

FORM 10-Q**UNITED STATES SECURITIES AND EXCHANGE COMMISSION****WASHINGTON, D.C. 20549**

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934For the quarterly period ended March 24, 2001 (12 weeks)

OR

 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-1183

□

PEPSICO, INC.

(Exact name of registrant as specified in its charter)

North Carolina

13-1584302

(State or other jurisdiction of
Employer incorporate or organization)-----
(I.R.S.
Identification No.)

700 Anderson Hill Road, Purchase, New York

10577

(Address of principal executive offices)-----
(Zip Code)

914-253-2000

(Registrant's telephone number, including area code)

N/A

(Former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Number of shares of Capital Stock outstanding as of April 20, 2001:

1,463,935,770**PEPSICO, INC. AND SUBSIDIARIES****INDEX**

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PART I - FINANCIAL INFORMATION

PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts, unaudited)

	12 Weeks Ended	
	3/24/01	3/18/00
Net Sales.....	\$4,539	\$4,191
Costs and Expenses		
Cost of sales.....	1,791	1,677
Selling, general and administrative expenses.....	1,972	1,827
Amortization of intangible assets.....	35	32
Operating Profit.....	741	655
Bottling equity income, net.....	5	5
Interest expense.....	(43)	(47)
Interest income.....	19	7
Income Before Income Taxes.....	722	620
Provision for Income Taxes.....	224	198
Net Income.....	\$ 498	\$ 422
Net Income Per Share - Basic.....	\$ 0.34	\$ 0.29
Average Shares Outstanding - Basic.....	1,448	1,450
Net Income Per Share - Assuming Dilution.....	\$ 0.34	\$ 0.29
Average Shares Outstanding - Assuming Dilution.....	1,481	1,472
Cash Dividends Declared Per Share.....	\$ 0.14	\$0.135

See accompanying notes

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, unaudited)

	12 Weeks Ended	
	3/24/01	3/18/00
Cash Flows - Operating Activities		
Net income.....	\$ 498	\$ 422
Adjustments to reconcile net income to net cash provided by operating activities		
Bottling equity income, net.....	(5)	(5)
Depreciation and amortization.....	208	202
Deferred income taxes.....	(12)	2
Other noncash charges and credits, net	32	63
Net change in operating working capital.....	(648)	(477)
Net Cash Provided by Operating Activities.....	73	207
Cash flows - Investing Activities		
Capital spending.....	(171)	(142)
Acquisitions and investments in unconsolidated affiliates...	(407)	(8)
Short-term investments, by original maturity		
More than three months - purchases.....	(292)	(173)
More than three months - maturities.....	207	169
Three months or less, net.....	(8)	-
Other, net.....	22	49
Net Cash Used for Investing Activities.....	(649)	(105)
Cash flows - Financing Activities		
Proceeds from issuances of long-term debt.....	11	100
Payments of long-term debt.....	(129)	(240)
Short-term borrowings, by original maturity		
More than three months - proceeds.....	31	19
More than three months - payments.....	(23)	(18)
Three months or less, net.....	345	271
Cash dividends paid.....	(202)	(197)
Share repurchases.....	-	(666)
Proceeds from exercises of stock options.....	89	91
Net Cash Provided by (Used for) Financing Activities.....	122	(640)
Effect of Exchange Rate Changes on Cash and Cash Equivalents..	(7)	(2)
Net Decrease in Cash and Cash Equivalents.....	(461)	(540)
Cash and Cash Equivalents - Beginning of year.....	864	964
Cash and Cash Equivalents - End of period.....	\$ 403	\$ 424

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

ASSETS

	(Unaudited) 3/24/01	12/30/00
Current Assets		
Cash and cash equivalents.....	\$ 403	\$ 864
Short-term investments, at cost.....	560	466
	963	1,330
Accounts and notes receivable, less allowance: 3/01- \$97, 12/00 - \$104.....	1,888	1,799

Inventories		
Raw materials.....	448	433
Work-in-process.....	224	160
Finished goods.....	331	312
	-----	-----
	1,003	905
Prepaid expenses and other current assets.....	706	570
	-----	-----
Total Current Assets.....	4,560	4,604
Property, Plant and Equipment.....	9,624	9,539
Accumulated Depreciation.....	(4,200)	(4,101)
	-----	-----
	5,424	5,438
Intangible Assets, net		
Goodwill.....	3,955	3,576
Trademarks.....	561	582
Reacquired franchise rights and other identifiable intangibles.....	311	327
	-----	-----
	4,827	4,485
Investments in Unconsolidated Affiliates.....	2,964	2,978
Other Assets.....	885	834
	-----	-----
Total Assets.....	\$18,660	\$18,339
	=====	=====

Continued on next page.

