August 17, 2001

To the Stockholders of The Quaker Oats Company:

As a result of the merger between PepsiCo and Quaker Oats on August 2, 2001, you have become entitled to exchange each share of Quaker Oats common stock that you own for 2.3 shares of PepsiCo common stock.

PepsiCo and Quaker Oats have received opinions of counsel that the merger between PepsiCo and Quaker Oats is a tax-free reorganization under the Internal Revenue Code. As a result, you will not recognize gain or loss for U.S. federal income tax purposes on your exchange of the Quaker Oats common stock you own for PepsiCo common stock pursuant to the merger. To the extent that you receive cash instead of a fractional share of PepsiCo common stock, you will recognize gain or loss measured by the difference between the amount of cash received instead of the fractional share and the portion of your tax basis in your Quaker Oats common stock that is allocable to the fractional share. Your federal income tax basis of the PepsiCo shares that you receive will be the same as your tax basis in the Quaker Oats shares that you surrender in the merger, reduced by the basis allocable to any fractional share of PepsiCo common stock for which cash is received. In addition, your holding period in the shares of PepsiCo common stock you receive will include your holding period for the shares of Quaker common stock you surrender in the merger, provided you held those shares as a capital asset at the time of the merger. You should consult your own tax adviser regarding the application of the rules summarized in this paragraph in your particular circumstances.

An example will help show how these tax rules work. Suppose you own 15 shares of Quaker Oats common stock that you bought for $90 per share. You thus would have a total tax basis in your Quaker Oats common stock of $1,350 ($90 multiplied by 15). In the merger, you would be entitled to exchange your 15 shares for 34.5 shares of PepsiCo common stock (34.5 is equal to 15 multiplied by 2.3). Your basis in each share of PepsiCo common stock would be approximately $39.13 ($39.13 is equal to $1,350 divided by 34.5). PepsiCo will pay cash in lieu of fractional shares. Therefore, instead of actually receiving 0.5 shares of PepsiCo common stock, you would receive the cash equivalent thereof. For tax purposes, you would be treated as having sold the 0.5 shares in exchange for the amount of cash received. Gain or loss on that sale would be equal to the difference between your basis in the 0.5 shares ($39.13 multiplied by 0.5, which equals approximately $19.57) and the amount of cash received.

U.S. tax regulations require each stockholder to attach to the stockholder’s 2001 U.S. federal income tax return a signed statement setting forth certain information about the transaction between PepsiCo and Quaker Oats. For this purpose, we are enclosing a statement that you may complete and use when filing your 2001 U.S. federal income tax return.