PepsiCo,  
Inc. who are (i) providing services in Illinois to another Employer and  
(ii) working under the supervision of such other Employer)

Part 2:

PepsiCo Food Systems, a division of PepsiCo, Inc.

SCHEDULE 4

PEPSICO  
LONG TERM SAVINGS PROGRAM

Designated Employers for Transportation Employees  
(As of 1/1/94)

Frito-Lay, Inc. (and its domestic subsidiaries)  
Frito-Lay of Texas, Inc.  
Smartfoods, Inc.  
Recot, Inc.

SCHEDULE 5

PEPSICO  
LONG TERM SAVINGS PROGRAM

Designated Hourly Employees of the Company  
(As of 1/1/94)

Employees represented by Local 30 of the International Union  
of Operating Engineers/A.F.L.-C.I.O.  
Security Guards based in Purchase, New York



Appendix  
APPENDIX

The following Appendix Articles modify particular terms of the Plan as it applies to certain Employee groups. Except as specifically modified in this Appendix, the foregoing provisions of the Plan shall fully apply. In the event of a conflict between this Appendix and the foregoing provisions of the Plan, the Appendix shall govern with respect to the conflict.

Article A  
KFC - Collins

The terms of this Article apply to certain Plan Participants who were employees of Collins Foods International, Inc. and who were Participants in the Collins Food International, Inc. Employee Savings Plan on March 17, 1991. The effective date of this amendment is March 17, 1991, the date Collins Foods International, Inc. was merged into Kentucky Fried Chicken Corporation. As of the merger, Participants were entitled to make investment directions into the Kentucky Fried Chicken Corporation Long Term Savings Program. If no investment election was received, the Participant's account was transferred to the Security Plus Fund. The Kentucky Fried Chicken Corporation Long Term Savings Program was merged into the PepsiCo Long Term Savings Program effective December 31, 1991.

A.1 Definitions: The following words and phrases as used herein, have the respective meanings set forth in this Article, unless the context clearly indicates to the contrary.

(a) Collins: Collins Food International, Inc.

(b) Savings Plan: Collins Food International, Inc. Employee Savings Plan.

(c) Closing Date: March 17, 1991

(d) Account Balance: The amount in the account of each Participant in the Savings Plan as of the Closing Date.

(e) Voluntary Contribution: The amount voluntarily contributed to the Savings Plan by a Participant prior to January 1, 1987.

(f) Voluntary Contribution Account: The account of a Participant to which his Voluntary Contributions and the gains and losses thereon are credited.

A.2 Participants Covered by this Appendix: As of the Closing Date, Employees of Collins who participated in the Savings Plan became Participants in the Kentucky Fried Chicken Corporation Long Term Savings Program if the Participant had an Account Balance in the Savings Plan as of the Closing Date. In addition, individuals described in the preceding sentence became Participants in this Plan as of December 31, 1991 if they had an account balance in the Kentucky Fried Chicken Corporation Long Term Savings Program as of December 31, 1991. Each Participant in the Savings Plan as of the Closing Date became fully vested in his Account Balance.

A.3 Voluntary Contributions: A Participant may make withdrawals from his Voluntary Contribution Account from time to time, subject to reasonable procedures as the Plan Administrator may establish. Withdrawals of Voluntary Contributions shall consist only of the principal amount credited to the Participant's Voluntary Contribution Account.

A.4 Plan Loans: Effective as of the Closing Date, no new plan loans shall be available under the Kentucky Fried Chicken Corporation Long Term Savings Program and this Plan and no existing loans may be renewed or extended. Plan loans that were made under the Savings Plan, and are outstanding as of the Closing Date, are expressly authorized as a permissible investment under the Kentucky Fried Chicken Corporation Long Term Savings Program and this Plan in accordance with (and subject to) the following provisions of this section.

(a) The program of Plan loans authorized by this section shall be administered by the Plan Administrator (or its delegate).

(b) Plan loans shall bear a reasonable rate of interest, the amount to be determined from time to time in accordance with the rules and procedures in effect under the Savings Plan on the Closing Date. The term of any loan shall be that in effect for the loan on the Closing Date.

(c) A loan shall continue to be repaid in the manner in effect on the Closing Date, provided that interest and principal on the loan must be repaid through payroll deduction installments (not less frequently than quarterly) over a total period not to exceed 4-1/2 years (including renewals and extensions). Loan repayments shall be invested in accordance with the Participant's current investment direction for Salary Deferral Contributions. If no such election is in effect, repayments shall be invested in the manner specified by the Plan Administrator from time to time.

(d) A loan shall be documented by such notes, evidences of indebtedness, security agreements and other instruments executed by the Participant as the Plan Administrator may require.

(e) A loan shall constitute an investment of only amounts credited to the Account of the borrowing Participant. All gains and losses on a loan shall be credited to the borrowing Participant's Account.

(f) A loan shall be adequately secured at all times. All loans are secured by a portion of a borrowing Participant's Account (but not more than the lesser of: (1) 50 percent of the Account, or (2) the amount of the loan). To the extent the principal amount of the loan (immediately after its origination, extension or

renewal) does not exceed 50 percent of the Participant's Account at such time, the loan will be deemed to be adequately secured. Any additional loan amount must at all times be secured by other security of a type and value that would be accepted by commercial lenders for such purpose.

(g) A loan shall be in default if the Participant fails to make any payment when due or if there occurs such other circumstances as may be prescribed by the Plan Administrator. If a loan is in default, execution on the defaulting Participant's Account shall be accomplished when and to the extent the Account is distributed to the Participant hereunder. Execution on any other security of the Participant shall be accomplished at the time deemed necessary by the Plan Administrator to prevent a loss to the Plan.

(h) If a Participant has a Termination of Employment or dies, any loan outstanding to the Participant shall become immediately due. If the portion of a Participant's Account securing his loan otherwise becomes payable to the Participant hereunder, such loan shall become due to the extent this portion of the Account is to be distributed. In either case, the amount of the loan that is due shall be satisfied by applying against it the portion of the Participant's Account that secures the loan. In turn, such Account shall be correspondingly reduced prior to making the distribution to or on behalf of the Participant.

ARTICLE B  
KFC Hourly Employees

The terms of this Article apply to any Employee who is employed on or after December 1, 1989 on an hourly basis by KFC Corporation; KFC Enterprises, Inc.; KFC National Management Company; Kentucky Fried Chicken International Holdings, Inc.; Kentucky Fried Chicken Corporate Holdings, Ltd.; Kentucky Fried Chicken Corporation or the Company (only with respect to those Employees of the Company who are (i) providing services in Illinois to Kentucky Fried Chicken Corporation and (ii) working under the supervision of Kentucky Fried Chicken Corporation) (collectively referred to as "KFC").