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(in millions except per share amount)

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Unaudited)	
	3/24/01	12/30/00
	-----	-----
Current Liabilities		
Short-term borrowings.....	\$ 126	\$ 72
Accounts payable and other current liabilities.....	3,450	3,815
Income taxes payable.....	131	48
	-----	-----
Total Current Liabilities.....	3,707	3,935
Long-term Debt.....	2,492	2,346
Other Liabilities.....	3,559	3,448
Deferred Income Taxes.....	1,345	1,361
Shareholders' Equity		
Capital stock, par value 1 2/3 cents per share:		
authorized 3,600 shares, issued 3/01 and 12/00 - 1,726 shares.	29	29
Capital in excess of par value.....	958	955
Retained earnings.....	15,743	15,448
Accumulated other comprehensive loss.....	(1,361)	(1,263)
	-----	-----
	15,369	15,169
Less: Repurchased shares, at cost:		
3/01 - 276 shares, 12/00 - 280 shares.....	(7,812)	(7,920)
	-----	-----
Total Shareholders' Equity.....	7,557	7,249
	-----	-----

Total Liabilities and Shareholders' Equity.....	\$18,660	\$18,339
	=====	=====

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions, unaudited)

	12 Weeks Ended	
	3/24/01	3/18/00
Net Income.....	\$498	\$422
Other Comprehensive Income/(Loss)		
Currency translation adjustment, net of related taxes.....	(99)	(62)
Cash flow hedges, net of related taxes:		
Cumulative effect of accounting change.....	5	-
Net derivative losses.....	(1)	-
Reclassification to net income.....	(5)	-
Other.....	2	4
	-----	-----
	(98)	(58)
	-----	-----
Comprehensive Income.....	\$400	\$364
	=====	=====

See accompanying notes.

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PEPSICO, INC. AND SUBSIDIARIES

(unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(1) General

Our Condensed Consolidated Balance Sheet at March 24, 2001 and the Condensed Consolidated Statements of Income, Comprehensive Income and Cash Flows for the 12 weeks ended March 24, 2001 and March 18, 2000 have not been audited and, except for the adoption of Statement of Financial Accounting Standards (SFAS) 133 as described in Note 5, have been prepared on a basis that is substantially consistent with the accounting principles applied in our 2000 Annual Report on Form 10-K for the year ended December 30, 2000. In our opinion, this information includes all normal and recurring adjustments necessary for a fair presentation. The results for the 12 weeks are not necessarily indicative of the results expected for the year.

(2) Income Per Share

Reconciliation of shares outstanding at the beginning of the year to average shares outstanding:

	12 Weeks Ended	
	3/24/01	3/18/00
Shares outstanding at beginning of period.....	1,446	1,455
Weighted average number of shares issued during the period for		
exercise of stock options.....	2	3
Weighted average shares repurchased.....	-	(8)
	-----	-----
Average shares outstanding - Basic.....	1,448	1,450
Effect of dilutive securities		
Dilutive shares issuable upon the exercise of stock options.....	174	131
Shares assumed to have been repurchased with assumed		

proceeds from the exercise of stock options.....	(141)	(109)
	-----	-----
Average shares outstanding - Assuming Dilution.....	1,481	1,472
	=====	=====
Net Income.....	\$ 498	\$ 422
	=====	=====
Net Income Per Share - Basic.....	\$0.34	\$0.29
	=====	=====
Net Income Per Share - Assuming Dilution.....	\$0.34	\$0.29
	=====	=====

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(3) Business Segments

	Net Sales		Operating Profit	
	12 Weeks Ended		12 Weeks Ended	
	3/24/01	3/18/00	3/24/01	3/18/00
	-----	-----	-----	-----
Frito-Lay				
- North America	\$1,946	\$1,843	\$417	\$379
- International	980	918	133	99
	-----	-----	-----	-----
	2,926	2,761	550	478
Pepsi-Cola				
- North America	771	639	182	158
- International	275	259	25	21
	-----	-----	-----	-----
	1,046	898	207	179
Tropicana	567	532	60	60
	-----	-----	-----	-----
Combined segments	\$4,539	\$4,191	817	717
	=====	=====	-----	-----
Corporate unallocated			(76)	(62)
			-----	-----
			\$741	\$655
			=====	=====

