

# MANAGEMENT'S DISCUSSION AND ANALYSIS

(tabular dollars in millions except per share amounts)

All per share amounts are computed using weighted average shares outstanding and assume dilution.

Management's Discussion and Analysis is presented in four sections. The first section discusses certain items affecting the comparability of results and certain market and other risks we face. The second section analyzes the Results of Operations, first on a consolidated basis and then for each of our business segments (pages 20-24). The final two sections address Consolidated Cash Flows and Liquidity and Capital Resources (page 24).

## Cautionary Statements

From time to time, in written reports (including the Chairman's letter in our annual report) and in oral statements, we discuss expectations regarding our future performance, the impact of the euro conversion and the impact of current global macro-economic issues. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations.

## Introduction To Our Business

### Items Affecting Comparability

#### Fifty-third Week in 2000

Comparisons of 2000 to 1999 are affected by an additional week of results in the 2000 reporting year. Because our fiscal year ends on the last Saturday in December, a fifty-third week is added every 5 or 6 years. The fifty-third week increased 2000 net sales by an estimated \$294 million, operating profit by an estimated \$62 million and net income by an estimated \$44 million or \$0.03 per share.

#### Bottling Transactions

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

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

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

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

PepsiAmericas' shares if certain performance targets are met. Our three anchor bottlers distribute approximately three-fourths of our North American volume.

### Asset Impairment and Restructuring Charges

	1999	1998
<b>Asset impairment charges</b>		
Held and used in the business		
Property, plant and equipment	\$ 8	\$ 149
Intangible assets	–	37
Other assets	–	14
Held for disposal/abandonment		
Property, plant and equipment	29	54
Total asset impairment	37	254
<b>Restructuring charges</b>		
Employee related costs	19	24
Other charges	9	10
Total restructuring	28	34
Total	\$ 65	\$ 288
After-tax	\$ 40	\$ 261
Per share	\$0.03	\$0.17

### Impairment by segment

Frito-Lay North America	\$ 37	\$ 54
Pepsi-Cola International	–	6
Combined segments	37	60
Bottling operations	–	194
	\$ 37	\$ 254

The 1999 asset impairment and restructuring charge of \$65 million related to the closure of three plants and impairment of equipment at Frito-Lay North America. The asset impairment charges primarily reflected the reduction in the carrying value of the land and buildings to their estimated fair market value based on current selling prices for comparable real estate, less costs to sell, and the write-off of the net book value of equipment which could not be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of \$28 million primarily included severance costs for approximately 860 employees and plant closing costs. Substantially all of the terminations occurred during 1999.

The 1998 asset impairment and restructuring charges of \$288 million were comprised of the following:

- A charge of \$218 million, for asset impairment of \$200 million and restructuring charges of \$18 million related to our Russian bottling operations. The restructuring actions, in response to lower demand, an adverse change in the business climate and an expected continuation of operating losses and cash deficits in Russia following the August 1998 devaluation of the ruble, included a reduction of our cost structure primarily through closing facilities, renegotiating manufacturing contracts and reducing the number of employees. We also evaluated our long-lived bottling

assets for impairment, triggered by the reduction in the utilization of assets caused by the adverse economic conditions. The impairment charge reduced the net book value of the assets to their estimated fair market value, based primarily on amounts recently paid for similar assets in that marketplace. Of the total charge of \$218 million, \$212 million related to bottling operations that became part of PBG in 1999.

- An impairment charge of \$54 million related to manufacturing equipment at Frito-Lay North America. The charge primarily reflected the write-off of the net book value of the equipment and related projects. Disposal or abandonment of these assets was completed in 1999.
- A charge of \$16 million for employee related costs resulting from the separation of Pepsi-Cola North America's concentrate and bottling organizations. Of this amount, \$10 million related to bottling operations that became part of PBG in 1999.

The employee related costs for 1998 of \$24 million primarily included severance and relocation costs for approximately 2,700 mostly part-time employees. The terminations either occurred or related to the bottling operations that became part of PBG in 1999.

Restructuring reserves totaling \$24 million at December 30, 2000 are included in accounts payable and other current liabilities in the Consolidated Balance Sheet.

### **Tropicana Acquisition**

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

### **Subsequent Acquisition of South Beach Beverage Company, LLC**

On January 5, 2001, we completed the acquisition of South Beach Beverage Company, LLC for approximately \$337 million in cash, retaining a 91% interest in the newly formed South Beach Beverage Company, Inc. (SoBe). SoBe manufactures and markets an innovative line of alternative non-carbonated beverages including fruit blends, energy drinks, dairy-based drinks, exotic teas and other beverages with herbal ingredients, which are distributed under license by a network of independent distributors, primarily in the United States.

### **Proposed Merger with The Quaker Oats Company**

On December 4, 2000, we announced a merger agreement with The Quaker Oats Company (Quaker). Under the terms of this agreement, Quaker shareholders will receive 2.3 shares of PepsiCo capital stock subject to a maximum value of \$105 for each Quaker share. In the event that the value exceeds \$105, the exchange ratio is subject to adjustment. Further, if the value of PepsiCo shares received by Quaker shareholders for each Quaker share is below \$92, Quaker may terminate the merger agreement. Based on the closing price of our stock of \$42.375 per share on December 1, 2000, the proposed tax-free transaction would be valued at \$97.4625 per Quaker share. The proposed merger is subject to certain closing conditions, including shareholder approval at both companies, and certain regulatory approvals.

Assuming that 2.3 shares of PepsiCo capital stock are issued for each share of Quaker common stock, we will issue approximately 315 million shares of PepsiCo capital stock to Quaker shareholders in the merger. These PepsiCo capital shares exchanged for Quaker shares will represent approximately 18% of the outstanding shares of PepsiCo capital stock after the merger. This information is based on the number of shares of PepsiCo capital stock and Quaker common stock expected to be outstanding at the time of the merger. In conjunction with the merger agreement, we entered into a stock option agreement with Quaker which granted us an option, under certain circumstances, to purchase up to approximately 19.9% of the outstanding shares of Quaker common stock.

The merger is expected to close in the first half of 2001 and is expected to be accounted for as a "pooling-of-interests." We anticipate that we will sell between 15 to 20 million shares of repurchased PepsiCo capital stock prior to the closing to qualify for "pooling-of-interests" accounting treatment.

We expect to incur transaction costs of approximately \$100 million necessary to complete the merger. We also expect to incur additional costs subsequent to the merger to integrate the two companies.

### **New Accounting Standards**

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133, as amended by SFAS 137 and SFAS 138, is effective for our fiscal year beginning December 31, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. Based on derivatives outstanding at December 30, 2000, the adoption would increase assets by approximately \$14 million and liabilities by approximately \$9 million with approximately \$5 million recognized in accumulated other comprehensive income and less than \$1 million recognized in the Consolidated Statement of Income.

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

In January 2001, the EITF reached a consensus on Issue 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. Issue 00-22 will require that certain cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. The consensus is effective for the first quarter of 2001. We are currently assessing this consensus and have not yet made a determination of the impact adoption will have on our consolidated financial statements.

During 2000, the EITF added to its agenda various other revenue recognition issues that could impact the income statement classification of certain promotional payments. We classify promotional payments as either a reduction of net sales or marketing costs. Total promotional expenses classified as marketing costs were \$2.4 billion in 2000, \$2.3 billion in 1999 and \$2.1 billion in 1998.

## **Market and Other Risk Factors**

### **Market Risk**

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

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

In the normal course of business, we manage these risks through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. Our hedging transactions include, but are not limited to, the use of various derivative financial and commodity instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure. We do not use derivative instruments for trading or speculative purposes.

### **Commodity Prices**

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and futures contracts. We use futures contracts to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily oil, corn, fuel and juice concentrates. Our use of futures contracts is not significant to our commodity purchases.

Our commodity futures positions were \$45 million at December 30, 2000 and \$145 million at December 25, 1999. Our commodity futures position resulted in a net unrealized gain of \$3 million at December 30, 2000 and a net unrealized loss of \$6 million at December 25, 1999. We estimate that a 10% decline in commodity prices would have reduced the 2000 unrealized net gain by \$5 million and increased the 1999 unrealized net loss by \$14 million. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items.

### **Foreign Exchange**

International operations constitute about 21% of our 2000 and 20% of our 1999 business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar and euro. Changes in foreign exchange rates would have the largest impact on translating our international operating profit into U.S. dollars.

On occasion, we may enter into derivative financial instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally. At December 30, 2000, we had forward contracts to exchange British pounds for U.S. dollars with an aggregate notional amount of

\$336 million. Unrealized losses on these contracts were \$9 million at December 30, 2000. We estimate that an unfavorable 10% change in the exchange rate would have increased the 2000 unrealized losses by \$32 million. Forward contracts outstanding at December 25, 1999 were not material to the financial statements. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items.

### **Interest Rates**

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on the related debt.

Our investment portfolios primarily consist of cash equivalents and short-term marketable securities. Accordingly, the carrying amounts approximate market value. It is our practice to hold these investments to maturity.

Assuming year-end 2000 and 1999 variable rate debt and investment levels, a one-point increase in interest rates would have increased net interest expense by \$8 million in 2000 and \$13 million in 1999. The change in this impact from 1999 resulted from decreased variable rate debt levels and increased investment levels at year-end 2000. This sensitivity analysis includes the impact of existing interest rate and currency swaps.

### **Euro Conversion**

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

## Results of Operations

### Consolidated Review

#### General

In the discussions below, the year-over-year dollar change in pound or kilo sales of salty and sweet snacks for Frito-Lay, bottler case sales by company-owned bottling operations and concentrate unit sales to franchisees for Pepsi-Cola, and four-gallon equivalent cases for Tropicana is referred to as *volume*. Price changes over the prior year and the impact of product, package and country sales mix changes are referred to as *effective net pricing*.

Comparable net sales and operating profit, also referred to as new PepsiCo, present the deconsolidation of our bottling operations as if it had occurred at the beginning of 1998, and exclude impairment and restructuring charges and the impact of the fifty-third week in 2000. Tropicana results are included subsequent to its acquisition in 1998.

#### Net Sales

			% Change B/(W)	
	2000	1999	2000	1999
<i>Reported</i>	\$20,438	\$20,367	—	(9)
<i>Comparable</i>	\$20,144	\$18,666	8	15

In 2000, comparable net sales increased 8%. This increase is primarily due to volume gains across all business segments and effective net pricing at Frito-Lay and Pepsi-Cola. Volume gains contributed 6 percentage points of growth and higher effective net pricing contributed 3 percentage points. These increases were partially offset by a net unfavorable foreign currency impact, primarily in Europe, which reduced comparable net sales by 1 percentage point. The fifty-third week enhanced reported net sales by almost 2 percentage points.

In 1999, comparable net sales increased 15%. This increase primarily reflects the inclusion of Tropicana for the full year in 1999, volume gains at Frito-Lay and higher effective net pricing at Frito-Lay and Pepsi-Cola North America. The inclusion of Tropicana contributed 10 percentage points of growth. Volume gains contributed 4 percentage points of growth and higher effective net pricing contributed 3 percentage points. These advances were partially offset by an unfavorable foreign currency impact, primarily in Brazil and Mexico, which reduced comparable net sales growth by nearly 2 percentage points. Reported net sales decreased 9% reflecting the bottling deconsolidation, partially offset by the inclusion of Tropicana for the full year in 1999.