B.1 Modifications to Article III: To determine the eligibility to participate in the Plan of an Employee covered by this Article, Section 3.1(a) shall be modified to read as follows:

"(a) General Rule: An hourly Employee of KFC who is employed on or after December 1, 1989 shall be eligible to participate in the Plan on and after such date as follows:

"(1) Effective for periods before July 1, 1995, if he is either a full-time hourly Employee of KFC whose Employment Commencement Date is before 1992 or a full-time hourly Employee of KFC who is coded as a shift supervisor and whose Employment Commencement Date is after 1991, or

"(2) Effective beginning July 1, 1995, if he is an hourly Employee of KFC. Any such hourly Employee of KFC shall be considered to be described in Section 3.1(c) and, therefore, shall be subject to the age 21 and year of eligibility service requirements in Sections 3.2 and 3.3."

In addition, Section 3.2(a)(2) shall read as follows with respect to individuals who are eligible Employees pursuant to this Article B:

"(2) The following rules shall apply notwithstanding paragraph (1) above.

"(i) For purposes of Employees eligible under Section B.1(a) of the Appendix, the election of a full-time hourly Employee of KFC whose Employment Commencement Date is before 1992 shall not be effective until he has enrolled in his Employer's One Plus program, and the election of a full-time hourly Employee who is coded as a shift supervisor and whose Employment Commencement Date is after 1991 shall not be effective until he has attained age 21 and completed one Year of Service.

"(ii) The election of an Employee eligible under Appendix Section B.1(b) shall not be effective before the first January 1 or July 1 following his attainment of age 21 and his completion of a 12-month period (measured as described below) in which he is credited with at least 1,000 Hours of Service (referred to as a year of eligibility service). The 12-month period between the date the Employee first completes one Hour of Service and the first anniversary thereof shall be used initially to determine his eligibility to participate in the Plan; thereafter, his eligibility to participate in the Plan shall be determined by reference to whether he completes 1,000 or more Hours of Service in any Plan Year, beginning with the first Plan Year commencing after he first completes one Hour of Service. An employee who completes 1,000 or more Hours of Service in both the initial 12-month eligibility computation period and the first Plan Year commencing after he first completes one Hour of Service shall be credited with two years of eligibility service for purposes of this section. Effective as soon as practicable after September 30, 1995, the term payroll date shall replace January 1 or July 1 in the first sentence of this subparagraph."

B.2 Modifications to Section 4.1: For purposes of determining the deferral amount in the case of an Active Participant who is covered by this Article, subsections (a), (d) and (e) of Section 4.1 shall read as follows:

"(a) Deferral Amount: Subject to the limitations established by this Article IV, each active Participant may defer in any Plan Year up to \$60 of his Eligible Pay per pay period, in accordance with such rules and regulations as may be established by the Plan Administrator. In the event that a Participant elects to defer a portion of his Eligible Pay under the Plan, it will be designated for contribution by the Employer to the Trust on behalf of the Participant, and for deposit in his Salary Deferral Account. All amounts deposited to a Participant's Salary Deferral Account shall at

all times be fully vested."

"(d) Election Procedures: An election made pursuant to subsection (b) or (c) above shall be in the manner specified by the Plan Administrator. Any election shall specify the amount of the deferral desired as a whole dollar amount, subject to the limitation in subsection (a) above. The Plan Administrator, in its discretion, may give no effect to an election that does not meet minimum standards for completeness and accuracy as the Plan Administrator may establish."

"(e) Payroll Deductions: A Participant's Salary Deferral Contributions shall be withheld from his Eligible Pay through automatic payroll deductions. Salary Deferral Contributions may not be withheld after they have been actually or constructively received by the Participant."

ARTICLE C  
Pizza Hut Employees

The terms of this Article apply to any Employee who is: (a) employed on an hourly basis by Pizza Hut, Inc. or its domestic restaurant locations and restaurant subsidiaries (collectively referred to as "Pizza Hut"), or (b) employed by Delops, Inc., D'Angelos Sandwich Shops, Inc. or Progressive Food, Inc. (restaurant subsidiaries of Pizza Hut which are collectively referred to as "D'Angelos"). Such Employees are eligible to participate in this Plan only as provided in this Article C.

C.1 Modifications to Section 3.1(a), Pre-1996: Effective for periods before January 1, 1996, to determine the eligibility to participate in the Plan of an Employee covered by this Article, Section 3.1(a) shall be modified to read as follows:

"(a) General Rule: Effective for periods before January 1, 1996, any hourly Employee of Pizza Hut (other than a D'Angelos employee) who is either:

"(A) Currently eligible to enroll in his Employer's Benefits Plus program, or

"(B) Effective January 1, 1993 through December 31, 1995, employed in any of the following states: Alabama, Alaska, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Idaho, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia or Wyoming,

shall be eligible to participate in the Plan while he is a participant in the Pizza Hut Hourly Employees Retirement Plan, i.e., not before he attains age 21 and completes 1,000 hours of service."

C.2 Modifications to Section 3.1(a) for Hourly Employees, Post-1995: Effective on and after January 1, 1996, to determine the eligibility to participate in the Plan of hourly Employees of Pizza Hut (including D'Angelos), Section 3.1(a) shall be modified to read as follows:

"(a) General Rule: Effective on and after January 1, 1996, any hourly Employee of Pizza Hut shall be eligible to participate in the Plan only as follows:

"(A) Any such Employee who is currently eligible to enroll in his Employer's Benefits Plus program shall be eligible to participate in the Plan;

"(B) Any such Employee:

"(i) who is an hourly Employee of Pizza Hut as of January 1, 1996, and

"(ii) who has an Account balance in the Plan on such date,

shall be eligible to participate in the Plan, but only through the date his employment with Pizza Hut first terminates on or after January 1, 1996.

"(C) Effective March 1, 1996, any such Employee:

"(i) who is employed by D'Angelos on March 1, 1996, and

"(ii) who has an account balance in the D'Angelo, Inc. Profit Sharing/401(k) Plan ("D Plan") on such date,

shall be eligible to participate in the Plan, but only through the date his employment with Pizza Hut first terminates on or after March 1, 1996."

C.3 Modifications to Section 3.1(a) for D'Angelos Salaried Employees: Effective March 1, 1996, salaried Employees of D'Angelos shall be eligible to participate in the Plan on the same terms and conditions as other Pizza Hut salaried employees. Thus, a D'Angelos salaried Employee shall be eligible for SaveUp to the same extent that he would be if D'Angelos were a participating employer in Pizza Hut Benefits Plus.

C.4 Special Provisions Governing D'Angelos Employees: The D Plan shall be merged into this Plan effective as soon as administratively convenient after adoption of this provision ("Merger Date").

(a) Initial Accounts: Effective as of the Merger Date, each Employee who has an account balance under the D Plan ("D Plan Balance") immediately before the merger: (1) shall become fully vested in his D Plan Balance, and (2) shall have his Salary Deferral Account credited with the amount realized upon liquidation of the portion of his D Plan Balance not invested as an Employee loan ("liquidation amount"), as well as the value of any loan to the Employee that is outstanding on the Merger Date. If prior to the Merger Date the Employee directs the Plan Administrator how to invest the liquidation amount (and the direction meets the Plan Administrator's requirements), then this amount shall be invested in accordance with the Employee's direction as soon as practicable after the merger. If no such investment direction is received, then this

amount shall be invested in the Security Plus Fund as soon as practicable after the merger. Thereafter, investment changes may be made in accordance with the Plan's usual rules.