	Total Assets	
	3/24/01	12/30/00
	-----	-----
Frito-Lay		
- North America	\$ 4,090	\$ 4,119
- International	4,037	4,085
Pepsi-Cola		
- North America	1,283	836
- International	1,476	1,432
Tropicana	3,789	3,743
	-----	-----
Combined segments	14,675	14,215
Corporate	1,430	1,592
Bottling investments	2,555	2,532
	-----	-----
Total Assets	\$18,660	\$18,339
	=====	=====

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(4) Supplemental Cash Flow Information

	12 Weeks Ended	
	3/24/01	3/18/00
	-----	-----

	-----	-----
Interest paid.....	\$ 31	\$ 40
Income taxes paid.....	\$ 103	\$118
Supplemental Schedule of Noncash Investing and Financing Activities		
Fair value of assets acquired.....	\$ 524	\$ 9
Cash paid.....	(407)	(8)
	-----	-----
Liabilities assumed.....	\$ 117	\$ 1
	=====	=====

(5) Derivative Instruments and Hedging Activities

On December 31, 2000, we adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS 137 and SFAS 138. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either current or non-current assets or liabilities in the Condensed Consolidated Balance Sheet and measure those instruments at fair value. The adoption of SFAS 133 on December 31, 2000 increased assets by approximately \$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 Condensed Consolidated Statement of Income. Accumulated other comprehensive loss included a net accumulated derivative loss of \$1 million as of March 24, 2001.

In the normal course of business, we manage risks associated with commodity prices, foreign exchange rates, interest rates and equity prices through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. Our hedging transactions include, but are not limited to, the use of various derivative financial and commodity instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. We do not use derivative instruments for trading or speculative purposes.

Accounting Policies

Using qualifying criteria defined in SFAS 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an

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adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. The ineffective portion of fair value changes on qualifying hedges is recognized in earnings immediately. If a fair value or cash flow hedge were to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings.

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

Commodity Prices

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivative instruments. Derivative instruments, including futures, options and swaps, are used to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily vegetable oil, corn, packaging materials, natural gas, fuel and juice concentrates. Our use of derivative instruments is not significant to our commodity purchases. Derivative instruments designated as hedges of anticipated commodity purchases are accounted for as either cash flow or natural hedges. The earnings impact from commodity hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items.

We expect to reclassify into earnings, during the next twelve months, currently deferred net after-tax losses from accumulated other comprehensive income of approximately \$2 million at the time the underlying hedged transactions are realized. Substantially all cash flow hedges at March 24, 2001 are for periods less than two years. Cash flow hedges for longer periods are not material. Ineffectiveness resulting from cash flow hedging activities was not material to our results of operations. No cash flow hedges were discontinued during the quarter ended March 24, 2001 as a result of anticipated transactions that are no longer probable of occurring.

Foreign Exchange

International operations constitute about one-fifth of our annual business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar and Euro, which principally impacts the translation of our international operating profit into U.S. dollars.

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On occasion, we may enter into derivative financial instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally. Forward exchange contracts used to hedge the foreign currency exposure resulting from assets and liabilities denominated in currencies other than the functional currency and anticipated intercompany purchases are accounted for as either natural or cash flow hedges, as applicable. The earnings impact from these hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items. The fair value of such contracts designated as cash flow hedges was not material at March 24, 2001.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. Further, there is no significant concentration with counterparties.

Interest rate and currency swaps are designated as hedges of underlying fixed rate obligations and accounted for as fair value hedges. The earnings impact from these hedges is classified as interest expense. The ineffective portion of debt fair value hedges was not material to our results of operations during the quarter.

Equity Prices

Equity derivative contracts with financial institutions are used to hedge a portion of our deferred compensation liability which is based on PepsiCo's stock price. These prepaid forward contracts indexed to PepsiCo's stock price are accounted for as natural hedges. The earnings impact from these hedges is classified as selling, general and administrative expenses consistent with the expense classification of the underlying hedged item.

