

YUM BRANDS INC

FORM 10-12B/A
(Amended Registration Statement)

Filed 7/28/1997

| | |
|-------------|--|
| Address | 1441 GARDINER LANE LOUISVILLE, Kentucky 40213 |
| Telephone | 502-874-8300 |
| CIK | 0001041061 |
| Industry | Restaurants |
| Sector | Services |
| Fiscal Year | 12/31 |

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1

FORM 10/A

**GENERAL FORM FOR
REGISTRATION OF SECURITIES**

Pursuant to Section 12(b) or (g) of
the Securities Exchange Act of 1934

TRICON GLOBAL RESTAURANTS, INC.

Incorporated in North Carolina



(---)-----
(Address of Principal Executive Offices)

13-3951308
(I.R.S. Employer Identification No.)

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

Title of Each Class
to be so Registered

Name of Each Exchange on Which
Each Class is to be Registered

Common Stock,
(without par value)

New York Stock Exchange

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

EXPLANATORY NOTE

This amended Form 10 Registration Statement has been prepared on a prospective basis on the assumption that, among other things, the Distribution (as hereinafter defined) and the related transactions contemplated to occur prior to or contemporaneously with the Distribution will be consummated as contemplated by the Information Statement which is a part of this amended Registration Statement. There can be no assurance, however, that any or all of such transactions will occur or will occur as so contemplated. Any significant modifications or variations in the transactions contemplated will be reflected in a further amendment or supplement to this amended Registration Statement.

CROSS REFERENCE

TRICON GLOBAL RESTAURANTS, INC.

INFORMATION INCLUDED IN INFORMATION STATEMENT AND INCORPORATED IN FORM 10 BY REFERENCE

CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT AND ITEMS OF FORM 10

Item 1. Business.

The information required by this item is contained under the sections entitled "Introduction," "Business of TRICON," "Selected Combined Financial Data," "Management's Discussion and Analysis," "Combined Financial Statements" and "Condensed Combined Financial Statements" in the Information Statement dated _____, 1997 attached hereto as Annex A (the "Information Statement") and such sections are incorporated herein by reference.

Item 2. Financial Information.

The information required by this item is contained under the sections entitled "Selected Combined Financial Data" and "Management's Discussion and Analysis" in the Information Statement and such sections are incorporated herein by reference.

Item 3. Properties.

The information required by this item is contained under the section entitled "Business of TRICON - Other" in the Information Statement and such section is incorporated herein by reference.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is contained under the sections entitled "Management of TRICON - Board Compensation and Benefits," "Management of TRICON - Stock Ownership of Executive Officers and Directors," and "New Stock-Based and Incentive Plans of TRICON" in the Information Statement and such sections are incorporated herein by reference.

Item 5. Directors and Executive Officers.

The information required by this item is contained under the sections entitled "Management of TRICON - Directors" and "Management of TRICON - Executive Officers" in the Information Statement and such sections are incorporated herein by reference.

Item 6. Executive Compensation.

The information required by this item is contained under the sections entitled "Management of TRICON - Board Compensation and Benefits," "Executive Compensation" and "New Stock-Based and Incentive Plans of TRICON" in the Information Statement and such sections are incorporated herein by reference.

Item 7. Certain Relationships and Related Transactions.

The information required by this item is contained under the sections entitled "The Distribution - Results of the Distribution," and "The Distribution - Relationship between PepsiCo and TRICON after the Distribution" in the Information Statement and such sections are incorporated herein by reference.

Item 8. Legal Proceedings.

The information required by this item is contained under the section entitled "Business of TRICON - Other" in the Information Statement and such section is incorporated herein by reference.

Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.

The information required by this item is contained under the sections entitled "Management of TRICON - Stock Ownership of Executive Officers and Directors," and "Description of TRICON Capital Stock" in the Information Statement and such sections are incorporated herein by reference.

Item 10. Recent Sales of Unregistered Securities.

On May 30, 1997, as part of its original incorporation, TRICON issued 100 shares of its Common Stock, for a total consideration of \$5.00, to PepsiCo, which is and will be TRICON's sole shareholder until the Distribution has been completed as of the Distribution Date as defined and described in the section "The Distribution" of the Information Statement, which section is incorporated herein by reference. Subsequent to the Distribution, PepsiCo will hold no equity interest in TRICON. However, immediately after the Distribution Date, TRICON shares will be owned by PepsiCo's pension trust on behalf of PepsiCo's employees.

Item 11. Description of Registrant's Securities to be Registered.

The information required by this item is contained under the section entitled "Description of TRICON Capital Stock" in the Information Statement and such section is incorporated herein by reference. Reference is also made to the Restated Articles of Incorporation and Bylaws of TRICON Global Restaurants, Inc. which are set forth as Exhibits 3.01 and 3.02 hereto.

Item 12. Indemnification of Directors and Officers.

The information required by this item is contained under the section entitled "Indemnification of Directors" in the Information Statement and such section is incorporated herein by reference.

Item 13. Financial Statements and other Supplementary Data.

The information required by this item is contained under the sections entitled "Combined Financial Statements", "Condensed Combined Financial Statements" and Pro Forma Condensed Combined Financial Statements" on pages F-1 through F-32 of the Information Statement and such sections are incorporated herein by reference.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 15. Financial Statements and Exhibits.

(a) Financial Statements.

The information required by this item is contained in the "Index to Financial Statements" on Page F-1 of the Information Statement and such information is incorporated herein by reference.

(b) Exhibits.

The following documents are filed as exhibits hereto:

Exhibit

No. Description Page No.

| | | |
|---------|---|--|
| 2.01** | Separation Agreement | |
| 3.01** | Restated Articles of Incorporation | |
| 3.02** | Bylaws | |
| 10.01** | Tax Separation Agreement | |
| 10.02** | Employee Programs Agreement | |
| 10.03** | Telecommunications, Software and Computing Services Agreement..... | |
| 10.04* | TRICON Long-Term Incentive Plan..... | |
| 10.05* | TRICON Executive Incentive Compensation Plan..... | |
| 10.06* | Employment Agreement between TRICON Global Restaurants, Inc. and Andrall E. Pearson..... | |
| 10.07* | Agreement between KFC and Pepsi - Cola Company..... | |
| 10.08* | Agreement between Pizza Hut and Pepsi - Cola Company..... | |
| 10.09* | Agreement between Taco Bell and Pepsi - Cola Company..... | |
| 10.10* | Sales and Distribution Agreement between PFS, Pizza Hut, Taco Bell and KFC..... | |
| 21.01* | Active Subsidiaries..... | |
| 27.01 | Financial Data Schedule For Year-End 1996..... | |
| 27.02 | Financial Data Schedule For First Quarter 1997..... | |

* To be filed by amendment. ** Filed with this amendment.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

TRICON GLOBAL RESTAURANTS, INC.

July 28, 1997

By LAWRENCE F. DICKIE

Lawrence F. Dickie
Vice President and Secretary

ANNEX A

SUBJECT TO COMPLETION DATED JULY 28, 1997

INFORMATION STATEMENT

TRICON GLOBAL RESTAURANTS, INC.
Common Stock
(without par value)

This Information Statement is being furnished by PepsiCo, Inc. ("PepsiCo") in connection with the distribution (the "Distribution") to holders of record of PepsiCo Capital Stock at the close of business on _____, 1997 of one share of common stock, without par value (the "Common Stock"), of TRICON Global Restaurants, Inc. ("TRICON" or the "Company"), for every ___ shares of PepsiCo Capital Stock held of record as of that date. Fractional shares, other than those held by participants in certain PepsiCo plans, will be aggregated into whole shares of TRICON Common Stock and sold on the open market by the Distribution Agent (as hereinafter defined), with the proceeds thereof distributed to holders who would otherwise be entitled to receive such fractional shares. See "The Distribution - Manner of Effecting the Distribution."

The Company is a wholly-owned subsidiary of PepsiCo. As a result of transactions entered into in connection with the Distribution, as of 11:59:59 E.D.T. on _____, 1997 (the "Distribution Date"), TRICON will own substantially all of the businesses and assets of, and will be responsible for substantially all of the liabilities associated with, PepsiCo's core restaurant businesses.

The Distribution will be effective on the Distribution Date. No consideration will be paid by PepsiCo's shareholders for shares of TRICON Common Stock. There is no current public market for the TRICON Common Stock, although it is expected that a "when-issued" trading market will develop prior to the Record Date (as hereinafter defined). Application is expected to be made to list the TRICON Common Stock on the New York Stock Exchange (the "NYSE").

NO VOTE OF SHAREHOLDERS IS REQUIRED IN CONNECTION WITH THIS DISTRIBUTION. NO PROXIES ARE BEING SOLICITED, AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS INFORMATION STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS INFORMATION STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES.

The date of this Information Statement is _____, 1997.

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INFORMATION STATEMENT

This Information Statement is being furnished solely to provide information to shareholders of PepsiCo who will receive shares of TRICON Common Stock in the Distribution. It is not, and is not to be construed as, an inducement or encouragement to buy or sell any securities of PepsiCo or TRICON. The information contained in this Information Statement is believed to be accurate as of the date set forth on its cover. Changes may occur after that date, and neither PepsiCo nor TRICON will update the information except in the normal course of their respective public disclosures.

SUMMARY

This summary is qualified by the more detailed information set forth elsewhere in this Information Statement, which should be read in its entirety. Unless the context otherwise requires, (i) references in this Information Statement to PepsiCo shall include PepsiCo's subsidiaries, (ii) references to TRICON or the Company shall include TRICON's subsidiaries, and (iii) references to TRICON or the Company prior to the Distribution Date shall refer to the core restaurant businesses, KFC, Pizza Hut and Taco Bell, as operated by PepsiCo.

THE DISTRIBUTION

| | |
|-------------------------------------|---|
| Distributing Company..... | PepsiCo, Inc. |
| TRICON Global Restaurants, Inc..... | TRICON Global Restaurants, Inc., a North Carolina corporation, is the world's largest quick service restaurant business in terms of the number of units, with more than 29,000 KFC, Pizza Hut and Taco Bell system units generating over \$20 billion in annual worldwide system sales. |
| Distribution Ratio..... | One share of TRICON Common Stock for every ___ shares of PepsiCo Capital Stock. Fractional shares, other than those held by participants in certain PepsiCo plans, will be aggregated into whole shares of TRICON Common Stock and sold on the open market by the Distribution Agent, with the proceeds thereof distributed to holders who would otherwise be entitled to receive such fractional shares. See "The Distribution - Manner of Effecting the Distribution." No payment need be made by PepsiCo shareholders for the shares of TRICON Common Stock to be received by them, nor will they be required to surrender or exchange |

PepsiCo Capital Stock in order to receive TRICON Common Stock.

Shares to be Distributed.....

Approximately ___ million shares of TRICON Common Stock, based on the number of shares of PepsiCo Capital Stock outstanding as of _____, 1997. PepsiCo will retain no ownership in TRICON. However, immediately after the Distribution Date, TRICON shares will be owned by PepsiCo's pension trust on behalf of PepsiCo's employees.

Conditions to the Distribution.....

The Distribution is subject to a number of conditions, including (i) a favorable ruling of the Internal Revenue Service concerning the tax-free nature of the Distribution, (ii) appropriate stock market conditions for the Distribution, (iii) various regulatory approvals, and (iv) approval by PepsiCo's Board of Directors of the final terms of the Distribution, including, without limitation, the formal declaration of a dividend to PepsiCo's shareholders and other specific actions necessary to the Distribution. The PepsiCo Board of Directors may amend, modify or abandon the Distribution at any time prior to the Distribution Date.

Trading Market and Symbol.....

There is currently no public market for the TRICON Common Stock. Application is expected to be made to list the TRICON Common Stock on the NYSE under the symbol "YUM". It is presently anticipated that the TRICON Common Stock will be approved for listing on the NYSE prior to the Distribution Date, and trading is expected to commence on a "when-issued" basis prior to the Record Date.

Record Date.....

_____, 1997.

Distribution Agent.....

BankBoston, N.A.

Distribution Date.....

_____, 1997. PepsiCo will transfer shares of TRICON to the Distribution Agent for the benefit of the record holders of PepsiCo Capital Stock at the close of business on the Record Date. TRICON

will participate in the Direct Registration System to effect the Distribution, and shares of TRICON Common Stock will be distributed to PepsiCo shareholders in book-entry form. Commencing on or about the Distribution Date, the Distribution Agent will begin mailing account statements reflecting ownership of shares of TRICON Common Stock to such holders of record of PepsiCo Capital Stock. See "The Distribution-Manner of Effecting the Distribution."

Tax Consequences.....

PepsiCo has applied for a ruling from the Internal Revenue Service to the effect that the Distribution will be tax free to PepsiCo and its shareholders for U.S. Federal income tax purposes. Receipt of such a ruling is a condition to the Distribution. See "The Distribution - Certain U.S. Federal Income Tax Consequences of the Distribution" for a more detailed description of the Federal income tax consequences of the Distribution.

Reasons for the Distribution.....

PepsiCo's management and Board of Directors have concluded that the Distribution is in the best interests of PepsiCo and its shareholders. They believe that the Distribution will (i) help to alleviate competitive barriers to expanding PepsiCo's fountain beverage business, (ii) allow PepsiCo to focus its attention on its packaged goods businesses, Pepsi-Cola and Frito-Lay, by creating a separate company focused on PepsiCo's core restaurant businesses, and (iii) permit PepsiCo and TRICON to offer management incentives more directly tied to the performance of their respective businesses. PepsiCo management also believes that a separate restaurant company with strategies, organizational goals and employee incentives more narrowly focused will be best able to maximize its financial performance.

Relationship between PepsiCo and
TRICON after the Distribution.....

After the Distribution, PepsiCo will have no ownership interest in TRICON, and TRICON will be an independent publicly-owned company, However, immediately after the Distribution Date, TRICON shares will be owned by PepsiCo's pension trust on behalf of PepsiCo employees. PepsiCo and TRICON will enter into certain agreements governing their

relationship subsequent to the Distribution. The agreements will provide for each party to make certain services, records and personnel available to the other. They will also provide for allocation of assets, liabilities and responsibilities between them with respect to employee benefits and compensation and for allocation of tax and certain other liabilities between them for periods prior to and after the Distribution.

TRICON Dividend Policy.....

The payment and level of cash dividends by TRICON after the Distribution will be subject to the discretion of the TRICON Board of Directors. Dividend decisions will be based on a number of factors including TRICON's operating results and financial requirements on a stand-alone basis as well as loan agreement and legal restrictions relating thereto. See "Description of TRICON Capital Stock - Dividends."

Principal Office of TRICON.....

(---) --- - ----

SHAREHOLDERS WITH QUESTIONS MAY CALL:

For questions relating to the Distribution and delivery of TRICON stock certificates, call BankBoston, N.A. at:

For other questions, call PepsiCo's Manager, Shareholder Relations at:

(914) 253-3055

NO PERSON IS AUTHORIZED BY PEPSICO OR TRICON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS INFORMATION STATEMENT, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

INTRODUCTION

TRICON Global Restaurants, Inc., a North Carolina corporation originally organized in May 1997, is currently a wholly-owned subsidiary of PepsiCo, Inc. The management and Board of Directors of PepsiCo, after careful review and analysis, have concluded that the Distribution is in the best interests of PepsiCo and its shareholders. They believe that the Distribution will (i) help to alleviate competitive barriers to expanding PepsiCo's fountain beverage business, (ii) allow PepsiCo to focus its attention on its packaged goods businesses, Pepsi-Cola and Frito-Lay, by creating a separate company focused on PepsiCo's core restaurant businesses, and (iii) permit PepsiCo and TRICON to offer management incentives more directly tied to the performance of their respective businesses. PepsiCo management also believes that a separate restaurant company with strategies, organizational goals and employee incentives more narrowly focused will be best able to maximize its financial performance. To effect the Distribution, PepsiCo will distribute all the outstanding Common Stock of TRICON to PepsiCo shareholders.

Upon completion of the Distribution, TRICON will be the world's largest quick service restaurant ("QSR") company based on units, with more than 29,000 units in 95 countries and territories. TRICON will use three of the most recognized restaurant concepts, Pizza Hut, Taco Bell and KFC, to sell its products through a system of both Company-operated and franchised units. In 1996, TRICON's worldwide system sales exceeded \$20 billion. As one of only two major global players, TRICON will have the advantage of significant scale in activities ranging from purchasing to technology. In addition, the Company has a solid track record of operating innovation, strong cash generation capabilities and clear areas of growth potential.

TRICON's business, including background on the concepts, its operating systems, management and its strategy for managing the refranchising of the store portfolio, is described below, followed by a discussion of the industry and how TRICON fits into the industry today, and then by a discussion of the competitive advantages available to TRICON. See "Business of TRICON".

From time to time, in both written and oral statements, TRICON and PepsiCo may discuss expectations regarding TRICON's future performance. These "forward-looking statements" are based on currently available competitive, financial and economic data and TRICON's operating plans. They are also inherently uncertain and investors must recognize that actual results could turn out to be significantly different than what was expected. Among the many factors that can cause actual results to differ are economic and political conditions in the countries and territories where TRICON operates, the impact of such conditions on consumer spending, pricing pressures resulting from competitive discounting, new product and concept development by other food industry competitors, and fluctuations in commodity prices.

BUSINESS OF TRICON

Concepts

The TRICON organization is currently made up of four operating divisions organized around its three core concepts, KFC, Pizza Hut and Taco Bell. KFC is based in Louisville, Kentucky; Pizza Hut and TRICON Restaurants International ("TRICON International") are headquartered in Dallas, Texas; and Taco Bell is based in Irvine, California.

Each of TRICON's four operating divisions is engaged in the operation, development, franchising and licensing of a system of both traditional and non-traditional QSR units. Non-traditional units include express units and kiosks which have a more limited menu and operate in non-traditional locations like airports, gas and convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. In addition, there are approximately 367 units housing more than one concept ("2n1s"). Of these, approximately 354 units offer both the full KFC menu and a limited menu of Taco Bell products, and approximately 13 units offer both the full KFC menu and a limited menu of Pizza Hut products.

In each concept, consumers can either dine in or carry out food. In addition, Taco Bell and KFC offer a drive-through option in many stores. Pizza Hut and, on a much more limited basis, KFC offer delivery service.

Each concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients as well as unique recipes and special seasonings to provide appealing, tasty and attractive food at competitive prices.

KFC

KFC operates in 74 countries and territories throughout the world under the name "Kentucky Fried Chicken" and/or "KFC." It was founded in Corbin, Kentucky by Colonel Harland D. Sanders, an early developer of the quick service food business and a pioneer of the restaurant franchise concept. The Colonel perfected his secret blend of 11 herbs and spices for Kentucky Fried Chicken in 1939 and signed up his first franchisee in 1952. By the time KFC was acquired by PepsiCo in 1986, it had grown to approximately 6,600 units in 55 countries and territories.

KFC restaurants offer fried chicken products and some also offer non-fried chicken-on-the-bone products, with the principal entree items sold in pieces under the names Original Recipe, Extra Tasty Crispy and Tender Roast. Other principal entree items include Chunky Chicken Pot Pies, Colonel's Crispy Strips, and various chicken sandwiches. KFC restaurants also offer a variety of side items, such as biscuits, mashed potatoes and gravy, cole slaw and corn, as well as desserts and non-alcoholic beverages. Their decor is characterized by the image of the Colonel and distinctive packaging includes the "Bucket" of chicken.

In 1996, KFC's worldwide system sales of over \$8 billion grew faster than the industry average even though the number of restaurants in its global system did not

materially increase. This growth was largely due to the impact of new products as shown by the fact that same store sales in Company-operated stores in the U.S. increased 6%. In 1995, same store sales for Company-operated stores in the U.S. were also strong, increasing 7%. Average U.S. system-wide sales per traditional unit in 1996 were \$775,000.

Pizza Hut

Pizza Hut operates in 84 countries and territories throughout the world under the name "Pizza Hut" and features a variety of pizzas with different toppings as well as pasta, salads, sandwiches and other food items and beverages. The distinctive decor features a bright red roof.

The first Pizza Hut restaurant was opened in 1958 in Wichita, Kansas, and within a year, the first franchise unit was opened. By 1977, when Pizza Hut was acquired by PepsiCo, its U.S. restaurant system had grown to nearly 3,200 units. Today, Pizza Hut is the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products. As of year-end 1996, the concept had grown to more than 12,300 units.

In 1996, worldwide system sales exceeded \$7.4 billion; however, U.S. same store sales at Company-operated units decreased 4% reflecting fewer transactions. In contrast, U.S. same store sales at Company-operated units had increased a solid 4% in 1995 driven by the introduction of new products, such as Stuffed Crust Pizza. Average U.S. system-wide sales per unit in 1996 were \$620,000.

For ten of the last twelve years, Pizza Hut was named Best Pizza Chain in America in the "Choice in Chains" national consumer survey published annually by RESTAURANTS & INSTITUTIONS MAGAZINE. Also, the January 1997 CONSUMER REPORTS named Pizza Hut as the best pizza chain in America.

Taco Bell

Taco Bell operates under the name "Taco Bell" and specializes in Mexican style food products, including various types of tacos and burritos, salads, nachos and other related items. The first Taco Bell restaurant was opened in 1962 by Glen Bell in Downey, California, and in 1964 the first Taco Bell franchise was sold. By 1978, when it was acquired by PepsiCo, the Taco Bell system had grown to approximately 1,000 units. Today, Taco Bell dominates the U.S. Mexican QSR segment. Taco Bell units feature a distinctive bell logo on their signage.

By year-end 1996, there were more than 6,800 Taco Bell units in 17 countries and territories, with system-wide sales of \$4.7 billion. After several years of having achieved above industry average growth rates, U.S. same store sales at Company-operated Taco Bell units declined 2% and 4% in 1996 and 1995, respectively, as a result of lower transaction counts. Average U.S. system-wide sales per unit in 1996 were \$886,000.

Operating Structure

For all three of its concepts, TRICON structures its sales operations in two primary ways. The units are either owned and operated by the Company or they are owned and operated by independent franchisees which can range in size from individuals owning just a few units to large publicly-traded companies. In addition, TRICON has established international joint ventures between itself and third parties. As of year-end 1996, 44% of TRICON's worldwide units were operated by the Company and joint ventures in which the Company participates, 45% by franchisees, and 11% by licensees.

[GRAPHIC OMITTED] Pie chart showing the following:

TRICON's Worldwide System Units by Ownership as of Year-End 1996 (1)

| | |
|-----------|-----|
| Company | 44% |
| Franchise | 45% |
| License | 11% |

| | Company- Operated and Joint Venture | Franchised | Licensed | Total |
|-----------|--|------------|----------|--------|
| KFC | 3,624 | 6,078 | 161 | 9,863 |
| Pizza Hut | 6,477 | 4,700 | 1,211 | 12,388 |
| Taco Bell | 2,782 | 2,288 | 1,775 | 6,845 |
| Total | 12,883 | 13,066 | 3,147 | 29,096 |

(1) Includes traditional and non-traditional units.

Although the margins on the franchise side of the business are significantly higher than on the Company-operated side of the business, the owner-operator can also enjoy significant upside opportunities when average sales per store are growing. TRICON believes that one of the key factors in driving up average sales per store is the ability of the restaurant general manager (the "RGM"), whether a TRICON employee or a franchisee, to remain close to his customer and his restaurant crew.

In order to ensure that RGMs can achieve this, there are two important initiatives underway at TRICON. The first is a program to sell selected Company-operated restaurants to franchisees ("refranchising"). Two years ago it was determined that there was a need to rebalance the system more toward franchisees. As of year-end 1996, over 900 stores had been refranchised or licensed as a part of that program, the large

majority to franchisees that were already in the TRICON system. The second initiative, called "RGM is No. 1", is a program to focus the Company-operated system to more consciously support the effort of the RGM. See "Business of TRICON - Human Resources and Management."

It is critical to TRICON to maintain strong and open relationships with its franchisees and their representatives. To this end, TRICON invests a significant amount of time working with the franchisee community and their representative organizations on all aspects of the business, ranging from new products to new equipment to new management techniques. As the Company continues to rebrand Company-operated units and franchisees play a larger and larger role in the growth of the business, it is expected that these activities will continue to grow in importance.

Human Resources and Management

Led by Andrall Pearson and David Novak, TRICON has a strong management team with a proven track record in the food service industry. Mr. Pearson most recently served as an operating partner of Clayton Dubilier & Rice where he played an important role in the performance improvement of a number of portfolio companies. From 1985 to 1993 Mr. Pearson was a tenured professor at Harvard Business School and from 1971 to 1984 he was President and Chief Operating Officer of PepsiCo where he was instrumental in acquiring and expanding the Pizza Hut and Taco Bell restaurant chains.

David Novak most recently served as Group President and Chief Executive Officer of KFC and Pizza Hut where he led a significant turnaround of KFC which has now had nine consecutive quarters of same store sales growth at Company-operated units. See "Management of TRICON - Executive Officers" and "Management of TRICON - Senior Operating Management" for a description of the experience of other members of the TRICON management team.

TRICON believes that high quality, customer-focused restaurant management is critical to its long-term success. It also believes that its leadership position, strong results-oriented and recognition culture, and various training and incentive programs help attract and retain highly motivated RGM's who are committed to providing superior customer satisfaction and outstanding business results. The Company believes that having a high quality restaurant manager in a unit for a meaningful tenure is probably the single largest factor in a unit's achieving excellent results in the areas of sales, profits and overall guest satisfaction.

The Company's restaurant management structure varies by concept and unit size. Generally, each restaurant is led by an RGM, together with one or more additional assistant managers, depending on the operating complexity and sales volume of the restaurant. Each restaurant usually has between ten and 35 hourly employees, most of whom work part-time. The Company's four operating divisions each issue detailed manuals covering all aspects of their respective operations, including food handling and product preparation procedures, safety and quality issues, equipment maintenance, facility standards and accounting procedures. The restaurant management teams are responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. RGMs report to area managers, who are each responsible for approximately nine to eleven restaurants. The Company's restaurants are visited from

time to time by various higher level supervisors within their respective organizations to help ensure adherence to system standards.

RGMs are required to attend and complete their respective division's training programs. These programs consist of initial training, as well as additional continuing development and training programs that may be offered or required from time to time. Initial manager training programs generally last at least six weeks, and emphasize leadership, business management, supervisory skills (including training, coaching, and recruiting), product preparation and production, safety, quality control, customer service, labor management, and equipment maintenance.

At year-end, 1996, TRICON employed approximately 336,000 persons, approximately 245,000 of whom were part-time employees. Approximately 75% of TRICON's employees are employed in the United States. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. Employees, other than restaurant management and corporate management, are paid on an hourly basis. Less than 1% of TRICON's U.S. employees are covered by collective bargaining agreements. TRICON's non-U.S. employees are subject to numerous labor council relationships which vary due to the diverse cultures in which the Company operates. The Company considers its employee relations to be good.

Industry Overview

Worldwide

The food service industry is defined as food fully prepared away from home. The categories included within this industry are QSRs, full service restaurants, other commercial restaurants (including cafeterias) and non-commercial restaurants such as those in schools and hospitals. In 1996, the QSR segment of the industry, which is the one in which TRICON operates, was estimated to be \$160 billion.

TRICON is the world's leading restaurant company in units and second in system-wide sales. Based on the number of units, TRICON's worldwide system is about 40% larger than McDonald's and more than three times the size of Burger King's. In 1996, TRICON's worldwide system sales exceeded \$20 billion, accounting for 13% of the estimated \$160 billion global QSR market. In addition, TRICON's brands are leaders in units, sales, and unit profits in their respective food categories.

[GRAPHIC OMITTED] Bar chart with the following points:

**Largest Worldwide Restaurant Systems
as of Year-End 1996**

| | Units |
|---------------------|--------|
| TRICON..... | 29,096 |
| McDonald's..... | 21,022 |
| Subway..... | 12,516 |
| Burger King..... | 7,874 |
| Wendy's..... | 6,343 |
| Dairy Queen..... | 5,665 |
| Domino's..... | 5,460 |
| Little Caesars..... | 4,881 |

Worldwide Quick Service Restaurant Sales as of Year-End 1996

| | |
|------------|-----|
| TRICON | 13% |
| McDonald's | 20% |
| Other | 67% |

United States

In the U.S., one of the most important factors affecting the food service industry has been consumers' growing desire for meals that are quick, easy and convenient, which often means food prepared and consumed outside of the home. In the U.S. today, almost 45 cents of the consumer's food dollar goes to meals prepared and served ready-to-eat away from home, up from 38 cents ten years ago. By year-end 1996, the food service industry had reached \$321 billion in sales. The QSR segment of the food service industry has been growing rapidly, with a ten year compound annual growth rate of more than 6%. The main driver of growth over the last two years has been new unit expansion, primarily on the part of the major chains, which increased at a rate of 4% annually.

[GRAPHIC OMITTED] Pie Chart showing the following:

1996 U.S. Food Service Industry System Sales:

| | |
|---------------------------|-----|
| Quick Service Restaurants | 32% |
| Full Service Restaurants | 29% |
| Non-Commercial | 25% |
| Other Commercial | 14% |

Source: Technomic

As a result of new unit expansion in excess of population growth, the number of QSR restaurants has increased from 1 for every 1,672 people in 1986 to 1 for every 1,343 people in 1996. Consumer demand as measured by eating occasions has not kept pace with unit expansion which has resulted in pressure on same store sales. The competitive QSR segment of the food service industry has therefore become increasingly challenging and store level margins are being pressured, not only from the

lack of sales growth, but also from increasing commodity costs and higher wage rates due to low unemployment and increased minimum wages.

In the United States, TRICON is the largest restaurant company in terms of number of units. It has over 20,000 system-wide units located in all 50 states. As of year-end 1996, the composition by concept was 25% KFC, 43% Pizza Hut and 32% Taco Bell. Over the past five years, TRICON's units in the U.S. and U.S. system-wide sales have both grown at a compound annual growth rate of 6%.

[GRAPHIC OMITTED] Pie chart showing the following:

TRICON's U.S. System Units by Concept

| as of Year-End 1996 | |
|---------------------|-----|
| ----- | |
| Pizza Hut | 43% |
| Taco Bell | 32% |
| KFC | 25% |

The following table ranks the 10 largest QSR chains by 1996 United States system-wide sales. Pizza Hut, Taco Bell, and KFC rank 3,4, and 6, respectively. Together, they are number two with over \$13 billion in system-wide sales.

| Rank ---- | Restaurant Chain ----- | Concept ----- | 1996 System Sales (\$MM) ----- | 1996 System Units (1) ----- | 1996 System Sales Per Unit (\$M) (1) (2) ----- |
|--------------|---------------------------|------------------|--------------------------------------|--------------------------------------|---|
| 1 | McDonald's | Sandwich | 16,370 | 12,094 | 1,354 |
| 2 | Burger King | Sandwich | 7,485 | 7,057 | 1,061 |
| 3 | Pizza Hut | Pizza | 4,900 | 8,755 | 560 |
| 4 | Taco Bell | Mexican | 4,600 | 6,642 | 693 |
| 5 | Wendy's | Sandwich | 4,284 | 4,369 | 981 |
| 6 | KFC | Chicken | 3,900 | 5,079 | 768 |
| 7 | Hardee's | Sandwich | 2,989 | 3,225 | 927 |
| 8 | Subway | Sandwich | 2,700 | 10,848 | 249 |
| 9 | Dairy Queen | Ice Cream | 2,603 | 5,035 | 517 |
| 10 | Domino's | Pizza | 2,300 | 4,300 | 535 |

Source: 1996 Technomic Top 100 and PepsiCo

(1) TRICON numbers include traditional and non-traditional units where applicable.

(2) Excluding sales from non-traditional units, 1996 system sales per unit at Pizza Hut, Taco Bell and KFC were \$620,000, \$886,000 and \$775,000 respectively.

International

Outside the United States, sales in the QSR segment of the food service industry are estimated to be \$62 billion. Industry conditions vary by country, with many local restaurants and fast food options present, but on average competition is less than in the United States as internationally branded competition is generally limited to McDonald's and, in certain markets, Domino's, Wendy's and Burger King.

In addition, branded QSR units per population in most countries are generally well below that of the United States.

[GRAPHIC OMITTED] Bar chart showing the following points:

TRICON Units per Million People
as of Year-End 1996
Selected Countries

| | Units |
|--------------------|-------|
| United States..... | 78 |
| Australia..... | 47 |
| Canada..... | 43 |
| Singapore..... | 29 |
| UK..... | 14 |
| Japan..... | 10 |
| South Korea..... | 5 |
| Thailand..... | 4 |
| Mexico..... | 3 |
| France..... | 2 |
| Germany..... | 2 |
| Brazil..... | 1 |
| Argentina..... | 1 |
| Poland..... | 1 |
| China..... | 0 |
| India..... | 0 |
| Russia..... | 0 |

Reflecting the broad geographic consumer appeal of TRICON's concepts, over 40% of TRICON International's restaurants are located in Asia, followed by the Americas (Canada, Latin America and South America) with 22% and Europe with 20%.