#### Operating Profit and Margin

			Change B/(W)	
	2000	1999	2000	1999
<i>Reported</i>				
Operating profit	\$3,225	\$2,818	14%	9%
Operating profit margin	15.8%	13.8%	2.0	2.2
<i>Comparable</i>				
Operating profit	\$3,163	\$2,830	12%	12%
Operating profit margin	15.7%	15.2%	0.5	(0.3)

In 2000, comparable operating profit margin increased 0.5 percentage points primarily reflecting the favorable margin impact of the higher effective net pricing and increased volume. These improvements were partially offset by the margin impact of increases in selling and distribution expenses primarily at Frito-Lay International, advertising and marketing expenses primarily at Pepsi-Cola North America and general and administrative expenses.

In 1999, comparable operating profit margin declined 0.3 percentage points reflecting the margin impact of Tropicana for a full year in 1999, increased general and administrative expenses and increased advertising and marketing expenses across all business segments. These decreases were partially offset by the margin impact of the higher effective net pricing.

#### Bottling Equity Income

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

In 2000, net bottling equity income was \$130 million. The \$18 million favorable impact of an accounting change by PBG was offset by our share of restructuring actions in certain other bottling affiliates and the net loss from changes in our equity ownership interests. The fifty-third week in 2000 enhanced reported net bottler equity income by \$5 million.

In 1999, bottling equity income of \$83 million reflects the equity income of our previously consolidated bottling operations from the applicable transaction closing dates and the equity income or loss of other unconsolidated bottling affiliates for the second, third and fourth quarters.

#### Gain on Bottling Transactions

The 1999 gain on bottling transactions of \$1.0 billion (\$270 million after-tax or \$0.18 per share) relates to the second quarter PBG and Whitman bottling transactions. The PBG transaction resulted in a pre-tax gain of \$1.0 billion (\$476 million after-tax or \$0.32 per share) in the second quarter. The majority of the taxes are expected to be deferred indefinitely. The Whitman transaction resulted in an after-tax loss to us of \$206 million or \$0.14 per share. The 1999 PepCom transaction was accounted for as a nonmonetary exchange for book purposes. However, a portion of the transaction was taxable which resulted in income tax expense of \$25 million or \$0.02 per share. The 1999 Pohlad transaction was structured as a fair value exchange with no resulting gain or loss.

## Interest Expense, net

				% Change B/(W)	
	2000	1999	1998	2000	1999
<i>Reported</i>					
Interest expense	\$ (221)	\$ (363)	\$ (395)	39	8
Interest income	76	118	74	(36)	59
Interest expense, net	\$ (145)	\$ (245)	\$ (321)	41	24

In 2000, interest expense declined 39% reflecting significantly lower average debt levels, partially offset by higher average interest rates. Lower average debt levels reflect the third quarter 1999 repayment of borrowings used to finance the Tropicana acquisition and the absence of the financing related to the Pepsi Bottling Group. Interest income declined 36% primarily due to lower average investment balances partially offset by favorable changes in the fair value of equity derivative contracts. The fifty-third week increased net interest expense by \$3 million.

In 1999, interest expense decreased 8% due to lower average interest rates on slightly lower average outstanding debt levels. Interest income increased 59% primarily due to higher average investment balances, partially offset by lower average interest rates on these balances. The higher average investment balances primarily result from the first quarter proceeds received from PBG as settlement of pre-existing intercompany balances.

## Provision for Income Taxes

	2000	1999	1998
<i>Reported</i>			
Provision for income taxes	\$1,027	\$1,606	\$270
Effective tax rate	32.0%	43.9%	11.9%
<i>Comparable*</i>			
Provision for income taxes	\$1,007	\$ 876	\$791
Effective tax rate	32.0%	32.2%	31.0%

\* Excludes the tax effects of the fifty-third week in 2000, the tax effects of the bottling transactions of \$755 and impairment and restructuring charges of \$25 in 1999, and the income tax benefit of \$494 and the tax effect of the impairment and restructuring charges of \$27 in 1998.

In 2000, the comparable effective tax rate remained nearly flat. The reported effective tax rate decreased 11.9 percentage points primarily as a result of the tax effects of the 1999 bottling transactions.

In 1999, the comparable effective tax rate increased 1.2 percentage points primarily from the absence in 1999 of the settlement in 1998 of prior years' audit issues offset by the benefit of proportionately lower bottling income. The reported effective tax rate increased 32 percentage points primarily as a result of the tax effects of the bottling transactions and the absence in 1999 of the 1998 income tax benefit relating to our concentrate operations in Puerto Rico.

## Net Income and Net Income Per Share - Assuming Dilution

				% Change B/(W)	
	2000	1999	1998	2000	1999
<i>Net income</i>					
<i>Reported</i>	\$2,183	\$2,050	\$1,993	6	3
<i>Comparable*</i>	\$2,139	\$1,845	\$1,760	16	5
<i>Net income per share - assuming dilution</i>					
<i>Reported</i>	\$ 1.48	\$ 1.37	\$ 1.31	8	5
<i>Comparable*</i>	\$ 1.45	\$ 1.23	\$ 1.16	18	6

\* Excludes the impact of the fifty-third week in 2000, the bottling transactions of \$245 and impairment and restructuring charges of \$40 in 1999, and the income tax benefit of \$494 and impairment and restructuring charges of \$261 in 1998.

In 2000, comparable net income increased 16% and the related net income per share increased 18% reflecting higher operating profit and lower net interest expense. The increase in net income per share also reflects the benefit from a 1.4% reduction in average shares outstanding assuming dilution.

In 1999, comparable net income increased 5% and the related net income per share increased 6% due to increased operating profit and a decrease in net interest expense, partially offset by a higher effective tax rate. Net income per share also benefited from a 1.5% reduction in average shares outstanding assuming dilution.

## Business Segments

Additional information concerning our operating segments is presented in Note 17.

## Frito-Lay

The standard volume measure is pounds for North America and kilos for International. Pound and kilo growth are reported on a systemwide basis which includes joint ventures.

## Frito-Lay North America

				% Change B/(W)	
	2000	1999	1998	2000	1999
<i>Net sales</i>					
<i>Reported</i>	\$8,562	\$7,865	\$7,474	9	5
<i>Comparable*</i>	\$8,398	\$7,865	\$7,474	7	5
<i>Operating profit</i>					
<i>Reported</i>	\$1,851	\$1,580	\$1,424	17	11
<i>Comparable*</i>	\$1,811	\$1,645	\$1,478	10	11

\* Excludes the impact of the fifty-third week in 2000. Operating profit also excludes impairment and restructuring charges of \$65 in 1999 and \$54 in 1998.

### 2000 vs. 1999

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

Pound volume advanced 4% excluding the impact of the fifty-third week. This growth was primarily driven by most of our core brands, excluding the low-fat and no-fat versions, and by our new Snack Kit products. The growth in core brands was led by solid single-digit growth in Lay's brand potato chips, Cheetos brand cheese puffs and Ruffles brand potato chips, as well as double-digit growth in Tostitos brand tortilla chips. These gains were partially offset by continued declines in WOW! brand products. Pound volume growth including the fifty-third week was 6%.

Comparable operating profit increased 10% primarily reflecting the higher volume, higher effective net pricing and reduced vegetable oil costs partially offset by higher energy and fuel costs. Advertising and marketing expenses grew at a slightly slower rate than sales. The margin impact of these favorable factors contributed to the comparable operating profit margin improvement of 0.7 percentage points. The fifty-third week enhanced reported operating profit growth by 2 percentage points.

### 1999 vs. 1998

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

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

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

### Frito-Lay International

	2000	1999	1998	% Change B/(W)	
				2000	1999
Net sales					
Reported	\$4,319	\$3,750	\$3,501	15	7
Comparable*	\$4,258	\$3,750	\$3,501	14	7
Operating profit					
Reported	\$ 493	\$ 406	\$ 367	21	11
Comparable*	\$ 483	\$ 406	\$ 367	19	11

\* Excludes the impact of the fifty-third week in 2000.

### 2000 vs. 1999

Comparable net sales increased 14% primarily driven by volume growth at Sabritas in Mexico, Walkers in the United Kingdom and in Turkey, largely due to promotional programs, and effective net pricing at Gamesa and Sabritas in Mexico. The net impact from acquisitions/divestitures contributed 2 percentage points to sales growth. Weaker foreign currencies, primarily in the United Kingdom and Australia, decreased net sales by 2 percentage points.

Salty snack kilos increased 13% excluding the impact of the fifty-third week. This growth was led by double-digit increases at Sabritas, our European and Latin American joint ventures and Walkers. Acquisitions did not significantly impact the growth in salty snack volume. Salty snack kilo growth increased 15% including the fifty-third week. Sweet snack kilos increased 4%, excluding the impact of the 1999 sale of our chocolate business in Poland, led by our businesses in Mexico. Sweet snack kilos increased 2% over 1999 including the chocolate business in Poland.

Comparable operating profit grew 19% reflecting strong operating performances at Sabritas, Gamesa and in Turkey. The net impact from acquisitions/divestitures decreased operating profit by 3 percentage points. Weaker foreign currencies, primarily in the United Kingdom, decreased operating profit by 2 percentage points.

### 1999 vs. 1998

Net sales increased 7%. Excluding the negative impact of Brazil, which was primarily due to macro-economic conditions, net sales increased 13% reflecting higher volume and higher effective net pricing. Overall, the higher effective net pricing more than offset the net impact of weaker currencies outside of Brazil. The unfavorable foreign currency impact, primarily in Mexico, reduced net sales growth by 4 percentage points. Net contributions from acquisitions/divestitures contributed 1 percentage point to the sales growth.

Salty snack kilos increased 6%. The advance was led by double-digit growth at Sabritas in Mexico and several of our businesses in Central and South America and in Asia. Including acquisitions/divestitures, total salty snack kilos increased an additional 4 percentage points to 10% driven primarily by the acquisition in Australia and by acquisitions and mergers of salty snack food businesses in South America. Sweet snack kilos increased 6% led by strong growth at Gamesa and Sabritas in Mexico. Sweet snack kilos, including the net effect of acquisitions/divestitures, declined 5% primarily as a result of the disposal of our chocolate and biscuit businesses in Poland.

Operating profit increased 11%. Excluding Brazil, operating profit increased 25% driven by strong performances at Sabritas, Gamesa and several of our businesses in Asia. The net impact of weaker foreign currencies outside of Brazil, primarily in Mexico and the United Kingdom, reduced operating profit growth by 5 percentage points. The unfavorable foreign currency impact was more than offset by higher effective net pricing.

## Pepsi-Cola

System bottler case sales (BCS) represents PepsiCo-owned brands as well as brands that we have been granted the right to produce, distribute and market nationally and are sold by system bottlers. BCS are reported on a calendar year basis and, therefore, are not affected in 2000 by the fifty-third week.

### Pepsi-Cola North America

	% Change B/(W)				
	2000	1999	1998	2000	1999
Net sales					
Reported	\$3,289	\$2,605	\$1,389	26	88
Comparable*	\$3,253	\$3,005	\$2,912	8	3
Operating profit					
Reported	\$ 833	\$ 751	\$ 732	11	3
Comparable*	\$ 820	\$ 751	\$ 738	9	2

\* Net sales excludes the impact of the fifty-third week in 2000, and the bottling deconsolidation of \$400 in 1999 and \$1,523 in 1998. Operating profit excludes the impact of the fifty-third week in 2000 and impairment and restructuring charges of \$6 in 1998.