(6) New Accounting Standards

During 2000, the Financial Accounting Standards Board's 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

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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. In April 2001, the EITF announced that it would delay the effective date for this consensus to 2002.

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 volume-based 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 and was not material to our consolidated financial statements.

In April 2001, the EITF reached a consensus on Issue 00-25, *Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services*. EITF 00-25 addresses the income statement classification of consideration, other than that directly addressed in Issue 00-14, from a vendor to a reseller, or another party that purchases the vendor's products. Among its requirements, the consensus will require certain of our customer promotional incentives and bottler payments currently classified as marketing costs to be classified as a reduction of revenue. We are currently assessing the impact of adopting Issue 00-25 but expect that the majority of our promotional expenses will be required to be classified as a reduction of revenue. Annual promotional expenses classified as marketing costs were \$2.4 billion in 2000. The consensus is effective for 2002.

(7) The Proposed Merger with The Quaker Oats Company

In April 2001, we issued 13.2 million shares of our repurchased capital stock to qualify for "pooling-of-interests" accounting treatment in connection with our proposed merger with The Quaker Oats Company. We received approximately \$520 million in net proceeds.

On May 1, 2001, our shareholders voted to approve:

- o the merger agreement of December 4, 2000 between PepsiCo and The Quaker Company;
- o the merger;

- o an amendment to our restated articles of incorporation to provide for convertible preferred stock to be issued in the merger and to redesignate existing PepsiCo capital stock as PepsiCo common stock; and
- o the issuance of PepsiCo common stock and PepsiCo convertible preferred stock in the merger.

On May 1, 2001, the shareholders of The Quaker Oats Company approved the merger agreement and the merger with PepsiCo.

To date, anti-trust authorities in Canada, Mexico and Europe have approved the merger of a wholly-owned subsidiary of PepsiCo and The Quaker Oats Company. This transaction is subject to additional conditions, including clearance by the U.S. Federal Trade Commission. We anticipate the merger, which will be accounted for as a pooling-of-interests, would be completed by the end of June.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES AND EURO

Tabular dollars are presented in millions. All per share amounts assume dilution, are computed using average shares outstanding and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Cautionary Statements

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

Analysis of Consolidated Operations

Net Sales, Operating Profit and Operating Profit Margin

	12 Weeks Ended		Change B/ (W)
	3/24/01	3/18/00	
Net sales	\$4,539	\$4,191	8%
Total operating profit	\$ 741	\$ 655	13%
Total operating profit margin	16.3%	15.6%	0.7

Net sales increased 8% due to volume gains across all divisions, higher effective net pricing at Frito-Lay and Pepsi-Cola and the acquisition of South Beach Beverage Company, LLC (SoBe), partially offset by an unfavorable foreign currency impact. The SoBe acquisition enhanced net sales growth by 1 percentage point and the unfavorable foreign currency impact reduced net sales growth by 2 percentage points.

Operating profit margin increased 0.7 percentage points primarily reflecting the margin impact of the higher effective net pricing and increased volume. These increases were partially offset by the unfavorable margin impact of increased advertising and marketing expenses at Pepsi-Cola International and Frito-Lay International, selling and distribution expenses at Frito-Lay International, general and administrative expenses and cost of sales.

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Interest Expense, net

	12 Weeks Ended		% Change B/ (W)
	3/24/01	3/18/00	
Interest Expense	\$ (43)	\$ (47)	8
Interest Income	19	7	NM
Interest Expense, net	\$ (24)	\$ (40)	39

NM - not meaningful

Interest expense, net of interest income, declined 39%. Interest expense declined 8% primarily reflecting significantly lower average debt levels offset by higher average interest rates. Interest income increased primarily due to higher average investment balances and the unfavorable impact from equity

derivative contracts in the prior year. In connection with the 2001 adoption of the new accounting standard on derivative instruments, the gains or losses from these contracts are now classified in selling, general and administrative expenses versus interest income previously.

Provision for Income Taxes

	12 Weeks Ended	
	3/24/01	3/18/00
Provision for Income Taxes	\$224	\$198
Effective tax rate	31.0%	32.0%

The effective tax rate decreased 1 percentage point primarily due to lower taxes on foreign results.