TRICON International System Units as of Year-End 1996 (1)

[GRAPHIC OMITTED] Pie charts showing the following:

Concept

KFC 56%
Pizza Hut 42%
Taco Bell 2%

Ownership

Franchise/Licensed 59%
Company 29%
Joint Venture 12%

Region

Asia Pacific 42%
Americas 22%
Europe 20%
S. Pacific 16%

| | Company ----- | Joint Venture ----- | Franchised and Licensed ----- | Total ----- | Countries and Territories ----- |
|-----------|------------------|---------------------------|-------------------------------------|----------------|---------------------------------------|
| KFC | 1,235 | 432 | 3,117 | 4,784 | 73 |
| Pizza Hut | 1,183 | 575 | 1,875 | 3,633 | 83 |
| Taco Bell | 95 | -- | 108 | 203 | 16 |
| | ----- | ----- | ----- | ----- | |
| Total | 2,513 | 1,007 | 5,100 | 8,620 | 94 |

(1) Includes traditional and non-traditional units.

Since late 1994, the international operations of TRICON's three restaurant concepts have been consolidated into a separate international division to improve focus and scale. TRICON International has redirected its focus to generate more system growth through franchisees and concentrate its development of Company-operated stores in those markets with sufficient scale. TRICON International has developed new global systems and tools designed to improve marketing, operations consistency, product delivery, market planning and development, franchise support, and store-level team building capability.

Competitive Advantages

Global Scale

Powerful Concepts in Growing Food Categories. KFC, Pizza Hut and Taco Bell are three of the most recognized restaurant concepts, each having significant value. Each is the U.S. leader in units, sales, and unit profits in its respective food category. TRICON believes that the near universal appeal of chicken and the enormous variety of pizzas provide a strong foundation for global concept expansion, and the emerging trend towards Mexican-style foods may provide additional growth opportunities.

Worldwide Capabilities. TRICON has global scale and capabilities in marketing, advertising, purchasing, research and development ("R&D"), and site selection. TRICON believes that its worldwide network of Company and franchise operations provides a strong foundation from which to expand in existing markets, enter new markets, launch new products and marketing campaigns and introduce new concepts. In many countries and regions TRICON has the scale to use extensive television advertising, an important factor in increasing brand awareness. TRICON's scale enables it to negotiate superior marketing promotions and real estate transactions compared to many of its competitors.

Purchasing/Distribution. The Company is a substantial purchaser of a number of food products, and it believes its scale purchasing capabilities provide it with competitive advantages, such as its ability to ensure a consistent supply of high quality food, ingredients and other supplies at competitive prices to all of its restaurant concepts. To ensure reliable sources, in 1996, the Company consolidated most of its worldwide food and supply procurement activities under a new organization called SmartSourcing, which sources, negotiates and buys specified food and supplies from hundreds of suppliers in over 70 countries and territories. The SmartSourcing staff develops long-term relationships or partnerships with key vendors. They monitor market trends and seek to identify and capitalize on purchasing opportunities that will enhance the Company's competitive position. The principal products purchased include beef, cheese, chicken products, cooking oils, corn, flour, lettuce, pinto beans, pork, seasonings, tomato products, and paper and packaging materials.

To ensure the wholesomeness of all food products, suppliers are required to meet or exceed strict quality control standards. Competitive bids, long-term contracts and long-term vendor relationships have been used to ensure availability of products. TRICON has also entered into commodity futures contracts traded on national exchanges with the objective of reducing food costs. While such hedging activity has historically been done on a limited basis, hedging activity could increase in the future if TRICON believes it would result in lower total costs. The Company has not experienced any significant continuous shortages of supplies. Prices paid for these supplies may be subject to fluctuation; when prices increase, the Company may be able to pass on such increases to its customers, although there is no assurance this can be done in the future.

Many food products, paper and packaging supplies, and equipment used in the operation of the Company's restaurants, have been distributed to individual Company-operated units by PFS, which had been PepsiCo's restaurant distributor operation. PFS

also sold and distributed these same items to many franchised and licensed units that operate in the three restaurant systems, though principally to Pizza Hut and Taco Bell franchised/licensed units in the United States. In May 1997, KFC, Pizza Hut and Taco Bell entered into a five year Sales and Distribution Agreement with PFS to purchase the majority of their food and supplies for Company-operated stores, subject to PFS maintaining certain quality and performance levels. The Sales and Distribution Agreement became effective upon the closing of the sale by PepsiCo of the assets and business of PFS to AmeriServe Food Distribution, Inc. ("AmeriServe"), a subsidiary of Holberg Industries, Inc., pursuant to a definitive agreement dated as of May 23, 1997, as amended. KFC, Pizza Hut and Taco Bell are also expected to enter into multi-year agreements with Pepsi-Cola Company regarding the sale of Pepsi-Cola's beverage products at U.S. Company-operated units. See "The Distribution Relationship Between PepsiCo and TRICON after the Distribution.

Management Information Systems. TRICON considers itself a leader in the utilization of technology to help manage its restaurants. Systems targeted at improving financial controls, cost management, product inventory, consumer service and employee effectiveness have been implemented in all Company-operated units. In the U.S., communication networks transmit critical business data to and from the Company-operated units. These networks provide timely information on daily business activity. The Company uses proprietary software as well as purchased software to simplify the restaurants' processes and administrative requirements. The leveraging of technology allows the RGMs to focus on customers and operations.

Proven Operating Record

Core Competence in Marketing. TRICON has strong marketing teams and strong agencies as its partners. In 1996, TRICON and its franchisees invested more than \$745 million in the U.S. and more than \$310 million in international markets in advertising and marketing programs.

TRICON believes that it has developed significant advertising capabilities, and has been able to generate substantial interest in and excitement around its brands. Many of the Company's advertising campaigns have been recognized in the past with awards acknowledging their creativity, execution or achievements in creating or maintaining brand awareness. The Company's size enables it to be a leading advertiser in the food service industry, which it can leverage to achieve efficiency of national network television advertising, supplemented with local market television advertising. TRICON's four operating divisions implement periodic promotions as they deem appropriate or desirable in order to maintain and increase their sales and unit profits. They also rely on radio, newspaper and other print advertising, in-store point of purchase advertising, and direct mail and newspaper couponing programs, to attract customers and encourage the purchase of their products. The Company has developed and utilizes sophisticated marketing research techniques to measure customer satisfaction and consumer trends.

Quality Assurance. The Quality Assurance Departments at each of TRICON's four operating divisions help ensure that the systems' restaurants provide high quality, wholesome food products in clean and safe environments. The systems' restaurants are required to buy food supplies, ingredients, seasonings, and equipment only from

approved suppliers, who are required to meet or exceed system standards designed to ensure product quality, safety and consistency. From time to time, the Quality Assurance Departments inspect the facilities of their suppliers and request samples for testing and other quality control monitoring and measures. Many of these suppliers, such as poultry producers, are also subject to some government inspection. In addition, representatives of the Quality Assurance Departments visit restaurants from time to time to ensure that food is properly stored, handled and prepared in accordance with prescribed standards and specifications, as well as to provide training in food safety and sanitation measures to the restaurant operators. The Quality Assurance Departments are also responsible for remaining current on issues related to food safety, and interacting with regulatory agencies as may be required or desirable on these matters.

Strong Free Cash Flow

TRICON has generated significant free cash flow through its operations and global refranchising program under which it sells Company-operated restaurants to current and new franchisees. Since the strategy began in mid-1995, TRICON refranchised or licensed 264 and 655 units in 1995 and 1996, respectively. In June 1997, TRICON International sold 77 KFCs, 43 Pizza Huts and two joint KFC and Pizza Hut delivery/carryout units in New Zealand in an initial public offering. As a result of TRICON's refranchising activity, coupled with new points of distribution added by franchisees and licensees and the program to upgrade the asset portfolio by closing under-performing stores, the Company's overall ownership of total system units (i.e. Company-operated and joint venture units in which the Company participates) declined six percentage points in two years from 50% at year-end 1994 to 44% at year-end 1996. The refranchising program is expected to continue. However, the continuation of the program depends on the Company's ability to find qualified franchisees to purchase Company-operated restaurants at prices considered by the Company to be appropriate.

TRICON's operations generated free cash flow of almost \$465 million in 1996, allowing it to increase its rate of investment in the following: product innovation and quality; improved operating platforms leading to improved service; store-level human resources including recruiting and training; testing alternative modes of distribution; and creative marketing programs. See "Management's Discussion and Analysis."

United States Growth Opportunities

TRICON believes it has many opportunities to achieve same store sales growth at Company-operated units in its U.S. business due to the following:

Daypart Expansion. TRICON's strengths in market research and R&D, combined with underdeveloped dayparts in all three core concepts give it an opportunity to increase the average sales per unit. According to CREST, in 1996 in the U.S., almost two-thirds of KFC and more than three-quarters of Pizza Hut Company-operated store sales occurred during the dinner occasion. At Taco Bell approximately half of U.S. Company-operated store sales occurred during the lunch occasion, with about 44% occurring at dinner and the remainder during snacking hours.

Channel Expansion. TRICON's products, especially chicken and pizza, are well suited to delivery because their relatively long holding times allow them to be delivered

hot and ready to eat. Today, Pizza Hut has a well-developed delivery system and almost 500 KFC units currently offer some delivery services. In addition, the Company believes there is opportunity to innovate with respect to the type of unit that best meets consumer needs. Some of the alternative channels that are being developed include non-traditional units such as Taco Bell Express in venues like shopping malls, food courts, airports, gas and convenience stores and schools.

International Growth Opportunities

Underdeveloped Presence in Many Countries. Although TRICON has established a presence in many countries, the majority of those countries are still underpenetrated considering not only population size and growth but also in terms of per capita purchasing power. TRICON has demonstrated considerable success in Asian emerging markets with some of the largest stores in the world on a sales per store basis being operated by it in China. In countries which are more developed, the ratio of stores per million people is still far below that found in the U.S. and there is still tremendous opportunity to leverage an increasing demand for convenient, fully prepared foods.

Limited Global Competitors with Scale Advantages. TRICON has the ability to leverage not only the scale advantages of purchasing and R&D but also the experience of its U.S. business to quickly identify new product opportunities for local markets. As of year-end 1996, TRICON's international system-wide sales accounted for approximately 11% of all international QSR sales.

Other

Properties

As of year-end 1996, KFC, Pizza Hut and Taco Bell owned approximately 3,300 and leased approximately 6,400 restaurants, delivery/carryout units and other food service units in the United States; and TRICON International owned approximately 1,000 and leased approximately 1,500 additional units outside the United States. KFC, Pizza Hut, and Taco Bell restaurants in the United States which are not owned are generally leased for initial terms of 15 or 20 years, and generally have renewal options, while Pizza Hut delivery/carryout units in the United States generally are leased for significantly shorter initial terms with short renewal options. Joint ventures in which KFC, Pizza Hut or Taco Bell are partners and other consolidated entities own or lease approximately 1,000 restaurants or units outside the United States. TRICON leases Pizza Hut's corporate headquarters in Dallas, Texas. Taco Bell leases its corporate headquarters in Irvine, California and KFC owns its corporate headquarters and a research facility in Louisville, Kentucky. In addition, TRICON owns major office facilities in Wichita, Kansas and leases an office facility for accounting services in Albuquerque, New Mexico. Competition

The overall food service industry and the QSR segment are intensely competitive with respect to food quality, price, service, convenience, restaurant location and concept. The restaurant business is often affected by changes in consumer tastes;

national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and disposable purchasing power. TRICON competes within each market with national and regional chains as well as locally-owned restaurants, not only for customers, but also for management and hourly personnel and suitable real estate sites. For additional information on competition, see "Business of TRICON - Industry Overview."

Trademarks

TRICON regards its Kentucky Fried Chicken (R), KFC (R), Pizza Hut (R) and Taco Bell (R) trademarks as having significant value and as being important in marketing to consumers. The Company's policy is to pursue registration of its important trademarks whenever possible and to oppose vigorously any infringement of its trademarks. The use of the foregoing trademarks by franchisees and licensees has been authorized in KFC, Pizza Hut and Taco Bell franchise and license agreements. Under current law and with proper use, the Company's rights in its trademarks can last indefinitely.

Government Regulation

United States. TRICON is subject to various Federal, state and local laws affecting its business. Each of the Company's restaurants must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the state or municipality in which the restaurant is located. To date, the Company has not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

A small portion of Pizza Hut's net sales are attributable to the sale of beer and wine. A license is required for each site that sells alcoholic beverages (in most cases, on an annual basis) and licenses may be revoked or suspended for cause at any time. Regulations governing the sale of alcoholic beverages relate to many aspects of restaurant operations, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. The failure of a restaurant which sells alcoholic beverages to obtain or retain these licenses may adversely affect such restaurant's operations.

The Company is also subject to Federal and state minimum wage laws governing such matters as overtime, tip credits and working conditions. Since the bulk of the Company's employees are paid on an hourly basis at rates related to the Federal minimum wage, increases in the minimum wage could significantly increase the Company's labor costs.

The Company is also subject to Federal and state child labor laws which, among other things, prohibit the use of certain "hazardous equipment" by employees 18 years of age or younger. The Company has not to date been materially adversely affected by such laws.

The Company is subject to Federal and state environmental regulations, but these rules have not had a material effect on the Company's operations. The Company continues to monitor its facilities for compliance with the Americans With Disabilities Act

("ADA") in order to conform to its requirements. Under the ADA, the Company could be required to expend funds to modify its restaurants to better provide service to, or make reasonable accommodation for the employment of, disabled persons.

International. Internationally, the Company's restaurants are subject to national and local laws and regulations which are similar to those affecting the Company's domestic restaurants, including laws and regulations concerning labor, health, sanitation and safety. The international restaurants are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment.

Worldwide compliance with environmental regulations has not had a material adverse effect on the Company's earnings, capital expenditures or competitive position.

Legal Proceedings

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

Sale of Non-Core Concepts

In late 1996, TRICON set a strategy to focus human and financial resources on growing the sales and profitability of its three core QSR concepts - KFC, Pizza Hut and Taco Bell. The non-core restaurant businesses of Hot n' Now, East Side Mario's and Chevys Mexican Restaurants were sold in 1997, and two other non-core restaurant businesses, D'Angelo Sandwich Shops and California Pizza Kitchen, are being offered for sale. These non-core restaurant businesses are expected to be sold prior to the Distribution Date. These five "non-core" chains represented approximately 4% of TRICON's worldwide sales at Company-operated units in 1996. See "Combined Financial Statements."

SELECTED COMBINED FINANCIAL DATA

The following selected combined financial data of TRICON should be read in conjunction with, and is qualified in its entirety by reference to, the audited Combined Financial Statements and the unaudited Condensed Combined Financial Statements and the related notes thereto included on pages F-2 to F-28.

The pro forma selected financial data set forth below is derived from the unaudited Pro Forma Condensed Combined Financial Information included on pages F-29 to F-32. The pro forma data does not purport to represent what TRICON's financial position or results of operations would have been had it operated as a separate, independent company nor does it give effect to any events other than those discussed in the related notes. The pro forma data also does not purport to project TRICON's financial position or results of operations as of any future date or for any future period.

The capital structure that existed when the Company's businesses operated as part of PepsiCo is not relevant because it does not reflect TRICON's expected future

capital structure as a separate, independent company. Accordingly, per share data for earnings and cash dividends declared has not been presented except for pro forma earnings per share for the year-ended December 28, 1996 and the twelve weeks ended March 22, 1997, which was based on ___ million shares outstanding.

 Selected Combined Financial Data (Page 1 of 4)
 (in millions except per share data, unaudited)
 TRICON Global Restaurants, Inc.

| | Proforma 1996 | 1996(a)(b) | 1995 (b) | 1994(b)(c)(d) |
|--|------------------|------------|----------|---------------|
| ----- | | | | |
| Summary of Operations | | | | |
| Revenues..... | \$9,838 | 10,232 | 10,250 | 9,565 |
| Income/(loss) before cumulative effect of accounting changes..... | \$ 147 | (53) | (132) | 119 |
| Cumulative effect of accounting changes (f)..... | \$ - | - | - | (1) |
| Net income/(loss) (g)..... | \$ 147 | (53) | (132) | 118 |
| Earnings/(loss) per share..... | \$ 0.xx | N.R. | N.R. | N.R. |
| Balance Sheet | | | | |
| Total assets..... | N.R. | 6,520 | 6,908 | 7,387 |
| Long-term debt (h)..... | N.R. | 231 | 260 | 267 |
| Investments by and advances from PepsiCo..... | N.R. | 4,266 | 4,604 | 4,962 |

N.R. - Not Required

| | 1993(e) | 1992 |
|---|----------|-------|
| ----- | | |
| Summary of Operations | | |
| Revenues..... | \$ 8,462 | 7,335 |
| Income before cumulative effect of accounting changes..... | \$ 238 | 245 |
| Cumulative effect of accounting changes (f)..... | \$ - | (19) |
| Net income (g)..... | \$ 238 | 226 |
| Balance Sheet | | |
| Total assets..... | \$ 6,526 | 5,086 |
| Long-term debt (h)..... | \$ 290 | 257 |
| Investments by and advances from PepsiCo | \$ 4,366 | 3,506 |

| | -----Twelve Weeks Ended----- | | |
|---|------------------------------|---------|---------|
| | Proforma | | |
| | 3/22/97 | 3/22/97 | 3/23/96 |
| ----- | | | |
| Summary of Operations | | | |
| Revenues..... | \$ 2,134 | 2,237 | 2,273 |
| Net income (g)..... | \$ 49 | 52 | 40 |
| Earnings per share..... | \$ 0.xx | N.R. | N.R. |
| Balance Sheet | | | |
| Total assets..... | \$ 6,102 | 6,413 | N.R. |
| Long-term debt (h)..... | \$ 173 | 222 | N.R. |
| Investments by and advances from PepsiCo | \$ 3,954 | 4,201 | N.R. |

N.R. - Not Required

(a) Included unusual charges of \$246 (\$189 after-tax) related to the

decision to dispose of TRICON's U.S. non-core restaurant businesses. See Note 3 to the audited Combined Financial Statements on page F-11. Also included the benefit of reduced depreciation and amortization expense for the first three quarters of 1996 of \$40 (\$26 after-tax) as a result of the initial impact of adopting Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," at the beginning of the fourth quarter of 1995. See (b) below.

(b) Included net facility actions:

| | 1996 | 1995 | 1994 |
|-----------------------------|-------|---------|---------|
| | ---- | ---- | ---- |
| Refranchising gains | \$139 | \$ 93 | \$ - |
| Store closure costs | (40) | (38) | (10) |
| SFAS 121 impairment charges | (62) | (457) | |
| | ---- | ---- | ---- |
| Net gain/(loss) | 37 | (402) | \$(10) |
| | == | ==== | ==== |
| After-tax gain/(loss) | \$ 21 | \$(295) | \$ (6) |
| | ==== | ===== | ===== |

The initial, non-cash impairment charge of \$457 (\$324 after-tax) in 1995 was due to the adoption of SFAS 121 at the beginning of the fourth quarter. As a result of the reduced carrying amount of restaurants to be held and used in the business, depreciation and amortization expense for the fourth quarter of 1995 was reduced by \$17 (\$12 after-tax). See Note 3 to the audited Combined Financial Statements on page F-11.

(c) Included a benefit of changing to a preferable method for calculating the market-related value of pension plan assets used in determining the return-on-asset component of annual pension expense, which reduced full-year pension expense in 1994 by \$5 (\$3 after-tax).

(d) Fiscal year 1994 consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years. The fifty-third week increased 1994 revenues by \$172 and earnings by approximately \$23 (\$14 after-tax).

(e) Included a \$7 charge to increase net deferred tax liabilities as of the beginning of 1993 for a 1% statutory income tax rate increase due to 1993 U.S. Federal tax legislation.

(f) Represented the cumulative effect of adopting in 1994 Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits," and changing to a preferable method for calculating the market-related value of pension plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization (see Notes 13 and 11 to the audited Combined Financial Statements on pages F-16 and F-15, respectively) and adopting in 1992 Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions" which reduced earnings by \$31 (\$19 after-tax).

(g) Includes interest expense based upon PepsiCo's weighted average borrowing rate applied to the average balance of investments by and advances from PepsiCo to TRICON and interest on its external third-party debt.

(h) Long-term debt represents external third-party debt.

FINANCING

PepsiCo's general practice has been to incur debt at the parent company level rather than the subsidiary level, even when the funds obtained from such borrowings have been used in the businesses of its subsidiaries, except in the case of capital leases, assumed debt of acquired businesses and certain international third party debt which generally have been incurred at the subsidiary level. Accordingly, the financing requirements of the restaurant businesses generally have been funded through intercompany accounts with PepsiCo.

Prior to the Distribution, TRICON will incur approximately \$_____ of debt obligations. Substantially all of the proceeds of such debt obligations will be transferred to PepsiCo as repayment of certain amounts due to PepsiCo from TRICON and a dividend. The remainder of any investment in TRICON by PepsiCo will be reclassified from "Investments by and advances from PepsiCo" to "Common Stock and surplus" on the TRICON balance sheet. This remainder will be contributed by PepsiCo to its shareholders in the form of TRICON Common Stock. PepsiCo will retain no equity interest in TRICON. However, immediately after the Distribution Date, TRICON shares will be owned by PepsiCo's pension trust on behalf of PepsiCo's employees.

TRICON has no assurance that, as an independent company, it will be able to obtain financing upon terms as favorable as those historically experienced by PepsiCo.

THE DISTRIBUTION

Reasons for the Distribution

PepsiCo's management has proposed the Distribution to achieve three specific business objectives: (i) to alleviate competitive barriers to expanding its fountain beverage business; (ii) to allow PepsiCo to focus its attention on its packaged goods businesses, Pepsi-Cola and Frito-Lay; and (iii) to permit PepsiCo and TRICON to offer management incentives more directly tied to the performance of their respective businesses. PepsiCo is distributing the shares of TRICON to its shareholders based on its belief that the restaurant businesses, on the one hand, and PepsiCo's packaged goods businesses, on the other hand, represent different business propositions. They involve fundamentally different growth opportunities, financial returns, investment requirements, operating systems and people dynamics. PepsiCo also believes that corporations perform optimally when business strategy, organization and employee incentives are more narrowly focused.

Accordingly, PepsiCo has concluded that the long-term interests of both businesses are best served through the creation of two separate, independent and focused corporations, TRICON focused on restaurants and a "new PepsiCo" focused on packaged goods.

Manner of Effecting the Distribution

On or before the Distribution Date, PepsiCo will transfer to BankBoston, N.A., as Distribution agent (the "Distribution Agent"), for the benefit of holders of record of PepsiCo Capital Stock at the close of business on _____, 1997 (the "Record Date"), all shares of TRICON Common Stock then owned by PepsiCo.

The Distribution will be made to holders of record of PepsiCo Capital Stock at the close of business on the Record Date, without any consideration being paid by such holders, on the basis of one share of TRICON Common Stock for every _____ shares of PepsiCo Capital Stock held on the Record Date. TRICON will participate in the Direct Registration System to effect the Distribution, and shares of TRICON Common Stock will be distributed to PepsiCo shareholders in book-entry form. Commencing on or about the Distribution Date, the Distribution Agent will begin mailing account statements reflecting ownership of shares of TRICON Common Stock to such holders of record of PepsiCo Capital Stock. Any TRICON shareholders that would like to receive a certificate representing their shares may contact the Distribution Agent. The shares of TRICON Common Stock will be fully paid and nonassessable and the holders thereof will not be entitled to preemptive rights. See "Description of TRICON Capital Stock - TRICON Common Stock."

No fractional shares will be distributed as part of the Distribution, other than fractional shares which will be credited to the accounts of participants in certain PepsiCo plans as described below. The Distribution Agent will aggregate fractional shares, other than those held by participants in such plans, into whole shares of TRICON Common Stock and sell them on the open market at prevailing prices on behalf of holders who would otherwise be entitled to receive such fractional share interests. Any such persons entitled to receive at least \$0.01 will receive a cash payment for their portion of the total sale proceeds. Any persons entitled to receive less than \$0.01 will have their fractional shares canceled.

Distribution of TRICON Common Stock with respect to PepsiCo Capital Stock held in the PepsiCo Capital Stock Purchase Plan, the PepsiCo SaveUp Plan (formerly 401(k) or Long-Term Savings), the PepsiCo Dividend Reinvestment Plan and the PepsiCo Employees' Stock Ownership Plan will be credited to participants' accounts. Fractional shares will be credited with respect to each of these plans other than the PepsiCo Dividend Reinvestment Plan. Fractional shares with respect to the PepsiCo Dividend Reinvestment Plan will be cashed out as described in the previous paragraph.

The Distribution is subject to a number of conditions, including (i) a favorable ruling of the Internal Revenue Service concerning the tax-free nature of the Distribution, (ii) appropriate stock market conditions for the Distribution, (iii) various regulatory approvals, and (iv) approval by PepsiCo's Board of Directors of the final terms of the Distribution, including, without limitation, the formal declaration of a dividend to PepsiCo's shareholders and other specific actions necessary to the Distribution.

The PepsiCo Board of Directors may amend, modify or abandon the Distribution at any time prior to the Distribution Date.

Results of the Distribution

Subsequent to the Distribution, which will be effective at 11:59:59

p.m. E.D.T. on the Distribution Date, TRICON will operate as an independent restaurant company, and PepsiCo will continue to conduct its packaged goods businesses.

Relationship between PepsiCo and TRICON after the Distribution

After the Distribution, PepsiCo will have no ownership interest in TRICON, and TRICON will be an independent, publicly-owned company. However, immediately after the Distribution Date, TRICON shares will be owned by PepsiCo's pension trust on behalf of PepsiCo's employees. TRICON and PepsiCo will enter into certain agreements, described below, governing their relationship subsequent to the Distribution and providing for the allocation of tax and certain other liabilities and obligations arising from periods prior to and after the Distribution. Copies of the forms of such agreements are filed as exhibits to the Registration Statement of which this Information Statement is a part. The following summarizes the material terms of such agreements, but is qualified by reference to the text of such agreements.

Separation Agreement

PepsiCo and TRICON will enter into a Separation Agreement (the "Separation Agreement"), which will provide for, among other things, certain services, records and personnel which PepsiCo and TRICON will make available to each other after the Distribution Date. To facilitate an orderly transition, PepsiCo may continue to provide, for up to 12 months, certain services to TRICON, with the related costs and expenses being paid by TRICON. TRICON will nonetheless have to utilize additional personnel to perform certain services previously provided by PepsiCo, such as treasury management and investor relations. The Separation Agreement also will provide for the assumption by TRICON of liabilities relating to PepsiCo's restaurant businesses and the indemnification of PepsiCo with respect to such liabilities. The Separation Agreement provides that, prior to the Distribution, TRICON will pay to PepsiCo approximately \$_____ billion as repayment of certain amounts due to PepsiCo from TRICON and a dividend.

Tax Separation Agreement

PepsiCo and TRICON will enter into a Tax Separation Agreement (the "Tax Separation Agreement"), on behalf of themselves and their respective consolidated groups, that reflects each party's rights and obligations with respect to payments and refunds of taxes that are attributable to periods beginning prior to and including the Distribution Date and taxes resulting from transactions effected in connection with the Distribution. The Tax Separation Agreement also expresses each party's intention with respect to certain tax attributes of TRICON after the Distribution. The Tax Separation Agreement provides for payments between the two companies for certain tax adjustments made after the Distribution that cover pre-Distribution tax liabilities. Other provisions cover the handling of audits, settlements, stock options, elections, accounting methods and return filing in cases where both companies have an interest in the results of these activities.

Pursuant to the Tax Separation Agreement, TRICON will agree to refrain from engaging in certain transactions for two years following the Distribution Date without the prior written consent of PepsiCo. Transactions subject to this restriction will include, among other things, the liquidation, merger or consolidation with another company, certain issuances and redemptions of TRICON Common Stock, the sale, refranchising, distribution or other disposition of assets in a manner that would adversely affect the tax consequences of the Distribution or any transaction effected in connection with the Distribution, and the discontinuation of certain businesses.

Employee Programs Agreement

PepsiCo and TRICON will enter into an Employee Programs Agreement (the "Employee Programs Agreement"), which allocates assets, liabilities and responsibilities between them with respect to certain employee compensation and benefit plans and programs and certain other related matters.

Telecommunications, Software and Computing Services Agreement

PepsiCo and TRICON will also enter into a Telecommunications, Software and Computing Services Agreement (the "TS&C Agreement") setting forth the arrangements between the parties with respect to internal software, third-party agreements, telecommunications services and computing services.

Beverage Agreements

KFC, Pizza Hut and Taco Bell are each expected to enter into a multi-year agreement with Pepsi-Cola Company regarding the sale of Pepsi-Cola beverage products at U.S. Company-operated units.

Certain Letters of Credit, Guarantees and Contingent Liabilities

Pursuant to the Separation Agreement, TRICON will agree to use its best efforts to release, terminate or replace, prior to the Distribution Date, all letters of credit, guarantees and contingent liabilities relating to PepsiCo's restaurant businesses under which PepsiCo is liable. Nevertheless, after the Distribution Date, PepsiCo may remain liable on certain of such letters of credit, guarantees and contingent liabilities which were not able to be released, terminated or replaced prior to the Distribution Date. Pursuant to the Separation Agreement, from and after the Distribution Date TRICON will pay a fee to PepsiCo with respect to any such letters of credit, guarantees and contingent liabilities until such time as they are released, terminated or replaced by a qualified letter of credit with a maximum drawing amount equal to the full amount of all remaining obligations and foreseeable claims under such letters of credit, guarantees and contingent liabilities. At all times TRICON will be required to indemnify PepsiCo with respect to such letters of credit, guarantees and contingent liabilities.

Certain U.S. Federal Income Tax Consequences of the Distribution

Prior to the Distribution, PepsiCo expects to receive a ruling from the Internal Revenue Service to the effect that the Distribution will qualify as a tax-free Distribution under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended (the

"Code"), and, accordingly, that (i) except as described below with respect to fractional shares, PepsiCo's shareholders will not recognize income, gain or loss upon the receipt of shares of TRICON Common Stock; (ii) the aggregate tax basis of the shares of PepsiCo Capital Stock and TRICON Common Stock (including any fractional share interests to which a PepsiCo shareholder is entitled) held by a PepsiCo shareholder after the Distribution will be the same as the tax basis of the shares of PepsiCo Capital Stock held by such shareholder immediately before the Distribution, and will be allocated between the shares of TRICON Common Stock and PepsiCo Capital Stock in proportion to their relative fair market values on the Distribution Date; (iii) the holding period of the shares of TRICON Common Stock received by a PepsiCo shareholder (including any fractional share interests to which a PepsiCo shareholder is entitled) will include the holding period of the shares of PepsiCo Capital Stock with respect to which the Distribution was made, provided that the shares of PepsiCo Capital Stock are held as a capital asset by such shareholder on the Distribution Date; and (iv) cash received in lieu of fractional share interests in TRICON Common Stock will give rise to gain or loss equal to the difference between the amount of cash received and the tax basis allocable to such fractional share interests. Such gain or loss will be capital gain or loss if the shares of PepsiCo Capital Stock are held as a capital asset on the Distribution Date. The receipt of such a ruling is a condition to the Distribution.

U.S. Treasury regulations require each PepsiCo shareholder that receives shares of TRICON Common Stock in the Distribution to attach to the holder's U.S. Federal income tax return for the year in which such stock is received a detailed statement setting forth such data as may be appropriate in order to show the applicability of Section 355 of the Code to the Distribution. Within a reasonable time after the Distribution, PepsiCo will provide each PepsiCo shareholder of record as of the Record Date with the information necessary to comply with that requirement, and will provide information regarding the allocation of basis described in clause (ii) above.

The foregoing is a summary of the material U.S. Federal income tax consequences of the Distribution under the law in effect as of the date of this Information Statement. IT DOES NOT PURPORT TO COVER ALL INCOME TAX CONSEQUENCES AND MAY NOT APPLY TO SHAREHOLDERS WHO ACQUIRED THEIR PEPSICO SHARES IN CONNECTION WITH A GRANT OF SHARES AS COMPENSATION, WHO ARE NOT CITIZENS OR RESIDENTS OF THE UNITED STATES, OR WHO ARE OTHERWISE SUBJECT TO SPECIAL TREATMENT UNDER THE CODE. All PepsiCo shareholders should consult their own tax advisors regarding the appropriate income tax treatment of their receipt of TRICON Common Stock, including the application of Federal, state, local and foreign tax laws, and the effect of possible changes in tax law that may affect the tax consequences described above.