#### 2000 vs. 1999

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

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

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

#### 1999 vs. 1998

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

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

Comparable operating profit increased 2% primarily reflecting the increase in the net benefit of the higher pricing and the increased

royalty income. These increases were partially offset by higher fountain related costs, increased advertising and marketing spending and higher general and administrative costs.

### Pepsi-Cola International

	% Change B/(W)				
	2000	1999	1998	2000	1999
Net sales					
Reported	\$1,842	\$1,771	\$1,600	4	11
Comparable*	\$1,842	\$1,793	\$1,691	3	6
Operating profit					
Reported	\$ 148	\$ 108	\$ 99	37	9
Comparable*	\$ 148	\$ 108	\$ 105	37	3

\* Net sales excludes the impact of the bottling deconsolidation of \$22 in 1999 and \$91 in 1998 and operating profit also excludes impairment and restructuring charges of \$6 in 1998.

PCI reports results on a calendar year basis, therefore, there is no impact in 2000 from the fifty-third week.

#### 2000 vs. 1999

Comparable net sales increased 3% due to volume gains and higher effective net pricing, partially offset by a broad-based net unfavorable foreign currency impact led by Europe. The net unfavorable foreign currency impact reduced net sales by 4 percentage points.

BCS increased 5%. This reflects broad-based increases led by a doubling of volume in Russia where volumes recovered from the effects of the 1998 ruble devaluation. BCS growth was also driven by double-digit growth in China, India and Thailand and by continued growth in Mexico. Through December, total concentrate shipments to franchisees, including those previously wholly-owned bottlers in which we own an equity interest, grew 2% while their BCS grew at a higher rate.

Comparable operating profit increased 37% primarily reflecting the higher effective net pricing and volume gains, partially offset by higher general and administrative expenses to support top-line growth, and net unfavorable foreign currency impact.

#### 1999 vs. 1998

Comparable net sales increased 6%. This advance reflects net contributions from acquisitions/divestitures, higher volume and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Brazil, Mexico, India and Germany, reduced net sales by 3 percentage points. Reported net sales increased 11% which excludes the impact of the bottling deconsolidation.

BCS increased 1% primarily reflecting double-digit growth in China, strong double-digit growth in Germany, Japan and Pakistan, and single-digit growth in India and Saudi Arabia. These advances were partially offset by lower BCS in Brazil, Russia, the Philippines and Thailand. Through December total concentrate shipments to franchisees, including those former wholly-owned bottlers in which we now own an equity interest, increased 2% while their BCS increased at a slower rate.

Comparable operating profit increased 3% reflecting volume gains and higher effective net pricing. These gains were reduced by higher advertising and marketing expenses, net losses from acquisitions/divestitures and unfavorable foreign currency impact.

## Tropicana

The standard measure of volume is four-gallon equivalent cases.

	2000	1999	1998	% Change B/(W)	
				2000	1999
Net sales					
<i>Reported</i>	\$ 2,426	\$ 2,253	\$ 722	8	NM
<i>Comparable*</i>	\$ 2,393	\$ 2,253	\$ 722	6	NM
Operating profit					
<i>Reported</i>	\$ 225	\$ 170	\$ 40	32	NM
<i>Comparable*</i>	\$ 220	\$ 170	\$ 40	30	NM

\* Excludes the impact in 2000 of the fifty-third week.

1998 reflects results from August 26, 1998 (the date of acquisition) through December 26, 1998.

NM – not meaningful

### 2000 vs. 1999

Comparable net sales grew 6% primarily due to volume gains. These gains were partially offset by lower effective net pricing driven by higher trade spending and an unfavorable foreign currency impact in Europe. The unfavorable foreign currency impact reduced net sales by 1 percentage point.

Equivalent case volume grew 8%, led by continued double-digit worldwide growth in Pure Premium including strong double-digit growth in Pure Premium nutritionals and blends. On a fifty-three week basis, equivalent case volume increased 10%.

Comparable operating profit increased 30% primarily due to the volume gains, production leverage and lower orange juice costs. These increases were partially offset by the higher trade spending, increased media spending and consumer promotions and the unfavorable foreign currency impact. The unfavorable foreign currency impact reduced operating profit by 4 percentage points.

### 1999 vs. 1998

Volume for the fiscal year 1999 increased 4%, led by an 8% increase in Tropicana Pure Premium worldwide. Higher pricing taken to offset increases in the cost of oranges, combined with volume growth, drove 1999 operating performance.

## Consolidated Cash Flows

In 2000, cash and cash equivalents decreased \$100 million to \$864 million. Cash flows from operating activities were used to fund share repurchases, capital spending, dividend payments and long-term debt payments.

In 1999, cash and cash equivalents increased \$653 million to \$964 million. Cash flows from operating activities and proceeds from debt issuances were used primarily for repayments of short-term borrowings, share repurchases, capital spending and dividend payments.

### Share Repurchases

Our share repurchase activity was as follows:

	2000	1999	1998
Cost	\$ 1,430	\$ 1,285	\$ 2,230
Shares repurchased			
Number of shares (in millions)	38.0	35.8	59.2
% of shares outstanding at beginning of year	2.6%	2.4%	3.9%

Our Board of Directors rescinded all authorizations for share repurchases on December 3, 2000 as a result of the merger agreement with Quaker.

## Liquidity and Capital Resources

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

We maintain \$1.5 billion of revolving credit facilities. Of the \$1.5 billion as of year-end 2000, \$600 million expires in June 2001. The remaining \$900 million expires in June 2005. At expiration, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions. The credit facilities exist largely to support issuances of short-term debt and remain unused at year-end 2000. At year-end 2000, \$750 million of short-term borrowings were reclassified as long-term, reflecting our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings.

# CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	2000	1999	1998
<b>Net Sales</b>			
New PepsiCo .....	\$20,438	\$18,244	\$14,686
Bottling operations .....	—	2,123	7,662
Total Net Sales .....	<u>20,438</u>	<u>20,367</u>	<u>22,348</u>
<b>Costs and Expenses</b>			
Cost of sales .....	7,943	8,198	9,330
Selling, general and administrative expenses .....	9,132	9,103	9,924
Amortization of intangible assets .....	138	183	222
Impairment and restructuring charges .....	—	65	288
Total Costs and Expenses .....	<u>17,213</u>	<u>17,549</u>	<u>19,764</u>
<b>Operating Profit</b>			
New PepsiCo .....	3,225	2,765	2,460
Bottling operations and equity investments .....	—	53	124
Total Operating Profit .....	<u>3,225</u>	<u>2,818</u>	<u>2,584</u>
Bottling equity income, net .....	130	83	—
Gain on bottling transactions .....	—	1,000	—
Interest expense .....	(221)	(363)	(395)
Interest income .....	76	118	74
<b>Income Before Income Taxes</b> .....	<u>3,210</u>	<u>3,656</u>	<u>2,263</u>
<b>Provision for Income Taxes</b> .....	<u>1,027</u>	<u>1,606</u>	<u>270</u>
<b>Net Income</b> .....	<u>\$ 2,183</u>	<u>\$ 2,050</u>	<u>\$ 1,993</u>
<b>Net Income Per Share – Basic</b>			
Average shares outstanding - basic .....	1,446	1,466	1,480
<b>Net Income Per Share – Assuming Dilution</b> .....	\$ 1.48	\$ 1.37	\$ 1.31
Average shares outstanding - assuming dilution .....	1,475	1,496	1,519

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	2000	1999	1998
<b>Operating Activities</b>			
Net income .....	\$ 2,183	\$ 2,050	\$ 1,993
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on bottling transactions .....	—	(1,000)	—
Bottling equity income, net .....	(130)	(83)	—
Depreciation and amortization .....	960	1,032	1,234
Noncash portion of income tax benefit .....	—	—	(259)
Noncash portion of impairment and restructuring charges .....	—	37	254
Deferred income taxes .....	63	529	150
Other noncash charges and credits, net .....	317	364	237
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable .....	(15)	(149)	(104)
Inventories .....	(26)	(186)	29
Prepaid expenses and other current assets .....	—	(203)	(12)
Accounts payable and other current liabilities .....	245	310	(195)
Income taxes payable .....	314	326	(116)
Net change in operating working capital .....	518	98	(398)
<b>Net Cash Provided by Operating Activities</b> .....	<b>3,911</b>	<b>3,027</b>	<b>3,211</b>
<b>Investing Activities</b>			
Capital spending .....	(1,067)	(1,118)	(1,405)
Acquisitions and investments in unconsolidated affiliates .....	(98)	(430)	(4,537)
Sales of businesses .....	33	499	17
Sales of property, plant and equipment .....	53	126	134
Short-term investments, by original maturity			
More than three months-purchases .....	(4,536)	(2,025)	(525)
More than three months-maturities .....	4,171	2,008	584
Three months or less, net .....	(9)	12	839
Other, net .....	(260)	(144)	(126)
<b>Net Cash Used for Investing Activities</b> .....	<b>(1,713)</b>	<b>(1,072)</b>	<b>(5,019)</b>
<b>Financing Activities</b>			
Proceeds from issuances of long-term debt .....	130	3,480	990
Payments of long-term debt .....	(795)	(1,123)	(2,277)
Short-term borrowings, by original maturity			
More than three months-proceeds .....	156	3,691	2,713
More than three months-payments .....	(79)	(2,741)	(417)
Three months or less, net .....	(43)	(2,856)	1,753
Cash dividends paid .....	(796)	(778)	(757)
Share repurchases .....	(1,430)	(1,285)	(2,230)
Proceeds from exercises of stock options .....	559	308	415
<b>Net Cash (Used for) Provided by Financing Activities</b> .....	<b>(2,298)</b>	<b>(1,304)</b>	<b>190</b>
Effect of exchange rate changes on cash and cash equivalents .....	—	2	1
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b> .....	<b>(100)</b>	<b>653</b>	<b>(1,617)</b>
<b>Cash and Cash Equivalents – Beginning of Year</b> .....	<b>964</b>	<b>311</b>	<b>1,928</b>
<b>Cash and Cash Equivalents – End of Year</b> .....	<b>\$ 864</b>	<b>\$ 964</b>	<b>\$ 311</b>
<b>Supplemental Cash Flow Information</b>			
Interest paid .....	\$ 170	\$ 321	\$ 367
Income taxes paid .....	\$ 691	\$ 525	\$ 521
<b>Schedule of Noncash Investing and Financing Activities</b>			
Fair value of assets acquired .....	\$ 80	\$ 717	\$ 5,359
Cash paid and stock issued .....	(98)	(438)	(4,537)
Liabilities assumed .....	\$ (18)	\$ 279	\$ 822