Net Income and Net Income Per Share

	12 Weeks Ended		% Change B/ (W)
	3/24/01	3/18/00	
Net Income	\$ 498	\$ 422	18
Net Income Per Share - assuming dilution	\$0.34	\$0.29	17

Net income increased 18% and the related net income per share increased 17%. These increases primarily reflect increased total operating profit, lower net interest expense and a lower effective tax rate.

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Segments of the Business

In the discussions below, the year-over-year dollar change:

- o in concentrate shipments and equivalents to franchisees, including bottling operations in which we own an equity interest, for Pepsi-Cola,
- o in bottler case sales by company-owned bottling operations for Pepsi-Cola International,
- o in pound or kilo sales of salty and sweet snacks for Frito-Lay and
- o in 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*.

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.

Frito-Lay North America

	12 Weeks Ended		% Change B/ (W)
	3/24/01	3/18/00	
Net sales	\$1,946	\$1,843	6
Operating profit	\$ 417	\$ 379	10

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

Pound volume increased 2% led by solid single digit growth in Doritos brand tortilla chips and Lay's brand potato chips. These gains were partially offset by a decline in Ruffles brand potato chips.

Operating profit increased 10% primarily reflecting the higher effective net pricing partially offset by higher energy costs. Advertising and marketing

expenses grew at a slower rate than sales and a slightly higher rate than volume. The net margin impact of these factors contributed to the operating profit margin improvement.

Frito-Lay International

	12 Weeks Ended		%
	3/24/01	3/18/00	Change B/ (W)
Net sales	\$980	\$918	7
Operating profit	\$133	\$ 99	35

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Net sales increased 7%, primarily driven by higher effective net pricing at Sabritas in Mexico and higher volume at Walkers in the U.K. and Gamesa in Mexico. The net impact of weaker foreign currencies in most countries decreased net sales growth by 6 percentage points.

Salty snack kilos increased 9%, led by double-digit growth at our European joint venture and Brazil and single-digit growth at Walkers. Sweet snack kilos increased 8% led by strong growth at Gamesa.

Operating profit increased 35%, led by a strong performance at Sabritas and increased equity income from our European joint venture. The net impact of weaker foreign currencies, primarily in Mexico and the U.K., decreased operating profit growth by 5 percentage points.

Pepsi-Cola

Pepsi-Cola North America results include the North American concentrate and fountain businesses. Pepsi-Cola International results include the international concentrate business and other consolidated international bottling operations for January and February only.

System bottler case sales (BCS) represents PepsiCo-owned brands as well as brands that we have been granted the right to produce, distribute and market nationally and are based on system bottlers' sales. First quarter BCS includes the months of January, February and March. Concentrate shipments and equivalents for PCNA include the same brands as included in BCS but are based on PCNA's sales of concentrate and finished products to the system bottlers.

Pepsi-Cola North America

	12 Weeks Ended		%
	3/24/01	3/18/00	Change B/ (W)
Net sales	\$771	\$639	21
Operating profit	\$182	\$158	15

Net sales increased 21% primarily due to increased volume and higher concentrate pricing. Our new products, Dole and Sierra Mist and the acquisition of SoBe, accounted for a majority of this growth. These gains were partially offset by increased customer support. SoBe and Dole are sold to our bottling system as finished products and have a significantly higher price per unit, accelerating the net sales growth. The SoBe acquisition contributed 6 percentage points to sales growth.

Concentrate shipments and equivalents increased 6% versus a year ago, driven primarily by the inclusion of Sierra Mist, strong double-digit growth for Aquafina, mid single-digit growth in Diet Pepsi, the launch of Dole and the acquisition of SoBe. These gains were partially offset by a double-digit decline in Slice and a low single-digit decline in brand Pepsi. The SoBe acquisition contributed 1 percentage point to concentrate shipments and equivalent growth. BCS volume increased 4%.

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Operating profit increased 15% primarily due to the increased volume, the higher concentrate pricing and the absence of a prior year charge related to a customer bankruptcy. These gains were partially offset by higher advertising and marketing expenses, the increased customer support and higher general and administrative expenses. Excluding SoBe, advertising and marketing expenses and general and administrative expenses grew at a faster rate than sales. The SoBe acquisition did not impact operating profit growth.

Pepsi-Cola International

	12 Weeks Ended		% Change B/ (W)
	3/24/01	3/18/00	
Net sales	\$275	\$259	6
Operating profit	\$ 25	\$ 21	20

Net sales increased 6% primarily due to volume gains, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced the net sales growth by 4 percentage points.