MANAGEMENT OF TRICON

Directors

TRICON's Restated Articles of Incorporation provide that the number of Directors may be altered from time to time, by resolution adopted by the Company's Board of Directors. However, the number of Directors may not be less than three nor more than twelve.

Provided that the number of Directors equals or exceeds the number required under North Carolina Law to stagger the terms of directors (currently nine), from and after the Company's 1997 annual shareholders' meeting, the Board of Directors shall be divided into three classes, to serve respectively until the annual meetings in 1998, 1999 and 2000, and until their successors shall be elected and shall qualify. Thereafter, their successors shall be elected for three year terms and until their successors shall be elected and shall qualify.

The following individuals have agreed to serve as Directors of TRICON following the Distribution. It is anticipated that several other persons will agree prior to the Distribution Date to serve as Directors. These Directors will hold office until the first annual meeting of TRICON's shareholders after the Distribution, which is expected to be held in May, 1998.

Andrall E. Pearson, age 72, will be elected Chairman of the Board and Chief Executive Officer of TRICON prior to the Distribution Date. Prior thereto, Mr. Pearson served as an operating partner of Clayton, Dubilier & Rice, a leveraged buy-out firm. He was PepsiCo's President and Chief Operating Officer from 1971 through 1984 and served on PepsiCo's Board of Directors for 26 years, retiring in April 1996. From 1985 to 1993 he was a tenured professor at Harvard Business School. Mr. Pearson is Chairman of the Board of Alliant Food Services, and a director of Kinko's Inc., May Department Stores Company and Travelers Group.

David C. Novak, age 44, will be elected Vice Chairman of the Board and President of TRICON prior to the Distribution Date. Prior thereto, Mr. Novak served as Group President and Chief Executive Officer, KFC and Pizza Hut, a position he has held since August 1996. Mr. Novak joined Pizza Hut in 1986 as Senior Vice President, Marketing. In 1990, he became Executive Vice President, Marketing and National Sales, for Pepsi-Cola Company. In 1992 he became Chief Operating Officer, Pepsi-Cola North America. In 1994 he became President and Chief Executive Officer of KFC North America.

Board Compensation and Benefits

Employee Directors will not receive additional compensation for serving on the Board of Directors. Non-employee Directors will receive an annual cash retainer of \$50,000 and an annual grant of options to buy \$50,000 worth of TRICON Common Stock. Non-employee Directors will also receive a one-time stock grant of \$25,000 upon joining the Board, payment of which will be deferred until termination from the Board. Directors may also defer payment of their retainers. Deferrals may not be made for less than one year. For the first year only, non-employee Directors will receive a Board meeting fee of \$1,500 for each Board meeting in excess of eight during such year and a Committee meeting fee of \$1,000 for each Committee meeting in excess of eight during such year. TRICON will also pay the premiums on directors' and officers' liability and business travel accident insurance policies covering the Directors.

Committees of the Board

It is anticipated that TRICON will establish Audit, Compensation and Nominating Committees of the Board. It is also anticipated that all members will be non-employee Directors.

Audit Committee. The Audit Committee will: (i) recommend to the Board the selection, retention or termination of TRICON's independent auditors; (ii) approve the level of non-audit services provided by the independent auditors; (iii) review the scope and results of the work of TRICON's internal auditors; (iv) review the scope and approve the estimated cost of the annual audit; (v) review the annual financial statements and the results of the audit with management and the independent auditors; (vi) review with management and the independent auditors the adequacy of TRICON's system of internal accounting controls; (vii) review with management and the independent auditors the significant recommendations made by the auditors with respect to changes in accounting procedures and internal accounting controls; and (viii) report to the Board on the results of its review and make such recommendations as it may deem appropriate.

Compensation Committee. The Compensation Committee will: (i) administer TRICON's Long-Term Incentive Plan, Executive Incentive Compensation Plan and related plans; (ii) approve, or refer to the Board of Directors for approval, changes in such plans and the compensation programs to which they relate; and (iii) review and approve the compensation of senior executives of TRICON.

Nominating Committee. The Nominating Committee will: (i) identify suitable candidates for Board membership; (ii) propose to the Board a slate of directors for election by the shareholders at each annual meeting; and (iii) propose candidates to fill vacancies on the Board based on qualifications it determines to be appropriate.

Executive Officers

In addition to Messrs. Pearson and Novak (see "Management of TRICON - Directors"), the following persons are expected to serve as executive officers of TRICON as of the Distribution Date:

Peter A. Bassi, age 48, will be elected President, International Restaurants prior to the Distribution Date. Prior thereto, Mr. Bassi served as Executive Vice President, Asia, of PepsiCo Restaurants International, a position he assumed in 1996. He joined Pepsi-Cola Company in 1972, and served in various management positions at Frito-Lay, Pizza Hut and PepsiCo Food Service International. He served as Senior Vice President, Finance and Chief Financial Officer at Taco Bell Corp. from 1987 to 1994. From 1995 to 1996 he served as Senior Vice President and Chief Financial Officer at PepsiCo Restaurants International.

Jeffrey A. Moody, age 38, will be elected President and Chief Concept Officer, KFC U.S.A., prior to the Distribution Date. Prior thereto, Mr. Moody served as Senior Vice President, Operations, for PepsiCo Restaurants International, a position he assumed in 1996. Previously, he was Vice President, Operations for PepsiCo Restaurants International. Mr. Moody joined Pizza Hut in 1987, and held various management positions prior to those mentioned above.

Michael S. Rawlings, age 42, will be elected President and Chief Concept Officer, Pizza Hut U.S.A., prior to the Distribution Date. Prior thereto, Mr. Rawlings served as Chairman, President and Chief Executive Officer of DDB Needham Worldwide Dallas Group, a position he held following the merger of Tracy-Locke, Inc. into DDB Needham in 1992. Previously, Mr. Rawlings was General Manager and Chief Operating Officer of Tracy-Locke, Inc., a position he assumed in 1989.

Peter C. Waller, age 42, will be elected President and Chief Concept Officer, Taco Bell U.S.A., prior to the Distribution Date. Prior thereto, Mr. Waller served as Senior Vice President of Marketing of Taco Bell, a position he assumed in the beginning of 1996, following 18 months as a Senior Vice President of Marketing for KFC-USA. He joined PepsiCo in 1990 as Managing Director for Western Europe, and subsequently spent two years as Regional Marketing Director for KFC for the South Pacific and South Africa.

Senior Operating Management

Jonathan D. Blum, age 39, will be elected Senior Vice President, Public Affairs, of TRICON prior to the Distribution Date. Prior thereto, Mr. Blum served as Vice President of Public Affairs for Taco Bell Corp., a position he has held since joining Taco Bell in 1993.

Thomas E. Davin, age 39, will be elected Chief Operating Officer, Taco Bell U.S.A. prior to the Distribution Date. Prior thereto, Mr. Davin served as Vice President, Operations Services, a position he assumed in 1996. Mr. Davin joined PepsiCo in 1991 as Director, Mergers and Acquisitions. He served as a Zone Vice President at Taco Bell from 1993 to 1996.

Gregg Dedrick, age 38, will be elected Chief People Officer of TRICON prior to the Distribution Date. Prior thereto, Mr. Dedrick served as Senior Vice President, Human Resources, for Pizza Hut and KFC, a position he assumed in 1996. Mr. Dedrick joined Pepsi-Cola Company in 1981 and held various personnel-related positions with Pepsi-Cola from 1981 to 1994. In 1994 he became Vice President, Human Resources, Pizza Hut, and in 1995 he became Senior Vice President Human Resources, KFC.

Aylwin B. Lewis, age 43, will be elected Chief Operating Officer, Pizza Hut U.S.A., prior to the Distribution Date. Prior thereto, Mr. Lewis served as Senior Vice President, Operations, a position he assumed in 1996. Mr. Lewis joined KFC in 1991 as a Regional General Manager. He served in various positions at KFC, including Senior Director of Franchising and Vice President of Restaurant Support Services, becoming Division Vice President, Operations in 1993, and Senior Vice President, New Concepts, in 1995.

Charles E. Rawley, age 46, is Chief Operating Officer, KFC U.S.A., and will continue to hold that position at the Distribution Date. Mr. Rawley joined KFC in 1985 as a Director of Operations. He served as Vice President of Operations for the Southwest, West, Northeast, and Mid-Atlantic Divisions from 1988 to 1994 when he became Senior Vice President, Concept Development. Mr. Rawley assumed his current position in 1995.

Stock Ownership of Executive Officers and Directors

The following table sets forth information concerning the TRICON Common Stock that is expected to be beneficially owned by each of TRICON's proposed directors, by each of the five highest paid TRICON executive officers and by all directors and executive officers as a group. The projections are based upon the number of shares of PepsiCo Capital Stock held by the individuals and the group at _____, 1997, and do not include any options granted under PepsiCo plans. Effective on the Distribution Date, certain executive officers of TRICON will have certain PepsiCo stock options converted into options to acquire TRICON Common Stock. See "PepsiCo Stock Option and Performance Share Conversion." In addition, certain executive officers of TRICON will be granted options to acquire TRICON Common Stock on or about the Distribution Date. These converted options and new grants are not reflected in this table. None of the following persons will hold in excess of 1% of TRICON Common Stock.

| Beneficial Owner | Projected Number of Shares |
|-------------------------|----------------------------|
| Andrall E. Pearson..... | [____] |
| David C. Novak..... | [____] |
| Peter A. Bassi..... | [____] |
| Jeffrey A. Moody..... | [____] |
| Peter C. Waller..... | [____] |

All Directors and Executive Officers as a Group..... [____]

EXECUTIVE COMPENSATION

Summary Compensation Table

| Name and Principal Position (1) | Year | Annual Compensation | | | Long-Term | Compensation | All Other Compensation (\$) |
|---|------|---------------------|------------|--------------------------------------|--|---|-----------------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Awards | Payouts | |
| | | | | | Securities Underlying Options (#) (2) | Long-Term Incentive Plan Payouts (\$) | |
| ----- Andrall E. Pearson Chairman of the Board and Chief Executive Officer | 1996 | -- | -- | -- | -- | -- | -- |
| David C. Novak Vice Chairman of the Board and President | 1996 | 433,200 | 515,200 | 9,068 | 888,861 | 0 | 0 |
| Peter A. Bassi President, International Restaurants | 1996 | 316,800 | 297,200 | 8,840 | 114,130 | 0 | 0 |
| Jeffrey A. Moody President and Chief Concept Officer, KFC U.S.A | 1996 | 191,300 | 147,700 | 15,195 | 51,391 | 0 | 0 |
| Peter C. Waller President and Chief Concept Officer, Taco Bell U.S.A. ----- | 1996 | 240,000 | 114,200 | 7,384 | 111,125 | 0 | 0 |

(1) The principal position set forth for each named executive officer reflects their position as of the Distribution Date. Compensation disclosed in this table was paid by certain of TRICON's subsidiaries during the relevant periods. Messrs. Pearson and Rawlings were not previously employed by TRICON or its subsidiaries (see "Management of TRICON - Executive Officers" for biographies of named executive officers). Mr. Pearson served as a Director of PepsiCo in 1994, 1995 and 1996, and received an annual retainer of \$70,000 and an annual stock grant with a value of \$30,000 on the grant date in 1994 and 1995. In 1996, Mr. Pearson received an annual retainer of \$70,000 until his retirement in April 1996.

(2) The options listed in this column are PepsiCo options and do not reflect the adjustments discussed in the section entitled "PepsiCo Stock Option and Performance Share Conversion."

PepsiCo Option Grants in Last Fiscal Year (1)

| Name | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term | |
|------------------|--|---|--|--------------------|---|-------------|
| | Number of Securities Under- lying Options Granted (#) | % of Total Options Granted to Employees in Fiscal Year | Exercise or Base Price (\$/Share) | Expiration Date | 5% (\$)(2) | 10% (\$)(2) |
| David C. Novak | 1,749(3) | 0.003 | 35.50 | 6/30/06 | 39,048 | 98,955 |
| | 300,000(6) | 0.590 | 29.46875 | 1/25/06 | 5,559,822 | 14,089,679 |
| | 300,000(7) | 0.590 | 29.46875 | 1/25/11 | 9,538,399 | 28,088,860 |
| | 190,032(4) | 0.374 | 29.46875 | 1/25/06 | 3,521,813 | 8,924,967 |
| | 68,572(4) | 0.135 | 28.4375 | 1/25/06 | 1,075,099 | 2,648,020 |
| | 17,804(5) | 0.035 | 28.4375 | 1/27/04 | 206,115 | 480,337 |
| | 10,704(5) | 0.021 | 28.03125 | 1/27/04 | 143,259 | 343,130 |
| Peter A. Bassi | 1,194(3) | 0.002 | 35.50 | 6/30/06 | 26,657 | 67,554 |
| | 11,840(4) | 0.023 | 31.6875 | 1/25/06 | 228,540 | 575,027 |
| | 6,080(5) | 0.012 | 31.6875 | 1/27/04 | 88,536 | 210,600 |
| | 95,016(4) | 0.187 | 29.46875 | 1/25/06 | 1,760,907 | 4,462,483 |
| Jeffrey A. Moody | 487(3) | 0.001 | 35.50 | 6/30/06 | 10,873 | 27,553 |
| | 50,904(4) | 0.100 | 29.46875 | 1/25/06 | 943,391 | 2,390,737 |
| Peter C. Waller | 765(3) | 0.001 | 35.50 | 6/30/06 | 17,079 | 43,282 |
| | 95,016(4) | 0.187 | 29.46875 | 1/25/06 | 1,760,907 | 4,462,483 |
| | 15,344(5) | 0.030 | 28.03125 | 1/27/04 | 205,359 | 491,871 |

(1) See "PepsiCo Stock Option and Performance Share Conversion" for a discussion of the treatment of these options as a result of the Distribution. The options listed in this table do not reflect the adjustments discussed in such section.

(2) The 5% and 10% rates of appreciation were set by the Securities and Exchange Commission and are not intended to forecast future appreciation, if any, of PepsiCo's stock. If PepsiCo's stock does not increase in value, then the option grants described in the table will be valueless.

(3) Twenty percent of these options becomes exercisable one year after the grant date, July 1, 1996, and an additional twenty percent becomes exercisable each year thereafter.

(4) These options become exercisable on February 1, 2000.

(5) These options become exercisable on February 1, 1998.

(6) These options become exercisable on January 25, 2001.

(7) These options become exercisable on January 25, 2006.

Aggregated PepsiCo Option Exercises in Last Fiscal
Year
and Fiscal Year-End Option Values (1)

| Name ----- | Shares Ac- quired on Exercise(#) ----- | Value Realized ----- | Number of Securities Under- lying Unexercised Options at Fiscal Year-End ----- | | Value of Unexercised In-the- Money Options at FY-End(2) ----- | |
|--------------------------|---|----------------------------|---|------------------------|---|------------------------|
| | | | Exercisable ----- | Unexercisable ----- | Exercisable ----- | Unexercisable ----- |
| David C. Novak | 60,000 | 1,594,551 | 342,152 | 1,062,806 | \$6,036,052 | \$2,011,962 |
| Peter A. Bassi | 53,100 | 1,390,173 | 212,598 | 215,598 | 3,554,777 | 1,005,862 |
| Jeffrey A. Moody | 0 | 0 | 78,005 | 101,904 | 1,029,001 | 501,657 |
| Peter C. Waller ----- | 0 | 0 | 41,526 | 169,747 | 493,177 | 736,550 |

(1) See "PepsiCo Stock Option and Performance Share Conversion" regarding the effect of the Distribution on PepsiCo stock options. The options listed in this table do not reflect the adjustments discussed in such section.

(2) The closing price of PepsiCo Capital Stock on December 27, 1996, the last trading day prior to PepsiCo's fiscal year-end, was \$29.625.

Pension Plan Table

Many of TRICON's salaried employees have been participants in PepsiCo's Salaried Employees Retirement Plan and PepsiCo's Pension Equalization Plan. On or prior to the Distribution Date, the Company and its participating subsidiaries intend to adopt a TRICON Salaried Employees Retirement Plan and TRICON Pension Equalization Plan on terms substantially similar to the comparable PepsiCo plans. The annual benefits payable under these two pension plans to employees with five or more years of service at age 65 are, for the first ten years of credited service, 30% of the employee's highest consecutive five-year average annual earnings plus an additional 1% of the employee's highest consecutive five-year average annual earnings for each additional year of credited service over ten years, less .43% of final average earnings not to exceed Social Security covered compensation multiplied by years of service (not to exceed 35 years).

Under the TRICON plans, when an executive retires at the normal retirement age (65), the approximate annual benefits payable after January 1, 1997 for the following pay classifications and years of service are expected to be:

| Remuneration | Years of Service | | | | |
|--------------|------------------|-----------|-----------|-----------|-----------|
| | 25 | 30 | 35 | 40 | 45 |
| \$250,000 | \$109,280 | \$121,130 | \$132,990 | \$145,490 | \$160,790 |
| \$500,000 | \$221,780 | \$246,130 | \$270,490 | \$295,490 | \$329,540 |
| \$750,000 | \$334,280 | \$371,130 | \$407,990 | \$445,490 | \$498,290 |
| \$1,000,000 | \$446,780 | \$496,130 | \$545,490 | \$595,490 | \$667,040 |
| \$1,250,000 | \$559,280 | \$621,130 | \$682,990 | \$745,490 | \$835,790 |

The pay covered by the pension plans referred to above is based on the salary and bonus shown in the Summary Compensation Table on page 38 for each of the named executive officers. The years of credited service as of January 1, 1997 for the following named executive officers are: David C. Novak, 10 years; Peter A. Bassi, 24 years; Jeffrey A. Moody, 9 years; and Peter C. Waller, 6 years.

Employment Agreement

The Company has entered into an employment agreement with Mr. Pearson under which he will serve as Chairman of the Board and Chief Executive Officer of TRICON until July 1, 2000. The agreement provides for an annual salary of \$_____; and annual incentive compensation awards to be determined by the TRICON Board of Directors. However, the bonus for the first year of the agreement will not be less than _____. As soon as practicable after the Distribution Date, Mr. Pearson will also be granted options to purchase _____ shares of TRICON Common Stock.

NEW STOCK-BASED AND INCENTIVE PLANS OF TRICON

TTRICON Long-Term Incentive Plan

Generally, the TRICON Long-Term Incentive Plan (the "TRICON LTIP") is expected to be approved prior to the Distribution Date by the TRICON Board of Directors and by PepsiCo as the sole shareholder of TRICON. The TRICON LTIP is expected to provide for the grant of various types of long-term incentive awards to key employees, consistent with the objectives and limitations of the TRICON LTIP. These awards may include non-qualified options to purchase shares of TRICON Common Stock, performance units, incentive stock options, stock appreciation rights and restricted stock grants. The term of the TRICON LTIP is expected to be ten years.

Administration. The TRICON LTIP is expected to vest broad powers in the Compensation Committee (the "Compensation Committee") of TRICON's Board of Directors to administer and interpret the TRICON LTIP. The Compensation Committee's powers are expected to include authority, within the limitations set forth in the TRICON LTIP, to select the persons to be granted awards, to determine terms and conditions of awards, including but not limited to the type, size and term of awards, to determine the time when awards will be granted and any conditions for receiving awards, to establish objectives and conditions for earning awards, to determine whether such conditions have been met and whether payment of an award will be made at the end of an award period, or at the time of exercise, or deferred, to determine whether payment of an award should be reduced or eliminated, and to determine whether such awards should be intended to qualify, regardless of their amount, as deductible for U.S. Federal income tax purposes. The TRICON LTIP is also expected to generally vest

broad powers in the Compensation Committee to amend and terminate the TRICON LTIP.

Eligibility. Key employees of TRICON and its divisions, subsidiaries and affiliates are expected to be eligible to be granted awards under the TRICON LTIP. The Compensation Committee may also grant awards to employees of a joint venture or other business in which TRICON has a substantial investment, and may make awards to non-executive employees who are in a position to contribute to the success of TRICON.

TRICON Executive Incentive Compensation Plan

Generally, TRICON's Executive Incentive Compensation Plan (the "TRICON Incentive Plan") is expected to be approved prior to the Distribution Date by the TRICON Board of Directors and by PepsiCo as the sole shareholder of TRICON. The TRICON Incentive Plan is expected to provide for officers of TRICON and its divisions and subsidiaries to be granted annual cash incentive awards consistent with the objectives and limitations of the TRICON Incentive Plan. The term of the TRICON Incentive Plan is expected to be ten years.

Administration. The TRICON Incentive Plan is expected to vest broad powers in the Compensation Committee to administer and interpret the TRICON Incentive Plan. The Compensation Committee's powers are expected to include authority, within the limitations set forth in the TRICON Incentive Plan, to select the persons to be granted awards, to determine the time when awards will be granted, to determine and certify whether objectives and conditions for earning awards have been met, to determine whether payment of an award will be made at the end of an award period or deferred, and to determine whether an award or payment of an award should be reduced or eliminated. The TRICON Incentive Plan is also expected to generally vest broad powers in the Compensation Committee to amend and terminate the TRICON Incentive Plan.

Eligibility. At the discretion of the Compensation Committee, executive officers of TRICON are expected to be granted, and other officers of TRICON, its divisions and subsidiaries may be granted, annual incentive awards under the TRICON Incentive Plan.

Successor Plans

On or prior to the Distribution Date, the Company intends to adopt plans with terms substantially similar to the PepsiCo Stock Option Incentive Plan (the "PepsiCo SOIP") and the PepsiCo SharePower Stock Option Plan ("PepsiCo SharePower") for the purpose of continuing TRICON stock options which were converted from options granted under such PepsiCo plans. See "PepsiCo Stock Option and Performance Share Conversion." It has not yet been determined whether any new grants will be made under these plans. TRICON stock options and performance share units ("PSUs") which were converted from options or PSUs, as the case may be, awarded under the PepsiCo Long-Term Incentive Plan ("PepsiCo LTIP") will be considered to have been awarded under the TRICON LTIP described above.

PEPSICO STOCK OPTION AND PERFORMANCE SHARE CONVERSION

Effective on the Distribution Date, holders of outstanding options to purchase PepsiCo Capital Stock and holders of unvested PepsiCo PSUs will have their interests adjusted as described below. The Compensation Committee of PepsiCo's Board of Directors has approved formulas to adjust the exercise price and award size of PepsiCo stock options and PSUs pursuant to the terms and provisions of each such grant and the relevant plan. TRICON employees who hold PepsiCo awards will receive either an award of TRICON stock options or PSUs or an adjusted PepsiCo award, in accordance with the formulas described below. The adjustment formulas are intended to maintain the value of the outstanding PepsiCo stock options at the time of adjustment.

Stock Options. Employees of TRICON who received PepsiCo stock options in connection with the 1996 grants and any 1997 grants under the PepsiCo LTIP and the PepsiCo SOIP, and employees of TRICON who received PepsiCo stock options under PepsiCo SharePower which have not become exercisable prior to the Distribution Date, shall have such PepsiCo stock options entirely converted into TRICON stock options. For these converted options, the exercise price of each such TRICON stock option shall equal the exercise price of the corresponding PepsiCo stock option prior to the Distribution, multiplied by a factor (the "TRICON Stock Conversion Ratio") where the numerator is the composite volume weighted average price of the TRICON Common Stock for the trading days during a pricing period to be determined at a future date by the PepsiCo Board of Directors (the "Per Share TRICON Stock Price") and the denominator is the composite volume weighted average price of PepsiCo Capital Stock trading with TRICON for the trading days during the pricing period (the "Per Share Pre-Split PepsiCo Stock Price"). The number of shares of TRICON Common Stock subject to each such TRICON stock option shall equal the number of shares subject to the corresponding PepsiCo stock option prior to the Distribution divided by the TRICON Stock Conversion Ratio. All other terms of such TRICON stock options shall be the same as the terms of the PepsiCo stock options from which they were converted.

Employees of TRICON who received PepsiCo stock options in connection with grants made prior to 1996 under the PepsiCo LTIP and the PepsiCo SOIP, and employees of TRICON who received PepsiCo stock options under PepsiCo SharePower which have become exercisable prior to the Distribution Date, shall retain such options to purchase PepsiCo Capital Stock, subject to the following adjustments to the exercise price and number of shares subject to each such option (each, an "Adjusted PepsiCo Stock Option"). The exercise price of each Adjusted PepsiCo Stock Option shall be determined by multiplying the PepsiCo stock option exercise price prior to the Distribution by a factor (the "PepsiCo Stock Conversion Ratio") where the numerator is the composite volume weighted average price of PepsiCo Capital Stock trading without TRICON for the trading days during the pricing period (the "Per Share Post-Split PepsiCo Stock Price") and the denominator is the Per Share Pre-Split PepsiCo Stock Price. The number of shares of PepsiCo Capital Stock subject to each Adjusted PepsiCo Stock Option shall equal the number of shares subject to such PepsiCo stock option prior to the Distribution divided by the PepsiCo Stock Conversion Ratio. All other terms of the Adjusted PepsiCo Stock Options shall be the same as the terms of the pre-adjustment PepsiCo stock options.

Employees of PepsiCo who will continue to be employed by PepsiCo after the Distribution Date and hold any PepsiCo stock options, and holders of any PepsiCo stock options who retire or have retired from PepsiCo on or prior to the Distribution Date, regardless of whether such holder has retired from PepsiCo's packaged goods or restaurant businesses and regardless of whether such options were granted under the PepsiCo LTIP, the PepsiCo SOIP, PepsiCo SharePower or otherwise, shall retain such options to purchase PepsiCo Capital Stock, subject to the adjustments to the exercise price and number of shares subject to each such option described in the previous paragraph. All other terms of such Adjusted PepsiCo Stock Options shall be the same as the terms of the pre-adjustment PepsiCo stock options.

Performance Share Units. Performance share units awarded in 1994 will remain unchanged for employees of TRICON and post-split PepsiCo. These awards will continue to earn out against the pre-established earnings per share target ("EPS") and are expected to be paid out on schedule in 1998. EPS results will be measured on a consolidated basis (including the restaurant businesses) through the end of 1997, provided that forecasted restaurant earnings will be used for the period between the Distribution Date and year-end in the EPS calculation.

Performance share units awarded in 1996 will have their target EPS adjusted, but vesting, the measurement period and the payout date of such awards will remain unchanged for employees of TRICON and post-split PepsiCo. For TRICON employees, the TRICON Board of Directors is expected to determine the appropriate four year cumulative EPS target for such awards based on TRICON's business plans. For employees of post-split PepsiCo, the current four year EPS target will be adjusted to reflect the exclusion of the restaurant businesses while maintaining the original annual growth rate amounts.

DESCRIPTION OF TRICON CAPITAL STOCK

Under TRICON's Restated Articles of Incorporation (the "TRICON Articles"), which have been filed as an exhibit to the Registration Statement of which this Information Statement forms a part, TRICON's authorized Capital Stock consists of 1,000,000,000 shares, without par value, of which 750,000,000 shall be Common Stock and 250,000,000 shall be preferred stock ("Preferred Stock"). Based on _____ shares of PepsiCo Capital Stock outstanding as of _____, 1997, and a distribution ratio of one share of TRICON Common Stock for every _____ shares of PepsiCo Capital Stock, it is expected that approximately _____ shares of TRICON Common Stock will be distributed to holders of PepsiCo Capital Stock. No Preferred Stock will be distributed to PepsiCo shareholders in connection with the Distribution.

TRICON Common Stock

The holders of TRICON Common Stock will be entitled to one vote for each share on all matters voted on by shareholders, including the election of directors. Except as provided with respect to any series of Preferred Stock authorized by TRICON's Board of Directors, the exclusive voting power with respect to all matters to be voted on by shareholders shall be vested in the holders of Common Stock. The TRICON Articles do not provide for cumulative voting in the election of directors. The holders of TRICON Common Stock will be entitled to such dividends as may be

declared from time to time by the TRICON Board from funds available therefor, and upon liquidation will be entitled to receive, pro rata, all the net assets of TRICON available for distribution to such holders. All of the shares of TRICON Common Stock distributed by PepsiCo will be fully paid and nonassessable. The holders of TRICON Common Stock will have no preemptive right to subscribe for or purchase any securities of any kind or class of TRICON.

TRICON Preferred Stock

Under the TRICON Articles, the Company's Board of Directors is empowered, subject to limitations prescribed by North Carolina law, to amend the TRICON Articles to authorize the issuance of Preferred Stock. The Preferred Stock may be divided into two or more series, with such preferences, limitations and relative rights as the Board may determine. However, no holder of Preferred Stock shall be authorized or entitled to receive upon an involuntary liquidation of the Company an amount in excess of \$100 per share of Preferred Stock.

Dividends

The payment and level of cash dividends, if any, declared by TRICON after the Distribution will be subject to the discretion of the TRICON Board. Dividend decisions will be based on a number of factors, including TRICON's operating results and financial requirements on a stand-alone basis as well as loan agreement and legal restrictions relating thereto.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the TRICON Common Stock will be BankBoston,N.A., P.O. Box 9155, Boston, MA 02205-9155, (____) _____.

Listing and Trading of TRICON Common Stock

Prior to the date hereof, there has not been any established trading market for TRICON Common Stock. Application is expected to be made to list the TRICON Common Stock on the NYSE under the symbol "YUM." It is presently anticipated that the TRICON Common Stock will be approved for listing on the NYSE prior to the Distribution Date, and trading is expected to commence on a "when-issued" basis prior to the Record Date. The term "when issued" indicates a conditional transaction in a security authorized for issuance but not as yet actually issued. All "when issued" transactions are on an "if" basis, to be settled if and when the actual security is issued and the NYSE directs that the transactions are to be settled.

There can be no assurance as to the prices at which the TRICON Common Stock will trade before, on or after the Distribution Date. Until the TRICON Common Stock is fully distributed and an orderly trading market develops in the TRICON Common Stock, the price at which such stock trades may fluctuate significantly and may be lower or higher than the respective price that would be expected for a fully distributed issue. Prices for the TRICON Common Stock will be determined in the marketplace and may be influenced by many factors, including (i) the depth and liquidity of the market for TRICON Common Stock, (ii) developments affecting TRICON's business, (iii) investor

perception of TRICON, and (iv) general economic and market conditions. As of _____, 1997, there were _____ holders of PepsiCo Capital Stock, which approximates the number of prospective record holders of TRICON Common Stock.

Shares of TRICON Common Stock distributed in the Distribution will be freely transferable, except for securities received by persons who may be deemed to be affiliates of TRICON ("Affiliates") under the Securities Act of 1933, as amended (the "Securities Act"). Affiliates would generally include individuals or entities that control, are controlled by, or are under common control with TRICON and will include certain officers and Directors of TRICON. Persons who are Affiliates of TRICON will be permitted to sell their shares of TRICON Common Stock only pursuant to an effective registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act.

NORTH CAROLINA LAW - SHARE ACQUISITIONS

North Carolina law includes two provisions relating to changes in control of a public company as a result of share acquisitions. The first is The North Carolina Control Share Acquisition Act, which requires an acquiror to obtain the favorable vote of a company's other shareholders before it is allowed to vote shares acquired in excess of certain statutory percentages. As permitted by the Act, the TRICON Articles provide that this Act shall not be applicable to TRICON. The second is The North Carolina Shareholder Protection Act, which establishes minimum safeguards for a company's public shareholders in the event another entity first acquires more than 20% of the stock and then wishes to accomplish a second-step combination of the two businesses. Such safeguards relate to the minimum value to be paid to the company's remaining shareholders in any such business combination; preservation of board of directors representation for the publicly-owned shares and of the dividend rate; limitations on certain intercorporate transactions prior to the consummation of such business combination; and requirements as to disclosure to remaining shareholders in connection with any such proposed business combination. Unless these minimum safeguards are observed, any such business combination would require the affirmative vote of the holders of 95% of the voting shares of a corporation.

INDEMNIFICATION OF DIRECTORS

A provision of the TRICON Articles (the "Provision") provides that to the full extent from time to time permitted by law, no Director shall be personally liable in any action for monetary damages for breach of any duty as a Director, whether such action is brought by or in the right of the Company or otherwise. Neither the amendment nor repeal of the Provision, nor adoption of any provision of the TRICON Articles which is inconsistent with the Provision, shall eliminate or reduce the protection afforded by the Provision with respect to any matter which occurred, or any cause of action, suit or claim which, but for the Provision would have accrued or arisen, prior to such amendment, repeal or adoption.

While the TRICON Articles provide Directors with protection from awards for monetary damages for breaches of their duty of care, they do not eliminate such duty. Accordingly, the TRICON Articles will have no effect on the availability of equitable

remedies such as an injunction or rescission based on a Director's breach of his or her duty of care.