(b) Loans: If an Employee has a loan outstanding from the D Plan immediately prior to the merger, such loan shall thereafter be subject to the provisions of Article VII that apply to already outstanding loans except as follows.

(1) Section 7.3 shall not apply.

(2) The administration fees applicable under Section 7.6 shall not exceed and shall not be charged more frequently than permissible under the Employee's pre-merger loan agreement and the related D Plan terms ("loan agreement").

(3) Notwithstanding Section 7.7, the interest rate shall be based on the loan agreement.

(4) Subject to Section 7.8(e), the term and repayment procedures shall be based on the loan agreement. Section 7.8(a), (b) and (d) shall not apply.

(5) Notwithstanding Section 7.9(a), (b) and (c), a loan covered by this subsection shall be in default as of the earliest of the following: (i) the time applicable under Section 7.9(d), (ii) the date applicable under the loan agreement, or (iii) immediately before a distribution is made to the Employee.

ARTICLE D  
Prior Definitions of Eligible Pay

The terms of this article apply to prior definitions of Eligible Pay.

Effective January 1, 1989, except where otherwise noted, Eligible Pay was defined as follows:

2.1(k) Eligible Pay: For each Plan Year, a Participant's Eligible Pay shall be determined as follows:

(1) With respect to all Employees other than those employed by Frito-Lay, Inc. or its subsidiaries:

(i) In the case of salaried Employees who are considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act:

(I) for such Employees who were Employees on or before July 15 of the preceding Plan Year, or such other date during the preceding Plan Year as the Plan Administrator may select (July 15 or such other date being hereinafter referred to as the "Salary Determination Date" with respect to all Employees other than those employed by Frito-Lay, Inc. or its subsidiaries), Annual Compensation shall be the Participant's annual base salary in effect on the Salary Determination Date plus any lump sum amount received by the Participant prior to the Salary Determination Date and during such preceding Plan Year under the PepsiCo Executive Incentive Plan or PepsiCo's or a subsidiary's Middle Management Incentive Plan; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Annual Compensation shall be the Participant's annual base salary on his date of hire;

(ii) In the case of any salaried Employees who are not considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, and in the case of eligible hourly Employees: (I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's base salary or hourly wage rate on the Salary Determination Date, plus any overtime pay earned by the Participant prior to the Salary Determination Date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator;

(II) for such Employees who were not Employees on or before the Salary Determination Date, Annual Compensation shall be the Participant's annual base salary or hourly wage rate on his date of hire, annualized in accordance with rules adopted by the Plan Administrator;

(iii) In the case of Employees whose remuneration is based, in whole or in part, on sales-related commission payments:

(I) for such Employees who were Employees on or before the salary Determination Date, Eligible Pay shall be the Participant's base annual salary in effect on the Salary Determination Date, plus any commissions earned by the Participant prior to the Salary Determination Date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator; in accordance with rules adopted by the Plan Administrator;

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's annual base salary on his date of hire.

(2) With respect to Employees employed by Frito-Lay, Inc. or its subsidiaries:

(i) In the case of salaried Employees who are considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act:

(I) for such Employees who were Employees on or before July 13 of the preceding Plan Year, or such other date during the preceding Plan Year as the Plan Administrator may select (July 13 or such other date being hereafter referred to as the "Salary Determination Date" with respect to Employees employed by Frito-Lay, Inc. or its subsidiaries), Eligible Pay shall be the Participant's annual base salary in effect on the Salary Determination Date plus any lump sum amount under the PepsiCo Executive Incentive Plan received by the Participant prior to the Salary Determination Date



and during such preceding Plan Year, or any quarterly Frito-Lay Management Incentive Plan payments received by the Participant prior to the Salary Determination Date and during such preceding Plan Year annualized; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's annual base salary on his date of hire;

(ii) In the case of any salaried Employees who are not considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, and in the case of eligible hourly Employees:

(I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's W-2 earnings plus any amounts designated as "Choice Pay" or "Flexible Pay" under an Employer's Benefits Plus program that are used to pay for benefits or are contributed under the Plan (such amounts being hereafter referred to as "Flexible Pay") prior to the Salary Determination Date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator or, if greater, the Participant's W-2 earnings plus Flexible Pay during the calendar year prior to such preceding Plan Year; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Annual compensation shall be the Participant's annual base salary on his date of hire, annualized in accordance with rules adopted by the Plan Administrator;

(iii) In the case of Employees who are classified as commissioned ("route sales") Employees:

(I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's W-2 earnings plus Flexible Pay prior to the Salary Determination Date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator or, if greater, the Participant's W-2 earnings plus Flexible Pay during the Calendar Year prior to such preceding Plan Year; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's monthly guaranty on his date of hire, annualized.

(3) With respect to Employees employed by Wilson Sporting Goods Co. or its subsidiaries:

(i) In the case of salaried Employees who are considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act:

(I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's annual base salary in effect on the Salary Determination Date plus any lump sum amount received by the Participant prior to the Salary Determination Date and during such preceding Plan Year under the PepsiCo Executive Incentive Plan or PepsiCo's or a subsidiary's Middle Management Incentive Plan; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's annual base salary on his date of hire;

(ii) In the case of any salaried Employees who are not considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, and in the case of eligible commissioned Employees:

(I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's W-2 earnings plus Flexible Pay prior to the Salary Determination Date during such preceding Plan Year, annualized in accordance with rules adopted in the Plan Administrator; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's annual base salary on his date of hire;

(iii) In the case of eligible hourly Employees: (I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's base salary or hourly wage rate on the Salary Determination Date, plus any overtime pay earned by the Participant prior to the Salary Determination Date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the Participant's hourly wage rate on his date of hire,

annualized in accordance with rules adopted by the Plan Administrator;

(iv) In the case of Employees who are classified as piecework-paid Employees:

(I) for such Employees who were Employees on or before the Salary Determination Date, Eligible Pay shall be Participant's average hourly rate of pay during the first six months of the preceding Plan Year, plus any overtime pay earned by the Participant prior to the Salary Determination Date during said preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator; or

(II) for such Employees who were not Employees on or before the Salary Determination Date, Eligible Pay shall be the greater of the Participant's labor guarantee on his date of hire or his piecework guarantee on his date of hire, annualized in accordance with rules adopted by the Plan Administrator.

(4) Effective as of January 1, 1985, in the case of an Employee that is transferred from one Employer to another after the Salary Determination Date for any year, such Employee's Eligible Pay for the year shall be the Employee's annual base salary, annualized hourly wage rate, annualized weekly guarantee, annualized labor guarantee or annualized piecework guarantee (whichever is applicable based on the Employee's classification) as of the transfer date, plus certain additional compensation received by the Employee prior to the Salary Determination date but in the same Plan Year as such date. The additional compensation included pursuant to the preceding sentence is any overtime, commissions or unit pay (annualized), any lump sum paid under the PepsiCo Executive Incentive Plan or PepsiCo's or a subsidiary's Middle Management Incentive Plan, and any quarterly payments under a Frito-Lay Management Incentive Plan (annualized).