BCS increased 6%. This increase reflects broad-based increases led by double-digit growth in China, Russia and Brazil. These advances were partially offset by a high single-digit decline in Mexico. Through February, total concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 12%.

Operating profit increased 20% primarily reflecting the volume gains, partly offset by higher advertising and marketing to support the higher volume and higher general and administrative expenses.

Tropicana

	12 Weeks Ended		% Change B/ (W)
	3/24/01	3/18/00	
Net sales	\$567	\$532	7
Operating profit	\$ 60	\$ 60	-

Net sales increased 7% due to volume gains, partially offset by an unfavorable foreign currency impact. The unfavorable foreign currency impact, primarily in Europe and Canada, reduced net sales growth by 1 percentage point.

Equivalent case volume grew 7% driven by continued double-digit growth in Pure Premium nutritionals and blends, as well as growth of Twister.

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Operating profit was flat compared to prior year as the volume gains were largely offset by increased energy costs, lower production leverage, lower effective net pricing and an unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced operating profit growth by 2 percentage points.

Cash Flows

Our 2001 cash and cash equivalents decreased \$461 million to \$403 million. This decrease reflects cash used for acquisitions, including the acquisition of SoBe, dividend payments and capital spending partially funded by short-term borrowings.

Liquidity and Capital Resources

As of year-end 2000, we maintained \$1.5 billion of revolving credit facilities. Of the \$1.5 billion, \$600 million expires in June of 2001 with the balance expiring in June of 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.

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

In April 2001, we issued 13.2 million shares of our repurchased capital stock to qualify for "pooling-of-interests" accounting treatment in connection with our proposed merger with The Quaker Oats Company. We received approximately \$520 million in net proceeds.

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 will have on pricing and the resulting impact, if any, on financial condition or results of operations.

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Independent Accountants' Review Report

The Board of Directors
PepsiCo, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of March 24, 2001 and the related condensed consolidated statements of income, comprehensive income and cash flows for the twelve weeks ended March 24, 2001 and March 18, 2000. These condensed consolidated financial statements are the responsibility of PepsiCo, Inc.'s management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 30, 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended not presented herein; and in our report dated February 2, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 30, 2000, is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

New York, New York
April 23, 2001

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PART II - OTHER INFORMATION AND SIGNATURES

Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits

See Index to Exhibits on page 23.

(b) Reports on Form 8-K

1. On January 8, 2001, we filed a Current Report on Form 8-K attaching our press release dated January 8, 2001 announcing two strategic transactions designed to expand the company's snack food business in Egypt and Saudi Arabia.
2. On February 5, 2001, we filed a Current Report on Form 8-K attaching (i) our press release dated February 5, 2001 announcing our earnings results for the fourth quarter of 2000 and (ii) prepared statements by management of PepsiCo, Inc.
3. On February 8, 2001, we filed a Current Report on Form 8-K attaching a joint press release from PepsiCo and Quaker, dated February 8, 2001 announcing that the Federal Trade Commission has requested additional information in connection with its antitrust review of PepsiCo's proposed merger with Quaker.
4. On March 27, 2001, we filed a Current Report on Form 8-K attaching a joint press release from PepsiCo and Quaker, dated March 27, 2001 announcing that the planned merger of PepsiCo and Quaker received European Commission clearance.
5. On April 10, 2001, we filed a Current Report on Form 8-K attaching a press release dated April 9, 2001 announcing our agreement to sell 13.2 million shares of our capital stock in an offering underwritten by Merrill Lynch & Co.
6. On April 16, 2001, we filed a Current Report on Form 8-K attaching a press

release dated April 16, 2001 announcing our earnings expectation for the first quarter of 2001.

7. On April 23, 2001, we filed a Current Report on Form 8-K attaching a press release dated April 23, 2001 announcing our earnings for the first quarter of 2001.

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

PepsiCo, Inc.
(Registrant)

Date: May 2, 2001

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

Date: May 2, 2001

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

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INDEX TO EXHIBITS
ITEM 6 (a)

EXHIBITS

- | | |
|------------|--|
| Exhibit 12 | Computation of Ratio of Earnings to Fixed Charges |
| Exhibit 15 | Letter re: Unaudited Interim Financial Information |

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