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED BALANCE SHEET

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

	2000	1999
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents .....	\$ 864	\$ 964
Short-term investments, at cost .....	466	92
	<u>1,330</u>	<u>1,056</u>
Accounts and notes receivable, net .....	1,799	1,704
Inventories .....	905	899
Prepaid expenses and other current assets .....	570	514
<b>Total Current Assets</b> .....	<b>4,604</b>	<b>4,173</b>
<b>Property, Plant and Equipment, net</b> .....	<b>5,438</b>	<b>5,266</b>
<b>Intangible Assets, net</b> .....	<b>4,485</b>	<b>4,735</b>
<b>Investments in Unconsolidated Affiliates</b> .....	<b>2,978</b>	<b>2,846</b>
<b>Other Assets</b> .....	<b>834</b>	<b>531</b>
<b>Total Assets</b> .....	<b><u>\$18,339</u></b>	<b><u>\$17,551</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings .....	\$ 72	\$ 233
Accounts payable and other current liabilities .....	3,815	3,399
Income taxes payable .....	48	156
<b>Total Current Liabilities</b> .....	<b>3,935</b>	<b>3,788</b>
<b>Long-Term Debt</b> .....	<b>2,346</b>	<b>2,812</b>
<b>Other Liabilities</b> .....	<b>3,448</b>	<b>2,861</b>
<b>Deferred Income Taxes</b> .....	<b>1,361</b>	<b>1,209</b>
<b>Shareholders' Equity</b>		
Capital stock, par value 1 <sup>2</sup> / <sub>3</sub> ¢ per share: authorized 3,600 shares, issued 1,726 shares .....	29	29
Capital in excess of par value .....	955	1,081
Retained earnings .....	15,448	14,066
Accumulated other comprehensive loss .....	(1,263)	(989)
	<u>15,169</u>	<u>14,187</u>
Less: repurchased shares, at cost: 280 shares as of 2000 and 271 shares as of 1999 .....	(7,920)	(7,306)
<b>Total Shareholders' Equity</b> .....	<b>7,249</b>	<b>6,881</b>
<b>Total Liabilities and Shareholders' Equity</b> .....	<b><u>\$18,339</u></b>	<b><u>\$17,551</u></b>

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in millions)

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 30, 2000, December 25, 1999 and December 26, 1998

	Capital Stock				Net Outstanding Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Total Currency Translation Adjustment
	Issued Shares	Amount	Repurchased Shares	Amount						
Shareholders' Equity, December 27, 1997	1,726	\$ 29	(224)	\$ (4,986)	1,502	\$ 1,314	\$ 11,567	\$ (988)	\$ 6,936	\$ (988)
1998 Net income	-	-	-	-	-	-	1,993	-	1,993	-
Currency translation adjustment	-	-	-	-	-	-	-	(75)	(75)	(75)
CTA reclassification adjustment	-	-	-	-	-	-	-	24	24	24
Minimum pension liability adjustment, net of tax benefit of \$11	-	-	-	-	-	-	-	(20)	(20)	-
Comprehensive income	-	-	-	-	-	-	-	-	1,922	-
Cash dividends declared	-	-	-	-	-	-	(760)	-	(760)	-
Share repurchases	-	-	(59)	(2,230)	(59)	-	-	-	(2,230)	-
Stock option exercises, including tax benefit of \$109	-	-	28	675	28	(151)	-	-	524	-
Other	-	-	-	6	-	3	-	-	9	-
Shareholders' Equity, December 26, 1998	1,726	29	(255)	(6,535)	1,471	1,166	12,800	(1,059)	6,401	(1,039)
1999 Net income	-	-	-	-	-	-	2,050	-	2,050	-
Currency translation adjustment	-	-	-	-	-	-	-	(121)	(121)	(121)
CTA reclassification adjustment	-	-	-	-	-	-	-	175	175	175
Minimum pension liability adjustment, net of tax of \$9	-	-	-	-	-	-	-	17	17	-
Other comprehensive income	-	-	-	-	-	-	-	(1)	(1)	-
Comprehensive income	-	-	-	-	-	-	-	-	2,120	-
Cash dividends declared	-	-	-	-	-	-	(784)	-	(784)	-
Share repurchases	-	-	(36)	(1,285)	(36)	-	-	-	(1,285)	-
Stock option exercises, including tax benefit of \$82	-	-	20	514	20	(131)	-	-	383	-
Other	-	-	-	-	-	46	-	-	46	-
Shareholders' Equity, December 25, 1999	1,726	29	(271)	(7,306)	1,455	1,081	14,066	(989)	6,881	(985)
2000 Net income	-	-	-	-	-	-	2,183	-	2,183	-
Currency translation adjustment	-	-	-	-	-	-	-	(273)	(273)	(273)
Minimum pension liability adjustment, net of tax benefit of \$1	-	-	-	-	-	-	-	(2)	(2)	-
Other comprehensive income	-	-	-	-	-	-	-	1	1	-
Comprehensive income	-	-	-	-	-	-	-	-	1,909	-
Cash dividends declared	-	-	-	-	-	-	(801)	-	(801)	-
Share repurchases	-	-	(38)	(1,430)	(38)	-	-	-	(1,430)	-
Stock option exercises, including tax benefit of \$131	-	-	29	816	29	(126)	-	-	690	-
Shareholders' Equity, December 30, 2000	1,726	\$ 29	(280)	\$ (7,920)	1,446	\$ 955	\$ 15,448	\$ (1,263)	\$ 7,249	\$ (1,258)

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollars in millions except per share amounts; all per share amounts assume dilution)

## 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, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

### Items Affecting Comparability

Our fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. The fiscal year ended December 30, 2000 consisted of fifty-three weeks. The fifty-third week increased 2000 net sales by an estimated \$294 million, operating profit by an estimated \$62 million and net income by an estimated \$44 million or \$0.03 per share. See Note 17 - Business Segments for the impact on PepsiCo's business segments.

The consolidated financial statements subsequent to the date of the bottling transactions described in Note 2 are not comparable with the consolidated financial statements presented for prior periods as certain bottling operations that were previously consolidated are now accounted for under the equity method. In addition, the third quarter 1998 acquisition of Tropicana described in Note 3 and the asset impairment and restructuring charges described in Note 4 affect comparability. Certain reclassifications were made to the 1999 and 1998 amounts to conform to the 2000 presentation.

### Principles of Consolidation

The financial statements include the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany balances and transactions have been eliminated. Investments in unconsolidated affiliates, over which we exercise significant influence, but not control, are accounted for by the equity method. Accordingly, our share of the net income or loss of such unconsolidated affiliates is included in consolidated net income.

### Issuances of Subsidiary Stock

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

### Revenue Recognition

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

### Marketing Costs

Marketing costs are reported in selling, general and administrative expenses and include costs of advertising, promotional programs and other marketing activities. Advertising expenses were \$1.3 billion in 2000, \$1.3 billion in 1999 and \$1.0 billion in 1998. Deferred advertising expense, classified as prepaid expenses in the Consolidated Balance Sheet, was \$92 million in 2000 and \$73 million in 1999. Deferred advertising costs are expensed in the year first used and consist of:

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

We classify promotional payments as either a reduction of net

sales or as marketing costs. New PepsiCo total promotional expenses classified as marketing costs were \$2.4 billion in 2000, \$2.3 billion in 1999 and \$2.1 billion in 1998.

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

In January 2001, the EITF reached a consensus on Issue 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. Issue 00-22 will require that certain cash rebates to customers currently recognized as marketing costs be classified as a reduction of revenue. The consensus is effective for the first quarter of 2001. We are currently assessing this consensus and have not yet made a determination of the impact adoption will have on our consolidated financial statements.

### Distribution Costs

Distribution costs are reported in selling, general and administrative expenses and include the costs of shipping and handling activities. Shipping and handling expenses were \$2.5 billion in 2000, \$2.4 billion in 1999 and \$2.9 billion in 1998.

### Stock-Based Compensation

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

### Derivative Instruments

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

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

current or noncurrent receivable or payable caption. If a currency swap position were to be terminated prior to maturity, the gain or loss realized upon termination would be immediately recognized in selling, general and administrative expenses.

Gains and losses on futures contracts designated as hedges of future commodity purchases are deferred in the Consolidated Balance Sheet under the appropriate current asset or liability caption and included in the cost of the hedged commodity when purchased. Changes in the value of such contracts used to hedge commodity purchases are highly correlated to the changes in the value of the purchased commodity. Subsequent changes in the value of such contracts that cease to be highly correlated or changes in the value of futures contracts not designated as hedges are recognized in cost of sales immediately. If a futures contract designated as a hedge were to be terminated, the gain or loss realized upon termination would be included in the cost of the hedged commodity when purchased.

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

Equity derivative contracts for the purchase of PepsiCo capital stock are reflected in the Consolidated Balance Sheet at fair value as a pre-paid expense. Changes in fair value of these contracts are recognized as interest income.

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

### **Cash Equivalents**

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

### **Inventories**

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

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is calculated on a straight-line basis. Buildings and improvements are depreciated over their estimated useful lives, generally ranging from 20 to 40 years. Machinery and equipment (including fleet) are depreciated over their estimated useful lives, generally ranging from 2 to 10 years.

### **Intangible Assets**

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

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

All long-lived assets, including goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment

on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

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

### **Accounting Changes**

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133, as amended by SFAS 137 and SFAS 138, is effective for our fiscal year beginning December 31, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. Based on derivatives outstanding at December 30, 2000, the adoption would increase assets by approximately \$14 million and liabilities by approximately \$9 million with approximately \$5 million recognized in accumulated other comprehensive income and less than \$1 million recognized in the Consolidated Statement of Income.

### **Note 2 – Investments in Unconsolidated Affiliates**

During 1999, we completed four transactions creating four anchor bottlers which manufacture, sell and distribute carbonated and non-carbonated Pepsi-Cola beverages under master bottling agreements with us.

In April 1999, certain wholly-owned bottling businesses, referred to as The Pepsi Bottling Group (PBG), completed an initial public offering, with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. We received \$5.5 billion of debt proceeds as settlement of pre-existing intercompany amounts due to us and recognized a pre-tax gain of \$1.0 billion (\$476 million after-tax or \$0.32 per share) as a result of the transaction. In May, we combined certain other bottling operations with Whitman Corporation to create new Whitman, retaining a noncontrolling ownership interest of approximately 38%. The transaction resulted in an after-tax loss to PepsiCo of \$206 million or \$0.14 per share. In July, we combined certain other bottling operations with PepCom Industries, Inc. retaining a noncontrolling interest of 35%. This transaction was accounted for as a nonmonetary exchange for book purposes. However, a portion of the transaction was taxable and resulted in income tax expense of \$25 million or \$0.02 per share. In October, we formed a business venture with Pohlads Companies, a Pepsi-Cola franchisee, retaining a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary, PepsiAmericas, Inc. The transaction was structured as a fair value exchange with no resulting gain or loss.

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

## PBG

In addition to approximately 38% of PBG's outstanding common stock that we now own, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 42% of PBG's combined operations.