(5) For purposes of paragraphs (1), (2), (3), and (4) above and except for amounts designated as "Choice Pay" under an Employer's Benefits Plus program that are used to buy benefits and amounts contributed under the Plan, salary or wages shall not include amounts or the value of benefits received, or deemed received, under any performance share plan, stock option plan or similar plan or under any pension or welfare benefit plan maintained by the Employer, whether such plan is qualified or non-qualified and whether such amounts are deferred or not deferred.

(6) In the case of Employees who are not covered by the provisions of paragraphs (1), (2), (3), or (4) above, the Plan Administrator shall establish a method for determining Eligible Pay based upon the method of compensation of such Employees and such method shall be applied in a nondiscriminatory manner for such group of Employees.

(7) No more than \$200,000 in Eligible Pay shall be taken into account under the Plan in any Plan Year on or after the Effective Date. This \$200,000 limit shall be adjusted automatically at the same time and in such manner as permitted under Code section 415(d).

Effective January 1, 1992, Eligible Pay was defined as follows:

(k) Eligible Pay: Effective January 1, 1992, for each Plan Year, a Participant's Eligible Pay shall be determined as follows:

(1) Participants Other Than Those Employed by Restaurants or Frito Division: With respect to all Participants other than those employed by a restaurant division or by Frito-Lay, Inc., Frito-Lay of Texas, Inc., Recot, Inc., or Smartfoods, Inc. (a "Frito division"), a Participant's Eligible Pay shall be the sum of:

(i) The Participant's salary or wages, including forms of pay delivered in alternative manners such as piecework and payment by mileage for drivers, overtime, shift differentials, commissions, bonuses received under the PepsiCo Executive Incentive Plan or the Company's or a subsidiary's Middle Management Incentive Plan, and payment by mileage for drivers, overtime, shift differentials, commissions, bonuses received under the PepsiCo Executive Incentive Plan or the Company's or a subsidiary's Middle Management Incentive Plan, and

(ii) Any amount not included in (i) above which is contributed by the Employer on behalf of the Participant pursuant to a salary reduction agreement and which is not includable in gross income under Code sections 125, 402(a)(8), or 402(h).

The amounts under subparagraphs (i) and (ii) shall be taken from payroll records for the full calendar year that precedes the Plan Year by 2 years. For example, for the 1993 Plan Year, "Eligible Pay" shall be determined from amounts earned for the full calendar year ending December 31, 1990. For a Participant who has only a partial year's earnings during the full calendar year 2 years prior to the Plan Year, the partial year's earnings shall be annualized. For a Participant with no earnings during the full calendar year 2 years prior to the Plan Year, Eligible Pay shall equal the Participant's base salary or wages, not including alternative forms of base pay, overtime, shift differentials, commissions or bonuses on the later of: (A) the "Eligible Pay determination date" designated by the Plan Administrator with respect to Employees other than those employed by a restaurant division or a Frito division, or (B) the Participant's Employment Commencement Date.

(2) Participants Employed by Frito Division: With respect to a Participant employed by a Frito division, Eligible Pay shall be determined as follows:

(i) in the case of a Participant who is a salaried Employee considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, Eligible Pay shall mean: (A) If the Participant was an Employee on the Eligible Pay Determination date designated by the Plan Administrator with respect to Employees employed by the Frito division,

(I) the Participant's annual base salary in effect on the Eligible Pay determination date in the preceding Plan Year, plus

(II) any trimester Frito-Lay Management Incentive Plan payments received by the Participant prior to the Eligible Pay determination date and during such preceding Plan Year, annualized or any lump sum amount under the PepsiCo Executive Incentive Plan received by the Participant prior to the Eligible Pay determination date and during such preceding Plan Year.

(B) If the Participant was not an Employee on the Eligible Pay determination date in the preceding Plan Year, the Participant's annual base salary on his Employment Commencement Date.

(ii) In the case of a Participant who is a salaried Employee not considered exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act, and in the case of a Participant who is an hourly Employee, Eligible Pay shall mean:

(A) If the Participant was an Employee on or before the Eligible Pay determination date in the preceding Plan Year, the greater of:

(I) the Participant's W-2 earnings, plus any amounts designated as "Flexible Pay" and contributed by salary reduction agreement to the Employer's Benefits Plus program or this Plan, in each case through the Eligible Pay determination date during such preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator, or

(II) the Participant's W-2 earnings plus Flexible Pay during the calendar year immediately prior to such preceding Plan Year.

(B) If the Participant was not an Employee on or before the Eligible Pay determination date, the Participant's annual base salary or hourly wage rate on his Employment Commencement Date, annualized in accordance with rules adopted by the Plan Administrator.

(iii) In the case of a Participant who is classified as a commissioned ("route sales") Employee, Eligible Pay shall mean:

(A) If the Participant was an Employee on or before the Eligible Pay determination date, the greater of:

(I) the Participant's W-2 earnings, plus any amounts of Flexible Pay through the Eligible Pay determination date during the preceding Plan Year, annualized in accordance with rules adopted by the Plan Administrator, or

(II) the Participant's W-2 earnings plus Flexible Pay during the calendar year immediately prior to such preceding Plan Year.

(B) If the Participant was not an Employee on or before the Eligible Pay determination date for the preceding Plan Year, the Participant's weekly guarantee on his Employment Commencement Date, annualized in accordance with rules adopted by the Plan Administrator.

(3) Participants Employed by Restaurant Division: With

respect to a Participant employed by a restaurant division of the Company, his Eligible Pay shall be determined as follows:

(i) In the case of a Participant who is a salaried Employee of a restaurant division, Eligible Pay shall mean.

(A) If the Participant was an Employee on the Eligible Pay determination date designated by the Plan Administrator with respect to the Employees of his Employer, the sum of:

(I) the Participant's annual base salary in effect on the Eligible Pay determination date,

(II) any target or lump sum bonus for the calendar year including such determination date, and

(III) any overtime paid prior to the determination date but within the same calendar year, annualized in accordance with rules adopted by the Plan Administrator.

(B) If the Participant was not an Employee on the Eligible Pay determination date with respect to the Employees of his Employer, the sum of the amounts under (I) and (II) above but determined as of the Participant's Employment Commencement Date.

(ii) In the case of a Participant who is an hourly Employee of the KFC division, Eligible Pay shall mean:

(A) If the Participant was an Employee on the Eligible Pay determination date designated by the Plan Administrator with respect to KFC division Employees, the sum of:

(I) the Participant's annualized hourly wage rate in effect on the Eligible Pay determination date, plus

(II) any overtime paid prior to the Eligibility Pay determination date but within the same calendar year, annualized in accordance with rules adopted by the Plan Administrator.

(B) If the Participant was not an Employee on the Eligible Pay determination date with respect to KFC division Employees, the sum of the amounts under (I) and (II) above but determined as of the Participant's Employment Commencement Date.