The TRICON Articles provide that the Company shall, to the fullest extent from time to time permitted by law, indemnify its Directors and officers against all liabilities and expenses in any suit or proceeding, whether civil, criminal, administrative or investigative, and whether or not brought by or on behalf of the Company, including all appeals therefrom, arising out of their status as such or their activities in any of the foregoing capacities, unless the activities of the person to be indemnified were at the time taken known or believed by him to be clearly in conflict with the best interests of the Company. The Company shall likewise and to the same extent indemnify any person who, at the request of the Company, is or was serving as a Director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or as a trustee or administrator under any employee benefit plan. The right to be indemnified shall include, without limitation, the right of a Director or officer to be paid expenses in advance of the final disposition of any proceeding upon receipt of an undertaking to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified. A person entitled to indemnification shall also be paid reasonable costs, expenses and attorneys' fees (including expenses) in connection with the enforcement of rights to the indemnification granted. The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled and shall not be limited by the provisions of the North Carolina Business Corporation Act or any successor statute. The Board of Directors may take such action as it deems necessary or desirable to carry out the foregoing indemnification provisions, including adopting procedures for determining and enforcing the rights guaranteed thereby, and the Board of Directors is expressly empowered to adopt, approve and amend from time to time such Bylaws, resolutions or contracts implementing such provisions or such further indemnification arrangement as may be permitted by law. Neither the amendment or repeal of the foregoing indemnification provisions, nor the adoption of any provision of the TRICON Articles inconsistent with the foregoing indemnification provisions, shall eliminate or reduce any rights to indemnification afforded by the foregoing indemnification provisions to any person with respect to their status or any activities in their official capacities prior to such amendment, repeal or adoption.

1998 ANNUAL MEETING AND SHAREHOLDER PROPOSALS

TRICON's first annual shareholders meeting after the Distribution is expected to be held on May 13, 1998. If a shareholder wishes to have a proposal considered at the 1998 meeting and included in the Proxy Statement for that meeting, the proposal must be received by TRICON in writing on or before November 30, 1997.

AVAILABLE INFORMATION

When this Form 10 becomes effective, TRICON will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, will file reports, proxy . Copies of the Form 10, including the exhibits thereto, and the reports, proxy statements and other information filed by TRICON with the SEC can then be inspected and copied at the public reference facilities of the SEC,

450 Fifth Street N.W., Room 1024, Washington D.C. 20549 and at the SEC's Regional Offices: 7 World Trade Center, 13th floor, New York, NY 10048 and 500 West Madison Street, Suite 1400, Chicago, IL 60661. Copies of such material can be obtained at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street N.W, Room 1024, Washington D.C. 20549. Copies may also be obtained from the SEC's Web Site (<http://www.sec.gov>). Following the listing of TRICON Common Stock on the NYSE, TRICON will be required to file with that exchange copies of such reports, proxy statements and other information which then can be inspected at the offices of such exchange at 20 Broad Street, New York, NY 10005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

For Fiscal Years Ended December 28 1996, December 30, 1995 and December 31, 1994

The following Management's Discussion and Analysis should be read in conjunction with the audited Combined Financial Statements on pages F-2 - F- 23 and the Cautionary Statements on pages 61-62. The audited Combined Financial Statements included herein may not necessarily be indicative of the results of operations, financial position and cash flows of TRICON in the future or had it operated as a separate, independent company during the periods presented. The audited Combined Financial Statements included herein do not reflect any changes that may occur in the financing and operations of TRICON as a result of the Distribution.

Management's Discussion and Analysis for fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994 is presented in four sections. The first section analyzes the combined results of operations and provides a perspective on operations outside of the United States (pages 48-54). The second and third sections address TRICON's combined cash flows (pages 54-56) and financial condition (page 56), respectively. The final section summarizes TRICON's use of derivatives (pages 56-57).

Results of Operations

The table in Note 3 on page F-11 summarizes significant items impacting comparability.

Revenues declined \$18 million in 1996. Company-operated restaurants revenues decreased \$75 million or 1%. The decrease was driven by volume declines, partially due to a difficult comparison with the second quarter 1995 introduction of Stuffed Crust pizza in the U.S., and the net unfavorable impact of fewer Company-operated units. These declines were partially offset by higher effective net pricing and the consolidation of California Pizza Kitchen at the end of the second quarter of 1996 (see Note 16 on page F-19). The \$57 million or 13% increase in franchise and license fees primarily reflected new franchise and license units, including the continuing effects of restaurant refranchisings. In 1996, same store sales for Company-operated units increased 6% at KFC U.S. due primarily to the impact of new products such as Tender Roast Chicken,

Colonel's Crispy Strips and Chunky Chicken Pot Pies. Same store sales for Company-operated units decreased 4% and 2% at Pizza Hut U.S. and Taco Bell U.S., respectively, reflecting fewer customer transaction counts.

Revenues increased \$685 million or 7% in 1995. The fifty-third week in 1994 (see Note 3 on page F-11) reduced the 1995 revenue growth rate by approximately 2 points. Company-operated restaurants revenues grew \$643 million or 7%. The growth reflected net additional Company-operated units and higher effective net pricing, partially offset by a decline in volume. Franchise and license fees increased \$42 million or 11%, primarily driven by new franchise and license units.

In 1995, same store sales for Company-operated units increased 4% and 7% at Pizza Hut U.S. and KFC U.S., respectively, driven by new product offerings. Same store sales for Company-operated units declined 4% at Taco Bell U.S. due to fewer customer transaction counts. Same store sales growth has been adjusted to exclude the impact of the fifty-third week in 1994 (see Note 3 on page F-11).

Company-Operated Restaurant Margins and Profit

| | 1996 | 1995 | 1994 |
|--|---------|---------|---------|
| Revenues from company-operated restaurants | 100.0% | 100.0% | 100.0% |
| Food and paper | 33.0% | 33.1% | 32.8% |
| Payroll and employee benefits | 28.7% | 28.4% | 28.8% |
| Occupancy and other operating expenses | 27.8% | 27.6% | 27.4% |
| Margins | 10.5% | 10.9% | 11.0% |
| Profit | \$1,019 | \$1,074 | \$1,012 |

In 1996, Company-operated restaurant margins declined .4 points primarily reflecting the deleveraging effect of reduced revenues due to decreased customer transaction counts in Pizza Hut U.S. and Taco Bell U.S. The margin decline was moderated by the fact that higher effective net pricing exceeded increases in the costs of labor, food (led by cheese) and occupancy and other operating expenses. The increased labor costs reflected increases in wage rates and benefits as well as increased staffing due to TRICON's customer service improvement initiatives. Increased occupancy and other operating expenses included higher refurbishment expenses at Pizza Hut U.S.

Company-operated restaurant margins declined .1 point in 1995. The deleveraging effect of reduced revenues at Taco Bell U.S. due to decreased customer transaction counts coupled with increased occupancy and other operating expenses, were substantially offset by reduced food costs (led by beef), labor efficiencies resulting from reduced restaurant management staffing and higher effective pricing.

General, administrative and other expenses (G&A) comprises general and administrative expenses, other income and expense and equity income or loss from investments in unconsolidated affiliates. The \$75 million or 9% growth in G&A in 1996

reflected increased spending, led by multiple U.S. initiatives to improve customer service and to support international growth. Customer service initiatives included expanding the number and training of personnel supervising the restaurant managers, as well as project spending against market-related programs. These increased expenses were offset by equity income in 1996 compared to losses in 1995, due in part to the absence of CPK's losses as a result of its consolidation in 1996 (see Note 16 on page F-19). In 1995, G&A grew \$42 million or 5% primarily reflecting a \$17 million charge in 1995 to move Pizza Hut's headquarters from Wichita to Dallas, spending to support U.S. field operations and international development. Included in G&A is an allocated amount reflecting TRICON's share of overhead costs related to PepsiCo's shared administrative expenses of \$53 million, \$52 million and \$50 million in 1996, 1995 and 1994, respectively. The amounts allocated to TRICON were based on the ratio of TRICON's revenues to PepsiCo's revenues. They are not necessarily indicative of the expenses that TRICON would have incurred for these services had it been a separate, independent company.

Net facility actions

| (\$ in millions) | 1996 | | 1995 | | 1994 | |
|-----------------------------|----------|-----------|---------|-----------|---------|-----------|
| | Pre-Tax | After-Tax | Pre-Tax | After-Tax | Pre-Tax | After-Tax |
| Refranchising gains | \$ (139) | \$ (86) | \$ (93) | \$ (55) | \$ - | \$ - |
| Store closure costs | 40 | 25 | 38 | 26 | 10 | 6 |
| SFAS 121 impairment charges | 62 | 40 | 457 | 324 | - | - |
| Net (gains)/losses | \$ (37) | \$ (21) | \$ 402 | \$ 295 | \$ 10 | \$ 6 |

Net facility actions result from TRICON executing its initiatives to rebrand units and close underperforming units, and its impairment evaluations for restaurants to be used in the business under SFAS 121. See Note 3 on page F-11.

Unusual disposal charges of \$246 million (\$189 million after-tax) in 1996 were associated with the decision to dispose of TRICON's non-core U.S. restaurant businesses. See Note 3 on page F-11.

Reported operating profit increased \$120 million in 1996. Ongoing operating profit, which was adjusted to exclude the unusual disposal charges in 1996 and the initial impact of adopting SFAS 121 in 1995 (see Note 3 on page F-11), decreased \$91 million or 13%. The decline reflected the increased G&A expenses and reduced profits from Company-operated restaurants, partially offset by increased profits from franchise and license fees.

Reported operating profit decreased \$330 million in 1995. Ongoing operating profit, which was adjusted to exclude the initial impact of adopting SFAS 121 in 1995 (see Note 3 on page F-11), grew \$127 or 22%. The fifty-third week in 1994 (see Note 3 on page F-11) reduced the ongoing operating profit growth rate by approximately 5 points. The increase was due to net rebranding gains in 1995, compared to store closure costs in 1994, higher profits from Company-operated restaurants and increased

franchise and license fees. These improvements were partially offset by increased G&A expenses.

| Interest Expense, net | | | | | |
|-----------------------|----------|----------|----------|----------------|------|
| (\$ in millions) | 1996 | 1995 | 1994 | % Growth Rates | |
| | | | | 1996 | 1995 |
| PepsiCo allocation | \$ (275) | \$ (316) | \$ (300) | (13) | 5 |
| External debt | (35) | (52) | (49) | (33) | 6 |
| Interest expense | (310) | (368) | (349) | (16) | 5 |
| Interest income | 10 | 13 | 8 | (23) | 63 |
| Interest expense, net | \$ (300) | \$ (355) | \$ (341) | (15) | 4 |

TRICON's operations have been financed through its operating cash flows, refranchising of restaurants and investments by or advances from PepsiCo. TRICON's interest expense includes an allocation of PepsiCo's interest expense (PepsiCo's weighted average interest rate applied to the average balance of investments by and advances from PepsiCo to TRICON) and interest expense on its external debt. TRICON's external debt is primarily limited to capital lease obligations associated with real estate and, to a much lesser extent, assumed debt of acquired businesses and international third-party debt. TRICON is expected to have a capital structure different from the capital structure in the Combined Financial Statements and accordingly, interest expense is not necessarily indicative of the interest expense that TRICON would have incurred as a separate, independent company or will incur in future periods.

Interest expense, net declined 15% in 1996 primarily reflecting a lower average balance of net investments by and advances from PepsiCo to TRICON, coupled with PepsiCo having a lower weighted average interest rate. Interest expense, net in 1995 increased 4%, reflecting an increase in PepsiCo's weighted average interest rate, coupled with a higher average balance of investments by and advances from PepsiCo to TRICON.

| Income Taxes | | | |
|--------------------|--------|---------|-------|
| (\$ in millions) | 1996 | 1995 | 1994 |
| Reported | | | |
| Income Taxes | \$ 125 | \$ 29 | \$122 |
| Effective Tax Rate | 173.6% | (28.2%) | 50.6% |
| Ongoing* | | | |
| Income Taxes | \$ 182 | \$ 162 | \$122 |
| Effective Tax Rate | 57.2% | 45.8% | 50.6% |

* Adjusted to exclude the effects of the unusual disposal charges in 1996 and the initial impact of adopting SFAS 121 in 1995 (See Note 3 on page F-11).

The 1996, 1995 and 1994 reported effective tax rates were 173.6%, (28.2%) and 50.6%, respectively. The following reconciles the U.S. Federal statutory tax rate to TRICON's ongoing effective rate:

| | 1996 | 1995 | 1994 |
|---|-------|-------|--------|
| U.S. Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State income tax, net of Federal tax benefit..... | 2.2% | 2.1% | 4.9% |
| Foreign and U.S. tax effects attributable to foreign operations | 17.0% | 7.1% | 11.3% |
| Other, net | 3.0% | 1.6% | (0.6)% |
| Ongoing effective tax rate | 57.2% | 45.8% | 50.6% |

The 1996 ongoing effective tax rate increased 11.4 points to 57.2% while the 1995 ongoing effective tax rate declined 4.8 points to 45.8%. The effective tax rate attributable to foreign operations varied from year-to-year but in each year was higher than the U.S. federal tax statutory rate. This was primarily due to foreign tax rate differentials, including foreign withholding tax paid without benefit of the related foreign tax credit for U.S. income tax purposes, and losses of foreign operations for which no tax benefit could be currently recognized.

The increase in the 1996 ongoing effective tax rate related to an increase in tax effects attributable to foreign operations, due in part to adjustments related to prior tax years, and the establishment of a valuation allowance as a result of a change in judgment as to the realizability of certain foreign deferred tax assets.

The decrease in the 1995 ongoing effective tax rate principally reflected a reduction in tax effects attributable to foreign operations and reduced state income taxes.

Income tax expense was calculated as if TRICON filed separate income tax returns. As PepsiCo manages its tax position on a consolidated basis, which takes into account the results of all of its businesses, TRICON's effective tax rate in the future could vary from its historical effective tax rates. TRICON's future effective tax rate will largely depend on its structure and tax strategies as a separate, independent company.

(Loss)/Income Before Cumulative Effect of Accounting Changes

| (\$ in millions) | 1996 | 1995 | 1994 | % Growth Rates | |
|------------------|---------|----------|-------|----------------|------|
| | | | | 1996 | 1995 |
| Reported | \$ (53) | \$ (132) | \$119 | (60) | NM |
| Ongoing* | \$136 | \$ 192 | \$119 | (29) | 61 |

NM - Not meaningful.

* Adjusted to exclude the unusual disposal charges in 1996 and the initial impact of adopting SFAS 121 in 1995 (see Note 3 on page F-11).

International Operations

| (\$ in millions) | 1996 | 1995 | 1994 | % Growth Rates | |
|-------------------|---------|---------|---------|----------------|------|
| | | | | 1996 | 1995 |
| Revenues | \$2,308 | \$2,087 | \$1,794 | 11 | 16 |
| Operating Profit* | | | | | |
| Reported | \$ 144 | \$ (26) | \$ 79 | NM | NM |
| Ongoing** | \$ 144 | \$ 111 | \$ 79 | 30 | 41 |

NM - Not meaningful.

* Includes equity income/(loss) but excludes foreign exchange gains/(losses). ** Adjusted to exclude the initial impact of adopting SFAS 121 in 1995 (see Note 3 on page F-11).

In 1996, TRICON's international business represented about 20% of its revenues and its ongoing operating profits. As currency exchange rates change, translation of the income statements of TRICON's international operations into U.S. dollars could affect year-over-year comparability of operating results. Material translation effects are identified in Management's Analysis.

International Operations Review

1996 vs. 1995

Revenues increased \$221 million driven by the favorable impact of net additional Company-operated units, higher effective net pricing and increased volumes.

Reported operating profit increased \$170 million. Ongoing operating profit increased \$33 million reflecting increased franchise and license fees due to new unit activity, net additional Company-operated units, increased volumes and profits from net facility actions compared to losses in 1995 (see below). These benefits were partially offset by increased administrative costs for systems initiatives and standardization of operational processes to support growth.

| | Net Facility Actions | |
|--|----------------------|--------|
| | 1996 | 1995 |
| Refranchising gains | \$ (5) | \$ (4) |
| Store closure costs | (5) | 12 |
| Recurring SFAS 121 impairment charges | 8 | - |
| Net (gains)/losses | \$ (2) | \$ 8 |

1995 vs. 1994

Revenues increased \$293 million or 16%. The fifty-third week in 1994 (see Note 3 on page F-11) reduced the 1995 revenue growth rate by approximately 2 points. The revenue increase primarily reflected additional Company-operated units. Reported operating profit decreased \$105 million. Ongoing operating profit increased \$32 million or 41%. The fifty-third week in 1994 (see Note 3 on page F-11) reduced the ongoing operating profit growth rate by approximately 7 points. The increased ongoing operating profit reflected additional Company-operated units, increased franchise and license fees primarily from net new units and a net favorable currency translation impact. These gains were partially offset by increased administrative expenses and \$8 million of net facility losses in 1995. A reduction in volume was substantially offset by higher prices, which exceeded increased costs.

Combined Cash Flows

Cash flow from operations, refranchising of restaurants and investments by or advances from PepsiCo have financed TRICON's capital investments and acquisitions. Under PepsiCo's centralized cash management system, PepsiCo deposits to TRICON's bank accounts sufficient cash to meet TRICON's daily obligations and withdraws excess funds from those accounts. These transactions are included in investments by and advances from PepsiCo in the Combined Balance Sheet.

The debt levels reflected in the audited Combined Financial Statements are not indicative of the debt levels of TRICON as a separate, independent entity. As an independent company, TRICON expects to obtain initial debt funding of approximately \$x billion. TRICON expects to use \$x billion of the debt proceeds to settle certain amounts due to PepsiCo from TRICON and to declare and pay a dividend to PepsiCo just prior to the Distribution.

Combined cash flow activity in 1996 reflected cash flows from operating activities of \$713 million which, coupled with cash inflows from refranchising of restaurants of \$355 million, funded capital spending of \$620 million and reduced investments by and advances from PepsiCo by \$285 million and third-party debt by \$137 million.

Net cash provided by operating activities decreased \$100 million or 12% to \$713 million in 1996. The decrease was due to reduced income before noncash charges and credits of \$76 million and lower working capital cash inflows of \$24 million.

The decline in working capital cash inflows was primarily due to an unfavorable swing in income taxes payable partially offset by faster growth in accounts payable and other current liabilities and a favorable swing in inventories. The change in accounts payable and other current liabilities was primarily due to timing of payments.

Net cash provided by operating activities in 1995 declined \$81 million or 9% versus 1994 to \$813 million. The decline primarily reflected lower working capital cash inflows in 1995 of \$113 million partially offset by increased income before noncash charges and credits of \$32 million. The decline in working capital cash inflows was primarily due to a slower rate of growth in accounts payable and other current liabilities in 1995 partially offset by a favorable swing in income taxes payable. The change in accounts payable and other current liabilities primarily reflected timing of payments and a reduced level of purchases.

Net cash used for investing activities decreased \$348 million or 58% to \$249 million in 1996 and \$667 million or 53% to \$597 million in 1995. The 1996 decline was principally due to increased proceeds from refranchising of restaurants, coupled with reduced capital spending and the absence of acquisitions. The 1995 decline was primarily due to reduced capital spending and acquisitions, proceeds from 1995 refranchisings and reduced loans to unconsolidated affiliates, which are classified in other, net.

The decreased capital spending of \$81 million in 1996 and \$337 million in 1995 primarily reflected a slow down of new unit development by TRICON as part of its initiative to reduce its percentage ownership of total system units. Capital spending outside of the U.S. represented 26% of total capital spending in 1996 and 1995 and 32% in 1994.

Net cash used for financing activities almost doubled in 1996 to \$422 million primarily reflecting debt payments in 1996 compared to proceeds in 1995 and a greater decline in investments by and advances from PepsiCo. Net cash used for financing activities of \$218 million in 1995 compared to a cash inflow of \$388 million in 1994. This change was primarily due to a swing in investments by and advances from PepsiCo.

Free cash flow is the key internal measure used to evaluate cash flow performance.

| (\$ in millions) | 1996 | 1995 | 1994 |
|---|-------|--------|----------|
| Net cash provided by operating activities | \$713 | \$ 813 | \$ 894 |
| Investing activities | | | |
| Capital spending | (620) | (701) | (1,038) |
| Refranchising of restaurants | 355 | 165 | - |
| Sales of property, plant & equipment | 45 | 43 | 21 |
| Other, net | (29) | (38) | (134) |
| | \$464 | \$ 282 | \$ (257) |

In 1996, free cash flow increased \$182 million or 65% to \$464 million. The increase reflected the higher proceeds from refranchising of restaurants and lower capital spending, partially offset by reduced cash flow from operating activities. In 1995, the favorable free cash flow swing of \$539 million was due primarily to lower capital spending, 1995 refranchising of restaurants and the reduced loans to unconsolidated affiliates, which are classified in other, net. These cash inflows were partially offset by reduced cash flow from operating activities.

Combined Financial Condition

Assets at year-end 1996 decreased \$388 million or 6% to \$6.5 billion. The decline reflected the impact of the unusual disposal charges of \$246 million (see Note 3 on page F-11). The increase in prepaid expenses, deferred income taxes and other current assets principally reflected a reclassification of the reduced carrying amount (which reflects estimated fair market value) of the non-core U.S. restaurant assets which are held for disposal and a related increase in current deferred income tax assets.

TRICON's negative operating working capital position, which reflects the cash sales nature of TRICON's operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative \$445 million and negative \$831 million at year-end 1996 and 1995, respectively. The \$386 million decrease in negative working capital in 1996 primarily reflected the reclassification of the non-core U.S. restaurant assets held for disposal to other current assets and the increase in current deferred income taxes.

Derivative Instruments

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

TRICON's use of derivative instruments is currently limited to commodity futures contracts traded on national exchanges, which are entered into with the objective of reducing food costs. While such hedging activity has historically been limited, hedging activity could increase in the future if TRICON believes it would result in lower total

costs. Open contracts and deferred gains and losses at year-end 1996 and 1995, as well as gains and losses recognized as part of cost of sales in 1996, 1995 and 1994, were not significant.

Management's Discussion and Analysis

For the Twelve Weeks Ended March 22, 1997 and March 23, 1996

The following Management's Discussion and Analysis should be read in conjunction with the unaudited Condensed Combined Financial Statements on pages F-24 - F-28 and the Cautionary Statements on pages 60-61.

Results of Operations

Revenues decreased \$36 million or 2% in 1997. Company-operated restaurants revenue decreased \$48 million or 2%. The decrease was driven by fewer Company-operated units as a result of TRICON's initiatives to rebrand units and close underperforming units. This decrease was partially offset by an increase in the non-core restaurant businesses, primarily as a result of the consolidation of CPK at the end of the second quarter of 1996. Combined same store sales were not a factor in the total sales decline as customer transaction count declines, primarily due to a difficult comparison with the first quarter 1996 introduction of Triple Decker Pizza, were offset by higher effective net pricing. The \$12 million or 12% increase in franchise and license fees reflected new franchise and license units, including the continuing effects of rebranding.

Same store sales for Company-operated units increased 4% at Taco Bell reflecting the very successful Star Wars promotion, mix shifts into higher- priced products such as Border Select Combos and Fajita Wraps and higher pricing taken in late 1996. Same store sales for Company-operated units at KFC also increased 4% due to the favorable impact of core products. Same store sales for Company-operated units at Pizza Hut decreased 8% reflecting fewer customer transaction counts.

Company-Operated Restaurant Margins and Profit

| | 12 Weeks Ended | |
|---|----------------|---------|
| | 3/22/97 | 3/23/96 |
| Revenues from company - operated restaurants | 100.0% | 100.0% |
| Food and paper | 32.2% | 32.9% |
| Payroll and employee benefits | 29.8% | 29.2% |
| Occupancy and other operating expenses | 27.0% | 27.8% |
| Margins | 11.0% | 10.1% |
| Profit | \$234 | \$219 |

Company-operated restaurant margins increased .9 points primarily due to higher effective pricing exceeding increased labor costs, partially offset by the deleveraging effect of reduced transaction counts. Labor costs increased due to

national customer service improvement initiatives and increased wage rates and benefits.

General, administrative and other expenses (G&A) grew \$3 million or 2%. G&A comprises general and administrative expenses, other income and expense and equity income or loss from investments in unconsolidated affiliates. Included in G&A is an allocated amount reflecting TRICON's share of overhead costs related to PepsiCo's shared administrative expenses of \$12 million and \$10 million in 1997 and 1996, respectively. The amounts allocated to TRICON were based on the ratio of TRICON's revenues to PepsiCo's revenues. They are not necessarily indicative of the expenses that TRICON would have incurred had it been a separate, independent company.

Net facility actions

| (\$ in millions) | 12 Weeks Ended | | | |
|-----------------------------|----------------|-----------|---------|-----------|
| | 3/22/97 | | 3/23/96 | |
| | Pre-Tax | After-Tax | Pre-Tax | After-Tax |
| Refranchising gains | \$ (16) | \$ (10) | \$ (46) | \$ (28) |
| Store closure costs | 4 | 3 | - | - |
| SFAS 121 impairment charges | - | - | - | - |
| Net gains | \$ (12) | \$ (7) | \$ (46) | \$ (28) |

Unusual disposal charges of \$26 million (\$17 million after-tax) in 1996 reflected the decision to dispose of the operating assets of HNN.

Reported operating profit increased \$16 million or 11%. Ongoing operating profit, which was adjusted to exclude the unusual disposal charge in 1996 related to the decision to dispose of the operating assets of HNN, decreased \$10 million or 6%. The decline reflected reduced gains from net facility actions partially offset by increased profits from Company- operated restaurants and franchise and license fees.

Interest Expense, net

| (\$ in millions) | 12 Weeks Ended | | |
|-----------------------|----------------|---------|----------|
| | 3/22/97 | 3/23/96 | % Change |
| PepsiCo allocation | \$ (60) | \$ (67) | (10) |
| External debt | (8) | (9) | (11) |
| Interest expense | \$ (68) | \$ (76) | (11) |
| Interest income | 2 | 2 | - |
| Interest expense, net | \$ (66) | \$ (74) | (11) |

TRICON's operations have been financed through its operating cash flows, refranchising of restaurants and investments by or advances from PepsiCo. TRICON's interest expense includes an allocation of PepsiCo's interest expense (PepsiCo's weighted average interest rate applied to the average balance of investments by and

advances from PepsiCo to TRICON) and interest expense on its external debt. TRICON's external debt is primarily limited to capital lease obligations associated with real estate and, to a much lesser extent, assumed debt of acquired businesses and international third-party debt. TRICON is expected to have a capital structure different from the capital structure in the Condensed Combined Financial Statements and accordingly, the interest expense is not necessarily indicative of the interest expense that TRICON would have incurred as a separate, independent company or will incur in future periods. Interest expense, net declined 11% in 1997 reflecting a lower average balance of net investments by and advances from PepsiCo to TRICON.

Income Taxes

The 1997 reported effective tax rate of 45.8% increased 1.4 points and 1.9 points from the 1996 reported and ongoing effective tax rates of 44.4% and 43.9%, respectively. The 1996 ongoing effective tax rate was adjusted to exclude the effect of the unusual disposal charge related to the decision to dispose of the operating assets of HNN. The 1.9 point increase primarily reflected a higher foreign effective rate and other individually immaterial items.

Income tax expense was calculated as if TRICON filed separate income tax returns. As PepsiCo manages its tax position on a consolidated basis, which takes into account the results of all of its businesses, TRICON's effective tax rate in the future could vary from its historical effective tax rates. TRICON's future effective tax rate will largely depend on its structure and tax strategies as a separate, independent company.

| Net Income | 12 Weeks Ended | | |
|------------------|----------------|---------|-------------|
| | 3/22/97 | 3/23/96 | % Change |
| (\$ in millions) | | | |
| Reported | \$52 | \$40 | 30 |
| Ongoing* | \$52 | \$57 | (9) |

* Adjusted to exclude the effect of the unusual disposal charge in 1996 related to the decision to dispose of the operating assets of HNN.

International Operations

| (\$ in millions) | 12 Weeks Ended | | |
|-------------------|----------------|---------|-------------|
| | 3/22/97 | 3/23/96 | % Change |
| Revenues | \$514 | \$497 | 3 |
| Operating profit* | \$ 43 | \$ 34 | 26 |

* Includes equity income/(loss) but excludes foreign exchange gains/ (losses).

Revenues increased \$17 million in 1997 driven by higher effective net pricing, additional Company-operated units and increased franchise and license fees primarily due to net new unit activity. Sales growth was hampered by the effect of one less accounting period in 1997 (to facilitate the quarterly closing process) for Canada and Korea.

Operating profit increased \$9 million reflecting increased franchise and license fees and additional Company-operated units. The positive impact of higher effective net pricing was offset by higher store operating costs, led by labor, and losses from net facility actions compared to profits last year.

| (\$ in millions) | Net Facility Actions | |
|---------------------|---------------------------|---------|
| | 12 Weeks Ended 3/22/97 | 3/23/96 |
| Refranchising gains | \$ - | \$ (2) |
| Store closure costs | 1 | (2) |
| Net losses/(gains) | \$ 1 | \$ (4) |

Combined Cash Flows

Cash flow from operations, refranchising of restaurants and investments by or advances from PepsiCo have financed TRICON's capital investments and acquisitions. Under PepsiCo's centralized cash management system, PepsiCo deposits to TRICON's bank accounts sufficient cash to meet TRICON's daily obligations and withdraws excess funds from those accounts. These transactions are included in investments by and advances from PepsiCo in the Condensed Combined Balance Sheet.

The debt levels prior to the Distribution are not indicative of the debt levels of TRICON as a separate, independent company. As an independent company, TRICON expects to obtain initial debt funding of approximately \$ x billion. TRICON expects to use \$x billion of the debt proceeds to settle certain amounts due to PepsiCo from TRICON and to declare and pay a dividend to PepsiCo just prior to the Distribution.

Combined cash flow activity in 1997 primarily reflected a \$117 million decrease in investments by and advances from PepsiCo and capital spending of \$62 million partially offset by cash inflows from debt proceeds, refranchising of restaurants and operating activities of \$60 million, \$40 million, and \$27 million, respectively.

Net cash provided by operating activities increased \$21 million to \$27 million in 1997. The increase was primarily due to reduced working capital cash outflows of \$29 million. A favorable swing in income taxes payable was partially offset by faster growth in prepaid expenses, deferred income taxes and other current assets, reflecting a 1997 premium deposit for U.S. casualty insurance. A comparable premium deposit was not made in 1996 because TRICON was largely self-insured.

Net cash provided by investing activities of \$10 million in 1997 compares to cash outflows of \$13 million in 1996. A favorable swing in other net, which primarily reflected net proceeds from short-term investments compared to investments made in 1996, reduced capital spending and increased proceeds from sales of property plant

and equipment were partially offset by reduced proceeds from refranchising of restaurants.

Net cash used for financing activities increased \$51 million to \$57 million in 1997. This reflected a decrease in investments by and advances from PepsiCo, partially offset by debt proceeds in 1997.

Free cash flow is the key internal measure used to evaluate cash flow performance.

| (\$ in millions) | 1997 | 1996 |
|---|-------|--------|
| Net cash provided by operating activities | \$ 27 | \$ 6 |
| Investing activities | | |
| Capital spending | (62) | (89) |
| Refranchising of restaurants | 40 | 101 |
| Sales of property, plant and equipment | 15 | 4 |
| Other, net | 17 | (29) |
| | \$ 37 | \$ (7) |

The \$44 million favorable swing in free cash flow primarily reflected the swing in other, net described above, reduced capital spending, increased cash from operating activities and increased proceeds from sales of property, plant and equipment. These cash inflows were partially offset by reduced proceeds from refranchising of restaurants.

Combined Financial Condition

TRICON's negative operating working capital position, which reflects the cash sales nature of TRICON's restaurant operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative \$338 million and \$445 million for 1997 and 1996, respectively. Increased prepaid expenses, deferred income taxes and other current assets was primarily due to the premium deposit for U.S. casualty insurance, partially offset by lower accounts payable and other current liabilities in 1997.

Cautionary Statements

From time to time, in both written reports and oral statements, PepsiCo and TRICON may discuss expectations regarding its future performance. These "forward-looking statements" are based on currently available competitive, financial and economic data and TRICON's operating plans. They are also inherently uncertain and investors must recognize that events could turn out to be significantly different than what was expected. In addition, as discussed in Management's Discussion and Analysis:

- The impairment charge recorded to reduce the investment in the non-core U.S. restaurant businesses to estimated fair market value assumed certain sales prices, based primarily on the opinion of investment bankers retained to assist TRICON in the selling activity, less estimated costs to sell. The assumed prices could vary significantly from the final sales prices.

- TRICON has never operated as a separate, independent entity and as a result, future performance will be impacted significantly by actions of a newly-formed management team and the implementation of its strategic objectives.