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

	2000	1999
Current assets	\$1,584	\$ 1,498
Noncurrent assets	6,152	6,126
<b>Total assets</b>	<b>\$7,736</b>	<b>\$ 7,624</b>

Current liabilities	\$ 967	\$ 952
Noncurrent liabilities	4,817	4,831
Minority interest	306	278
<b>Total liabilities</b>	<b>\$6,090</b>	<b>\$ 6,061</b>
<b>Our equity investment</b>	<b>\$ 934</b>	<b>\$ 829</b>

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

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

## PepsiAmericas (formerly Whitman)

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

	2000	1999
Current assets	\$ 477	\$ 538
Noncurrent assets	2,859	2,326
<b>Total assets</b>	<b>\$3,336</b>	<b>\$2,864</b>

Current liabilities	\$ 887	\$ 739
Noncurrent liabilities	999	983
<b>Total liabilities</b>	<b>\$1,886</b>	<b>\$1,722</b>
<b>Our equity investment</b>	<b>\$ 741</b>	<b>\$ 668</b>

	2000	1999
Net sales	\$2,528	\$2,138
Gross profit	\$1,033	\$ 890
Operating profit	\$ 223	\$ 182
Income from continuing operations	\$ 72	\$ 43
Net income (loss)	\$ 80	\$ (9)

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

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

## Other Equity Investments

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

	2000	1999
Current assets	\$1,033	\$1,210
Noncurrent assets	2,200	2,568
<b>Total assets</b>	<b>\$3,233</b>	<b>\$3,778</b>

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

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

## Related Party Transactions

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

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

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

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

As of December 30, 2000, the receivables from these bottling affiliates are \$187 million and payables to these affiliates are \$125 million. As of December 25, 1999, the receivables from these bottling affiliates were \$93 million and the payables to these affiliates were \$131 million. Such amounts are settled on terms consistent with other trade receivables and payables. See Note 16 regarding our guarantee of PBG related debt.

### Note 3 – Acquisitions

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

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

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

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

### Unaudited Tropicana Pro Forma Results

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

(unaudited)	1998
Net sales	\$23,674
Net income	\$ 1,939
Net income per share – assuming dilution	\$ 1.28

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

### Note 4 – Asset Impairment and Restructuring

	1999	1998
<b>Asset impairment charges</b>		
Held and used in the business		
Property, plant and equipment	\$ 8	\$ 149
Intangible assets	–	37
Other assets	–	14
Held for disposal/abandonment		
Property, plant and equipment	29	54
Total asset impairment	37	254
<b>Restructuring charges</b>		
Employee related costs	19	24
Other charges	9	10
Total restructuring	28	34
Total	\$ 65	\$ 288
After-tax	\$ 40	\$ 261
Per share	\$0.03	\$0.17

### Impairment by segment

Frito-Lay North America	\$ 37	\$ 54
Pepsi-Cola International	–	6
Combined segments	37	60
Bottling operations	–	194
	\$ 37	\$ 254

The 1999 asset impairment and restructuring charge of \$65 million related to the closure of three plants and impairment of equipment at Frito-Lay North America. The asset impairment charges primarily reflected the reduction in the carrying value of the land and buildings to their estimated fair market value based on current selling prices for comparable real estate, less costs to sell, and the write-off of the net book value of equipment which cannot be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of \$28 million primarily included severance costs for approximately 860 employees and plant closing costs. Substantially all of the terminations occurred during 1999.

The 1998 asset impairment and restructuring charges of \$288 million were comprised of the following:

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

paid for similar assets in that marketplace. Of the total charge of \$218 million, \$212 million related to bottling operations that became part of PBG in 1999 (see Note 2).

- An impairment charge of \$54 million related to manufacturing equipment at Frito-Lay North America. The charge primarily reflected the write-off of the net book value of the equipment and related projects. Disposal or abandonment of these assets was completed in 1999.
- A charge of \$16 million for employee related costs resulting from the separation of Pepsi-Cola North America's concentrate and bottling organizations (see Note 2). Of this amount, \$10 million related to bottling operations that became part of PBG in 1999.

The employee related costs for 1998 of \$24 million primarily included severance and relocation costs for approximately 2,700 mostly part-time employees. The terminations either occurred or related to the bottling operations that became part of PBG in 1999.

### Note 5 – Income Per Share

We present two income per share measures, basic and assuming dilution, on the face of the Consolidated Statement of Income. "Basic" income per share equals net income divided by weighted average common shares outstanding during the period. Income per share "assuming dilution" equals net income divided by the sum of weighted average common shares outstanding during the period plus common stock equivalents, such as stock options.

The following reconciles shares outstanding at the beginning of the year to average shares outstanding:

	2000	1999	1998
Shares outstanding at beginning of year	1,455	1,471	1,502
Weighted average shares issued during the year for exercise of stock options	16	11	18
Weighted average shares repurchased	(25)	(16)	(40)
Average shares outstanding - basic	1,446	1,466	1,480
Effect of dilutive securities			
Dilutive shares contingently issuable upon the exercise of stock options	146	132	144
Shares assumed purchased with proceeds from exercise of stock options	(117)	(102)	(105)
Average shares outstanding - assuming dilution	1,475	1,496	1,519

Net income per share - assuming dilution excludes incremental shares of 0.1 million in 2000, 48.9 million in 1999 and 31.1 million in 1998 related to employee stock options due to their antidilutive effect at each respective year end.

### Note 6 – Accounts and Notes Receivable, net

	2000	1999	1998
Trade receivables	\$1,293	\$1,234	
Receivables from affiliates	190	243	
Other receivables	420	312	
	1,903	1,789	
Allowance, beginning of year	85	127	\$125
Charged to expense	40	26	47
Other additions	7	9	8
Deductions	(28)	(77)	(53)
Allowance, end of year	104	85	\$127
Net receivables	\$1,799	\$1,704	

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

### Note 7 – Inventories

	2000	1999
Raw materials	\$433	\$464
Work-in-process	160	89
Finished goods	312	346
	\$905	\$899

The cost of approximately 9% of 2000 and 1999 inventories was computed using the last-in, first-out method.

### Note 8 – Property, Plant and Equipment, net

	2000	1999
Land	\$ 380	\$ 363
Buildings and improvements	2,336	2,352
Machinery and equipment, including fleet	6,139	5,554
Construction in progress	684	547
	9,539	8,816
Accumulated depreciation	(4,101)	(3,550)
	\$5,438	\$5,266

Depreciation expense was \$716 million in 2000, \$759 million in 1999 and \$968 million in 1998.

### Note 9 – Intangible Assets, net

	2000	1999
Goodwill	\$3,576	\$3,745
Trademarks	582	640
Reacquired franchise rights and other identifiable intangibles	327	350
	\$4,485	\$4,735

Identifiable intangible assets possess economic value but lack physical substance. These assets primarily arise from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable

intangibles are based on independent appraisals or internal estimates. Goodwill represents the excess purchase price after allocation to all identifiable net assets.

The above amounts are presented net of accumulated amortization of \$751 million at year-end 2000 and \$640 million at year-end 1999.

## Note 10 – Accounts Payable and Other Current Liabilities

	2000	1999
Accounts payable	\$1,000	\$ 924
Accrued selling, advertising and marketing	859	706
Accrued compensation and benefits	673	602
Insurance accruals	210	86
Dividends payable	202	197
Other current liabilities	871	884
	<b>\$3,815</b>	<b>\$3,399</b>

## Note 11 – Short-Term Borrowings and Long-Term Debt

	2000	1999
<b>Short-Term Borrowings</b>		
Current maturities of long-term debt	\$ 404	\$ 718
Other borrowings (7.2% and 6.9%)	418	415
Amount reclassified to long-term debt	(750)	(900)
	<b>\$ 72</b>	<b>\$ 233</b>

### Long-Term Debt

Short-term borrowings, reclassified	\$ 750	\$ 900
Notes due 2001-2013 (6.2% and 6.1%)	1,236	1,685
Various foreign currency debt, due 2001 (6.5% and 6.1%)	219	341
Zero coupon notes, \$735 million due 2011-2012 (13.4%)	339	324
Other, due 2001-2026 (7.8% and 7.3%)	206	280
	<b>2,750</b>	<b>3,530</b>
Less current maturities of long-term debt	(404)	(718)
	<b>\$2,346</b>	<b>\$ 2,812</b>

The weighted average interest rates in the above table include the effects of associated interest rate and currency swaps at year-end 2000 and 1999. Also, see Note 12 for a discussion of our use of interest rate and currency swaps, our management of the inherent credit risk and fair value information related to debt and interest rate and currency swaps.

### Interest Rate Swaps

The following table indicates the notional amount and weighted average interest rates of interest rate swaps outstanding at year-end 2000 and 1999. The weighted average variable interest rates that we pay, which are primarily linked to either commercial paper or LIBOR rates, are based on rates as of the respective balance sheet date and are subject to change.

	2000	1999
Receive fixed-pay variable		
Notional amount	\$1,242	\$1,162
Weighted average receive rate	4.8%	6.1%
Weighted average pay rate	5.2%	6.1%

The terms of the interest rate swaps match the terms of the debt they modify. The swaps terminate at various dates through 2013. At year-end 2000, approximately 72% of total debt, including the effects of the associated interest rate swaps, was exposed to variable interest rates, compared to 67% in 1999. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

### Currency Swaps

We enter into currency swaps to hedge our currency exposure on certain non-U.S. dollar denominated debt upon issuance of such debt. The terms of the currency swaps match the terms of the debt they modify. The currency swaps terminate at various dates in 2001.

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

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

### Revolving Credit Facilities

We maintain \$1.5 billion of revolving credit facilities. Of the \$1.5 billion, \$600 million expire in June 2001. The remaining \$900 million expire in June 2005. The credit facilities exist largely to support issuances of short-term debt. Annually, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions. These facilities are subject to normal banking terms and conditions.

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

Long-term debt outstanding at December 30, 2000 matures as follows during the next five years:

	2001	2002	2003	2004	2005
Maturities	\$404	\$232	\$417	\$64	\$62

## Note 12 – Financial Instruments

### Derivative Financial Instruments

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

Our use of derivative financial instruments primarily involves interest rate and currency swaps, which are intended to reduce borrowing costs by effectively modifying the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the

issuance of the debt they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. Further, there is no significant concentration with counterparties. See Note 11 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

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

In addition, at year-end 2000, we have equity derivative contracts with financial institutions in the notional amount of \$52 million. These prepaid forward contracts hedge a portion of our deferred compensation liability which is based on PepsiCo's stock price. The change in the fair value of these contracts resulted in \$19 million of income during 2000 and \$6 million of expense during 1999. These changes in fair value were substantially offset by opposite changes in the amount of the underlying deferred compensation liability.

## Fair Value

Carrying amounts and fair values of our financial instruments:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 864	\$ 864	\$ 964	\$ 964
Short-term investments	\$ 466	\$ 466	\$ 92	\$ 92
Equity derivative contracts	\$ 66	\$ 66	\$ 47	\$ 47
<b>Liabilities</b>				
Forward exchange contracts	\$ 9	\$ 9	\$ -	\$ -
<b>Debt</b>				
Short-term borrowings and long-term debt, excluding capital leases	\$2,415	\$2,556	\$3,042	\$3,121
Debt-related derivative instruments				
Interest rate swaps in asset position	-	(10)	-	-
Interest rate swaps in liability position	-	5	-	29
Combined currency and interest rate swaps in liability position	43	46	62	57
Net debt	\$2,458	\$2,597	\$3,104	\$3,207

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

Because of the short maturity of cash equivalents and short-term investments, the carrying amounts approximate fair values. The fair values of debt, debt-related derivative instruments and forward derivative instruments were estimated using market quotes and calculations based on market rates. We have unconditionally guaranteed \$2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of \$66 million at December 30, 2000 and \$64 million at December 25, 1999 based on market rates.