(4) Special Rules for Determining Eligible Pay:

(i) For purposes of paragraphs (1) through (3) above and except for salary reduction amounts designated as Flexible Pay under an Employer's Benefits Plus program that are used to buy benefits and amounts contributed under the Plan, salary or wages shall not include amounts or the value of benefits received, or deemed received, under any performance share plan, stock option plan or similar plan or under any pension or welfare benefit plan maintained by the Employer, whether such plan is qualified or non-qualified and whether such amounts are deferred or not deferred.

(ii) In the case of Employees who transfer from one Employer to another during the year, Eligible Pay of such Employees shall be the amount of annualized base salary or hourly wage rate on the transfer date plus annualized overtime, commission pay received prior to the transfer date and prior to the determination date and the amount of any lump sum bonus paid from an Employer's Incentive Compensation program.

(iii) Notwithstanding the foregoing provisions of this subsection, in the case of an Employee who elects to make nonqualified deferrals under the PepsiCo Executive Income Deferral Program for an upcoming Plan Year, the Employee's Eligible Pay for such Plan Year shall not be greater than his current base pay and the prior year's bonus under the Employer's incentive compensation program, decreased by any nonqualified deferrals elected for the upcoming Plan Year, and increased by amounts that will be received as distributions from the PepsiCo Executive Income Deferral Program for such Plan Year.

(iv) For any Plan Year beginning on or after January 1, 1989, the Eligible Pay of each Participant taken into account under the Plan shall not be less than \$10,000 and shall not exceed \$200,000, the latter as adjusted by the Secretary of the Treasury. In determining the Eligible Pay of a Participant for purposes of the \$200,000 limitation set forth in the preceding sentence, the rules of section 414(q)(6) of the Code shall apply, except in applying such rules, the term "family" shall include only the spouse of the Participant and any lineal descendants of the Participant who have not attained age 19 before the close of the Plan Year. If, as a result of the application of such rules, the adjusted \$200,000 limitation is exceeded, then the limitation shall be prorated among the affected individuals in proportion to each such individual's Eligible Pay as determined under this Section prior to the application of this limitation.

References in the Plan to deferrals of Eligible Pay, or Salary Deferral Contributions from Eligible Pay, shall be read as referring to deferrals of a Participant's current Employee compensation not in excess of Eligible Pay, determined as above.

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Primary  
Years Ended December 28, 1996, December 30, 1995 and December 31, 1994  
(in millions except per share amounts)

	1996	1995(a)	1994(a)
	----	----	----
Shares outstanding at beginning of year.....	1,576	1,580	1,598
Weighted average of shares issued during the year for exercise of stock options, acquisitions, conversion of debentures and payment of compensation awards.....	13	9	6
Shares repurchased (weighted).....	(25)	(13)	(16)
Dilutive shares contingently issuable upon exercise of stock options, conversion of debentures and payment of compensation awards, net of shares assumed to have been purchased for treasury (at the average price) with assumed proceeds from exercise of stock options and compensation awards.....	42	32	20
	-----	-----	-----
Total shares - primary.....	1,606	1,608	1,608
	=====	=====	=====
Income before cumulative effect of accounting changes.....	\$1,149	\$ 1,606	\$1,784
Cumulative effect of accounting changes:			
Postemployment benefits.....	-	-	(55)
Pension assets.....	-	-	23
	-----	-----	-----
Net income as adjusted.....	\$1,149	\$ 1,606	\$1,752
Income (charge) per share:	=====	=====	=====
Before cumulative effect of accounting changes.....	\$ 0.72	\$ 1.00	\$ 1.11
Cumulative effect of accounting changes:			
Postemployment benefits.....	-	-	(0.03)
Pension assets.....	-	-	0.01
	-----	-----	-----
Net income per share - primary.....	\$ 0.72	\$ 1.00	\$ 1.09
	=====	=====	=====

(a) 1995 and 1996 shares have been adjusted to reflect a two-for-one stock split in May, 1996.

PEPSICO, INC. AND SUBSIDIARIES

Computation of Net Income Per Share of Capital Stock - Fully Diluted  
Years Ended December 28, 1996, December 30, 1995 and December 31, 1994  
(in millions except per share amounts)

	1996	1995(a)	1994(a)
	----	----	----
Shares outstanding at beginning of year.....	1,576	1,580	1,598
Shares issued during the year for exercise of stock options, acquisitions, conversion of debentures and payment of compensation awards.....	23	21	12
Shares repurchased (weighted).....	(25)	(13)	(16)
Dilutive shares contingently issuable upon exercise of stock options, conversion of debentures and payment of compensation awards, net of shares assumed to have been purchased for			

treasury (at the higher of average or quarter-end price) with assumed proceeds from exercise of stock options and compensation awards.....	37	29	18
	-----	-----	-----
Total shares - fully diluted.....	1,611	1,617	1,612
	=====	=====	=====
Income before cumulative effect of accounting changes.....	\$1,149	\$1,606	\$1,784
Cumulative effect accounting changes:			
Postemployment benefits.....	-	-	(55)
Pension assets.....	-	-	23
	-----	-----	-----
Net income as adjusted.....	\$1,419	\$1,606	\$1,752
	=====	=====	=====
Income (charge) per share:			
Before cumulative effect of accounting changes.....	\$ 0.71	\$ 0.99	\$ 1.11
Cumulative effect of accounting changes:			
Postemployment benefits.....	-	-	(0.03)
Pension assets.....	-	-	0.01
	-----	-----	-----
Net income per share - fully diluted.....	\$ 0.71	\$ 0.99	\$ 1.09
	=====	=====	=====

(a) 1995 and 1996 shares have been adjusted to reflect a two-for-one stock split in May, 1996.

## PEPSICO, INC. AND SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Years Ended December 28, 1996, December 30, 1995, December 31, 1994,  
December 25, 1993 and December 26, 1992  
(in millions except ratio amounts)

	52 Weeks		53 Weeks	52 Weeks	
	-----	-----	-----	-----	-----
	1996	1995	1994	1993	1992
<b>Earnings:</b>					
Income from continuing operations before income taxes and cumulative effect of accounting changes .....	\$2,047	\$2,432	\$2,664	\$2,423	1,899
Unconsolidated affiliates interests, net (a).....	271	11	(19)	(6)	(1)
Amortization of capitalized interest.....	4	6	5	5	5
Interest expense .....	600	682	645	573	586
Interest portion of net rent expense (b).....	159	156	150	134	122
Earnings available for fixed charges.....	<u>\$3,081</u>	<u>\$3,287</u>	<u>\$3,445</u>	<u>\$3,129</u>	<u>\$2,611</u>
<b>Fixed Charges:</b>					
Interest expense .....	\$ 600	\$ 682	\$ 645	\$ 573	\$ 586
Capitalized interest.....	8	10	5	7	7
Interest portion of net rent expense (b).....	159	156	150	134	122
Total fixed charges.....	<u>\$ 767</u>	<u>\$ 848</u>	<u>\$ 800</u>	<u>\$ 714</u>	<u>\$ 715</u>
Ratio of Earnings to Fixed Charges(c).....	<u>4.02</u>	<u>3.88</u>	<u>4.31</u>	<u>4.38</u>	<u>3.65</u>

(a) 1994, 1993 and 1992 amounts have been restated to adjust for the effects of unconsolidated affiliates and minority interests. The inclusion of these items did not have a material impact on the previously reported ratio of earnings to fixed charges.