GLOSSARY

CONCEPTS - TRICON's restaurant concepts, including the franchise business and company-operated restaurants of KFC, Pizza Hut and Taco Bell and the U.S. non-core restaurant brands of Chevys, California Pizza Kitchen, D'Angelo Sandwich Shops, East Side Mario's and Hot'n Now.

CONTINUING FRANCHISE AND LICENSE FEES - Fees paid to

franchisor/licensor by franchisee/licensee based upon a percentage of the franchisee/licensee's sales.

CORE RESTAURANT BUSINESSES - TRICON's worldwide KFC, Pizza Hut and Taco Bell businesses.

EFFECTIVE NET PRICING - The change in sales or operating profit due to price increases/decreases and the effect of product and country mix. It is not generally practicable to separate price changes from the effect of mix.

EQUITY INCOME/(LOSS) - TRICON's share of earnings or losses from its unconsolidated affiliates.

INITIAL FRANCHISE/LICENSE FEE - One time fee paid to franchisor/licensor by franchisee/licensee upon opening of the unit.

LICENSING - Similar to a franchise arrangement except that the contractual period is shorter, rights are not as broad, it may not require an initial fee and the continuing fees are at a higher rate. Licensing is used for non-traditional points of distribution, e.g., airports, schools, gas and convenience stores hotels and stadiums. In general, licensing arrangements do not require payment of a marketing fee to the national marketing fund.

NET FACILITY ACTIONS - The net gain/(loss) from refranchising gains, store closure costs and SFAS 121 impairment charges for restaurants to be used in the businesses.

NET REFRANCHISING GAINS/(LOSSES) - Gains/losses from refranchisings net of store closure costs.

NON-CORE RESTAURANT BUSINESSES - California Pizza Kitchen, Chevys, D'Angelo Sandwich Shops, East Side Mario's and Hot'n Now concepts in the U.S. which were or are expected to be sold prior to the Distribution Date.

POINTS OF DISTRIBUTION - Traditional restaurant facilities, including dine-in, delivery and take-out, and non-traditional sites such as airports, gas and convenience stores and schools.

REFRANCHISING GAINS - Gains arising from the sale of Company-operated restaurants to franchisees.

RESTAURANTS, UNITS, STORES - Terms are interchangeable.

SAME STORE SALES - The average sales per store calculated using Company-operated stores that have been open for the past twelve months.

STORE CLOSURE COSTS - The cost of writing-down the carrying amount of a Company-operated restaurant's assets to estimated fair market value less costs of disposal, and the net present value of any remaining operating lease payments after the estimated closure dates net of estimated sub-lease income.

SYSTEM-WIDE SALES - The combined sales of company-operated, joint ventured, franchised and licensed units.

VOLUME - Measured by the year-over-year change in customer transaction counts of Company-operated units.

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

Report of Independent Auditors

Board of Directors and Shareholders
TRICON Global Restaurants, Inc.

We have audited the accompanying combined balance sheet of TRICON Global Restaurants, Inc. ("TRICON") as of December 28, 1996 and December 30, 1995 and the related combined statements of operations, cash flows and shareholder's equity for each of the years in the three-year period ended December 28, 1996. These combined financial statements are the responsibility of TRICON's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

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

As discussed in Note 3 to the combined financial statements, TRICON in 1995 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As discussed in Notes 11 and 13 to the combined financial statements, TRICON in 1994 changed its method for calculating the market-related value of pension plan assets used in the determination of pension expense and adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," respectively.

KPMG Peat Marwick LLP
New York, New York
June 30, 1997

Combined Statement of Operations

(in millions)

TRICON Global Restaurants, Inc.

Fiscal years ended December 28, 1996, December 30, 1995

| and December 31, 1994 | 1996 (52 Weeks) | 1995 (52 Weeks) | 1994 (53 Weeks) |
|---|--------------------|--------------------|--------------------|
| REVENUES | | | |
| Company-operated restaurants | \$ 9,738 | \$ 9,813 | \$ 9,170 |
| Franchise and license fees | 494 | 437 | 395 |
| | 10,232 | 10,250 | 9,565 |
| Costs and Expenses, net | | | |
| Company-operated restaurants | | | |
| Food and paper | 3,215 | 3,242 | 3,009 |
| Payroll and employee benefits | 2,793 | 2,784 | 2,642 |
| Occupancy and other operating expenses | 2,711 | 2,713 | 2,507 |
| | 8,719 | 8,739 | 8,158 |
| General, administrative and other expenses | 932 | 857 | 815 |
| Net facility actions | (37) | 402 | 10 |
| Unusual disposal charges | 246 | - | - |
| Total costs and expenses | 9,860 | 9,998 | 8,983 |
| Operating Profit | 372 | 252 | 582 |
| Interest expense, net | 300 | 355 | 341 |
| Income/(Loss) Before Income Taxes and Cumulative Effect of Accounting Changes | 72 | (103) | 241 |
| Income Taxes | 125 | 29 | 122 |
| (Loss)/Income Before Cumulative Effect of Accounting Changes | (53) | (132) | 119 |
| Cumulative Effect of Accounting Changes | | | |
| Postemployment benefits (net of income tax benefit of \$3) | - | - | (4) |
| Pension assets (net of income tax expense of \$2) | - | - | 3 |
| Net(Loss)/Income | \$ (53) | \$ (132) | \$ 118 |

See accompanying Notes to Combined Financial Statements.

Combined Statement of Cash Flows (page 1 of 2)

(in millions)

TRICON Global Restaurants, Inc.

Fiscal years ended December 28, 1996, December 30, 1995

and December 31, 1994

| | 1996 (52 Weeks) | 1995 (52 Weeks) | 1994 (53 Weeks) |
|--|--------------------|--------------------|--------------------|
| Cash Flows - Operating Activities | | | |
| (Loss)/income before cumulative effect of accounting changes | \$ (53) | \$ (132) | \$ 119 |
| Adjustments to reconcile (loss)/income before cumulative effect of accounting changes to net cash provided by operating activities | | | |
| Depreciation and amortization | 621 | 671 | 622 |
| Impairment charges | 62 | 457 | - |
| Noncash portion of unusual disposal charges | 235 | - | - |
| Deferred income taxes | (150) | (233) | (68) |
| Other noncash charges and credits, net | (15) | 13 | 71 |
| Changes in operating working capital, excluding effects of acquisitions | | | |
| Accounts and notes receivable | (16) | (12) | (5) |
| Inventories | 27 | (22) | (12) |
| Prepaid expenses, deferred income taxes and other current assets | (2) | 10 | (30) |
| Accounts payable and other current liabilities | 85 | 25 | 228 |
| Income taxes payable | (81) | 36 | (31) |
| Net change in operating working capital | 13 | 37 | 150 |
| Net Cash Provided by Operating Activities | 713 | 813 | 894 |
| Cash Flows - Investing Activities | | | |
| Capital spending | (620) | (701) | (1,038) |
| Acquisitions and investments in unconsolidated affiliates | - | (66) | (113) |
| Refranchising of restaurants | 355 | 165 | - |
| Sales of property, plant and equipment | 45 | 43 | 21 |
| Other, net | (29) | (38) | (134) |
| Net Cash Used for Investing Activities | (249) | (597) | (1,264) |

(Continued on following page)

Combined Statement of Cash Flows (page 2 of 2)

(in millions)

TRICON Global Restaurants, Inc.

Fiscal years ended December 28, 1996, December 30, 1995

and December 31, 1994

| | 1996 (52 Weeks) | 1995 (52 Weeks) | 1994 (53 Weeks) |
|--|--------------------|--------------------|--------------------|
| <hr/> | | | |
| Cash Flows - Financing Activities | | | |
| (Decrease)/increase in investments by and advances from PepsiCo | (285) | (226) | 453 |
| Payments of long-term debt | (57) | (17) | (71) |
| Short-term borrowings-three months or less, net | (80) | 25 | 6 |
| Net Cash (Used for)/Provided by Financing Activities | (422) | (218) | 388 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 1 | (2) | 1 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 43 | (4) | 19 |
| Cash and Cash Equivalents - Beginning of Year | 94 | 98 | 79 |
| Cash and Cash Equivalents - End of Year | \$ 137 | \$ 94 | \$ 98 |
| <hr/> | | | |
| Supplemental Cash Flow Information | | | |
| Cash Flow Data | | | |
| Interest paid | \$ 34 | 48 | 55 |
| Income taxes paid | \$ 325 | 253 | 266 |
| Schedule of Noncash Investing and Financing Activity | | | |
| Liabilities assumed in connection with acquisitions | \$ 26 | 17 | 112 |
| PepsiCo stock issued in connection with acquisitions | \$ - | - | 25 |

See accompanying Notes to Combined Financial Statements.

Combined Balance Sheet
(in millions)
TRICON Global Restaurants, Inc.
December 28, 1996 and December 30, 1995

| | 1996 | 1995 |
|--|---------|---------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 137 | \$ 94 |
| Short-term investments, at cost | 50 | 11 |
| | 187 | 105 |
| Accounts and notes receivable, less allowance \$9 in 1996 and \$6 in 1995 | 125 | 121 |
| Inventories | 88 | 127 |
| Prepaid expenses, deferred income taxes and other current assets | 562 | 161 |
| Total Current Assets | 962 | 514 |
| Property, Plant and Equipment, net | 4,050 | 4,448 |
| Intangible Assets, net | 1,100 | 1,386 |
| Investments in Unconsolidated Affiliates | 228 | 382 |
| Other Assets | 180 | 178 |
| Total Assets | \$6,520 | \$6,908 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other current liabilities | \$1,200 | \$1,099 |
| Income taxes payable | 157 | 235 |
| Short-term borrowings | 59 | 144 |
| Total Current Liabilities | 1,416 | 1,478 |
| Long-term Debt | 231 | 260 |
| Other Liabilities | 434 | 325 |
| Deferred Income Taxes | 200 | 270 |
| Shareholder's Equity | | |
| Investments by and advances from PepsiCo | 4,266 | 4,604 |
| Currency translation adjustment | (27) | (29) |
| Total Shareholder's Equity | 4,239 | 4,575 |
| Total Liabilities and Shareholder's Equity | \$6,520 | \$6,908 |

See accompanying Notes to Combined Financial Statements.

Combined Statement of Shareholder's Equity

(in millions)

TRICON Global Restaurants, Inc.

Fiscal years ended December 28, 1996, December 30, 1995

and December 31, 1994

| | Investments by and ad- vances from PepsiCo | Currency Translation Adjustment | Total |
|---|---|---------------------------------------|---------|
| Shareholder's Equity, December 25, 1993 | \$4,366 | \$ 12 | \$4,378 |
| 1994 Net income | 118 | - | 118 |
| Currency translation adjustment | - | 28 | 28 |
| Net investments by and advances from PepsiCo | 478 | - | 478 |
| Shareholder's Equity, December 31, 1994 | \$4,962 | \$ 40 | \$5,002 |
| 1995 Net loss | (132) | - | (132) |
| Currency translation adjustment | - | (69) | (69) |
| Net investments by and advances from PepsiCo | (226) | - | (226) |
| Shareholder's Equity, December 30, 1995 | \$4,604 | \$ (29) | \$4,575 |
| 1996 Net loss | (53) | - | (53) |
| Currency translation adjustment | - | 2 | 2 |
| Net investments by and advances from PepsiCo | (285) | - | (285) |
| Shareholder's Equity, December 28, 1996 | \$4,266 | \$ (27) | \$4,239 |

See accompanying Notes to Combined Financial Statements.

Notes to Combined Financial Statements

(tabular dollars in millions)

Note 1 - PepsiCo, Inc.'s Proposed Spin-Off of its Restaurant Businesses

In 1997, the Board of Directors of PepsiCo, Inc. ("PepsiCo") approved the spin-off of its core restaurant businesses to its shareholders as an independent, publicly-traded company (the "Distribution"). The Distribution is subject to a tax ruling by the Internal Revenue Service that would allow it to be tax-free to shareholders subject to U.S. Federal income taxes, various regulatory approvals, appropriate stock market conditions and approval of a definitive plan by PepsiCo's Board of Directors. TRICON Global Restaurants, Inc. ("TRICON"), the new company, is composed of the worldwide operations of Pizza Hut, Taco Bell and KFC and the U.S. non-core restaurant businesses held for disposal (see Note 3 on page F-11). Immediately following the Distribution, PepsiCo will no longer have a financial investment in TRICON. However, TRICON shares will be owned by PepsiCo's pension trust on behalf of PepsiCo's employees. PepsiCo will remain liable on certain existing contingent liabilities relating to TRICON's businesses which were not able to be released, terminated or replaced prior to the Distribution Date ("unreleased contingent liabilities"). After the Distribution, TRICON will pay a fee to PepsiCo for any unreleased contingent liabilities until they are released or replaced by a qualified letter of credit. TRICON will also fully indemnify PepsiCo for any payments made under the unreleased contingent liabilities.

TRICON expects to obtain initial debt funding and use substantially all of the proceeds to settle certain amounts due to PepsiCo from TRICON and to declare and pay a dividend to PepsiCo just prior to the Distribution. In addition, TRICON and PepsiCo will enter into several agreements providing for the separation of the companies and governing various relationships between TRICON and PepsiCo, including a Separation Agreement, Tax Separation Agreement, Employee Programs Agreement and Telecommunications, Software and Computing Services Agreement.

The Combined Financial Statements included herein may not necessarily be indicative of the results of operations, financial position and cash flows of TRICON in the future or had it operated as a separate, independent company during the periods presented. The Combined Financial Statements included herein do not reflect any changes that may occur in the financing and operations of TRICON as a result of the Distribution.

Note 2 - Summary of Significant Accounting Policies

The preparation of the Combined Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Combination and Preparation. The accompanying Combined Financial Statements of TRICON include the results of operations and assets and liabilities directly related to TRICON's operations. TRICON's intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliates in which TRICON exercises significant

influence but not control are accounted for by the equity method and TRICON's share of the net income or loss of its unconsolidated affiliates is included in general, administrative and other expenses in the Combined Statement of Operations.

TRICON was allocated \$53 million, \$52 million and \$50 million of overhead costs related to PepsiCo's shared administrative functions in 1996, 1995 and 1994, respectively. The allocation was based on TRICON's revenue as a percent of PepsiCo's total revenue and the allocated costs are included in general, administrative and other expenses in the Combined Statement of Operations. Management believes that such allocation methodology is reasonable. The expenses allocated to TRICON for these services are not necessarily indicative of the expenses that would have been incurred if TRICON had been a separate, independent entity and had otherwise managed these functions. Subsequent to the Distribution, TRICON will be required to manage these functions and will be responsible for the expenses associated with the management of a public corporation.

TRICON's operations have been financed through its operating cash flows, refranchising of restaurants and investments by and advances from PepsiCo. TRICON's interest expense includes an allocation of PepsiCo's interest expense (PepsiCo's weighted average interest rate applied to the average balance of investments by and advances from PepsiCo to TRICON) and interest expense on its external debt. TRICON's external debt is primarily limited to capital lease obligations associated with real estate and, to a much lesser extent, assumed debt of acquired businesses and international third-party debt. TRICON is expected to have a capital structure different from the capital structure in the Combined Financial Statements and accordingly, interest expense is not necessarily indicative of the interest expense that TRICON would have incurred as a separate, independent company.

Income tax expense was calculated as if TRICON filed separate income tax returns. As PepsiCo manages its tax position on a consolidated basis, which takes into account the results of all of its businesses, TRICON's effective tax rate in the future could vary from its historical effective tax rates. TRICON's future effective tax rate will largely depend on its structure and tax strategies as a separate, independent company.

Fiscal Year. TRICON's fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. The fiscal year ending December 31, 1994 consisted of 53 weeks.

Direct Marketing Costs. Direct marketing costs are reported in occupancy and other operating expenses in the Combined Statement of Operations and include costs of advertising and other marketing activities. Direct marketing costs are charged to expense ratably in relation to revenues over the year in which incurred. Advertising expenses were \$571 million, \$570 million and \$556 million in 1996, 1995 and 1994, respectively.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were \$20 million, \$17 million and \$22 million in 1996, 1995 and 1994, respectively.

Stock-Based Employee Compensation. TRICON measures stock-based employee compensation cost in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, compensation cost for PepsiCo stock option grants to TRICON employees is measured as the excess of the quoted market price of PepsiCo's capital stock at the grant date over the amount the employee must pay for the stock. PepsiCo's policy is to grant stock options at fair market value at the date of grant.

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

Cash Equivalents. Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of managing day-to-day operating cash receipts and disbursements.

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

Property, Plant and Equipment. Property, plant and equipment (PP&E) are stated at cost, except for PP&E that have been impaired, for which the carrying amount is reduced to estimated fair market value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation expense was \$521 million, \$555 million, and \$519 million in 1996, 1995 and 1994, respectively.

Intangible Assets. Intangible assets are amortized on a straight-line basis over appropriate periods, generally ranging from 10 to 40 years.

Amortization expense was \$95 million, \$109 million and \$103 million in 1996, 1995 and 1994, respectively.

Recoverability of Long-Lived Assets to be Held and Used in the Business. TRICON reviews its long-lived assets related to each restaurant to be held and used in the business semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. TRICON evaluates restaurants using a "two-year history of operating losses" as its primary indicator of potential impairment. An impaired restaurant is written down to its estimated fair market value based on the best information available. TRICON generally measures estimated fair market value by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from such estimates.

TRICON's methodology for determining and measuring impairment of its investments in unconsolidated affiliates and enterprise-level goodwill was changed in 1996 to conform with the methodology it uses for its restaurants except (a) the recognition test for an investment in an unconsolidated affiliate compares the investment to a forecast of TRICON's share of the unconsolidated affiliate's undiscounted cash flows including interest and taxes, compared to undiscounted cash flows before interest and taxes used for restaurants and (b) enterprise-level goodwill is evaluated at a country level instead of by individual restaurant. The change in methodology had no impact in 1996.

Pre-opening Costs. Costs associated with opening a new restaurant are expensed as incurred.

Refranchising Gains. Refranchising gains include gains on sales of Company-operated restaurants to new and existing franchisees and the related initial franchise fees. Gains on restaurant refranchisings are recognized when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity and TRICON is satisfied that the franchisee can meet its financial obligations. Otherwise, refranchising gains are deferred until those criteria have been met.

Store Closure Costs. Store closure costs are recognized when a decision is made to close a restaurant within the next twelve months.

Store closure costs include the cost of writing-down the carrying amount of a restaurant's assets to estimated fair market value less costs of disposal, and the net present value of any remaining operating lease payments after the expected closure date net of estimated sub-lease income.

Franchise and License Fees. Franchise and license agreements are executed for each point of distribution and provide the terms of the arrangement between TRICON and the franchisee/licensee. The franchise and certain license agreements require the franchisee/licensee to pay an initial, non-refundable fee. The agreements also require continuing fees based upon a percentage of sales.

Initial fees are recognized as revenue when TRICON has substantially performed all initial services required by the franchising/licensing agreement, which is generally upon opening. Continuing fees are recognized as earned with an appropriate provision for estimated uncollectible amounts. Renewal fees are recognized in earnings when a renewal agreement becomes effective.

Territorial franchise agreements stipulate the area, number of restaurants and the time frame for development in exchange for a territorial franchise fee. These fees are amortized on a straight line basis over the life of the territory agreement.

Direct costs incurred to secure and perform the required services under the franchise and license agreements, which are not material, are charged to expense as incurred.

Note 3 - Items Affecting Comparability of Income Before Cumulative Effect of Accounting Changes

| | 1996 | | 1995 | | 1994 | |
|---|---------|-----------|---------|-----------|---------|-----------|
| | Pre-Tax | After-Tax | Pre-Tax | After-Tax | Pre-Tax | After-Tax |
| Disposal of non-core U.S. restaurant businesses | \$246 | \$189 | - | - | - | - |
| Net facility actions | \$(37) | \$(21) | \$402 | \$295 | \$10 | \$6 |
| Reduced depreciation and amortization | \$(40) | \$(26) | \$(17) | \$(12) | - | - |
| Fifty-third week | - | - | - | - | \$(23) | \$(14) |

The non-core U.S. restaurant businesses charge of \$246 million was a result of a fourth quarter 1996 decision to dispose of TRICON's remaining non-core U.S. restaurant businesses: California Pizza Kitchen ("CPK"), Chevys, D'Angelo Sandwich Shops ("D'Angelo"), and East Side Mario's ("ESM") and a first quarter 1996 decision to dispose of the operating assets of HNN. The charge represented a reduction of the carrying amounts of the non-core U.S. restaurant businesses to estimated fair market value, less costs to sell. The estimated fair market value was determined by using estimated selling prices, based primarily upon the opinion of an investment banking firm retained to assist in the selling activity. The remaining carrying amount of the non-core U.S. restaurant assets of \$333 million was included in prepaid expenses, deferred income taxes and other current assets in the 1996 Combined Balance Sheet. The non-core U.S. restaurant businesses contributed \$394 million, \$297 million and \$281 million to revenues in 1996, 1995 and 1994, respectively. Excluding the unusual disposal charges in 1996 and the \$120 million initial impact of adopting Statement of

Financial Accounting Standard No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" in 1995, the non-core U.S. restaurant businesses incurred losses of \$15 million (\$12 million after-tax), \$45 million (\$37 million after-tax) and \$42 million (\$35 million after-tax) in 1996, 1995 and 1994, respectively.

Net facility actions reflected TRICON's initiatives to reduce its percentage ownership of total system units by selling Company-operated restaurants to new and existing franchisees and closing underperforming stores, and impairment charges under SFAS 121:

| | 1996 | 1995 | 1994 |
|--|----------|---------|-------|
| U.S. | | | |
| Refranchising gains | \$ (134) | \$ (89) | \$ - |
| Store closure costs | 45 | 26 | 10 |
| SFAS 121 impairment charges | 54 | 320 | - |
| (Gains)/losses from net facility actions | \$ (35) | \$ 257 | \$ 10 |
| International | | | |
| Refranchising gains | \$ (5) | \$ (4) | - |
| Store closure costs | (5) | 12 | - |
| SFAS 121 impairment charges | 8 | 137 | - |
| (Gains)/losses from net facility actions | \$ (2) | \$ 145 | - |
| Worldwide | | | |
| Refranchising gains | \$ (139) | \$ (93) | \$ - |
| Store closure costs | 40 | 38 | 10 |
| SFAS 121 impairment charges | 62 | 457 | - |
| (Gains)/losses from net facility actions | \$ (37) | \$ 402 | \$ 10 |

TRICON early adopted SFAS 121 as of the beginning of the fourth quarter of 1995. The initial, noncash charge of \$457 million (\$324 million after-tax), \$120 million (\$82 million after-tax) of which related to U.S. non-core restaurant businesses, resulted from TRICON evaluating and measuring impairment of restaurants to be used in the business at the individual restaurant level. Previously, impairment was evaluated and measured if a restaurant concept was incurring operating losses and was expected to incur operating losses in the future. Because of the strong operating profit history or prospects for each concept, no impairment evaluation had been required in 1994.

As a result of the reduced carrying amount of restaurants due to the adoption of SFAS 121, depreciation and amortization expense was reduced by \$40 million for the first three quarters of 1996 and by \$17 million for the fourth quarter of 1995.

The recurring SFAS 121 impairment charge in 1996 resulted from the semi-annual impairment evaluations of each restaurant to be used in the business that either initially met the "two-year history of operating losses" impairment indicator or was previously evaluated for impairment and, due to changes in circumstances, a current forecast of future cash flows would be expected to be significantly lower than the forecast used in the prior evaluation.

The fifty-third week in 1994 increased 1994 revenues and operating profit by an estimated \$172 million and \$23 million, respectively.

Note 4 - Franchise and License Fees

Franchise and certain license arrangements for TRICON's traditional and non-traditional points of distribution, respectively, provide for initial fees. The agreements also require continuing fees based upon a percentage of sales. Initial franchise fees from refranchising activities arise from an initiative adopted by TRICON in late 1994 to reduce its percentage ownership of total system units by selling Company-operated units to new and existing franchisees. As disclosed in Note 2 on page F-10, initial franchise fees from the refranchising activities are included as part of refranchising gains.

| | 1996 | 1995 | 1994 |
|---|-------|-------|-------|
| Initial fees | \$ 43 | \$ 28 | \$ 18 |
| Initial franchise fees from refranchising activities | (22) | (8) | - |
| | 21 | 20 | 18 |
| Continuing fees | 473 | 417 | 377 |
| | \$494 | \$437 | \$395 |

Note 5 - Property, Plant and Equipment, net

| | 1996 | 1995 |
|--|---------|---------|
| Land | \$ 933 | \$ 990 |
| Buildings and improvements | 3,394 | 3,452 |
| Capital leases, primarily buildings | 206 | 309 |
| Machinery and equipment | 2,319 | 2,370 |
| | 6,852 | 7,121 |
| Accumulated depreciation | (2,802) | (2,673) |
| | \$4,050 | \$4,448 |

Note 6 - Intangible Assets, net

| | 1996 | 1995 |
|--|---------|---------|
| Reacquired franchise rights | \$ 767 | \$ 817 |
| Trademarks and other identifiable intangibles | 190 | 214 |
| Goodwill | 143 | 355 |
| | \$1,100 | \$1,386 |

Identifiable intangible assets primarily arose from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets.

Accumulated amortization, included in the amounts above, was \$603 million and \$521 million at year-end 1996 and 1995, respectively.

Note 7 - Accounts Payable and Other Current Liabilities

| | 1996 | 1995 |
|-----------------------------------|---------|---------|
| Accounts payable | \$ 526 | \$ 516 |
| Accrued compensation and benefits | 261 | 243 |
| Other accrued taxes | 121 | 94 |
| Other current liabilities | 292 | 246 |
| | \$1,200 | \$1,099 |

Note 8 - Short-term Borrowings and Long-term Debt

| | 1996 | 1995 |
|---|-------|-------|
| Short-term Borrowings | | |
| Current maturities of long-term debt issuances | \$ 26 | \$ 27 |
| Other, due 1997 | 33 | 117 |
| | \$ 59 | \$144 |
| Long-term Debt | | |
| Capital lease obligations (see Note 9) | \$222 | \$246 |
| Other, due 1997-2010 (8.2% and 8.1%) | 35 | 41 |
| | 257 | 287 |
| Less current maturities of long-term debt issuances | (26) | (27) |
| | \$231 | \$260 |

Note 9 - Leases

TRICON has noncancellable commitments under both capital and long-term operating leases, primarily for Company-operated restaurants. Capital and operating lease commitments expire at various dates through 2087 and, in many cases, provide for rent escalations and renewal options. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance. Future minimum commitments and sublease receivables under noncancelable leases are set forth below:

| | Commitments | | Sublease Receivables | |
|-------------|-------------|-----------|----------------------|-----------|
| | Capital | Operating | Direct Financing | Operating |
| 1997 | \$ 39 | \$ 258 | \$ 3 | \$ 14 |
| 1998 | 37 | 225 | 3 | 13 |
| 1999 | 34 | 194 | 2 | 11 |
| 2000 | 32 | 168 | 2 | 10 |
| 2001 | 30 | 150 | 2 | 8 |
| Later years | 231 | 930 | 17 | 44 |
| | \$403 | \$1,925 | \$ 29 | \$100 |

At year-end 1996, the present value of minimum payments under capital leases was \$222 million, after deducting \$181 million representing imputed interest.

The details of rental expense and income are set forth below:

| | 1996 | 1995 | 1994 |
|-----------------------|-------|-------|-------|
| Rental expense | | | |
| Minimum | \$299 | \$309 | \$303 |
| Contingent | 25 | 27 | 32 |
| | \$324 | \$336 | \$335 |
| Minimum rental income | \$ 16 | \$ 8 | \$ 12 |

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

Note 10 - Financial Instruments

Derivative Instruments

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

TRICON's use of derivative instruments is currently limited to commodity futures contracts traded on national exchanges, which are entered into with the objective of reducing food costs. Open contracts and deferred gains and losses at year-end 1996 and 1995, as well as gains and losses recognized as part of cost of sales in 1996, 1995 and 1994 were not significant.

Fair Value

Except for guarantees issued by TRICON, the carrying amounts of TRICON's financial instruments approximated market value. The fair value of guarantees issued by TRICON was \$13 million in 1996 and \$1 million in 1995 compared to a carrying amount of \$0 for both years. The fair values were estimated using market quotes and calculations based on market rates.

Note 11 - Pension Plans

U.S. employees participate in PepsiCo sponsored noncontributory defined benefit pension plans which cover substantially all full-time salaried employees, as well as certain hourly employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. All plans but one are funded and contributions are made in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for U.S. income tax purposes.

It is intended that TRICON will assume the existing defined benefit pension plan obligations for TRICON's U.S. employees as of the Distribution Date and trust assets from the funded plans will be transferred based upon actuarial determinations in accordance with regulatory requirements.

Net periodic U.S. pension expense allocated to TRICON was \$10 million in 1996, \$5 million in 1995 and \$5 million in 1994. Such expense was based on the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions".

Net periodic pension expense for the defined benefit pension plans for TRICON's foreign operations was not significant. TRICON will assume the foreign defined benefit pension plan obligations as of the Distribution Date. Any related assets will be transferred.

In 1994, PepsiCo changed the method for calculating the market-related value of plan assets used in determining the return-on-assets component of net periodic pension cost and the cumulative net unrecognized gain or loss subject to amortization. This change resulted in a noncash benefit in 1994 for TRICON of \$5 million (\$3 million after-tax) representing the cumulative effect of the change related to TRICON for years prior to 1994.

Note 12 - Postretirement Benefits Other Than Pensions

TRICON provides postretirement health care benefits to eligible retired employees and their dependents, principally in the U.S. Salaried retirees who have 10 years of service and attain age 55 are eligible to participate in the postretirement benefit plans. The plans are not funded and since 1994 have included retiree cost sharing. Postretirement benefit expense was \$3 million in 1996, \$2 million in 1995 and \$3 million in 1994.

Note 13 - Postemployment Benefits Other Than to Retirees

Effective the beginning of 1994, TRICON adopted Statement of Financial Accounting Standards No. 112 ("SFAS 112"), "Employers' Accounting for Postemployment Benefits." The principal effect to TRICON resulted from accruing disability medical benefits to be provided to employees upon the occurrence of an event. Previously, these benefits were expensed when incurred. The cumulative effect charge upon adoption of SFAS 112, which relates to years prior to 1994, was \$7 million (\$4 million after-tax).

Note 14 - Employee Stock Option Plans

TRICON employees were granted stock options under PepsiCo's three long-term incentive plans - the SharePower Stock Option Plan ("SharePower"), the Long-Term Incentive Plan ("LTIP"), and the Stock Option Incentive Plan ("SOIP"). Prior to 1997, SharePower options were granted annually to essentially all full-time employees. SharePower options generally become exercisable ratably over 5 years from the grant date and must be exercised within 10 years from the grant date. Most LTIP options were granted every other year to senior management employees. Most of these options become exercisable after 4 years and must be exercised within 10 years from the grant date. In addition, the LTIP allows for grants of performance share units ("PSU"s). The value of a PSU is fixed at the value of a share of PepsiCo stock at the grant date and vests in 4 years from the grant date, contingent upon the attainment of prescribed performance goals. Payment of PSUs are made in cash and/or stock. Amounts expensed for PSUs for TRICON employees were \$.9 million in 1996, \$.6 million in 1995 and \$1.8 million in 1994. SOIP options are for middle-management employees and, prior to 1997, were granted annually. SOIP options are exercisable after one year and must be exercised within 10 years after their grant date. The total number of options granted to TRICON employees under the PepsiCo stock option plans was 13.4 million in 1996, 7.2 million in 1995 and 14.1 million in 1994. Immediately following the Distribution, nonvested SharePower stock options and 1996 and 1997 option grants under LTIP and SOIP held by TRICON employees will be replaced with TRICON stock option awards. The TRICON

awards will have the same ratio of the exercise price per option to the market value per share, the same aggregate difference between market value and exercise price and the same vesting provisions, option periods and other terms and conditions as the PepsiCo options they replace. Vested SharePower options and options granted under LTIP and SOIP before 1996 held by TRICON employees will remain as PepsiCo stock options. The number of options and exercise prices will be adjusted to compensate for the market value of TRICON shares distributed to PepsiCo shareholders. At December 28, 1996, there were approximately 38 million PepsiCo stock options held by TRICON employees. That amount includes an aggregate of approximately 16 million options that are subject to replacement with TRICON stock option awards. TRICON cannot currently determine the number of shares of its common stock that will be subject to substitute awards after the Distribution. TRICON adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," but continues to measure stock-based compensation cost in accordance with Accounting Principles Board Opinion No. 25 and its related interpretations. If TRICON had measured compensation cost for the PepsiCo stock options granted to its employees in 1996 and 1995 under the fair value based method prescribed by SFAS 123, the net loss would have been changed to the pro forma amounts set forth below:

| | 1996 | 1995 |
|-----------|------|-------|
| Net Loss | | |
| Reported | \$53 | \$132 |
| Pro forma | \$70 | \$136 |

The fair value of PepsiCo stock options granted to TRICON employees used to compute pro forma net income disclosures were estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions used by PepsiCo:

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

The weighted-average fair value of PepsiCo stock options granted to TRICON employees during 1996 was \$8.87 and during 1995 was \$5.54. The pro forma amounts above are not necessarily representative of the effects of stock-based awards on future pro forma net income because (1) future grants of employee stock options by TRICON management may not be comparable to awards made to employees while TRICON was a part of PepsiCo, (2) the assumptions used to compute the fair value of any stock option awards will be specific to TRICON and therefore may not be comparable to the PepsiCo assumptions used and (3) they exclude the pro forma compensation expense related to unvested stock options granted before 1995.