## Note 13 – Income Taxes

U.S. and foreign income before income taxes:

	2000	1999	1998
U.S.	\$ 2,126	\$2,771	\$1,629
Foreign	1,084	885	634
	\$ 3,210	\$3,656	\$2,263

Provision for income taxes:

	2000	1999	1998
Current:			
Federal	\$ 771	\$ 730	\$(193)
Foreign	157	306	267
State	36	40	46
	964	1,076	120
Deferred:			
Federal	60	519	136
Foreign	(10)	(12)	4
State	13	23	10
	63	530	150
	\$1,027	\$1,606	\$ 270

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

	2000	1999	1998
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of Federal tax benefit	1.0	1.1	1.6
Lower taxes on foreign results	(3.0)	(2.7)	(3.0)
Settlement of prior years' audit issues	-	-	(5.7)
Puerto Rico settlement	-	-	(21.8)
Bottling transactions	-	10.6	-
Asset impairment and restructuring	-	-	3.4
Other, net	(1.0)	(0.1)	2.4
Effective tax rate	32.0%	43.9%	11.9%

In 1998, we reached final agreement with the IRS to settle substantially all remaining aspects of a tax case related to our concentrate operations in Puerto Rico. As a result, we recognized a tax benefit

totaling \$494 million (or \$0.32 per share) which reduced our 1998 provision for income taxes.

Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. We record the tax effect of these temporary differences as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items that we have taken a tax deduction for, but have not yet recorded in the Consolidated Statement of Income.

Deferred tax liabilities (assets):

	2000	1999
Investments in unconsolidated affiliates	\$ 672	\$ 667
Property, plant and equipment	576	545
Safe harbor leases	94	101
Zero coupon notes	73	76
Intangible assets other than nondeductible goodwill	54	47
Other	404	328
Gross deferred tax liabilities	1,873	1,764
Net operating loss carryforwards	(443)	(450)
Postretirement benefits	(187)	(179)
Various current liabilities and other	(640)	(626)
Gross deferred tax assets	(1,270)	(1,255)
Deferred tax assets valuation allowances	464	461
Deferred tax assets, net of valuation allowances	(806)	(794)
Net deferred tax liabilities	\$ 1,067	\$ 970
Included in:		
Prepaid expenses and other current assets	\$ (294)	\$ (239)
Deferred income taxes	1,361	1,209
	\$ 1,067	\$ 970

Net operating loss carryforwards totaling \$2.9 billion at year-end 2000 are being carried forward and are available to reduce future taxable income of certain subsidiaries in a number of foreign and state jurisdictions. These net operating losses will expire as follows: \$.1 billion in 2001, \$2.5 billion between 2002 and 2016 and \$.3 billion may be carried forward indefinitely.

Valuation allowances have been established primarily for deferred tax assets related to net operating losses in certain state and foreign tax jurisdictions where the amount of expected future taxable income from operations does not support the recognition of these deferred tax assets.

Analysis of Valuation Allowances:

	2000	1999	1998
Balance, beginning of year	\$ 461	\$ 571	\$ 458
Provision	1	81	113
Other additions/deductions	2	(191)	-
Balance, end of year	\$ 464	\$ 461	\$ 571

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

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

## Note 14 – Employee Stock Options

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

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

### SharePower

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

### LTIP

Beginning in 1998, all executive (including middle management) awards are made under the LTIP. Under the LTIP, an executive generally receives an award based on a multiple of base salary. Two-thirds of the award consists of stock options with an exercise price equal to the average stock price on the date of the award. These options generally become exercisable at the end of three years and have a 10 year term. At the date of the award, the executive selects whether the remaining one-third of the award will be granted in stock options or paid in cash at the end of three years. The number of options granted or the cash payment, if any, will depend on the attainment of prescribed performance goals over the three year measurement period. If the executive chooses stock options, they are granted with an exercise price equal to the average stock price on the date of the grant, vest immediately and have a 10 year term. If the executive chooses a cash payment, one dollar of cash will be received for every four dollars of the award. Amounts expensed for expected cash payments were \$36.7 million in 2000, \$17.9 million in 1999 and \$7 million in 1998. At year-end 2000, 125 million shares were available for grants under the LTIP.

### Prior to 1998

Prior to 1998, Stock Option Incentive Plan (SOIP) options were granted to middle management employees and were exercisable after one year. LTIP options were granted to senior management employees and were generally exercisable after four years. Both SOIP and LTIP options have 10 year terms. Certain LTIP options could be exchanged by employees for a specified number of performance share units (PSUs) within 60 days of the grant date. The value of a PSU was fixed at the stock price at the grant date and the PSU was payable four years from the grant date, contingent upon attainment of prescribed performance goals. At year-end 2000, there were no PSUs outstanding. There were 68,000 and 84,000 PSUs outstanding in 1999 and 1998, respectively. Payment of PSUs was made in cash and/or in stock as approved by the Compensation Committee of our Board of Directors. Amounts expensed for PSUs were \$.3 million in 1999 and \$1 million in 1998.

Stock option activity:

(Options in thousands)	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	163,383	\$26.90	146,991	\$23.28	146,329	\$18.95
Granted	23,111	34.42	44,017	35.04	34,906	36.33
Exercised	(29,546)	18.90	(19,646)	15.68	(28,076)	15.31
Surrendered for PSUs	—	—	—	—	(24)	37.46
Forfeited/expired	(9,141)	34.48	(7,979)	33.34	(6,144)	28.83
Outstanding at end of year	147,807	29.13	163,383	26.90	146,991	23.28
Exercisable at end of year <sup>(a)</sup>	62,656	\$21.72	75,045	\$18.98	82,692	\$16.74
Weighted average fair value of options granted during the year		\$11.85		\$10.43		\$ 9.82

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

Stock options outstanding and exercisable at December 30, 2000:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 4.25 to \$13.88	5,940	1.57 yrs.	\$ 9.67	5,936	\$ 9.67
\$14.20 to \$32.25	72,282	5.26	24.43	48,380	20.93
\$32.40 to \$47.00	69,585	7.92	35.95	8,340	34.94
	147,807	6.32	29.13	62,656	21.72

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

	2000	1999	1998
<b>Reported</b>			
Net income	\$2,183	\$2,050	\$1,993
Income per share – basic	\$ 1.51	\$ 1.40	\$ 1.35
Income per share – assuming dilution	\$ 1.48	\$ 1.37	\$ 1.31
<b>Pro Forma</b>			
Net income	\$2,000	\$1,904	\$1,888
Income per share – basic	\$ 1.38	\$ 1.30	\$ 1.28
Income per share – assuming dilution	\$ 1.36	\$ 1.27	\$ 1.24

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

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

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

Note 15 – Pension and Postretirement Benefits

Pension Benefits

Our pension plans cover substantially all full-time U.S. employees and certain international employees. Benefits depend on years of service and earnings or are based on stated amounts for each year of service.

Postretirement Benefits

Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits.

Components of net periodic benefit cost:

	Pension		
	2000	1999	1998
Service cost	\$ 92	\$ 99	\$ 95
Interest cost	138	128	136
Expected return on plan assets	(151)	(156)	(169)
Amortization of transition asset	(2)	(2)	(9)
Amortization of prior service amendments	6	8	12
Amortization of net loss	6	15	5
Net periodic benefit cost	89	92	70
Curtailment/settlement loss	—	52	9
Special termination benefits	—	10	4
Net periodic benefit cost including curtailments/settlements and special termination benefits	\$ 89	\$ 154	\$ 83

Components of net periodic benefit cost:

	Postretirement		
	2000	1999	1998
Service cost	\$ 16	\$ 16	\$ 16
Interest cost	37	35	39
Amortization of prior service amendments	(12)	(14)	(18)
Amortization of net gain	(1)	(1)	(2)
Net periodic benefit cost	40	36	35
Special termination benefits	—	3	1
Net periodic benefit cost including special termination benefits	\$ 40	\$ 39	\$ 36

Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

Change in benefit obligation:

	Pension		Postretirement	
	2000	1999	2000	1999
Obligation at beginning of year	\$1,872	\$2,479	\$468	\$644
Service cost	92	99	16	16
Interest cost	138	128	37	35
Plan amendments	3	1	—	—
Participant contributions	5	6	—	—
Actuarial (gain)/loss	(28)	3	27	6
Acquisitions/(divestitures)	3	(717)	—	(205)
Benefit payments	(104)	(134)	(25)	(31)
Special termination benefits	—	10	—	3
Foreign currency adjustment	(28)	(3)	—	—
Obligation at end of year	\$1,953	\$1,872	\$523	\$468

Change in the fair value of plan assets:

	Pension		Postretirement	
	2000	1999	2000	1999
Fair value at beginning of year	\$1,615	\$2,045	\$ —	\$ —
Actual return on plan assets	285	343	—	—
Acquisitions/(divestitures)	14	(659)	—	—
Employer contributions	92	17	25	31
Participant contributions	5	6	—	—
Benefit payments	(104)	(134)	(25)	(31)
Foreign currency adjustment	(30)	(3)	—	—
Fair value at end of year	\$1,877	\$1,615	\$ —	\$ —

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

Selected information for plans with accumulated benefit obligation in excess of plan assets:

	Pension		Postretirement	
	2000	1999	2000	1999
Projected benefit obligation	\$ (208)	\$ (780)	\$ (523)	\$ (468)
Accumulated benefit obligation	\$ (101)	\$ (586)	\$ (523)	\$ (468)
Fair value of plan assets	\$ 9	\$ 500	\$ —	\$ —

Funded status as recognized in the Consolidated Balance Sheet:

	Pension		Postretirement	
	2000	1999	2000	1999
Funded status at end of year	\$ (76)	\$ (257)	\$ (523)	\$ (468)
Unrecognized prior service cost	30	34	(21)	(33)
Unrecognized (gain)/loss	(121)	61	50	14
Unrecognized transition asset	(1)	(3)	—	—
Net amounts recognized	\$ (168)	\$ (165)	\$ (494)	\$ (487)

Net amounts as recognized in the Consolidated Balance Sheet:

	Pension		Postretirement	
	2000	1999	2000	1999
Prepaid benefit cost	\$ 115	\$ 117	\$ —	\$ —
Intangible assets	1	—	—	—
Accrued benefit liability	(292)	(287)	(494)	(487)
Accumulated other comprehensive income	8	5	—	—
Net amounts recognized	\$ (168)	\$ (165)	\$ (494)	\$ (487)

Weighted-average assumptions at end of year:

	Pension		
	2000	1999	1998
Discount rate for benefit obligation	7.9%	7.7%	6.8%
Expected return on plan assets	10.3%	10.4%	10.2%
Rate of compensation increase	4.5%	4.6%	4.7%

The discount rate assumption used to compute the postretirement benefit obligation at year end was 8.0% in 2000 and 7.75% in 1999.

**Measurement Date**

We use a September 30 measurement date.

**Components of Pension Assets**

The pension plan assets are principally stocks and bonds. These assets include approximately 4.7 million shares of PepsiCo capital stock with a fair value of \$214 million in 2000 and 6.5 million shares with a fair value of \$198 million in 1999. To maintain diversification, 1.8 million shares of PepsiCo capital stock were sold in 2000 and .5 million shares were sold in 1999. In addition, in 1999, PBG pension plans assumed ownership of 3.1 million shares of PepsiCo capital stock with a fair value of \$95 million.