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

(c) Included the impact of the unusual, disposal and other charges of \$822 (or \$716 after-tax) and \$520 (or \$384 after-tax) in 1996 and 1995, respectively (see Note 3). Excluding those charges, the ratio of earnings to fixed charges for 1996 and 1995 would have been 5.09 and 4.49, respectively.

## ACTIVE SUBSIDIARIES OF PEPSICO, INC.

DECEMBER 28, 1996

Subsidiary	State or Country of Incorporation
A & M Food Services, Inc. ....	Nevada
El KrAm, Inc.....	Iowa
Pizza Huts of the Northwest, Inc.....	Minnesota
Ainwick Corporation.....	Oregon
Anderson Hill Insurance Limited.....	Bermuda
Atlantic Soft Drink Company, Inc. ....	South Carolina
Atlantic Holding Company.....	California
Atlantic Soft Drink Company of Knoxville.....	Tennessee
Beaman Bottling Company.....	Tennessee
Beverages, Foods & Service Industries, Inc.....	Delaware
Chevys, Inc.....	California
CPK Acquisition Corp.....	California
California Pizza Kitchen, Inc.....	Maryland
California Pizza Kitchen of Annapolis.....	California
California Pizza Kitchen of Illinois, Inc.....	Illinois
California Pizza Kitchen of Scottsdale, Inc....	Arizona
Davlyn Realty Corporation.....	Delaware
Equity Beverage, Inc. ....	Delaware
FLRC, Inc.....	California
Hostess-FL NRO Ltd. ....	Canada
Hot 'n Now, Inc. ....	Michigan
HNN, Inc.....	Delaware
Japan Frito-Lay Ltd.....	Japan
Kentucky Fried Chicken of California, Inc. ....	Delaware
Kentucky Fried Chicken of Southern California, Inc.	California
KFC West, Inc.....	Delaware
Mountain Dew Marketing, Inc.....	Delaware
National Beverages, Inc. ....	Florida
North Pacific Territories Holding Company.....	Washington
Alpac Corporation.....	Washington
Gamble, Inc.....	Oregon
MBA Western Co.....	Delaware
Western Bottling Company, Inc.....	Washington
Mann Bottling Company, Inc.....	Idaho
Pepsi Cola Bottling Company of Everett, Inc.....	Washington
Pepsi-Cola Bottling Company of Alaska, Inc.....	Alaska
PepsiCo Capital Corporation N.V. ....	Neth. Antilles
Bramshaw Limited.....	Ireland
PepsiCo Global Investments B.V.....	Netherlands
Pepsi-Cola France SNC.....	France
Pepsi-Cola G.m.b.H.....	Germany
Florida Int'l Fruchtsaftgetraenke G.m.b.H.....	Germany
PepsiCo Restaurants International Ltd. & Co. K.G.	Germany
Kentucky Fried Chicken Corporate Holdings, Ltd.	Delaware
Kentucky Fried Chicken International Holdings, Inc.	Delaware
PepsiCo Eurasia Limited.....	Delaware
Seven-Up Nederland B.V. ....	Netherlands
PepsiCo Investments (Europe) I B.V.....	Netherlands
Pepsi-Cola International (PVT) Limited...	Pakistan
PepsiCo IVI S.A. ....	Greece
PepsiCo Restaurants Internationl (Taiwan) Co. Ltd.	Taiwan
Pepsi-Cola Belgium S.A.....	Belgium
Pepsi-Cola Mamulleri Limited Sirketi.....	Turkey
Pizza Gida Isletmeleri.....	Turkey
Pizza Hut Korea Co., Ltd.....	Korea
Uzay Gida Sanayive Picaret A.S.....	Turkey
KFC Canada (NRO) Ltd.....	Canada
Pamimex (Mauritius).....	Mauritius
PepsiCo (India) Holdings.....	India
PepsiCo Finance (Antilles A) N.V. ....	Neth. Antilles
Pepsi-Cola Canada (NRO) Ltd. ....	Canada
Pepsi-Cola Canada, Ltd. ....	Canada
KFCC/PepsiCo Holdings Ltd.....	Canada
Sociedad de Productora y Sabores C.A. (SOPRESA)	Venezuela
PepsiCo Finance (Antilles B) N.V. ....	Neth. Antilles



Senrab Limited .....	Netherlands
PepsiCo Worldwide Investments B.V.....	Netherlands
Pepsi-Cola Argentina, S.A.C.I.....	Argentina
Inversiones PFI Chile Limitada.....	Chile
Evercrisp Snack Products de Chile S.A.....	Chile
Pepsi-Cola CR SPOL SRO.....	Czech Republic
Pepsi Snacks Argentina S.A.....	Argentina
PepsiCo Captive Holdings, Inc.....	Delaware
Hillbrook Insurance Company, Inc.....	Vermont
Mexico Trust Company.....	Mexico
PepsiCo Holdings Ltd.....	England
Kentucky Fried Chicken (Great Britain) Limited...	England
PepsiCo International Ltd.....	England
PepsiCo Property Management Limited.....	England
PepsiCo World Trading Company (UK) Ltd. ....	England
Pizza Hut International (UK) Ltd.....	England
Smiths Crisps Limited.....	England
Walkers Snack Foods Limited.....	England
Crispflow Limited.....	England
Frito-Lay Holdings Limited.....	England
PFI Agriculture Europe Ltd.....	England
PepsiCo Investment (China) Ltd.....	China
PepsiCo China, Ltd. ....	China
Shanghai Pizza Hut Company.....	China
PepsiCo Overseas Corp. ....	Delaware
PepsiCo Overseas Finance N.V. ....	Neth. Antilles
PepsiCo Pacific Trading Co. Ltd.....	Hong Kong
PepsiCo Restaurant Services Group, Inc.....	Delaware
PepsiCo Services Corp.....	Delaware
PepsiCo World Trading Company, Inc. ....	Delaware
Pepsi-Cola (Bermuda) Limited.....	Bermuda
Pepsi-Cola Manufacturing Company of Uruguay S.A..	Uruguay
The Concentrate Manufacturing Company of Ireland.	Ireland
Seven-Up (Ireland) Limited.....	Ireland
Pepsi-Cola Manufacturing (Ireland).....	Ireland
PARCO N.V.....	Neth. Antilles
Paine Corporation N.V. ....	Neth. Antilles
Paige N.V.....	Neth. Antilles
PepsiCo Finance (U.K.) Limited.....	England
Pepsi-Cola Kft. Hungary.....	Hungary
Pizza Belgium S.A.....	Belgium
E Wedel S.A.....	Poland
PepsiCo (Ireland) Limited.....	Ireland
Pepsi-Cola Bottling Company of Los Angeles.....	California
Pepsi-Cola Commodities, Inc. ....	Delaware
Pepsi-Cola de Espana, S.A.....	Spain
Compania de Bebides PepsiCo, S.A.....	Spain
Kas S.A.....	Spain
Snack Ventures Europe S.C.A.....	Spain
Pepsi-Cola France S.A.R.L.....	France
Pepsi-Cola Equipment Corp. ....	New York
Pepsi-Cola Far East Trade Development Co., Inc. ...	Philippines
Pepsi-Cola Gesellschaft m.b.H.....	Austria
Pepsi-Cola Interamericana de Guatemala S.A.....	Guatemala
Pepsi-Cola International Limited.....	Bermuda
Pepsi-Cola International Limited (U.S.A.).....	Delaware
Pepsi-Cola Metropolitan Bottling Company, Inc. ....	New Jersey
General Cinema Beverages, Inc. ....	Delaware
New Century Beverage Company.....	California
Belfast Bottling Co. of Reno.....	Nevada
PepsiCo Puerto Rico, Inc.....	Delaware
PRS, Inc.....	Delaware
PEI N.V.....	Neth. Antilles
PepsiCo do Brazil Holdings Ltda.....	Brazil
Capital Services Associates.....	Neth. Antilles
Pepsi-Cola Alton Bottling, Inc.....	Illinois
Pepsi-Cola Mediterranean, Ltd. ....	Wyoming
Seven-Up International, Inc.....	Delaware
Seven-Up Southern Hemisphere, Inc. ....	Missouri
Pepsi-Cola Mexicana S.A. de C.V. ....	Mexico
Pepsi-Cola Panamericana, S.A.....	Delaware
Pepsi-Cola Panamericana, S.A.....	Venezuela
Pepsi-Cola Personnel, Inc.....	Delaware
Pepsi Cola San Joaquin Bottling Company.....	Delaware
Pepsi-Cola (Thai) Trading Co., Ltd.....	Thailand
Pepsi Stuff, Inc.....	Delaware
Pizza Hut, Inc. ....	Delaware
PepsiCo Australia Pty., Ltd. ....	Australia
Frito-Lay Australia.....	Australia
Kentucky Fried Chicken Pty. Ltd.....	Australia
Pizza Hut of America, Inc. ....	Delaware
Bell Taco Funding Syndicate.....	Australia