Note 15 - Income Taxes

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

| | 1996 | 1995 | 1994 |
|-----------|--------|-------|-------|
| Current: | | | |
| Federal | \$ 154 | \$179 | \$134 |
| Foreign | 93 | 59 | 31 |
| State | 28 | 24 | 25 |
| | 275 | 262 | 190 |
| Deferred: | | | |
| Federal | (127) | (168) | (50) |
| Foreign | (5) | (55) | (7) |
| State | (18) | (10) | (11) |
| | (150) | (233) | (68) |
| | \$ 125 | \$ 29 | \$122 |

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

| | 1996 | 1995 | 1994 |
|---------|---------|----------|-------|
| U.S. | \$ (21) | \$ 72 | \$285 |
| Foreign | 93 | (175) | (44) |
| | \$ 72 | \$ (103) | \$241 |

A reconciliation of income taxes calculated at the U.S. Federal tax statutory rate to TRICON's provision for income taxes is set forth below:

| | 1996 | 1995 | 1994 |
|---|--------|---------|-------|
| Income taxes computed at the U.S. | | | |
| Federal statutory rate of 35% | \$ 25 | \$ (36) | \$ 84 |
| State income tax, net of Federal tax benefit..... | 7 | 7 | 12 |
| Foreign and U.S. tax effects attributable to foreign operations | 49 | 26 | 27 |
| Adjustment to the beginning-of-the-year foreign deferred tax assets valuation allowance | 5 | (1) | - |
| Effect of unusual disposal charges | 28 | - | - |
| Initial impact of adopting SFAS 121 | - | 28 | - |
| Non-deductible amortization of U.S. goodwill | 9 | 11 | 4 |
| Federal tax credits | (2) | (8) | (14) |
| Equity (income)/loss of CPK | 1 | 8 | 7 |
| Other, net | 3 | (6) | 2 |
| Total income taxes | \$125 | \$ 29 | \$122 |
| Effective income tax rate | 173.6% | (28.2)% | 50.6% |

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

| | 1996 | 1995 |
|---|---------|---------|
| Intangible assets and property, plant and equipment | \$ 222 | \$ 392 |
| Other | 43 | 3 |
| Gross deferred tax liabilities | \$ 265 | \$ 395 |
| Net operating loss carryforwards | \$(111) | \$ (89) |
| Employee benefits | (56) | (46) |
| Casualty claims | (69) | (47) |
| Various liabilities and other | (132) | (134) |
| Gross deferred tax assets | (368) | (316) |
| Deferred tax assets valuation allowance | 138 | 82 |
| Net deferred tax assets | (230) | (234) |
| Net deferred tax liability | \$ 35 | \$ 161 |
| Included in | | |
| Prepaid expenses, deferred income taxes and other current assets | \$(165) | \$(109) |
| Deferred income taxes | 200 | 270 |
| | \$ 35 | \$ 161 |

The valuation allowance related to deferred tax assets increased by \$56 million in 1996 primarily due to additions related to current year operating losses and temporary differences in a number of foreign and state jurisdictions.

The determination of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration is not practicable.

Net operating loss carryforwards totaling \$374 million at year-end 1996 are available to reduce future tax of certain subsidiaries and are related to a number of foreign and state jurisdictions. Of these carryforwards, \$4 million expire in 1997, \$316 million expire at various times between 1998 and 2010 and \$54 million may be carried forward indefinitely.

Note 16 - Business Segments

TRICON is engaged principally in developing, operating, franchising and licensing the worldwide Pizza Hut, Taco Bell and KFC concepts. TRICON also operates other non-core U.S. concepts, including CPK, Chevys, D'Angelo, ESM and HNN, which were held for disposal at the end of 1996 (see Note 3).

Pizza Hut, Taco Bell and KFC operate throughout the U.S. and in 83, 16 and 73 countries and territories outside the U.S, respectively. Principal international markets include Australia, Canada, Japan, Korea, Mexico, New Zealand, Spain and the U.K. At year-end 1996, TRICON has investments in several unconsolidated affiliates outside the U.S. which operate KFC and Pizza Hut restaurants, the most significant of which are located in Japan and the U.K.

TRICON year-end investments in unconsolidated affiliates totaled \$228 million in 1996 and \$382 million in 1995. The decrease in 1996 reflected the consolidation of CPK, previously an unconsolidated equity investment, at the end of the second quarter of 1996. CPK was consolidated as a result of PepsiCo obtaining majority control of CPK's Board of Directors at the end of the second quarter of 1996.

GEOGRAPHIC AREAS

| | Revenues | | |
|--|-------------------------------|----------|---------|
| | 1996 | 1995 | 1994 |
| International | \$ 2,308 | \$ 2,087 | \$1,794 |
| United States | 7,924 | 8,163 | 7,771 |
| | \$10,232 | \$10,250 | \$9,565 |
| | Operating Profit/(Loss) | | |
| | 1996(a) | 1995(a) | 1994 |
| International | 126 | (26) | 66 |
| United States | 286 | 354 | 578 |
| Equity income/(loss) and foreign exchange | 13 | (24) | (12) |
| Allocation of PepsiCo shared corporate expenses | (53) | (52) | (50) |
| | \$ 372 | \$ 252 | \$ 582 |
| | Identifiable Assets | | |
| | 1996 | 1995 | 1994 |
| International | \$ 1,726 | \$ 1,643 | \$1,780 |
| United States | 4,566 | 4,883 | 5,211 |
| Investments in Unconsolidated Affiliates | 228 | 382 | 396 |
| | \$ 6,520 | \$ 6,908 | \$7,387 |
| | Depreciation and Amortization | | |
| | 1996 | 1995 | 1994 |
| International | \$ 149 | \$ 152 | \$ 116 |
| United States | 472 | 519 | 506 |
| | \$ 621 | \$ 671 | \$ 622 |
| | Capital Spending | | |
| | 1996 | 1995 | 1994 |
| International | \$ 161 | \$ 184 | \$ 335 |
| United States | 466 | 530 | 714 |
| | \$ 627 | \$ 714 | \$1,049 |

(a) The unusual disposal charge in 1996 of \$246 in the United States and the initial impact of adopting SFAS 121 in 1995 of \$457 (United States - \$305, International - \$135 and equity income/(loss) - 17) reduced combined operating profit (see Note 3 on page F-11).

Note 17 - Related Party Transactions

TRICON purchases beverage products from the Pepsi-Cola Company and equipment, food and paper from PepsiCo Food Systems (PFS), both operating divisions of PepsiCo. The amounts purchased in 1996, 1995 and 1994 were \$2.5 billion, \$2.7 billion and \$2.6 billion, respectively. In May 1997, TRICON entered into a five-year Sales and Distribution Agreement with PFS to purchase the majority of its food and supplies for Company-operated stores, subject to PFS maintaining certain quality and service performance levels. The Sales and Distribution Agreement becomes effective upon the closing of the sale by PepsiCo of the assets and business of PFS to AmeriServe Food Distribution, Inc.

("AmeriServe"), pursuant to a definitive agreement dated as of May 23, 1997.

KFC, Pizza Hut and Taco Bell are each expected to enter into a multi-year agreement with Pepsi-Cola regarding the sale of Pepsi-Cola's brands of beverage products to TRICON's U.S. Company-operated units.

PepsiCo will remain liable on certain existing contingent liabilities relating to TRICON's businesses which were not able to be released, terminated or replaced prior to the Distribution Date ("unreleased contingent liabilities"). After the Distribution, TRICON will pay a fee to PepsiCo for any unreleased contingent liabilities until they are released or replaced by a qualified letter of credit. TRICON will also fully indemnify PepsiCo for any payments made under the unreleased contingent liabilities.

In contemplation of the Distribution, TRICON and PepsiCo will enter into certain agreements providing for the separation of the companies. See Note 1 on page F-8.

Note 18 - Contingencies

TRICON is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on TRICON's annual results of operations or financial condition. TRICON was directly or indirectly contingently liable under guarantees for \$150 million and \$77 million at year-end 1996 and 1995, respectively. At year-end 1996, \$74 million represented contingent liabilities to lessors as a result of TRICON assigning its interest in and obligations under real estate leases as a condition to the franchising of Company-operated restaurants. The \$74 million represented the present value of the minimum payments of the assigned leases, excluding any renewal option periods, discounted at PepsiCo's pre-tax cost of debt. PepsiCo's pre-tax cost of debt is not necessarily indicative of TRICON's pre-tax cost of debt as a separate, independent company. On a nominal basis, the contingent liability resulting from the assigned leases was \$115 million. The balance of the contingent liabilities primarily reflected guarantees to support financial arrangements of certain unconsolidated affiliates and other restaurant franchisees.

Note 19 - Selected Quarterly Financial Data

(unaudited)

| | First Quarter (12 Weeks) | |
|------------------------------|------------------------------|---------|
| | 1996(a) | 1995(a) |
| Revenues: | | |
| Company-operated restaurants | \$ 2,171 | 2,090 |
| Franchise and license fees | \$ 102 | 90 |
| Operating profit related to: | | |
| Company-operated restaurants | \$ 219 | 189 |
| Franchise and license fees | \$ 99 | 88 |
| Unusual disposal charges(b) | \$ 26 | - |
| Operating profit | \$ 146 | 113 |
| Net income | \$ 40 | 42 |
| <hr/> | | |
| | Second Quarter (12 Weeks) | |
| | 1996(a) | 1995(a) |
| Revenues: | | |
| Company-operated restaurants | \$ 2,271 | 2,329 |
| Franchise and license fees | \$ 111 | 101 |
| Operating profit related to: | | |
| Company-operated restaurants | \$ 268 | 257 |
| Franchise and license fees | \$ 108 | 98 |
| Operating profit | \$ 182 | 146 |
| Net income | \$ 112 | 62 |
| <hr/> | | |
| | Third Quarter (12 Weeks) | |
| | 1996(a) | 1995(a) |
| Revenues: | | |
| Company-operated restaurants | \$ 2,329 | 2,383 |
| Franchise and license fees | \$ 119 | 106 |
| Operating profit related to: | | |
| Company-operated restaurants | \$ 259 | 295 |
| Franchise and license fees | \$ 113 | 103 |
| Operating profit | \$ 196 | 207 |
| Net income | \$ 77 | 87 |
| <hr/> | | |
| | Fourth Quarter (16 Weeks) | |
| | 1996(a) | 1995(a) |
| Revenues: | | |
| Company-operated restaurants | \$ 2,967 | 3,011 |
| Franchise and license fees | \$ 162 | 140 |
| Operating profit related to: | | |
| Company-operated restaurants | \$ 273 | 333 |
| Franchise and license fees | \$ 158 | 136 |
| Unusual disposal charges(b) | \$ 220 | - |
| Operating profit | \$ (152) | (214) |
| Net loss | \$ (282) | (323) |

(unaudited)

| | Full Year (52 Weeks) | |
|------------------------------|-------------------------|---------|
| | 1996(a) | 1995(a) |
| Revenues: | | |
| Company-operated restaurants | \$ 9,738 | 9,813 |
| Franchise and license fees | \$ 494 | 437 |
| Operating profit related to: | | |
| Company-operated restaurants | \$ 1,019 | 1,074 |
| Franchise and license fees | \$ 478 | 425 |
| Unusual disposal charges(b) | \$ 246 | - |
| Operating profit | \$ 372 | 252 |
| Net loss | \$ (53) | (132) |

(unaudited)

Notes:

(a) Operating profit included certain items affecting comparability as summarized below. Net facility actions represent the net gains/(losses) from sales of restaurants to new and existing franchisees, closing other restaurants and SFAS 121 impairment charges for restaurants to be used in the business. The SFAS 121 impairment charges represent the ongoing application of SFAS 121 in 1996 and the initial impact of adopting it in 1995 (see Note 3). The depreciation and amortization reduction for the first three quarters of 1996 arose from the adoption of SFAS 121 at the beginning of the fourth quarter of 1995, which reduced the carrying amount of certain restaurants to be held and used in the business.

| | 1996 | | 1995 | |
|--|---------|-----------|---------|-----------|
| | Pre-Tax | After-Tax | Pre-Tax | After-Tax |
| Net facility actions (gains/(losses)) | | | | |
| First quarter | \$ 46 | \$28 | \$ 3 | \$ 2 |
| Second quarter | 20 | 13 | - | - |
| Third quarter | 25 | 15 | (3) | (2) |
| Fourth quarter | (54) | (35) | (402) | (295) |
| Full year | \$ 37 | \$21 | \$(402) | \$(295) |
| Depreciation and amortization reduction | | | | |
| First quarter | \$ 13 | \$ 9 | | |
| Second quarter | 16 | 11 | | |
| Third quarter | 11 | 6 | | |
| Full year | \$ 40 | \$26 | | |

(b) Included unusual disposal charges in 1996 (see Note 3) as follows:

| | Pre-Tax | After-Tax |
|----------------|---------|-----------|
| First quarter | \$ 26 | \$ 17 |
| Fourth quarter | 220 | 172 |
| Full year | \$246 | \$189 |

Condensed Combined Statement of Operations

(in millions, unaudited)

TRICON Global Restaurants, Inc.

Twelve weeks ended March 22, 1997 and March 23, 1996

| | 1997 | 1996 |
|--|---------|---------|
| REVENUES | | |
| Company-operated restaurants | \$2,123 | \$2,171 |
| Franchise and license fees | 114 | 102 |
| | 2,237 | 2,273 |
| Costs and Expenses, net | | |
| Company-operated restaurants | | |
| Food and paper | 684 | 714 |
| Payroll and employee benefits | 633 | 634 |
| Occupancy and other operating expenses | 572 | 604 |
| | 1,889 | 1,952 |
| General, administrative and other expenses | 198 | 195 |
| Net facility actions | (12) | (46) |
| Unusual disposal charges | - | 26 |
| Total costs and expenses | 2,075 | 2,127 |
| Operating Profit | 162 | 146 |
| Interest expense, net | 66 | 74 |
| Income Before Income Taxes | 96 | 72 |
| Income Taxes | 44 | 32 |
| Net Income | \$ 52 | \$ 40 |

See accompanying Notes to Condensed Combined Financial Statements.

Condensed Combined Statement of Cash Flows (page 1 of 2)

(in millions, unaudited)

TRICON Global Restaurants, Inc.

Twelve Weeks ended March 22, 1997 and March 23, 1996

| | 1997 | 1996 |
|--|-------|-------|
| <hr/> | | |
| Cash Flows - Operating Activities | | |
| Net income | \$ 52 | \$ 40 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 125 | 144 |
| Unusual disposal charges | - | 26 |
| Deferred income taxes | (26) | (26) |
| Other noncash charges and credits, net | (3) | (28) |
| Changes in operating working capital, excluding effects of acquisitions | | |
| Accounts and notes receivable | (2) | (17) |
| Inventories | 1 | 12 |
| Prepaid expenses, deferred income taxes and other current assets | (88) | (31) |
| Accounts payable and other current liabilities | (86) | (92) |
| Income taxes payable | 54 | (22) |
| Net change in operating working capital | (121) | (150) |
| Net Cash Provided by Operating Activities | 27 | 6 |
| Cash Flows - Investing Activities | | |
| Capital spending | (62) | (89) |
| Refranchising of restaurants | 40 | 101 |
| Sales of property, plant and equipment | 15 | 4 |
| Other, net | 17 | (29) |
| Net Cash Provided by (Used for) Investing Activities | 10 | (13) |

(Continued on following page)

Condensed Combined Statement of Cash Flows (page 2 of 2)

(in millions, unaudited)

TRICON Global Restaurants, Inc.

Twelve Weeks ended March 22, 1997 and March 23, 1996

| | 1997 | 1996 |
|---|--------|--------|
| <hr/> | | |
| Cash Flows - Financing Activities | | |
| Short-term borrowings-three months or less, net | \$ 36 | \$(40) |
| Proceeds from long-term debt | 24 | 40 |
| Decrease in investments by and advances from PepsiCo | (117) | (6) |
| Net Cash Used for Financing Activities | (57) | (6) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | - | (2) |
| Net Decrease in Cash and Cash Equivalents | (20) | (15) |
| Cash and Cash Equivalents - Beginning of Year | 137 | 94 |
| Cash and Cash Equivalents - End of Quarter | \$ 117 | \$ 79 |
| <hr/> | | |
| Supplemental Cash Flow Information | | |
| Cash Flow Data | | |
| Interest paid | \$ 6 | \$ 8 |
| Income taxes paid | \$ 16 | \$ 80 |
| <hr/> | | |

See accompanying Notes to Condensed Combined Financial Statements.

Condensed Combined Balance Sheet
(in millions, unaudited)
TRICON Global Restaurants, Inc.
March 22, 1997 and December 28, 1996

3/22/97 12/28/96

ASSETS

Current Assets

| | | |
|--|---------|---------|
| Cash and cash equivalents | \$ 117 | \$ 137 |
| Short-term investments, at cost | 22 | 50 |
| | 139 | 187 |
| Accounts and notes receivable, less allowance: \$11 in 1997 and \$9 in 1996 | 126 | 125 |
| Inventories | 87 | 88 |
| Prepaid expenses, deferred income taxes and other current assets | 650 | 562 |
| Total Current Assets | 1,002 | 962 |
| Property, Plant and Equipment, net | 3,955 | 4,050 |
| Intangible Assets, net | 1,068 | 1,100 |
| Investments in Unconsolidated Affiliates | 222 | 228 |
| Other Assets | 166 | 180 |
| Total Assets | \$6,413 | \$6,520 |

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

| | | |
|---|---------|---------|
| Accounts payable and other current liabilities | \$1,108 | \$1,200 |
| Income taxes payable | 210 | 157 |
| Short-term borrowings | 93 | 59 |
| Total Current Liabilities | 1,411 | 1,416 |

| | | |
|-----------------------|-----|-----|
| Long-term Debt | 222 | 231 |
| Other Liabilities | 436 | 434 |
| Deferred Income Taxes | 174 | 200 |

Shareholder's Equity

| | | |
|---|---------|---------|
| Investments by and advances from PepsiCo | 4,201 | 4,266 |
| Currency translation adjustment | (31) | (27) |
| Total Shareholder's Equity | 4,170 | 4,239 |
| Total Liabilities and Shareholder's Equity | \$6,413 | \$6,520 |

See accompanying Notes to Condensed Combined Financial Statements.

1. The Condensed Combined Balance sheet at March 22, 1997 and the Condensed Combined Statements of Operations and Cash Flows for the 12 weeks ended March 22, 1997 and March 23, 1996 have not been audited, but have been prepared in conformity with the accounting principles applied in the TRICON audited combined financial statements for the year ended December 28, 1996. In the opinion of management, this information includes all material adjustments, which are of a normal and recurring nature, necessary for a fair presentation. The results for the 12 weeks are not necessarily indicative of the results expected for the year.
2. The non-core U.S. restaurant businesses held for disposal contributed \$103 million and \$67 million to revenues in 1997 and 1996, respectively. Excluding the unusual disposal charge in 1996, operating results for the non-core U.S. restaurant businesses were \$5 million of operating profit in 1997 compared to a \$6 million loss in 1996. About half of the profit improvement was due to cessation of depreciation and amortization expense in 1997 because these businesses are held for sale.
3. On February 19, 1997 TRICON sold ESM, one of its non-core U.S. restaurant businesses, for \$10 million in cash proceeds, which approximated its carrying amount.
4. TRICON purchases beverage products from the Pepsi-Cola Company and equipment, food and paper from PepsiCo Food Systems (PFS), both operating divisions of PepsiCo. The amounts purchased in 1997 and 1996 were \$477 million and \$574 million, respectively.

Pro Forma Condensed Combined Statement of Operations
(in millions except per share amounts, unaudited)
TRICON Global Restaurants, Inc.
Fiscal year ended December 28, 1996

| | 1996 | Pro Forma Adjustments | Pro Forma 1996 |
|--|---------|--------------------------|-------------------|
| REVENUES | | | |
| Company-operated restaurants | \$9,738 | \$(391)(a) | \$9,347 |
| Franchise and license fees | 494 | (3)(a) | 491 |
| | 10,232 | (394)(a) | 9,838 |
| Costs and Expenses, net | | | |
| Company-operated restaurants | | | |
| Food and paper | 3,215 | (123)(a) | 3,092 |
| Payroll and employee benefits | 2,793 | (130)(a) | 2,663 |
| Occupancy and other operating expenses | 2,711 | (112)(a) | 2,599 |
| | 8,719 | (365) | 8,354 |
| General, administrative and other expenses | 932 | (39)(a) | 893 |
| Net facility actions | (37) | - | (37) |
| Unusual disposal charges | 246 | (246)(a) | - |
| Total costs and expenses | 9,860 | (650)(a) | 9,210 |
| Operating Profit | 372 | 256 (a) | 628 |
| Interest expense, net | 300 | (5) | 295 |
| Income Before Income Taxes | 72 | 261 | 333 |
| Income Taxes | 125 | 61 | 186 |
| Net (Loss)/Income | \$ (53) | \$ 200 | \$ 147 |
| Net Loss Per Share | \$ - | \$x.xx | \$ x.xx |
| Average shares outstanding | - | xxx | xxx |

See accompanying Notes to Pro Forma Condensed Combined Financial Statements.

Pro Forma Condensed Combined Statement of Operations
(in millions except per share amounts, unaudited)

TRICON Global Restaurants, Inc.
Twelve Weeks ended March 22, 1997

| | 1997 | Pro Forma Adjustments | Pro Forma 1997 |
|--|---------|--------------------------|-------------------|
| REVENUES | | | |
| Company-operated restaurants | \$2,123 | \$ (102)(a) | \$2,021 |
| Franchise and license fees | 114 | (1)(a) | 113 |
| | 2,237 | (103)(a) | 2,134 |
| Costs and Expenses, net | | | |
| Company-operated restaurants | | | |
| Food and paper | 684 | (31)(a) | 653 |
| Payroll and employee benefits | 633 | (37)(a) | 596 |
| Occupancy and other operating expenses | 572 | (22)(a) | 550 |
| | 1,889 | (90)(a) | 1,799 |
| General, administrative and other expenses | | | |
| | 198 | (8)(a) | 190 |
| Net facility actions | (12) | - | (12) |
| Total costs and expenses | 2,075 | (98)(a) | 1,977 |
| Operating Profit | 162 | (5)(a) | 157 |
| Interest expense, net | 66 | (1) | 65 |
| Income Before Income Taxes | 96 | (4) | 92 |
| Income Taxes | 44 | (1) | 43 |
| Net Income | \$ 52 | \$ (3) | \$ 49 |
| Net Income Per Share | \$ - | \$ x.xx | \$ x.xx |
| Average shares outstanding | - | x,xxx | x,xxx |

See accompanying Notes to Pro Forma Condensed Combined Financial Statements.

Pro Forma Condensed Combined Balance Sheet
(in millions except per share amount, unaudited)
TRICON Global Restaurants, Inc.
March 22, 1997

| | 1997 | Pro Forma Adjustments | Pro Forma 1997 |
|---|---------|--------------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 117 | \$ - | \$ 117 |
| Short-term investments, at cost | 22 | - | 22 |
| | 139 | - | 139 |
| Accounts and notes receivable, less allowance: \$11 | 126 | - | 126 |
| Inventories | 87 | - | 87 |
| Prepaid expenses, deferred income taxes and other current assets | 650 | (311)(a) | 339 |
| Total Current Assets | 1,002 | (311) | 691 |
| Property, Plant and Equipment, net | 3,954 | - | 3,954 |
| Intangible Assets, net | 1,068 | - | 1,068 |
| Investments in Unconsolidated Affiliates | 222 | - | 222 |
| Other Assets | 167 | - | 167 |
| Total Assets | \$6,413 | \$(311) | \$6,102 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | |
|---|---------|------------|---------|
| Current Liabilities | | | |
| Accounts payable and other current liabilities | \$1,108 | \$ (57)(a) | \$1,051 |
| Income taxes payable | 210 | - | 210 |
| Short-term borrowings | 93 | - | 93 |
| Total Current Liabilities | 1,411 | (57) | 1,354 |
| Long-term Debt | 222 | (49)(a) | 173 |
| Other Liabilities | 436 | (6)(a) | 430 |
| Deferred Income Taxes | 174 | 48 (a) | 222 |
| Shareholder's Equity | | | |
| Investments by and advances from PepsiCo | 4,201 | (247)(a) | 3,954 |
| Capital stock, par value \$0.05 per share: authorized 750 shares, issued x,xxx shares | - | - | - |
| Capital in excess of par value | - | - | - |
| Currency translation adjustment | (31) | - | (31) |
| Total Shareholder's Equity | 4,170 | (247) | 3,923 |
| Total Liabilities and Shareholder's Equity | \$6,413 | \$(311) | \$6,102 |

See accompanying Notes to Pro Forma Condensed Combined Financial Statements.

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

The historical combined financial statements reflect periods during which TRICON did not operate as a separate, independent Company; certain estimates, assumptions and allocations were made in preparing such financial statements. Therefore such historical combined financial statements do not necessarily reflect the combined results of operations or financial position that would have existed had TRICON been a separate, independent company.

The Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical combined financial statements of TRICON and the notes thereto contained in this Information Statement. The pro forma condensed combined financial information is presented for informational purposes only and does not purport to reflect the results of operations or financial position of TRICON or the results of operations or financial position that would have occurred had TRICON been operated as a separate, independent company.

Note 1 - The pro forma adjustments to the accompanying historical combined

statement of operations for the fiscal year ended December 28, 1996 are:

(a) To eliminate the effect of TRICON's non-core U.S. restaurant businesses composed of CPK, Chevys, D'Angelo, ESM and HNN. TRICON has disposed of or expects to dispose of these businesses in 1997.

(b) Items to be updated in a subsequent amendment

- External interest expense based on expected debt outstanding
- Shares outstanding

Note 2 - The pro forma adjustments to the accompanying historical combined

statement of operations for the twelve-weeks ended March 22, 1997 are:

(a) To eliminate the effect of TRICON's non-core U.S. restaurant businesses composed of CPK, Chevys, D'Angelo, ESM and HNN. TRICON has disposed of or expects to dispose of these businesses in 1997.

(b) Items to be updated in a subsequent amendment

- External interest expense based on expected debt outstanding
- Shares outstanding

Note 3 - The pro forma adjustments to the accompanying historical combined

balance sheet at March 22, 1997 are:

(a) To eliminate the effect of TRICON's non-core U.S. businesses composed of CPK, Chevys, D'Angelo, ESM and HNN. TRICON has disposed of or expects to dispose of these businesses in 1997.

(b) Items to be updated in a subsequent amendment

- External debt based on expected debt outstanding
- Dividend payment and settlement of certain intercompany liabilities to and with PepsiCo
- New Equity and Shares outstanding

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EXHIBIT INDEX

| Exhibit No. | Description | Page No. |
|-------------|--|----------|
| 2.01** | Separation Agreement..... | |
| 3.01** | Restated Articles of Incorporation..... | |
| 3.02** | Bylaws..... | |
| 10.01** | Tax Separation Agreement..... | |
| 10.02** | Employee Programs Agreement..... | |
| 10.03** | Telecommunications, Software and Computing Services Agreement..... | |
| 10.04* | TRICON Long-Term Incentive Plan..... | |
| 10.05* | TRICON Executive Incentive Compensation Plan..... | |
| 10.06* | Employment Agreement between TRICON Global Restaurants, Inc. and Andrall E. Pearson..... | |
| 10.07* | Agreement between KFC and Pepsi - Cola Company..... | |
| 10.08* | Agreement between Pizza Hut and Pepsi - Cola Company | |
| 10.09* | Agreement between Taco Bell and Pepsi - Cola Company | |
| 10.10* | Sales and Distribution Agreement between PFS, Pizza Hut, Taco Bell and KFC..... | |
| 21.01* | Active Subsidiaries..... | |
| 27.01 | Financial Data Schedule For Year-End 1996..... | |
| 27.02 | Financial Data Schedule for First Quarter 1997..... | |

* To be filed by amendment. ** Filed with this amendment.

Exhibit 2.01

SEPARATION AGREEMENT

SEPARATION AGREEMENT, dated as of _____, 1997 (as amended, supplemented or otherwise modified, this "Agreement"), by and between PepsiCo, Inc., a North Carolina corporation ("PepsiCo"), and TRICON Global Restaurants, Inc., a North Carolina corporation ("TRICON") and, as of the date hereof, a wholly-owned subsidiary of PepsiCo.

WITNESSETH:

WHEREAS, PepsiCo has engaged in the restaurant business through various of its subsidiaries and affiliates (PepsiCo and its subsidiaries and affiliates (other than the members of the TRICON Group (as such term is hereinafter defined)) are collectively referred to herein as the "PepsiCo Group");

WHEREAS, PepsiCo has decided to consolidate the assets and operations of its worldwide KFC, Pizza Hut and Taco Bell businesses (collectively, the "Restaurant Businesses") into TRICON and TRICON's subsidiaries and affiliates (TRICON and its subsidiaries and affiliates are collectively referred to herein as the "TRICON Group"), and to distribute the Common Stock of TRICON on a ___-for-one basis to the holders of PepsiCo Capital Stock (the "Distribution"); and

WHEREAS, on or before _____, 1997 (the "Distribution Date"), PepsiCo will transfer to the Agent (as such term is hereinafter defined), for the benefit of the holders of record of PepsiCo Capital Stock at the close of business on _____, 1997 (the "Record Date"), without any consideration being paid by such holders, the shares of TRICON Common Stock then owned by PepsiCo;

NOW, THEREFORE, in consideration of the mutual promises contained herein, the Parties (as such term is defined in Section 16 hereof) hereby agree as follows:

Section 1. The Distribution. On or prior to the Distribution Date, PepsiCo will transfer to BankBoston, N.A., as distribution agent (the "Agent"), for the benefit of holders of record of PepsiCo Capital Stock at the close of business on the Record Date, the shares of TRICON Common Stock then owned by PepsiCo, together with an irrevocable voting rights proxy in favor of the Agent. Prior to the Distribution Date, the Parties shall take such action with respect to the TRICON Common Stock as is required to complete the Distribution on the basis of one share of TRICON Common Stock for every ___ shares of PepsiCo Capital Stock outstanding at the close of business on the Record Date. PepsiCo shall instruct the Agent to distribute such TRICON shares to the holders of record of PepsiCo Capital Stock at the close of business on the Record Date. All of the shares of TRICON so issued shall be fully paid and nonassessable. The Distribution shall be effective as of 11:59:59 p.m. on the Distribution Date.

Section 2. Governance Documents and Benefit Plans. TRICON shall take all action necessary such that, on the Distribution Date, the Articles of Incorporation and Bylaws of TRICON, and all benefit plans of TRICON, shall be substantially in the forms filed with the Securities and Exchange Commission as exhibits to the Form 10 relating to the Distribution (as amended, supplemented or otherwise modified, the "Form 10").

Section 3. Books, Records, Services and Access to Information. (a) Except as otherwise provided in the attachments hereto, for a period of up to twelve months from and after the Distribution Date (or such shorter period as set forth on Schedule A hereto), each Party shall make available to the other, during normal business hours and in a manner which will not unreasonably interfere with such Party's business, the services set forth on Schedule A hereto (collectively "Transitional Services") to the extent that the same are reasonably required to assist in effecting an orderly transition following the Distribution. Except as otherwise provided in the attachments hereto, the initial terms upon which Transitional Services shall be provided to TRICON or PepsiCo, as the case may be, are set forth on Schedule A hereto.

(b) From and after the Distribution Date, PepsiCo shall afford TRICON and its authorized employees and representatives reasonable access (including access to persons or firms possessing relevant information and records) and reasonable duplicating rights during normal business hours to, or, at PepsiCo's option, copies of, all records, books, contracts, instruments, data and other information (collectively, "Information") within the PepsiCo Group's possession relating to any member of the TRICON Group, insofar as such access or copies are reasonably required by TRICON.

(c) TRICON shall afford to PepsiCo and its authorized employees and representatives reasonable access (including access to persons or firms possessing relevant information and records) and reasonable duplicating rights during normal business hours to, or, at TRICON's option, copies of, all Information within the TRICON Group's possession relating to any member of the PepsiCo Group, insofar as such access or copies are reasonably required by PepsiCo.