## Health Care Cost Trend Rates

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

An average increase of 5.5% in the cost of covered postretirement medical benefits is assumed for 2001 for employees who retire with cost sharing. This average increase is then projected to decline to zero in 2003 and thereafter.

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

	1% Increase	1% Decrease
Effect on total of 2000 service and interest cost components	\$ 2	\$ (2)
Effect on the 2000 accumulated postretirement benefit obligation	\$26	\$(24)

## Note 16 – Commitments, Contingencies and Leases

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Contingent liabilities primarily reflect guarantees to support financial arrangements of certain unconsolidated affiliates, including the unconditional guarantee for \$2.3 billion of Bottling Group, LLC's long-term debt. We believe that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

We have non-cancelable commitments under both capital and long-term operating leases, primarily for warehouses, distribution centers and office space. Capital and operating lease commitments expire at various dates through 2047 and may provide for renewal or purchase options. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance.

Future minimum commitments under non-cancelable leases:

	Capital	Operating
2001	\$ 1	\$ 101
2002	1	83
2003	–	66
2004	–	32
2005	–	24
Later years	2	99
Total minimum lease payments	4	\$ 405
Less imputed interest	(1)	
Present value of net minimum capital lease payments	\$ 3	

Capitalized leases, included as property, plant and equipment, were \$14 million in 2000 and \$13 million in 1999. The related accumulated amortization was \$7 million in 2000 and \$7 million in 1999. Amortization expense related to capitalized leases was \$1 million in 2000, \$1 million in 1999 and \$6 million in 1998.

Details of rental expense:

	2000	1999	1998
Minimum	\$117	\$91	\$141
Contingent	2	1	1
	\$119	\$92	\$142

## Note 17 – Business Segments

In 1998, we adopted Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of a Business Enterprise and Related Information*, which is based on management reporting. In early 1999, in contemplation of the separation from PepsiCo of our bottling operations, we completed a reorganization of our Pepsi-Cola business. Accordingly, our 1999 disclosure presents operating results consistent with the new Pepsi-Cola organization. 1998 amounts have been reclassified to conform to the 1999 and 2000 presentation. Therefore, the results in 1998 and through the applicable transaction closing dates in 1999 of consolidated bottling operations in which we now own an equity interest are presented separately with the 1998 and first quarter 1999 equity income or loss of other unconsolidated bottling affiliates. From the applicable transaction closing dates in 1999, the equity income of those previously consolidated bottling operations and the equity income or loss of other unconsolidated bottling affiliates from the second quarter of 1999, are presented separately below operating profit in the Condensed Consolidated Statement of Income. The combined results of our five reportable segments are referred to as New PepsiCo.

The North American segments include the United States and Canada. The Tropicana segment includes its international results. Pepsi-Cola North America results include the North American concentrate and fountain businesses. Pepsi-Cola International results include the international concentrate business and consolidated international bottling operations.

The accounting policies of the segments are the same as those described in Note 1. All intersegment net sales and expenses are immaterial and have been eliminated in computing net sales and operating profit.

### Frito-Lay North America

Frito-Lay North America manufactures, markets, sells and distributes salty and sweet snacks. Products manufactured and sold in North America include Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Cheetos brand cheese-flavored snacks, Fritos brand corn chips, a variety of branded dips and salsas and Rold Gold brand pretzels. Low-fat and no-fat versions of several brands are also manufactured and sold in North America.

### Frito-Lay International

Frito-Lay International manufactures, markets, sells and distributes salty and sweet snacks. Products include Walkers brand snack foods in the United Kingdom, Smith's brand snack foods in Australia, Sabritas brand snack foods and Alegro and Gamesa brand sweet snacks in Mexico. Many of our U.S. brands have been introduced internationally such as Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Fritos brand corn chips and Cheetos brand cheese-flavored snacks.

Principal international snack markets include Mexico, the United Kingdom, Brazil, Spain, the Netherlands, Australia and South Africa.

## Pepsi-Cola North America

Pepsi-Cola North America manufactures concentrates of brand Pepsi, Mountain Dew, Mug, Slice, Fruitworks, Sierra Mist and other brands for sale to franchised bottlers. PCNA also sells syrups to national fountain accounts. PCNA markets and promotes its brands. PCNA also manufactures, markets and distributes ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks and licenses the processing, distribution and sale of Aquafina bottled water. In addition, PCNA manufactures and sells Dole juice drinks for distribution and sale by Pepsi-Cola bottlers.

## Pepsi-Cola International

Pepsi-Cola International manufactures concentrates of brand Pepsi, 7UP, Mirinda, KAS, Mountain Dew and other brands internationally for sale to franchised bottlers and company-owned bottlers. PCI operates bottling plants and distribution facilities in various international markets for the production, distribution and sale of company-owned and licensed brands. PCI markets and promotes its brands internationally.

Principal international markets include Mexico, China, Saudi Arabia, India, Argentina, Thailand, the United Kingdom, Spain, the Philippines and Brazil.

## Tropicana

Tropicana produces, markets, sells and distributes its juices in the United States and internationally. Products primarily sold in the United States include Tropicana Pure Premium, Season's Best, Tropicana Twister and Dole brand juices. Many of these products are distributed and sold in Canada and brands such as Fruvita, Looza and Copella are also available in Europe.

Principal international markets include Canada, the United Kingdom and France.

## Fiscal Year

Comparisons of 2000 to 1999 and 1998 are affected by an additional week of results in the 2000 reporting period. The estimated impact of the fifty-third week on 2000 segment results is as follows:

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

## Impairment and Restructuring Charges By Segment

	1999	1998
Frito-Lay North America	\$65	\$ 54
Pepsi-Cola		
– North America	–	6
– International	–	6
Combined segments	65	66
Bottling operations/investments	–	222
	<u>\$65</u>	<u>\$288</u>

See Note 4 for details on the above asset impairment and restructuring charges.

## BUSINESS SEGMENTS

	2000	1999	1998
<b>Net Sales</b>			
Frito-Lay			
– North America	\$ 8,562	\$ 7,865	\$ 7,474
– International	4,319	3,750	3,501
Pepsi-Cola			
– North America	3,289	2,605	1,389
– International	1,842	1,771	1,600
Tropicana	2,426	2,253	722
New PepsiCo	20,438	18,244	14,686
Bottling operations/investments	–	2,123	7,662
	<u>\$20,438</u>	<u>\$20,367</u>	<u>\$22,348</u>

## Operating Profit (a)

Frito-Lay			
– North America	\$ 1,851	\$ 1,580	\$ 1,424
– International	493	406	367
Pepsi-Cola			
– North America	833	751	732
– International	148	108	99
Tropicana	225	170	40
Combined segments	3,550	3,015	2,662
Corporate (b)	(325)	(250)	(202)
New PepsiCo	3,225	2,765	2,460
Bottling operations/investments	–	53	124
	<u>\$ 3,225</u>	<u>\$ 2,818</u>	<u>\$ 2,584</u>

## Total Assets

Frito-Lay			
– North America	\$ 4,119	\$ 4,013	\$ 3,915
– International	4,085	4,170	4,039
Pepsi-Cola			
– North America	836	729	547
– International	1,432	1,454	1,177
Tropicana	3,743	3,708	3,661
Combined segments	14,215	14,074	13,339
Corporate (c)	1,592	1,008	215
Bottling operations/investments	2,532	2,469	9,106
	<u>\$18,339</u>	<u>\$17,551</u>	<u>\$22,660</u>

	2000	1999	1998
<b>Amortization of Intangible Assets</b>			
Frito-Lay			
– North America	\$ 7	\$ 8	\$ 7
– International	46	46	43
Pepsi-Cola			
– North America	2	2	3
– International	14	13	8
Tropicana	69	70	22
Combined segments	138	139	83
Bottling operations/investments	–	44	139
	\$ 138	\$ 183	\$ 222

#### Depreciation and Other Amortization Expense

Frito-Lay			
– North America	\$ 366	\$ 338	\$ 326
– International	172	149	142
Pepsi-Cola			
– North America	94	72	30
– International	91	85	64
Tropicana	83	81	27
Combined segments	806	725	589
Corporate	16	10	8
Bottling operations/investments	–	114	415
	\$ 822	\$ 849	\$ 1,012

#### Significant Other Noncash Items (d)

Frito-Lay North America		\$ 37	\$ 54
Pepsi-Cola International		–	6
Combined segments		37	60
Bottling operations/investments		–	194
		\$ 37	\$ 254

#### Capital Spending

Frito-Lay			
– North America	\$ 502	\$ 472	\$ 402
– International	264	282	314
Pepsi-Cola			
– North America	59	22	21
– International	72	82	46
Tropicana	134	123	50
Combined segments	1,031	981	833
Corporate	36	42	29
Bottling operations/investments	–	95	543
	\$1,067	\$1,118	\$ 1,405

	2000	1999	1998
<b>Investments in Unconsolidated Affiliates</b>			
Frito-Lay International	\$ 373	\$ 284	\$ 341
Pepsi-Cola North America	32	50	33
Tropicana	19	21	22
Combined segments	424	355	396
Corporate	22	22	22
Bottling operations/investments	2,532	2,469	978
	\$ 2,978	\$ 2,846	\$ 1,396

#### Equity Income/(Loss) from Unconsolidated Affiliates

Frito-Lay International	\$ 26	\$ 3	\$ (5)
Pepsi-Cola North America	33	31	21
Tropicana	2	2	1
Combined segments	61	36	17
Bottling operations/investments	130	76	8
	\$ 191	\$ 112	\$ 25

#### GEOGRAPHIC AREAS

##### Net Sales

United States	\$13,179	\$11,772	\$ 8,782
International	7,259	6,472	5,904
Combined segments	20,438	18,244	14,686
Bottling operations/investments	–	2,123	7,662
	\$20,438	\$20,367	\$22,348

##### Long-Lived Assets (e)

United States	\$ 8,179	\$ 7,980	\$ 6,732
International	4,722	4,867	4,276
Combined segments	12,901	12,847	11,008
Bottling operations/investments	–	–	6,702
	\$12,901	\$12,847	\$17,710

(a) Includes asset impairment and restructuring charges.

(b) Includes unallocated corporate headquarters expenses and costs of centrally managed insurance programs, minority interests and foreign exchange translation and transaction gains and losses.

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

(d) Represents the noncash portion of asset impairment and restructuring charges. See Note 4.

(e) Represents net property, plant and equipment, net intangible assets and investments in unconsolidated affiliates.