PGCC, Inc.....	Delaware
Pepsi-Cola Bottling Company of Ohio, Inc.....	Delaware
Pizza Management, Inc.....	Texas
Recot, Inc.....	Delaware
Frito-Lay, Inc. ....	Delaware
FL Holding, Inc.....	Delaware
Opco Holding Inc. ....	Delaware
Pepsi-Cola Operating Company of Chesapeake and Indianapolis.....	Delaware
Frito-Lay JV, Inc.....	Delaware
Midland Bottling Co.....	Delaware
Beverage Products Corporation.....	Oklahoma
EIEIO Beverage Company.....	Delaware
Pepsi-Cola Bottling Company of St. Louis, Inc.....	Missouri
Wetter Beverage Company.....	Delaware
NKFC, Inc.....	Delaware
QSR, Inc.....	Delaware
KFC Enterprises, Inc. ....	Delaware
Kentucky Fried Chicken Corporation.....	Delaware
KFC Corporation.....	Delaware
KFC National Management Company.....	Delaware
Smartfoods, Inc. ....	Delaware
TGCC, Inc.....	Delaware
General Cinema Beverages of North Florida, Inc.....	Delaware
General Cinema Beverages of Virginia, Inc....	Delaware
General Cinema Beverages of Washington, D.C., Inc.....	Delaware
Redux Realty, Inc. ....	Delaware
Rice Bottling Enterprises, Inc. ....	Tennessee
Rio Grande Snack Company.....	Delaware
Sabritas, S.A. de C.V. ....	Mexico
Corporativo Internacional S.A. de C.V.....	Mexico
PepsiCo Worldwide Holdings.....	Neth. Antilles
Empresas Gamesa, S.A. de C.V.....	Mexico
Grupo Gamesa, S.A. de C.V.....	Mexico
Shelbyville Bottling Company, Inc.....	Tennessee
Taco Bell Corp. ....	California
Calny, Inc.....	Delaware
Taco Bell of California, Inc.....	California
Taco Bell Royalty Company.....	California
Taco Caliente, Inc.....	Arizona
Taco Del Sur, Inc.....	Georgia
Tenga Taco, Inc.....	Florida
Taco Enterprises, Inc. ....	Michigan
TBLD Corp.....	California
TFL Holdings, Inc. ....	Delaware
Upper Midwest Pizza Hut, Inc.....	Delaware
Von Karman Leasing Corp. ....	Delaware
Wilson International Sales Corporation.....	Delaware

Omitted from the above list are approximately 375 insignificant or inactive subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary. The list also excludes approximately 100 subsidiaries of Pizza Hut, Inc., of which xx operate restaurants in the U.S., and approximately 40 subsidiaries of Kentucky Fried Chicken Corporation and Kentucky Fried Chicken Corporate Holdings, Ltd., which operate restaurants outside of the U.S.

The Board of Directors  
PepsiCo, Inc.

The audits referred to in our report dated February 4, 1997 included the related financial statement schedule as of December 28, 1996, and for each of the years in the three-year period ended December 28, 1996 listed in the accompanying index at Item 14(a)2. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We consent to the use of our reports included herein (or incorporated herein by reference) in the following Registration Statements on:

DESCRIPTION - - - - -	REGISTRATION STATEMENT NUMBER - - - - -
Form S-3 - - - - -	
Pizza Hut Cincinnati, Inc. and Tri-L Pizza Huts, Inc. acquisitions	33-37271
PepsiCo SharePower Stock Option Plan for Employees of Monsieur Henri Wines, Ltd.	33-35601, 33-42122, 33-56666 & 33-66146
PepsiCo SharePower Stock Option Plan for Opco Employees	33-30658 & 33-38014
PepsiCo SharePower Stock Option Plan for PCDC Employees	33-42121
PepsiCo SharePower Stock Option Plan for Employees of Chevys, Inc.	33-66144
PepsiCo SharePower Stock Option Plan for Employees of Southern Tier Pizza Hut, Inc. and STPH Delco, Inc.	33-66148
Pepsi-Cola Bottling Company Annapolis acquisition	33-30372
\$500,000,000 Euro-Medium-Term Notes	33-8677
\$2,500,000,000 Debt Securities and Warrants	33-39283
Semorán Management Corporation acquisition	33-47527
\$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
Form S-4 - - - - -	
Erin Investment Corp. acquisition	33-31844
A&M Food Services, Inc. acquisition	33-4635
Pizza Hut Titusville, Inc. acquisition	33-21607
U.S. Kentucky Fried Chicken operations of Collins Foods International, Inc. acquisition	33-37978
Pizza Management, Inc. acquisition	33-47314
Form S-8 - - - - -	
PepsiCo SharePower Stock Option Plan	33-35602, 33-29037, 33-42058, 33-51496, 33-54731 & 33-66150
PepsiCo SharePower Stock Option Plan for Opco Employees	33-43189
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
Long Term Savings Programs of Taco Bell Corp., Pizza Hut, Inc. and Kentucky Fried Chicken Corporation, respectively	2-93163, 2-99532 & 33-10488
Restaurant Deferred Compensation Plan	333-01377