(d) Within 45 days after the Distribution Date, each of PepsiCo and TRICON shall provide the other with such indices or descriptions of Information as it may maintain relating to the other or the other's subsidiaries or affiliates. Information may be required under this Section 3, without limitation, for audit, accounting, claims, litigation and tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations. In lieu of retaining any specific Information, either Party may, in writing, offer to deliver such Information to the other Party. If such offer is not accepted within 90 days, the Information so offered shall be retained or destroyed in accordance with PepsiCo's Record Retention Policy. If such offer is accepted, the Party accepting delivery shall pay the reasonable out-of-pocket costs of the delivery. Each Party

shall maintain the Information in accordance with the manner it treats similar material relating to its ongoing business.

(e) At all times from and after the Distribution Date, each Party will use its reasonable best efforts to make available to the other, upon written request, its officers, directors, employees and agents as witnesses to the extent that the same may reasonably be required in connection with any legal, administrative or other proceedings in which the requesting Party may from time to time be involved.

(f) Except as otherwise specifically provided for herein, a Party providing Information, Transitional Services or witnesses to the other hereunder shall be entitled to receive from the recipient, upon the presentation of appropriate invoices therefor, payments for such amounts relating to supplies, disbursements, and such other costs and out-of-pocket expenses as are provided for on Schedule A hereto, or which may be reasonably incurred in providing such Information, Transitional Services or witnesses. Invoices shall be due and payable within thirty (30) days of receipt. Interest shall accrue on any unpaid amount at the rate of eight percent (8%) per annum.

(g) PepsiCo shall arrange for the transportation of existing corporate records in its possession relating exclusively to the Restaurant Businesses, including original corporate minute books, stock ledgers and certificates, and corporate seals of each corporation included in the group of which TRICON is the parent corporation, and all active agreements, deeds to real property, active litigation files and filings with foreign governments, if any, to TRICON's address set forth in Section 23 hereof. PepsiCo shall provide TRICON with lists of trademarks, patents and copyrights of TRICON and its subsidiaries.

Section 4. Confidentiality. Each member of the PepsiCo Group and the TRICON Group shall hold, and cause each of their respective officers, employees, agents, consultants and advisors to hold, in strict confidence, all non-public Information concerning the other Party furnished it by such other Party or its representatives pursuant to this Agreement, unless compelled to disclose such Information by judicial or administrative process or, in the opinion of counsel, by other requirements of law (in which case such Party shall promptly notify the other Party so that the other Party may seek a protective or other appropriate remedy); and each Party shall not release or disclose such Information to any other person, except its auditors, attorneys, financial advisors, bankers and other consultants and advisors who shall be bound by the provisions of this

Section 4. Each Party shall be deemed to have satisfied its obligations hereunder with respect to confidential Information supplied by the other Party if it exercises the same care as it does with respect to preserving the confidentiality of its own similar information.

Section 5. Indemnification. (a) Effective on the Distribution Date, TRICON agrees to indemnify and hold harmless each member of the PepsiCo Group and each of their respective officers, directors, employees and agents from and against any and all losses, liabilities, claims, suits, damages, costs and expenses (including, without limitation, reasonable attorneys' fees and any and all expenses reasonably incurred in investigating, preparing or defending against any pending or seriously threatened litigation or claim) (collectively, "Losses") arising out of or related in any manner to any item set forth on Schedule B hereto. Similarly, effective on the Distribution Date, except as otherwise provided in the attachments hereto, PepsiCo agrees to indemnify and hold harmless each member of the TRICON Group and each of their respective officers, directors, employees and agents from and against any and all Losses arising out of or related in any manner to any item set forth on Schedule C hereto.

(b) If any action is brought or any claim is made against a Party or person in respect of which indemnity may be sought pursuant to subsection 5(a) above (the "Indemnitee"), the Indemnitee shall, within ten days after the receipt of information indicating that an action or claim is likely, notify in writing the Party from whom indemnification is sought (the "Indemnitor") of the institution of the action or the making of the claim, and the Indemnitor shall have the right, and at the request of the Indemnitee, shall have the obligation, to assume the defense of the action or claim, including the employment of counsel. If the Indemnitor assumes the defense of the action or claim, the Indemnitor shall be entitled to settle the action or claim on behalf of the Indemnitee without the prior written consent of the Indemnitee unless such settlement would, in addition to the payment of money, materially affect the ongoing business or employment of the Indemnitee.

(c) The Indemnitee shall have the right to employ its own counsel, but the fees and expenses of that counsel shall be the responsibility of the Indemnitee unless (i) the employment of that counsel shall have been authorized in writing by the Indemnitor in connection with the defense of the action or claim; (ii) the Indemnitor shall not have employed counsel to have charge of the defense of such action or claim; or (iii) such Indemnitee shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to the Indemnitor (in which case the Indemnitor shall not have the right to direct any different defense of the action or claim on behalf of the Indemnitee). The Indemnitee shall, in any event, be kept fully informed of the defense of any such action or claim. Except as expressly provided above, in the event that the Indemnitor shall not previously have assumed the defense of an action or claim, at such time as the Indemnitor does assume the defense of the action or claim, the Indemnitor shall not thereafter be liable to any Indemnitee for legal or other expenses subsequently incurred by the Indemnitee in investigating, preparing or defending against such action or claim.

(d) Anything in this Section 5 to the contrary notwithstanding, the Indemnitor shall not be liable for any settlement of any claim or action effected without its written consent; provided, however, that if after due notice the Indemnitor refuses to defend a claim or action, the Indemnitee shall have the right to defend and/or settle such claim or action, and the Indemnitee shall not be precluded from making a claim against the Indemnitor for reasonable expenses and liabilities resulting from such defense and/or settlement in accordance with this Section 5.

(e) Notwithstanding the foregoing provisions of this Section 5, there may be particular actions or claims which reasonably could result in both Parties being liable to the other under the indemnification provisions of this Agreement. In such events, the Parties shall endeavor, acting reasonably and in good faith, to agree upon a manner of conducting the defense and settlement of the action or claim with a view to minimizing the legal expenses and associated costs that might otherwise be incurred by the Parties, such as, by way of illustration only, agreeing to use the same legal counsel.

(f) The indemnification provisions of this Section 5 shall not inure to the benefit of any third party. By way of illustration only, an insurer who would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto, or, solely by virtue of the indemnification provisions hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of these indemnification provisions.

Section 6. Taxes. PepsiCo and TRICON have entered into a Tax Separation Agreement, substantially in the form attached hereto as Attachment 1 (as amended, supplemented or otherwise modified, the "Tax Agreement"), regarding their respective rights and obligations with respect to taxes of the TRICON Group for all periods through the Distribution Date and certain other tax-related matters. In the event of a conflict between the terms of the Tax Agreement and the terms of this Agreement, the terms of the Tax Agreement shall govern.

Section 7. Employee Benefits. PepsiCo and TRICON have entered into an Employee Programs Agreement, substantially in the form attached hereto as Attachment 2 (as amended, supplemented or otherwise modified, the "Employee Programs Agreement"), which allocates assets, liabilities and responsibilities between them with respect to certain employee compensation and benefit plans and programs and certain other related matters. In the event of a conflict between the Employee Programs Agreement and the terms of this Agreement, the terms of the Employee Programs Agreement shall govern.

Section 8. Telecommunications, Software and Computing Services. PepsiCo and TRICON have entered into a Telecommunications, Software and Computing Services Agreement, substantially in the form attached hereto as Attachment 3 (as amended, supplemented or otherwise modified, the "T,S&C Agreement"), setting forth the arrangements between the Parties with respect to internal software, third party agreements, telecommunications services and computing services. In the event of a conflict between the T,S&C Agreement and the terms of this Agreement, the terms of the T,S&C Agreement shall govern.

Section 9. Transfer of Entities, Operations, Assets and Liabilities. (a) Except as set forth on Schedule D hereto, prior to the Distribution Date, PepsiCo and TRICON shall use reasonable efforts to cause the entities, operations, assets and corresponding liabilities of the Restaurant Businesses to be included as part of the TRICON Group. Both Parties agree to take such action as may be necessary or appropriate, prior to the Distribution Date, to cause all such restaurant-related assets and liabilities (including, without limitation, all agreements relating thereto), except as provided on Schedule D hereto, to be properly conveyed or assigned to TRICON or the appropriate subsidiary or affiliate of TRICON. Except as otherwise provided in this Agreement (including, without limitation, the Schedules and Attachments hereto), PepsiCo shall bear the reasonable costs of such conveyances.

(b) Except as expressly provided herein, TRICON agrees to assume and pay all contracts, obligations and liabilities of each member of the PepsiCo Group associated in any way with the Restaurant Businesses and/or the Casual Dining Businesses (as such term is hereinafter defined), whether accrued, absolute, contingent or otherwise, and whether due or to become due, including, without limitation, all obligations of any member of the PepsiCo Group acting as a guarantor of obligations associated in any way with any of the Restaurant Businesses and/or the Casual Dining Businesses, and all obligations under leases and other executory contracts and liabilities, whether arising as a result of the transactions contemplated hereby, existing on the date hereof, or based on facts or actions arising on or prior to the Distribution Date, whether or not such obligations shall have been disclosed herein, and whether or not reflected on the opening balance sheet of the TRICON Group prepared pursuant to Section 13 hereof (the "Opening Balance Sheet"). For purposes of this Agreement, the term "Casual Dining Businesses" shall mean California Pizza Kitchen, Chevys Mexican Restaurants, Chimayo Grill, D'Angelo Sandwich Shops, East Side Mario's and Hot `n Now.

(c) In the event that the transfer of all such assets and liabilities is not accomplished by the Distribution Date, the Parties agree that TRICON shall have de facto control and equitable ownership of the entities, operations and assets, and de facto responsibility for the obligations and liabilities, intended to be transferred to the TRICON Group; provided, however, that if any uncompleted steps financially affect either PepsiCo or TRICON, the Parties agree to use their respective best efforts to equitably resolve any such financial impact.

(d) This Section 9 shall not inure to the benefit of any third party.

Section 10. Letters of Credit, Guaranties and Contingent Liabilities.

(a) TRICON shall use its best efforts to cause the beneficiaries of all of the PepsiCo Group's letters of credit, guarantees and other contingent liabilities relating to any of the Restaurant Businesses or the Casual Dining Businesses (including, without limitation, commercial letters of credit, financing guarantees, performance guarantees, lease guarantees, comfort letters, insurance and workers' compensation liabilities, and the letters of credit, guarantees and other contingent liabilities identified on Schedule E hereto) which will not have expired on or prior to the Distribution Date, to release and terminate all such letters of credit, guarantees and contingent liabilities on or prior to the Distribution Date and, where necessary or appropriate, to accept substitute letters of credit, guarantees or contingent liabilities issued for the account of TRICON or to post sufficient cash collateral on behalf of TRICON. From and after the Distribution Date, TRICON will pay a fee based upon the maximum exposure related to any such letters of credit, guarantees and contingent liabilities which were not released, terminated or replaced prior to the Distribution Date. Such fee will be structured consistent with the pricing of TRICON's senior credit facility as in effect from time to time and will be expressed as a percentage of the value of the underlying exposure. Future modifications to the pricing of TRICON's senior credit facility will apply to the fee as well. Such fee shall be payable monthly in advance until such time as each such letter of credit, guarantee and contingent liability has been released, terminated or replaced by a Qualified Letter of Credit (as such term is hereinafter defined). Notwithstanding the foregoing, TRICON shall at all times indemnify and hold harmless each member of the PepsiCo Group from and against all losses, liabilities and obligations incurred with respect to such letters of credit, guarantees or contingent liabilities. Without limiting the foregoing, TRICON shall, upon demand, reimburse PepsiCo within ten days for any amounts actually paid by any member of the PepsiCo

Group with respect to any such letters of credit, guarantees or contingent liabilities.

(b) For purposes of this Agreement, the term "Qualified Letter of Credit" shall mean an irrevocable, transferable letter of credit issued to PepsiCo or its relevant subsidiary or affiliate by a bank that is a AA Credit (as such term is hereinafter defined), substantially in the form attached as Schedule F hereto, with a term extending to the last possible expiration date of the relevant letter of credit, guarantee or contingent liability and with a maximum drawing amount that shall equal the full amount of all remaining obligations and foreseeable claims under the relevant letter of credit, guarantee or contingent liability (assuming the exercise of all extension options with respect to the underlying obligations). In the event of any change in the law regarding letters of credit generally that affects the language in a Qualified Letter of Credit, TRICON shall, at the request of PepsiCo, provide a new Qualified Letter of Credit containing modifying language as approved by PepsiCo. The language contained in the form of letter of credit attached as Schedule F hereto shall be deemed to be approved by PepsiCo. For purposes of this Agreement, the term "AA Credit" shall mean a corporation or banking association whose long-term debt obligations are rated AA- or Aa3 or better by Standard & Poor's or by Moody's, respectively, or their successors in interest that are "nationally recognized statistical rating organizations."

(c) TRICON agrees that no member of the TRICON Group shall modify, amend or extend (including, without limitation, pursuant to any existing option to extend) any of the leases for property of the TRICON Group which have been guaranteed by a member of the PepsiCo Group (including, without limitation, the real property leases identified on Schedule G hereto) (collectively, the "Leases") so as to increase or in any way enlarge the duration of any of the obligations or liabilities of any member of the PepsiCo Group pursuant to those guarantees without first obtaining the prior written approval of PepsiCo, which approval may be withheld by PepsiCo in its sole discretion. TRICON further agrees that no member of the TRICON Group shall default under or breach any of the Leases so as to cause or give rise to any claims, actions, suits or proceedings against any member of the PepsiCo Group arising out of such guarantees, and hereby agrees to indemnify and hold harmless each member of the PepsiCo Group from and against all such liabilities, costs and expenses (including, without limitation, reasonable attorneys' fees and any and all expenses reasonably incurred in investigating, preparing or defending against any pending or seriously threatened litigation or claim) associated therewith in accordance with Section 5 hereof. TRICON shall immediately notify PepsiCo, in writing, of any allegation or claim asserted by any person or entity which might give rise to any liability or obligation of any member of the PepsiCo Group under any such guarantee.

Section 11. Insurance. (a) All policies of liability, fire, workers' compensation and other forms of insurance maintained by the PepsiCo Group insuring the products, properties, assets and/or operations of the TRICON Group shall continue in full force and effect up to and through the Distribution Date, and except as set forth on Schedule H hereto, shall be terminated effective 11:59:59 p.m. on the Distribution Date. Any refunds of prepaid premiums with respect to such terminated insurance shall be for PepsiCo's account. PepsiCo shall be responsible for obtaining such initial insurance coverage for TRICON from and after the Distribution Date in such amounts as are agreed upon by the Parties. TRICON shall be liable for payment of all premiums with respect to such initial insurance coverage and all subsequent coverage which TRICON thereafter elects to obtain. For purposes of this Section, insurance coverage does not include any insurance for plans described in the Employee Programs Agreement, but does include ERISA fidelity bonds and/or fiduciary insurance.

(b) With respect to any insurance programs relating to the TRICON Group (including, without limitation, any casualty insurance programs such as public and products liability insurance, insured or self-insured workers' compensation insurance and automobile liability insurance), TRICON shall be liable for payment of all claims arising out of incidents, known or unknown, reported or unreported, which occur prior to, on or after the Distribution Date. Any reserves under these insurance programs relating to TRICON for periods ending prior to, on or after the Distribution Date shall be for the account of TRICON. Such reserves shall be included as liabilities of TRICON, and any charge or credit to the reserves shall be for TRICON's account.

Section 12. Banking and Other Arrangements. The responsibility for bank accounts used exclusively by the TRICON Group shall be transferred from PepsiCo to TRICON on or prior to the Distribution Date. Normal procedures will be followed for receipts and disbursements funding prior to the Distribution Date as set forth on Schedule I hereto.

Section 13. Procedures for Closing and Delivery of Books and Balance Sheet and Payment of Certain Amounts to PepsiCo. Financial statements of TRICON as of the Distribution Date, which shall be summaries of the combined accounting ledgers of the TRICON Group as of the close of the tenth accounting period of the 1997 fiscal year, and which shall include an Opening Balance Sheet, shall be prepared by PepsiCo within 45 days after the Distribution Date and reviewed and agreed to by TRICON within 15 days after such financial statements are prepared. Each Party shall bear its own expenses in connection with the preparation and review of such financial statements. PepsiCo and TRICON agree that the principles for determining the Opening Balance Sheet are as follows:

(a) Total Assets shall be determined through the normal reporting process using U.S. generally accepted accounting principles ("GAAP") as applied on a basis substantially consistent with the basis used in the preparation of the financial statements of TRICON presented in the Form 10 and standard PepsiCo definitions and accounting practice, consistently applied.

(b) Non-Interest Bearing Liabilities shall be determined through the normal reporting process using GAAP as applied on a basis substantially consistent with the basis used in the preparation of the financial statements of TRICON presented in the Form 10 and standard PepsiCo definitions and accounting practice, consistently applied. Accrued tax liabilities shall be treated in accordance with the provisions of the Tax Agreement.

(c) Net Assets is the sum of total assets less non-interest bearing liabilities. Net Assets shall be determined in accordance with the following capitalization procedure:

(i) Short and Long-Term Debt shall be determined through the normal reporting process using GAAP as applied on a basis substantially consistent with the basis used in the preparation of the financial statements of TRICON presented in the Form 10 and standard PepsiCo definitions and accounting practice, consistently applied. The Opening Balance Sheet will reflect approximately \$_____ of debt obligations to be incurred by TRICON prior to the Distribution Date. Substantially all of the proceeds of such debt obligations will be transferred to PepsiCo prior to the Distribution Date in the form of repayment of certain amounts due to PepsiCo from the TRICON Group and a dividend.

(ii) Stockholders' Equity of TRICON will equal the difference between the total Net Assets less the Short and Long-Term Debt on TRICON's Opening Balance Sheet as of the Distribution Date.

Any amounts due PepsiCo by the TRICON Group related to intercompany accounts (other than those accounts which are defined as intercompany trade receivables and payables in accordance with PepsiCo financial policies) or other promissory notes in excess of the amount set forth in (i) immediately above, which will cover repayment of certain amounts due to PepsiCo from the TRICON Group, will be capitalized by PepsiCo.

Section 14. Operation Until Closing. TRICON agrees, on behalf of itself and each member of the TRICON Group, that through the Distribution Date the Restaurant Businesses shall be operated in the ordinary course of business, consistent with past practice.

Section 15. De-Identification. As soon as practicable after the Distribution Date, and in no event later than 120 days after such Date, TRICON shall eliminate all exterior and interior signage and other identification in its possession or control, and cease using any letterhead, which identifies TRICON or any other entity within the TRICON Group as a subsidiary or affiliate of PepsiCo.

Section 16. Parties. As used in this Agreement, the term "Parties" shall include the PepsiCo Group and its successors, and the TRICON Group and its successors. Each of PepsiCo and TRICON agrees that it shall cause each of its subsidiaries and affiliates to comply fully with the terms of this Agreement.

Section 17. Expenses. Except as set forth on Schedule J hereto or as otherwise provided in this Agreement (including, without limitation, the Schedules and Attachments hereto), all expenses in connection with the Distribution shall be borne by PepsiCo and all expenses in connection with the ongoing operations and/or businesses of the TRICON Group shall be borne by TRICON.

Section 18. Tax Gross-Up. If any amount paid by any member of the PepsiCo Group or the TRICON Group, as the case may be, pursuant to this Agreement results in any increased Tax liability or reduction of any Tax Asset of the TRICON Group or the PepsiCo Group, respectively, then PepsiCo or TRICON, as appropriate, shall indemnify the other Party and hold it harmless from and against any interest or penalty attributable to such increased Tax liability or the reduction of such Tax Asset and shall pay to the other Party, in addition to amounts otherwise owed, the After-Tax Amount. Capitalized terms used in this

Section 18 but not otherwise defined in this Agreement shall have the meanings assigned to such terms in the Tax Agreement.

Section 19. Survival. All of the provisions of this Agreement shall survive the Distribution Date.

Section 20. Other Provisions. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, may not be assigned by either Party without the written consent of the other, and shall bind and inure to the benefit of the Parties hereto and their respective successors and permitted assignees. This Agreement may not be amended, supplemented or otherwise modified except by an agreement in writing signed by PepsiCo and TRICON. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

Section 21. Arbitration. (a) Except as otherwise provided in the attachments hereto, any controversy or claim arising out of or relating to this Agreement, or the breach hereof, shall be settled by arbitration in accordance with the then prevailing Commercial Arbitration Rules of the American Arbitration Association (the "AAA") as such rules may be modified herein.

(b) An award rendered in connection with an arbitration pursuant to this Section shall be final and binding and judgment upon such an award may be entered and enforced in any court of competent jurisdiction.

(c) The forum for arbitration under this Section shall be agreed upon by the Parties, or, failing such agreement, shall be New York, New York.

(d) Arbitration shall be conducted by a single arbitrator selected jointly by PepsiCo and TRICON. If within 30 days after a demand for arbitration is made, PepsiCo and TRICON are unable to agree on a single arbitrator, three arbitrators shall be appointed. Within 30 days after such inability to agree, PepsiCo and TRICON shall each select one arbitrator and those two arbitrators shall then select a third arbitrator unaffiliated with either Party. In connection with the selection of the third arbitrator, consideration shall be given to familiarity with corporate divestiture transactions and experience in dispute resolution between parties, as a judge or otherwise. If the arbitrators selected by PepsiCo and TRICON cannot agree on the third arbitrator within such 30 day period, they shall promptly thereafter discuss the qualifications of such third arbitrator with the AAA prior to selection of such arbitrator, which selection shall be in accordance with the Commercial Arbitration Rules of the AAA.

(e) If an arbitrator cannot continue to serve, a successor to an arbitrator selected by PepsiCo or TRICON, as the case may be, also shall be selected by the same Party, and a successor to the neutral arbitrator shall be selected as specified in subsection (d) of this Section. A full

rehearing will be held only if the neutral arbitrator is unable to continue to serve or if the remaining arbitrators unanimously agree that such a rehearing is appropriate.

(f) The arbitrator or arbitrators shall be guided, but not bound, by the Federal Rules of Evidence and by the procedural rules, including discovery provisions, of the Federal Rules of Civil Procedure. Any discovery shall be limited to information directly relevant to the controversy or claim in arbitration.

Section 22. Limitation on Subsequent Activities. PepsiCo agrees, without any separately bargained for consideration, but rather as an integral part of the transfer of the Restaurant Businesses to the TRICON Group and the Distribution provided for in this Agreement, that it shall not directly, through a subsidiary or affiliate, or otherwise, through October 1, 2000, open anywhere in the United States or Canada a restaurant substantially identical to the restaurant concepts operated by the TRICON Group at the opening of business on the day following the Distribution Date. PepsiCo acknowledges that the remedy at law for any breach of the foregoing covenant would be inadequate and in the event of any such breach TRICON shall be entitled to injunctive relief.

Section 23. Notices. Any notice, demand, claim or other communication under this Agreement shall be in writing and shall be deemed to have been given

(i) upon the delivery thereof if delivered personally (including, without limitation, by courier), (ii) three days after being sent by certified mail, return receipt requested, postage prepaid, or (iii) upon receipt of confirmation of a telecopy transmission, in each case to the Parties at the following addresses (or at such other address as a Party may specify by notice to the other):

If to PepsiCo:

PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577-1444
Telecopy No.: (914) 253-3123 Attention: General Counsel

If to TRICON:

TRICON Global Restaurants, Inc.

[To be completed]
Telecopy No.: () ____-____ Attention: General Counsel

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed as of the date and year first above written.

PepsiCo, Inc.

By _____
[Name and Title]

TRICON Global Restaurants, Inc.

By _____
[Name and Title]

INDEX TO SCHEDULES AND ATTACHMENTS

SCHEDULES

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ATTACHMENTS

Attachment 1 - Tax Separation Agreement Attachment 2 - Employee Programs Agreement Attachment 3 - Telecommunications, Software and Computing Services Agreement

Schedule A

TRANSITIONAL SERVICES

| Department Providing Service | Services Provided to TRICON | Expected Date Service Will Terminate | Cost Estimate or Billing Procedure |
|--|--|--|---|
| Treasury - Global Cash Management and Operations | Cash Desk and Operations training for all software packages and daily transactional activity | _____ | T&E Expenses will be charged to TRICON |
| | Guarantee Tracking | _____ | N/A |

Schedule B

TRICON INDEMNIFICATION OBLIGATIONS

Items with respect to which TRICON will indemnify the PepsiCo Group in accordance with Section 5 of this Separation Agreement:

- (1) All Losses arising out of or related in any manner to any of the Restaurant Businesses, the Casual Dining Businesses, and/or any other restaurant business in which PepsiCo or any of its subsidiaries or affiliates has been involved, as such businesses have been conducted in the past, are currently conducted or may in the future be conducted, whether or not such Losses are asserted prior to the Distribution Date and whether or not such Losses are based upon PepsiCo or any of its subsidiaries or affiliates being a direct party to a transaction or agreement.
- (2) All Losses arising out of or related in any manner to any letters of credit, guarantees or contingent liabilities relating to (i) any of the Restaurant Businesses, the Casual Dining Businesses and/or any other restaurant business in which PepsiCo or any of its subsidiaries or affiliates has been involved, or (ii) any obligations of any member of the TRICON Group (including, without limitation, commercial letters of credit, financing guarantees, performance guarantees, lease guarantees, comfort letters, and insurance and workers' compensation liabilities), whether or not such Losses are asserted prior to the Distribution Date.
- (3) All Losses arising out of or related in any manner to (i) the Borrower Receivable Purchase and Sale Agreement, dated as of December 13, 1995, among Taco Bell Corp., as Seller, Corporate Asset Funding Company, Inc., as Investor, and Citicorp North America, Inc., as Investor Agent, or (ii) the Parent Undertaking Agreement, dated as of December 13, 1995, related thereto.

Schedule C

PEPSICO INDEMNIFICATION OBLIGATIONS

Items with respect to which PepsiCo will indemnify the TRICON Group in accordance with Section 5 of this Separation Agreement:

All Losses arising out of or related in any manner to either of the Pepsi-Cola or Frito-Lay businesses conducted by PepsiCo, as such businesses have been conducted in the past, are currently conducted or may in the future be conducted, whether or not such Losses are asserted prior to the Distribution Date.

Schedule D

**RESTAURANT ENTITIES, OPERATIONS, ASSETS AND LIABILITIES
NOT BEING TRANSFERRED TO THE TRICON GROUP**

Entities

Pizza Hut, Inc., a Delaware corporation
Bell Taco Funding Syndicate, an Australian partnership (financing vehicle)

Operations

None

Assets

None

Liabilities

None

Schedule E

**LETTERS OF CREDIT, GUARANTEES AND OTHER CONTINGENT LIABILITIES ISSUED BY THE
PEPSICO GROUP**

To Be Filed By Amendment.

Note: Items subject to change prior to the Distribution Date. Pizza Hut, Inc. obligations and appropriate valuations for performance guarantees will be included prior to execution of this agreement. In addition, the \$11 million guarantee to support the franchise lending program administered by Texas Commerce Bank will be included on this Schedule as soon as it is executed.

Schedule F

FORM OF QUALIFIED LETTER OF CREDIT

Date XXXXXXXX

Irrevocable Standby
Letter of Credit

Our No.

XXXXXX

Advising Bank

Applicant

Beneficiary

Amount

XXXXXXXXXXXX

[PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577-1444]

Expiry

XXXXXXXXXXXX

Gentlemen: We hereby issue in your favor our Irrevocable Standby Letter of Credit No. XXXXX in an amount not to exceed in the aggregate US \$XXXXXXX, effective immediately, and expiring at the office of [Insert name and address of bank], Attention: _____ at our close of business on XXXXXX.

This Letter of Credit is being issued to secure your obligations under those letter(s) of credit, guarantee(s) and/or other contingent liability(ies) which are listed on the attached Schedule 1, which Schedule forms and integral part of this Letter of Credit.

Funds under this Letter of Credit are available for drawing on any Business Day subject to presentation, at the Bank's office at the address set forth below of the following documents:

- 1) A sight draft substantially in the form of Annex 1 hereto;
- 2) A drawing certificate executed by one of the beneficiary's officials and substantially in the form of Annex 2 hereto, appropriately completed; and
- 3) The original of this Letter of Credit and any amendments thereto.

Such demand shall be dated no later than the date of presentation and shall be made by delivery as indicated below in the paragraph covering notices. As used herein, "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in the State of _____ are authorized or required by law or order to be closed.

Partial drawings are permitted.

It is a condition of this Letter of Credit that it shall be reduced automatically and without amendment, from time to time in the following manner:

- A) By any amount claimed by you under this Letter of Credit; or
- B) Upon our receipt of a written statement signed by an officer of PepsiCo, Inc. stating that our Letter of Credit can be reduced by a stated amount, as a result of a cancellation of letter(s) of credit, guarantee(s) or other contingent liability(ies) set forth on Schedule 1.

It is further a condition of this Letter of Credit that it shall be automatically extended for an additional period of one year from the expiration date hereof or any future expiration date, unless at least sixty (60) days prior to such date we send you written notice by certified mail, returned receipt requested mail or hand delivery that we elect not to renew this Letter of Credit for any such additional period.

All notices, demands, presentations and other communications (collectively, "Notices") to us in respect of this Letter of Credit shall be addressed and delivered as follows: [Insert name and address of bank], Attention: _____.

All Notices to you in respect of this Letter of Credit shall be addressed and delivered as follows: PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577-1444, Attention: XXXXX, or such other address as you may from time to time designate by written notice to us.

All Notices in respect of this Letter of Credit shall be effective upon receipt.

Any and all banking charges associated with this Letter of Credit are for the account of TRICON Global Restaurants, Inc.

This Letter of Credit sets forth in full the terms of our undertaking. Such undertaking shall not in any way be modified, amended or amplified by reference to any document or instrument referred to herein or in which this Letter of Credit is referred to or to which this Letter of Credit relates and any such reference shall not be deemed to incorporate herein by reference any document or instrument.

We hereby undertake to promptly honor your sight drafts(s) drawn on us, indicating our Letter of Credit No. XXXXXX, for all or any part of this Letter of Credit if presented at the office of [Insert name and address of bank], Attention: _____ on or before the expiration date or any automatically extended expiry date.

This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision) International Chamber of Commerce Publication No. 500.

Should you have an occasion to communicate with us regarding this credit, kindly direct your communication to the Attention of our _____ Department, (____) ____-____, making specific reference to our Letter of Credit No. XXXXXX.

Authorized Signature

Schedule 1 to Irrevocable Standby Letter of Credit
No. XXXXX

L/C, Guarantee or
Contingent Obligation
Number Beneficiary Amount Expiry Date

Form of Sight Draft

[Insert date]

US\$

Pay to the order of the undersigned the amount of \$_____ drawn on [Insert name of bank] as issuer of Irrevocable Standby Letter of Credit No. XXXXX, dated XXXXX, to Account No._____, [Insert name of bank].

PepsiCo, Inc.

By: _____
Title:

Drawing Certificate

[Insert name of bank]
[Insert address of bank]

Attention: _____

Gentlemen:

The undersigned individual, a duly authorized officer of PepsiCo, Inc., hereby certifies as follows with respect to that certain Letter of Credit No. XXXXX ("L/C") dated XXXXXX issued by [Insert name and address of bank] in favor of PepsiCo, Inc.:

The amount of this drawing represents funds due PepsiCo, Inc. as reimbursement for the drawing(s) under the following letter(s) of credit, guarantee(s) or other contingent liability(ies) set forth on Schedule "1" to Letter of Credit No. XXXXX and PepsiCo, Inc. is entitled to receive the amount of the sight draft accompanying this certificate:

L/C, Guarantee or
Contingent Obligation
Number Beneficiary Amount Expiry Date

[Insert relevant information]

In witness whereof, the beneficiary has executed and delivered this Certificate as of the ___ day of -----, ----.

PepsiCo, Inc.