## Note 18 – Selected Quarterly Financial Data

(unaudited)

	First Quarter (a) (12 Weeks)		Second Quarter (a) (12 Weeks)		Third Quarter (a) (12 Weeks)		Fourth Quarter (f) (17 Weeks)(16 Weeks)		Full Year (a)(f) (53 Weeks)(52 Weeks)	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Net sales	\$ 4,191	5,114	4,928	4,982	4,909	4,591	6,410	5,680	20,438	20,367
Gross profit	\$ 2,514	2,974	3,037	2,970	3,044	2,798	3,900	3,427	12,495	12,169
Asset impairment and restructuring charges (b)	\$ –	65	–	–	–	–	–	–	–	65
Gain on bottling transactions (c)	\$ –	–	–	1,000	–	–	–	–	–	1,000
Net income (d)	\$ 422	333	563	743	587	484	611	490	2,183	2,050
Net income per share - basic	\$ 0.29	0.23	0.39	0.50	0.41	0.33	0.42	0.34	1.51	1.40
Net income per share - assuming dilution	\$ 0.29	0.22	0.38	0.49	0.40	0.32	0.41	0.33	1.48	1.37
Cash dividends declared per share	\$ 0.135	0.13	0.14	0.135	0.14	0.135	0.14	0.135	0.555	0.535
Stock price per share (e)										
High	\$ 38 <sup>5</sup> / <sub>8</sub>	42 <sup>9</sup> / <sub>16</sub>	42 <sup>1</sup> / <sub>2</sub>	41 <sup>7</sup> / <sub>16</sub>	47 <sup>1</sup> / <sub>16</sub>	41 <sup>1</sup> / <sub>2</sub>	49 <sup>15</sup> / <sub>16</sub>	37 <sup>3</sup> / <sub>4</sub>	49 <sup>15</sup> / <sub>16</sub>	42 <sup>9</sup> / <sub>16</sub>
Low	\$ 29 <sup>11</sup> / <sub>16</sub>	36 <sup>3</sup> / <sub>16</sub>	31 <sup>9</sup> / <sub>16</sub>	34 <sup>1</sup> / <sub>16</sub>	39 <sup>11</sup> / <sub>16</sub>	33 <sup>3</sup> / <sub>8</sub>	41 <sup>5</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>	29 <sup>11</sup> / <sub>16</sub>	30 <sup>1</sup> / <sub>8</sub>
Close	\$ 33	39 <sup>15</sup> / <sub>16</sub>	41 <sup>1</sup> / <sub>4</sub>	35 <sup>3</sup> / <sub>8</sub>	42 <sup>5</sup> / <sub>16</sub>	34 <sup>5</sup> / <sub>8</sub>	49 <sup>9</sup> / <sub>16</sub>	35 <sup>7</sup> / <sub>16</sub>	49 <sup>9</sup> / <sub>16</sub>	35 <sup>7</sup> / <sub>16</sub>

(a) 1999 includes the operating results of deconsolidated bottling operations through their respective closing dates (see Note 2).

(b) First quarter 1999 includes an asset impairment and restructuring charge of \$65 million (\$40 million after-tax or \$0.03 per share) (see Note 4).

(c) Second quarter 1999 gain on bottling transactions of \$1.0 billion (\$270 million after-tax or \$0.18 per share) relates to the PBG and Whitman bottling transactions (see Note 2).

(d) Includes, in 1999, in addition to \$270 million associated with the bottling transactions described in (c) above, a tax provision of \$25 million (or \$0.02 per share) in the third quarter related to the PepCom transaction.

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

(f) Fiscal year 2000 consisted of fifty-three weeks and 1999 consisted of fifty-two weeks. The favorable impact for the fourth quarter and full year to net sales was an estimated \$294 million, to operating profit was an estimated \$62 million, and to net income was an estimated \$44 million or \$0.03 per share.

## Note 19 – Subsequent Event and Proposed Merger Subsequent Acquisition of South Beach Beverage Company, Inc.

On January 5, 2001, we completed the acquisition of South Beach Beverage Company, LLC for approximately \$337 million in cash, retaining a 91% interest in the newly formed South Beach Beverage Company, Inc. (SoBe). SoBe manufactures and markets an innovative line of alternative non-carbonated beverages including fruit blends, energy drinks, dairy-based drinks, exotic teas and other beverages with herbal ingredients, which are distributed under license by a network of independent distributors, primarily in the United States.

### Proposed Merger with The Quaker Oats Company

On December 4, 2000, we announced a merger agreement with The Quaker Oats Company (Quaker). Under the terms of this agreement, Quaker shareholders will receive 2.3 shares of PepsiCo capital stock subject to a maximum value of \$105 for each Quaker share. In the event that the value exceeds \$105, the exchange ratio is subject to adjustment. Further, if the value of PepsiCo shares received by Quaker

shareholders for each Quaker share is below \$92, Quaker may terminate the merger agreement. Based on the closing price of our stock of \$42.375 per share on December 1, 2000, the proposed tax-free transaction is valued at \$97.4625 per Quaker share. In conjunction with the merger agreement, we entered into a stock option agreement with Quaker which granted us an option, under certain circumstances, to purchase up to approximately 19.9% of the outstanding shares of Quaker common stock. The proposed merger is subject to certain closing conditions, including shareholder approval at both companies, and certain regulatory approvals. The merger is expected to close in the first half of 2001 and is expected to be accounted for as a "pooling-of-interests."

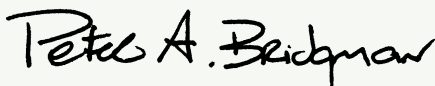
## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To Our Shareholders:

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

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

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 30, 2000 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.



Peter A. Bridgman  
Senior Vice President and Controller



Indra K. Nooyi  
Senior Vice President and Chief Financial Officer

## 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 30, 2000 and December 25, 1999 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 30, 2000. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 30, 2000 and December 25, 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.



KPMG LLP  
New York, New York  
February 2, 2001

## SELECTED FINANCIAL DATA

(in millions except per share, unaudited)

PepsiCo, Inc. and Subsidiaries

	2000 <sup>(a)</sup>	1999 <sup>(b)(c)</sup>	1998 <sup>(c)(d)</sup>	1997 <sup>(c)</sup>	1996 <sup>(c)</sup>
Net sales	\$ 20,438	20,367	22,348	20,917	20,337
Income from continuing operations	\$ 2,183	2,050	1,993	1,491	942
Income per share - continuing operations – basic	\$ 1.51	1.40	1.35	0.98	0.60
Income per share - continuing operations – assuming dilution	\$ 1.48	1.37	1.31	0.95	0.59
Cash dividends declared per share	\$ 0.555	0.535	0.515	0.49	0.445
Total assets <sup>(e)</sup>	\$ 18,339	17,551	22,660	20,101	22,160
Long-term debt	\$ 2,346	2,812	4,028	4,946	8,174

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

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

(a) The 2000 fiscal year consisted of fifty-three weeks versus fifty-two weeks in our normal fiscal year. The fifty-third week increased 2000 net sales by an estimated \$294 million and net income by an estimated \$44 million or \$0.03 per share.

(b) Includes a net gain on bottling transactions in 1999 of \$1.0 billion (\$270 million after-tax or \$0.18 per share) and a tax provision related to the PepCom transaction of \$25 million (\$0.02 per share).

(c) Includes asset impairment and restructuring charges of \$65 million (\$40 million after-tax or \$0.03 per share) in 1999, \$288 million (\$261 million after-tax or \$0.17 per share) in 1998, \$290 million (\$239 million after-tax or \$0.15 per share) in 1997 and \$576 million (\$527 million after-tax or \$0.33 per share) in 1996 (see Note 4).

(d) Includes a tax benefit of \$494 million (or \$0.32 per share) (see Note 13).

(e) Includes net assets of discontinued operations of \$4,450 million in 1996.

## Capital Stock Information

### 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 2000, there were approximately 204,000 shareholders of record.

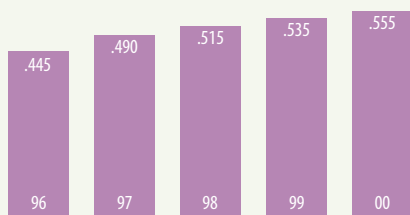
### Dividend Policy

Quarterly cash dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for these payments are December 8, 2000, March 9, June 8 and September 7, 2001.

Quarterly cash dividends have been paid since PepsiCo was formed in 1965.

### Cash Dividends Declared

Per Share (In \$)



## Stock Performance

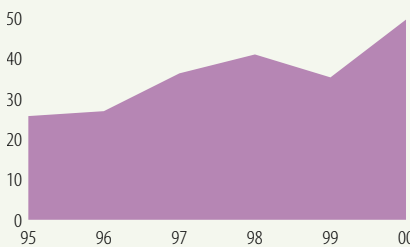
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A \$1,000 investment in our stock made on December 31, 1995 was worth approximately \$2,073 on December 31, 2000, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 16%.

The closing price for a share of PepsiCo Capital Stock on the New York Stock Exchange was the price as reported by Bloomberg for the years ending 1995-2000 restated for the spin-off of the restaurant business.

Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

### Year-end Market Price of Stock

(In \$) Based on calendar year-end



## Shareholder Information

### Annual Meeting

The Annual Meeting of Shareholders will be held at Frito-Lay Corporate Headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 2, 2001 at 10:00 a.m. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

### Inquiries Regarding Your Stock Holdings

**Registered Shareholders** (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

The Bank of New York  
Shareholder Services Dept.  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258 Telephone: (800) 226-0083  
E-mail: [shareowner-svcs@bankofny.com](mailto:shareowner-svcs@bankofny.com)  
Web site: <http://stock.bankofny.com>

or

Manager Shareholder Relations  
PepsiCo, Inc.  
Purchase, NY 10577 Telephone: (914) 253-3055

In all correspondence or telephone inquiries, please mention PepsiCo, your name as printed on your stock certificate, your Social Security number, your address and telephone number.

**Beneficial Shareholders** (shares held by your broker in the name of the brokerage house) should direct communications on all administrative matters to your stockbroker.

**SharePower Participants** (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower  
Group Employee Services  
400 Atrium Drive  
Somerset, NJ 08873  
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)  
(732) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

### Employee Benefit Plan Participants:

PepsiCo Stock Purchase Program  
Merrill Lynch Inc.  
P.O. Box 30430  
New Brunswick, NJ 08989  
Attention: PepsiCo Stock Purchase Program  
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)  
(732) 469-8877 (all other locations)

PepsiCo 401(k) Plan  
Fidelity Investments®  
P.O. Box 9029  
Boston, MA 02205  
Telephone: (800) 883-4015  
(877) 833-9900 (outside U.S.)

Please have a copy of your most recent statement available when calling with inquiries.

## Shareholder Services

### Dividend Reinvestment Plan

A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

The Bank of New York  
Dividend Reinvestment Dept.  
P.O. Box 1958  
Newark, NJ 07101-9774 Telephone: (800) 226-0083

### Direct Deposit of Dividends

Information on the Direct Deposit service is available from our transfer agent at this address:

The Bank of New York  
Shareholder Services Dept.  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258 Telephone: (800) 226-0083

### Financial and Other Information

PepsiCo's 2001 quarterly earnings releases are expected to be issued the week of April 23, July 16, October 8, 2001 and January 28, 2002.

Earnings and other financial results, corporate news and other company information are available on PepsiCo's web site: <http://www.pepsico.com>.

Copies of PepsiCo's SEC Form 8-K, 10-K and 10-Q reports and quarterly earnings releases are available free of charge. Contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

Securities analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding PepsiCo's performance are invited to contact:

Kathleen Luke  
Vice President, Investor Relations  
PepsiCo, Inc.  
Purchase, NY 10577 Telephone: (914) 253-3691

### Independent Auditors

KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102 Telephone: (212) 758-9700

### Corporate Offices

PepsiCo, Inc.  
700 Anderson Hill Road  
Purchase, NY 10577 Telephone: (914) 253-2000

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