/s/ KPMG Peat Marwick LLP  
New York, New York  
March 25, 1997

## POWER OF ATTORNEY

PepsiCo, Inc. ("PepsiCo") and each of the undersigned, an officer or director, or both, of PepsiCo, do hereby appoint Edward V. Lahey, Jr. and Lawrence F. Dickie, and each of them severally, its, his or her true and lawful attorney-in-fact to execute on behalf of PepsiCo and the undersigned the following documents and any and all amendments thereto (including post-effective amendments):

(i) Registration Statements No. 33-8677, 33-39283, 33-53232 and 33-64342 relating to the offer and sale of PepsiCo's Debt Securities and Warrants, and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of debt securities or warrants by PepsiCo or guarantees by PepsiCo of any of its subsidiaries' debt securities or warrants;

(ii) Registration Statements No. 33-4635, 33-21607, 33-30372, 33-31844, 33-37271, 33-37978, 33-47314 and 33-47527 all relating to the primary and/or secondary offer and sale of PepsiCo Capital Stock issued or exchanged in connection with acquisition transactions, and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the primary and/or secondary offer and sale of PepsiCo Capital Stock issued or exchanged in acquisition transactions;

(iii) Registration Statements No. 33-29037, 33-35602, 33-42058, 33-51496, 33-54731 and 33-66150 relating to the offer and sale of shares of PepsiCo Capital Stock under the PepsiCo SharePower Stock Option Plan; Registration Statements No. 33-38014, 33-30658 and 33-43189 relating to the extension of the PepsiCo SharePower Stock Option Plan to employees of Pepsi-Cola Operating Company of Chesapeake and Indianapolis; Registration Statements No. 33-35601, 33-42122, 33-56666 and 33-66146 relating to the extension of the PepsiCo SharePower Stock Option Plan to employees of Monsieur Henri; Registration Statement No. 33-42121 relating to the extension of the PepsiCo SharePower Stock Option Plan to employees of Pepsi-Cola of Washington D.C., L.P.; Registration Statement No. 33-66144 relating to the extension of the PepsiCo SharePower Stock Option Plan to employees of Chevys, Inc.; Registration No. 33-66148 relating to the extension of the PepsiCo SharePower Stock Option Plan to employees of Southern Tier Pizza Hut, Inc.; Registration Statement No. 33-50685 relating to the 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., and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of shares of PepsiCo Capital Stock under the PepsiCo SharePower Stock Option Plan to employees of PepsiCo or otherwise;

(iv) Registration Statements No. 2-82645, 2-99532, 2-93163, 33-10488, 33-51514 and 33-60965 covering the offer and sale of shares of PepsiCo Capital Stock under the Long Term Savings Programs of PepsiCo, Pizza Hut, Inc., Taco Bell Corp. and Kentucky Fried Chicken Corporation, and any registration statements deemed by any such attorney-in-fact to be necessary or appropriate to register the offer and sale of shares of PepsiCo Capital Stock under the long term savings programs of any other subsidiary of PepsiCo;

(v) Registration Statements No. 33-61731 and No. 333-09363 pertaining to the offer and sale of PepsiCo Capital Stock under PepsiCo's 1995 Stock Option Incentive Plan, Registration Statement No. 33-54733, relating to the offer and sale of shares of PepsiCo Capital Stock under PepsiCo's 1994 Long-Term Incentive Plan, Registration Statement No. 33-19539 relating to the offer and sale of shares of PepsiCo Capital Stock under PepsiCo's 1987 Incentive Plan and resales of such shares by officers of PepsiCo, and Registration Statement No. 2-65410 relating to the offer and sale of shares of PepsiCo Capital Stock under PepsiCo's 1979 Incentive Plan, 1972 Performance Share Plan, as amended, and various option plans, and resales of such shares by officers of PepsiCo;

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

(vii) Registration Statement No. 333-01377 relating to the obligations of PepsiCo under the Restaurant Deferred Compensation Plan; and

(viii) all other applications, reports, registrations, information, documents and instruments filed or required to be filed by PepsiCo with the Securities and Exchange Commission, any stock exchanges or any governmental official or agency in connection with the listing, registration or approval of PepsiCo Capital Stock, PepsiCo debt securities or warrants, other securities or PepsiCo guarantees of its subsidiaries' debt securities or warrants, or the offer and sale thereof, or in order to meet PepsiCo's reporting requirements to such entities or persons;

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

IN WITNESS WHEREOF, the undersigned has executed this instrument on March , 1997.

PepsiCo, Inc.

By: /s/ EDWARD V. LAHEY, JR.  
Edward V. Lahey, Jr.  
Senior Vice President, General  
Counsel and Secretary

/s/ ROGER A. ENRICO  
Roger A. Enrico  
Chairman of the Board and  
Chief Executive Officer

/s/ KARL M. VON DER HEYDEN  
Karl M. von der Heyden  
Vice Chairman and  
Chief Financial Officer

/s/ ROBERT L. CARLETON  
Robert L. Carleton  
Senior Vice President and Controller  
(Chief Accounting Officer)

/s/ ROBERT E. ALLEN  
Robert E. Allen  
Director

/s/ JOHN F. AKERS  
John F. Akers  
Director

/s/ RAY L. HUNT  
Ray L. Hunt  
Director

/s/ D. WAYNE CALLOWAY  
D. Wayne Calloway  
Director

/s/ STEVEN S REINEMUND  
Steven S Reinemund  
Chairman and Chief  
Executive Officer of  
The Frito-Lay Company  
and Director

/s/ JOHN J. MURPHY  
John J. Murphy  
Director

/s/ SHARON PERCY ROCKEFELLER  
Sharon Percy Rockefeller  
Director

/s/ FRANKLIN A. THOMAS  
Franklin A. Thomas  
Director

/s/ P. ROY VAGELOS  
P. Roy Vagelos  
Director

/s/ ARNOLD R. WEBER  
Arnold R. Weber  
Director

/s/ CRAIG E. WEATHERUP  
Craig E. Weatherup  
Chairman and Chief Executive  
Officer of Pepsi-Cola Company and Director

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PEPSICO, INC. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS FOR THE 52 WEEK PERIOD ENDED DECEMBER 28, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000077476  
 PepsiCo, Inc.  
 1,000,000

	Year
Dec-28-1996	Dec-28-1996
	447
	339
	2,699
	183
	1,038
	5,139
	17,840
	7,649
	24,512
5,139	
	8,439
0	
	0
	29
	6,594
24,512	
	31,645
	31,645
	15,383
	15,383
	0
	62
	600
	2,047
	898
1,149	
	0
	0
	0
	1,149
	0.72
	0.71