By: _____
Title:

Schedule G

**RESTAURANT LEASES WHICH HAVE BEEN
GUARANTEED BY THE PEPSICO GROUP**

Guarantee Maturity Effective Lessee Number Seq Date Date Lessor

KFC of California 211 1 10/28/11 10/28/91 Solomon Real Estate

- 20 Hempstead Ave., Hempstead, NY, Nassau County
- 210 E. Main St, Montauk Hwy, Bayshore, NY, Suffolk, County
- 479 N. Main St., Freeport, NY, Nassau County
- 1164 Jericho Tnpk, Commack (Smithtown, NY), Suffolk County
- 508 E. Main St., Patchogue, NY, Suffok County
- 5002 Hempstead Tnpk, Farmingdale, NY, Nassau County
- 155 W. Suffolk Ave., Central Islip, NY, Suffolk County
- 1453 Forest Park Ave., Staten Island, NY, Richmond, NY
- 56 Glen Cove Rd., Greenvale, NY, Nassau County
- 221 Jericho Tnpk, Huntington, NY, Suffolk County
- 705 Old Country Road, Westbury, LI, Nassau County
- 910 Broadway, Amityville, NY, Suffolk County
- 1617 Deer Park Ave., Deer Park, NY, Suffolk County
- 1550 Straight Path, Nyandanch, NY, Suffolk County

Nudelmacher GmbH 1260 3 10/21/97 10/21/96 Volksbank Ludwigsburg eG -Friedrich-Ebert-Str. 120, 45473 Mulheim, Germany

Pizza Hut of Cincinnati 87 1 6/30/04 1/25/90 NEK Partners

- 8341 Beechmont Ave., Anderson Township, Hamilton County, Ohio

| | | | | | |
|-------------------------|-----|---|---------|---------|---|
| Pizza Hut of Cincinnati | 203 | 1 | 3/25/05 | 2/1/92 | Anthony J. Nickert and Joan A. Nickert |
| Pizza Hut of Cincinnati | 90 | 1 | 3/31/09 | 1/25/90 | Patrician Center Associates |
| - K Mart, Edgewood, KY | | | | | |
| Pizza Hut of Cincinnati | 86 | 1 | 3/31/14 | 1/25/90 | NEK Partners |

- Eight Mile Rd., Anderson Township, Hamilton County, Ohio

Guarantee Maturity Effective Lessee Number Seq Date Date Lessor

Pizza Hut of Cincinnati 91 1 8/31/14 1/25/90 NEK Partners - Sharon Rd., Sharronville, Hamilton County, OH 45241

Pizza Hut of Cincinnati 85 1 3/31/15 1/25/90 NEK Partners - 9115 Winton Rd., Cincinnati, Ohio 45231 - 1190 Ohio Pike, Amelia, Ohio 45102

Pizza Hut of Cincinnati 94 1 3/31/15 1/25/90 A.J.N/S.D.K. Realty - 108 Brookwood Ave., Hamilton, Ohio 45150 - 9920 Colerain Ave., Cincinnati, Ohio 45239

Pizza Hut of Cincinnati 93 1 3/31/15 1/25/90 NEK Partners
- 801 Main St., Milford, Ohio

Pizza Hut of Cincinnati 89 1 3/31/15 1/25/90 NEK Partners - 5444 North Bend Rd., Cincinnati, Ohio 45231

Pizza Hut of Cincinnati 96 1 3/31/15 1/25/90 Anthony J. Nickert and Joan A. Nickert - 12037 Sheraton Lane, Springdale, Ohio

Pizza Hut of Cincinnati 95 1 3/31/15 1/25/90 A.J.N/S.D.K. Realty - 1709 Monmouth St., New Port, KY 41071 - 1571 West Galbrath Rd., Cincinnati, Ohio 45239 - 3061 Dixie Highway, Edgewood, KY 41017 - 5365 Ridge Rd., Cincinnati, Ohio 45214 - 8365 Colerain Ave., Cincinnati, Ohio 45231

Pizza Hut of Cincinnati 92 1 8/31/20 1/25/90 NEK Partners
- Zayre Plaza, Fort Wright, KY

Pizza Hut, Inc. 1083 1 12/31/99 2/15/94 Norwest Bank

PRI 1265 4 10/21/97 10/21/96 Dresdner Bank A.G.
- 4330 Mulheim An Der Ruhr 3, Leineweber Strasse, Germany

Guarantee Maturity Effective Lessee Number Seq Date Date Lessor

Taco Bell Corp. 401 1 2/15/99 3/15/79 First National Realty
- Hilltop Plaza, Bolingbrook, IL

Schedule H

**RESTAURANT INSURANCE WHICH WILL NOT BE
TERMINATED AS OF THE DISTRIBUTION DATE**

[To Be Agreed to by TRICON and PepsiCo]

Schedule I

RESTAURANT FUNDING STRUCTURE PRIOR TO THE DISTRIBUTION DATE

[Graphic material omitted] Organizational chart evidencing restaurant funding structure prior to the Distribution Date:

PepsiCo funds all restaurant disbursements and collects all restaurant sales via the following mechanisms:

1. Cash is automatically collected from restaurant collection accounts into a Master Restaurant Concentration Account. Money is then moved automatically to PepsiCo's Master Concentration Account.
2. Cash required to fund payroll and accounts payable disbursements on behalf of the restaurants is funded by PepsiCo into a restaurant master disbursement funding account on a daily basis. The restaurant master funding account will then automatically fund checks which have been written off restaurant controlled bank accounts.

Schedule J

EXPENSES

TRICON shall bear the following expenses in connection with the Distribution:

1. The fees in connection with the TRICON bank credit facility.
2. Special management incentive arrangements (the Stay/Performance bonuses) for the management of KFC, Pizza Hut, Taco Bell and PRI which are incremental to the regular division bonuses.

Exhibit 3.01

RESTATED ARTICLES OF INCORPORATION

OF

TRICON Global Restaurants, Inc.

FIRST: The name of the corporation is TRICON Global Restaurants, Inc., hereinafter referred to as the "Corporation".

SECOND: The Corporation shall have authority to issue 1,000,000,000 shares, without par value, of which 750,000,000 shall be Common Shares, and of which 250,000,000 shares shall be Preferred Shares, with the following powers, preferences and rights, and qualifications, limitations and restrictions:

(a) Except as otherwise provided by law, each Common Share shall have one vote, and, except as otherwise provided in respect of any series of Preferred Shares hereafter classified or reclassified, the exclusive voting power for all purposes shall be vested in the holders of the Common Shares. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Shares shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation and the amount to which the holders of any series of Preferred Shares hereafter classified or reclassified having a preference on distribution in the liquidation, dissolution or winding up of the Corporation shall be entitled, to share ratably in the remaining net assets of the Corporation.

(b) The Board of Directors is authorized, subject to limitations prescribed by the North Carolina Business Corporation Act ("NCBCA") and these Articles of Incorporation, to adopt and file from time to time articles of amendment that authorize the issuance of Preferred Shares which may be divided into two or more series with such preferences, limitations, and relative rights as the Board of Directors may determine; provided, however, that no holder of any Preferred Share shall be authorized or entitled to receive upon the involuntary liquidation of the Corporation an amount in excess of \$100.00 per Preferred Share.

THIRD: The address of the registered office of the Corporation in the State of North Carolina is 225 Hillsborough Street, Raleigh, Wake County, North Carolina 27603; and the name of its initial registered agent at such address is CT Corporation System.

FOURTH: No holder of any share of the Corporation, whether now or hereinafter authorized, shall have any preemptive right to subscribe for or to purchase any shares or other securities of the Corporation, nor have any right to cumulate his votes for the election of Directors. At all meetings of the Shareholders of the Corporation, a quorum being present, all matters (other than the election of Directors) shall be decided by the vote of the holders of a majority of the stock of the Corporation, present in person or by proxy, and entitled to vote thereat.

FIFTH: The following provisions are intended for the management of the business and for the regulation of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation of the powers conferred by statute:

(a) The Board of Directors shall have the exclusive power and authority to direct management of the business and affairs of the Corporation and shall exercise all corporate powers, and possess all authority, necessary or appropriate to carry out the intent of this provision, and which are customarily exercised by the board of directors of a public company. In furtherance of the foregoing, but without limitation, the Board of Directors shall have the exclusive power and authority to: (a) elect all executive officers of the Corporation as the Board may deem necessary or desirable from time to time, to serve at the pleasure of the Board; (b) fix the compensation of such officers; (c) fix the compensation of Directors; and (d) determine the time and place of all meetings of the Board of Directors and Shareholders of the Corporation. A scheduled meeting of Shareholders may be postponed by the Board of Directors by public notice given at or prior to the time of the meeting.

(b) The number of Directors constituting the Board of Directors shall not be less than three nor more than twelve, as may be fixed from time to time by resolution duly adopted by the Board of Directors. Provided that the number of members of the Board of Directors equals or exceeds the number required under the NCBCA to stagger the terms of Directors, from and after the first annual Shareholders' meeting, the Board of Directors shall be divided into three classes, as nearly equal in number as may be possible, to serve respectively until the annual meetings in 1998, 1999, and 2000 in the classes designated by the shareholder of the Corporation at the 1997 Annual Meeting, and until their successors shall be elected and shall qualify, and thereafter the successors shall be elected to serve for terms of three years and until their successors shall be elected and shall qualify. In the event of any increase or decrease in the number of Directors, the additional or eliminated directorships shall be so classified or chosen such that all classes of Directors shall remain or become equal in number, as nearly as may be possible.

(c) A vacancy occurring on the Board of Directors, including, without limitation, a vacancy resulting from an increase in the number of Directors or from the failure by Shareholders of the Corporation to elect the full authorized number of Directors, may only be filled by a majority of the remaining Directors or by the sole remaining Director in office. In the event of the death, resignation, retirement, removal or disqualification of a Director during his elected term of office, his successor shall serve until the next Shareholders' meeting at which Directors are elected. Directors may be removed from office only for cause.

(d) The Board of Directors may adopt, amend or repeal the Corporation's Bylaws, in whole or in part, including amendment or repeal of any Bylaw adopted by the Shareholders of the Corporation.

(e) The Corporation may in its Bylaws confer upon Directors powers additional to the foregoing and the powers and authorities conferred upon them by statute.

(f) The Corporation reserves the right to amend, alter, change, or repeal any provision herein contained, in the manner now or hereafter prescribed by law, and all the rights conferred upon Shareholders hereunder are granted, and are to be held and enjoyed, subject to such rights of amendment, alteration, change or repeal.

(g) The only qualifications for Directors of the Corporation shall be those set forth in these Articles of Incorporation. Directors need not be residents of the State of North Carolina or Shareholders of the Corporation.

(h) The Board of Directors may create and make appointments to one or more committees of the Board comprised exclusively of Directors who will serve at the pleasure of the Board and who may have and exercise such powers of the Board in directing the management of the business and affairs of the Corporation as the Board may delegate, in its sole discretion, consistent with the provisions of the NCBCA and these Articles of Incorporation. The Board of Directors may not delegate its authority over the expenditure of funds of the Corporation except to a committee of the Board and except to one or more officers of the Corporation elected by the Board. No committee comprised of persons other than members of the Board of Directors shall possess or exercise any authority in the management of the business and affairs of the Corporation.

SIXTH: (a) The Corporation shall, to the fullest extent from time to time permitted by law, indemnify its Directors and officers against all liabilities and expenses in any suit or proceedings, whether civil, criminal, administrative or investigative, and whether or not brought by or on behalf of the Corporation, including all appeals therefrom, arising out of their status as such or their activities in any of the foregoing capacities, unless the activities of the person to be indemnified were at the time taken known or believed by such Director or officer to be clearly in conflict with the best interests of the Corporation. The Corporation shall likewise and to the same extent indemnify any person who, at the request of the Corporation, is or was serving as a Director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or as a trustee or administrator under any employee benefit plan.

(b) The right to be indemnified hereunder shall include, without limitation, the right of a Director or officer to be paid expenses in advance of the final disposition of any proceedings upon receipt of an undertaking to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified hereunder.

(c) A person entitled to indemnification hereunder shall also be paid reasonable costs, expenses and attorneys' fees (including expenses) in connection with the enforcement of rights to the indemnification granted hereunder.

(d) The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled and shall not be limited by the provisions of Section 55-8-51 of the NCBCA or any successor statute.

(e) The Board of Directors may take such action as it deems necessary or desirable to carry out these indemnification provisions, including adopting procedures for determining and enforcing the rights guaranteed hereunder, and the Board of Directors is expressly empowered to adopt, approve and amend from time to time such Bylaws, resolutions or contracts implementing such provisions or such further indemnification arrangement as may be permitted by law.

(f) Neither the amendment or repeal of this Article, nor the adoption of any provision of these Articles of Incorporation inconsistent with this Article, shall eliminate or reduce any right to indemnification afforded by this Article to any person with respect to their status or any activities in their official capacities prior to such amendment, repeal or adoption.

SEVENTH: To the full extent from time to time permitted by law, no person who is serving or who has served as a Director of the Corporation shall be personally liable in any action for monetary damages for breach of any duty as a Director, whether such action is brought by or in the right of the Corporation or otherwise. Neither the amendment or repeal of this Article, nor the adoption of any provision of these Articles of Incorporation inconsistent with this Article, shall eliminate or reduce the protection afforded by this Article to a Director of the Corporation with respect to any matter which occurred, or in any cause of action, suit or claim which but for this Article would have accrued or arisen, prior to such amendment, repeal or adoption.

EIGHTH: The provisions of Article 9A of the NCBCA shall not be applicable to the Corporation.

NINTH: Except as may be otherwise determined by the Board of Directors, the Shareholders of the Corporation shall have access as a matter of right only to the books and records of the Corporation as may be required to be made available to qualified shareholders by the NCBCA.

TENTH: To the extent that there ever may be inconsistency between these Articles of Incorporation and the Bylaws of the Corporation as may be adopted or amended from time to time, the Articles of Incorporation shall always control.

Exhibit 3.02

BYLAWS

OF

TRICON Global Restaurants, Inc.

ARTICLE 1 - OFFICES

Section 1. Offices. The principal office of TRICON Global Restaurants, Inc. (the "Corporation") in the State of North Carolina shall be in the City of Raleigh. The Corporation may have offices at such other places, either within or without the State of North Carolina, as the Board of Directors may from time to time determine.

ARTICLE 2 - MEETINGS OF SHAREHOLDERS

Section 1. Place of Meeting. Meetings of Shareholders shall be held at such places, either within or without the State of North Carolina, as shall be designated in the notice of the meeting.

Section 2. Annual Meeting. The annual meeting of Shareholders shall be held on such date and at such time as the Board of Directors shall determine each year in advance thereof, for the purpose of electing Directors of the Corporation and the transaction of such business as may be a proper subject for action at the meeting.

Section 3. Special Meetings. Special meetings of Shareholders shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 4. Notice of Meetings. At least 10 and no more than 60 days prior to any annual or special meeting of Shareholders, the Corporation shall notify Shareholders of the date, time and place of the meeting and, in the case of a special meeting or where otherwise required by the Articles of Incorporation or by statute, shall briefly describe the purpose or purposes of the meeting. Only business within the purpose or purposes described in the notice may be conducted at a special meeting. Unless otherwise required by the Articles of Incorporation or by statute, the Corporation shall be required to give notice only to Shareholders entitled to vote at the meeting. If an annual or special Shareholders' meeting is adjourned to a different date, time or place, notice thereof need not be given if the new date, time or place is announced at the meeting before adjournment. If a new record date for the adjourned meeting is fixed pursuant to Article 7, Section 5 hereof, notice of the adjourned meeting shall be given to persons who are Shareholders as of the new record date. If mailed, notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, correctly addressed to the Shareholder's address shown in the Corporation's current record of Shareholders.

Section 5. Quorum, Presiding Officer. Except as otherwise prescribed by statute, the Articles of Incorporation or these Bylaws, at any meeting of the Shareholders of the Corporation, the presence in person or by proxy of the holders of record of a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote thereat shall constitute a quorum for the transaction of business. In the absence of a quorum at such meeting or any adjournment or adjournments thereof, the holders of record of a majority of such shares so present in person or by proxy and entitled to vote thereat may adjourn the meeting from time to time until a quorum shall be present. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. Meetings of Shareholders shall be presided over by the Chairman or Vice Chairman of the Board, or, if neither is present, by another officer or Director who shall be designated to serve in such event by the Board. The Secretary of the Corporation, or an Assistant Secretary designated by the officer presiding at the meeting, shall act as Secretary of the meeting.

Section 6. Voting. Except as otherwise prescribed by statute, the Articles of Incorporation or these Bylaws, at any meeting of the Shareholders of the Corporation, each Shareholder shall be entitled to one vote in person or by proxy for each share of voting capital stock of the Corporation registered in the name of such Shareholder on the books of the Corporation on the date fixed pursuant to these Bylaws as the record date for the determination of Shareholders entitled to vote at such meeting. No proxy shall be voted after eleven (11) months from its date unless said proxy provides for a longer period. Shares of its voting capital stock belonging to the Corporation shall not be voted either directly or indirectly. The vote for the election of Directors, other matters expressly prescribed by statute, and, upon the direction of the presiding officer of the meeting, the vote on any other question before the meeting, shall be by ballot.

Section 7. Notice of Shareholder Proposal. For business proposed by a Shareholder (other than director nominations) to be a proper subject for action at an annual meeting of Shareholders, in addition to any requirement of law, the Shareholder must timely request (by certified mail - return receipt requested) that the proposal be included in the Corporation's proxy statement for the meeting, and such request must satisfy all of the provisions of Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

Section 8. Postponement of Shareholders Meeting. A scheduled annual or special meeting of Shareholders may be postponed by the Board of Directors by public notice given at or prior to the time of the meeting.

ARTICLE 3 - BOARD OF DIRECTORS

Section 1. General Powers. Except as otherwise expressly provided in the Articles of Incorporation or by statute, the Board of Directors shall have the exclusive power and authority to direct management of the business and affairs of the Corporation and shall exercise all corporate powers, and possess all authority, necessary or appropriate to carry out the intent of this provision, and which are customarily exercised by the board of directors of a public company.

Section 2. Number, Term and Qualification. The number, term and qualification of Directors of the Corporation shall be as provided in the Articles of Incorporation.

Section 3. Removal. Directors may be removed from office only for the reasons, if any, specified in the Articles of Incorporation.

Section 4. Vacancies. Vacancies occurring in the Board of Directors shall be filled only as provided in the Articles of Incorporation.

Section 5. Compensation. Compensation for the services of Directors as such shall be determined exclusively by the Board of Directors as provided in the Articles of Incorporation.

ARTICLE 4 - MEETINGS OF DIRECTORS

Section 1. Annual and Regular Meetings. All annual and regular meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 3. Notice of Meetings. Unless the Board of Directors by resolution determines otherwise in accordance with authority set forth in the Articles of Incorporation, all meetings of the Board of Directors may be held without notice of the date, time, place or purpose of the meeting. The Secretary shall give such notice of any meetings called by the Board by such means of communication as may be specified by the Board.

Section 4. Quorum. A majority of the Directors in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 5. Manner of Acting. A majority of Directors who are present at a meeting at which a quorum is present will constitute the required vote to effect any action taken by the Board of Directors.

Section 6. Action Without Meeting. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one or more written consents signed by each Director before or after such action, describing the action taken, and included in the minutes or filed with the corporate records. Action taken without a meeting is effective when the last Director signs the consent, unless the consent specifies a different effective date.

Section 7. Meeting by Communications Device. The Board of Directors may permit Directors to participate in any meeting of the Board of Directors by, or conduct the meeting through the use of, any means of communication by which all Directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting.

ARTICLE 5 - COMMITTEES

Section 1. Election and Powers. The Board of Directors may appoint such committees with such members who shall have such powers and authority as may be determined by the Board as provided in the Articles of Incorporation. To the extent specified by the Board of Directors or in the Articles of Incorporation, each committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, except that no committee shall have authority to do the following:

- (a) Authorize distributions.
- (b) Approve or propose to Shareholders action required to be approved by Shareholders.
- (c) Fill vacancies on the Board of Directors or on any of its committees.
- (d) Amend the Articles of Incorporation.
- (e) Adopt, amend or repeal the Bylaws.
- (f) Approve a plan of merger not requiring Shareholder approval.

(g) Authorize or approve the reacquisition of shares, except according to a formula or method prescribed by the Board of Directors.

(h) Authorize or approve the issuance, sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee (or a senior executive officer of the Corporation) to do so within limits specifically prescribed by the Board of Directors.

Section 2. Removal; Vacancies. Unless the Board of Directors by resolution determines otherwise in accordance with authority specified in the Articles of Incorporation, any member of a committee may be removed at any time exclusively by the Board of Directors with or without cause, and vacancies in the membership of a committee as a result of death, resignation, disqualification or removal shall be filled by a majority of the whole Board of Directors. The Board may discharge any committee, either with or without cause, at any time.

Section 3. Meetings. The provisions of Article 4 governing meetings of the Board of Directors, action without meeting, notice, waiver of notice and quorum and voting requirements shall apply to the committees of the Board and its members to the extent not otherwise prescribed by the Board in the resolution authorizing the establishment of the committee.

Section 4. Minutes. Each committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors at or before the next meeting of the Board.

ARTICLE 6 - OFFICERS

Section 1. Titles. Pursuant to authority conferred in the Articles of Incorporation, the Board of Directors shall have the exclusive power and authority to elect from time to time such officers of the Corporation, including a Chairman and a President (one of whom shall be the Chief Executive Officer), a Vice Chairman, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a General Counsel, a Controller, a Treasurer, a Secretary, one or more Assistant Controllers, one or more Assistant Treasurers, and one or more Assistant Secretaries, and such other officers as shall be deemed necessary or desirable from time to time. The officers shall have the authority and perform the duties set forth herein or as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same individual, but no officer may act in more than one capacity where action of two or more officers is required.

The officers of the Corporation may appoint one or more individuals to hold a title which includes Assistant or Deputy together with one of the officer titles indicated above. An individual holding such title by virtue of being so appointed rather than by virtue of being elected to such position by the Board of Directors shall not be an officer of the Corporation for purposes of the Articles of Incorporation or these Bylaws.

Section 2. Election; Removal. Pursuant to authority conferred in the Articles of Incorporation, the officers of the Corporation shall be elected exclusively by the Board of Directors and shall serve at the pleasure of the Board as specified at the time of their election, until their successors are elected and qualify, or until the earlier of their resignation or removal. Pursuant to authority conferred in the Articles of Incorporation, any officer may be removed by the Board at any time with or without cause.

Section 3. Compensation. Pursuant to authority conferred in the Articles of Incorporation, the compensation of the officers shall be fixed by the Board of Directors.

Section 4. General Powers of Officers. Except as may be otherwise provided in these Bylaws or in the North Carolina Business Corporation Act, the Chairman, the Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer, the Secretary, or any one of them, may (i) execute and deliver in the name of the Corporation, in the name of any division of the Corporation, or in both names, any agreement, contract, deed, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any division of the Corporation, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, deed, instrument, power of attorney or other document.

Section 5. Chief Executive Officer. The Chief Executive Officer of the Corporation shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chief Executive Officer shall manage the business and affairs of the Corporation and shall communicate to the Board and any committee thereof reports, proposals and recommendations for their respective consideration or action. He may do and perform all acts on behalf of the Corporation.

Section 6. Chairman. The Chairman shall preside at meetings of the Board of Directors and the Shareholders and shall have such other powers and perform such other duties as the Board may prescribe or as may be prescribed in these Bylaws.

Section 7. Vice Chairman. The Vice Chairman shall have such powers and perform such duties as the Board or the Chairman (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed by these Bylaws.

Section 8. President. The President shall have such powers and perform such duties as the Board and the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed by these Bylaws.

Section 9. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. The Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed by these Bylaws.

Section 10. Chief Financial Officer. The Chief Financial Officer shall have powers and perform such duties as the Board or the Chief Executive Officer(to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these Bylaws. The Chief Financial Officer shall present to the Board such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may require and shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Chief Financial Officer.

Section 11. Controller. The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer or the Chief Financial officer (to the extent they are authorized by the Board of Directors to prescribe the authority and duties of other officers) may require, and shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Controller.

Section 12. Treasurer.

(a) The Treasurer shall have the care and custody of all funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board or by the Chairman, the Vice Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations).

(b) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations) may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), (i) may sign all receipts and vouchers for payments made to the Corporation; (ii) shall provide a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in the books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Treasurer.

Section 13. Secretary. The Secretary shall keep the minutes of all meetings of the Shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these Bylaws and as required by the laws of the State of North Carolina. The Secretary shall cause to be prepared and maintained (i) at the office of the Corporation a stock ledger containing the names and addresses of all Shareholders and the number of shares held by each and (ii) any list of Shareholders required by law to be prepared for any meeting of Shareholders. The Secretary shall be responsible for the custody of all stock books and of all unissued stock certificates. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these Bylaws and all other acts incident to the position of Secretary.

Section 14. Voting upon Securities. Unless otherwise ordered by the Board of Directors, the Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President shall have full power and authority on behalf of the Corporation to attend, act and vote at meetings of the security holders of any entity in which this Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner, the Corporation might have possessed and exercised if present. The Board of Directors may by resolution from time to time confer such power and authority upon any person or persons.

Section 15. Continuing Determination by Board. All powers and duties of the officers shall be subject to a continuing determination by the Board of Directors.

ARTICLE 7 - CAPITAL STOCK

Section 1. Certificates. Unless the Board determines otherwise, shares of the capital stock of the Corporation shall be represented by certificates. The name and address of the persons to whom shares of capital stock of the Corporation are issued, with the number of shares and date of issue, shall be entered on the stock transfer records of the Corporation. Certificates for shares of the capital stock of the Corporation shall be in such form not inconsistent with the Articles of Incorporation of the Corporation as shall be approved by the Board of Directors. Each certificate shall be signed (either manually or by facsimile) by (a) the Chairman, the President or any Vice President, and by the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer or (b) any two officers designated by the Board of Directors. Each certificate may be sealed with the seal of the Corporation or facsimile thereof.

Section 2. Transfer of Shares. Transfers of shares shall be made on the stock transfer records of the Corporation, and transfers shall be made only upon surrender of the certificate for the shares sought to be transferred by the holder of record or by a duly authorized agent, transferee or legal representative. All certificates surrendered for transfer or reissue shall be cancelled before new certificates for the shares shall be issued.

Section 3. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars of transfers and may require all stock certificates to be signed or countersigned by the transfer agent and registered by the registrar.

Section 4. Regulations. The Board of Directors may make such rules and regulations as it deems expedient concerning the issue, transfer and registration of shares of capital stock of the Corporation.

Section 5. Fixing Record Date. For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders, or entitled to receive payment of any dividend, or in order to make a determination of Shareholders for any other purpose, the Board of Directors may fix in advance a date as the record date for the determination of Shareholders. The record date shall not be more than 60 days before the meeting or action requiring a determination of Shareholders. A determination of Shareholders entitled to notice of or to vote at a Shareholders' meeting shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. If no record date is fixed for the determination of Shareholders, the record date shall be the day the notice of the meeting is mailed or the day the action requiring a determination of Shareholders is taken.

Section 6. Lost Certificates. In case of loss, theft, mutilation or destruction of any certificate evidencing shares of the capital stock of the Corporation, another may be issued in its place upon proof of such loss, theft, mutilation or destruction and upon the giving of an indemnity or other undertaking to the Corporation in such form and in such sum as the Board may direct.

ARTICLE 8 - GENERAL PROVISIONS

Section 1. Dividends and other Distributions. The Board of Directors may from time to time declare and the Corporation may pay dividends or make other distributions with respect to its outstanding shares in the manner and upon the terms and conditions provided by law.

Section 2. Seal. The seal of the Corporation shall be any form approved from time to time by the Board of Directors.

Section 3. Waiver of Notice. Whenever notice is required to be given to a Shareholder, Director or other person under the provisions of these Bylaws, the Articles of Incorporation or applicable statute, a waiver in writing signed by the person or persons entitled to the notice, whether before or after the date and time stated in the notice, and delivered to the Corporation, shall be equivalent to giving the notice.

Section 4. Depositaries. The Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depository and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depository designated by the Board or by the Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depository, or from time to time the fact of any change in any depository or in the signatories with respect thereto.

Section 5. Signatories. Unless otherwise designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer, all notes, drafts, checks, acceptances and orders for the payment of money shall be
(a) signed by the Treasurer or any Assistant Treasurer and (b) countersigned by the Controller or any Assistant Controller, or either signed or countersigned by the Chairman, the Vice Chairman, the President, any Executive Vice president, any Senior Vice President or any Vice President in lieu of either the officers designated in (a) or the officers designated in (b) of this Section.

Section 6. Proxies. Unless otherwise provided for by a resolution of the Board, the Chief Executive Officer, or any Vice President or Secretary or Assistant Secretary designated by the Board, may from time to time appoint an attorney or attorneys or agent or agents of the Corporation to cast, in the name and on behalf of the Corporation, the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, all such written proxies

or other instruments as he may deem necessary or proper in the premises.

Section 7. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 8. Amendments. These Bylaws may be amended or repealed by the Board of Directors, including any Bylaw adopted, amended, or repealed by the Shareholders generally. These Bylaws may be amended or repealed by the Shareholders even though the Bylaws may also be amended or repealed by the Board of Directors.

Exhibit 10.01

TAX SEPARATION AGREEMENT

between

PEPSICO, INC.,
on behalf of itself
and the members
of the PEPSICO GROUP

and

TRICON GLOBAL RESTAURANTS, INC.,
on behalf of itself
and the members
of the TRICON GROUP

TAX SEPARATION AGREEMENT

This Agreement is entered into as of the [] day of [], 1997 between PepsiCo, Inc. ("PepsiCo"), a North Carolina corporation, on behalf of itself and the members of the PepsiCo Group, and TRICON Global Restaurants, Inc. ("TRICON"), a North Carolina corporation, on behalf of itself and the members of the TRICON Group.

WITNESSETH:

WHEREAS, pursuant to the tax laws of various jurisdictions, certain members of the TRICON Group, as defined below, presently file certain tax returns on an affiliated, consolidated, combined, unitary, fiscal unity or other group basis (including as permitted by Section 1501 of the Internal Revenue Code of 1986, as amended (the "Code")) with certain members of the PepsiCo Group, as defined below (each such group, a "Consolidated Group");

WHEREAS, PepsiCo and TRICON intend to enter into a Separation Agreement dated as of [], 1997 (the "Separation Agreement"), providing for the distribution by PepsiCo to its shareholders of all of the common stock of TRICON that is held by PepsiCo (the "Distribution") and certain other matters;

WHEREAS, PepsiCo and TRICON desire to set forth their agreement on the rights and obligations of PepsiCo, TRICON and the members of the PepsiCo Group and the TRICON Group, respectively, with respect to the handling and allocation of federal, state, local and foreign Taxes incurred in Taxable periods beginning prior to the Distribution Date, Taxes resulting from transactions effected in connection with the Distribution (the "Restructuring") and various other Tax matters;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties agree as follows:

1. Definitions

(a) As used in this Agreement:

"Affiliate" of any Person shall mean (i) any individual, corporation, partnership or other entity directly or indirectly owning more than 50 percent (by vote or value) of, owned more than 50 percent (by vote or value) by, or under more than 50 percent (by vote or value) common ownership with, such Person, and (ii) any entity that is entitled to the benefit of any Tax Asset of such Person under applicable law, any entity with any Tax Asset to which such Person is entitled to the benefit of under applicable law, or any entity which is entitled or required to transfer or assign income, revenues, receipts, or gains to such Person under applicable law.

"After-Tax Amount" shall mean an additional amount necessary to reflect the hypothetical Tax consequences of the receipt or accrual of any payment, using the maximum statutory rate (or rates, in the case of an item that affects more than one Tax) applicable to the recipient of such payment for the relevant year, reflecting for example, the effect of the deductions available for interest paid or accrued and for Taxes such as state and local income Taxes.

"Consolidated Group" shall have the meaning ascribed to it in the first "whereas" clause in this Agreement; provided, however, that "Consolidated Group" shall also include (i) any Affiliate of PepsiCo that filed (or will file) any Pre-Distribution Period Returns that reflect the income, assets or operations of a Restaurant Business and (ii) any Affiliate of TRICON that filed (or will file) any Pre-Distribution Period Returns that reflect the income, assets or operations of a Non-Restaurant Business.

"Distribution" shall mean the distribution by PepsiCo of all of the common stock of TRICON that is held by PepsiCo to PepsiCo's shareholders pursuant to the Separation Agreement.

"Distribution Date" shall mean the date on which the Distribution shall be effected.

"Federal Tax" shall mean any Tax imposed under Subtitle A of the Code and any related penalty imposed under Subtitle F of the Code.

"Final Determination" shall mean (i) with respect to Federal Taxes, (A) a "determination" as defined in Section 1313(a) of the Code, or (B) the date of acceptance by or on behalf of the IRS of Form 870-AD (or any successor form thereto), as a final resolution of Tax liability for any Taxable period, except that a Form 870-AD (or successor form thereto) that reserves the right of the taxpayer to file a claim for refund or the right of the IRS to assert a further deficiency shall not constitute a Final Determination with respect to the item or items so reserved; (ii) with respect to Taxes other than Federal Taxes, any final determination of liability in respect of a Tax that, under applicable law, is not subject to further appeal, review or modification through proceedings or otherwise; (iii) any final disposition by reason of the expiration of the applicable statute of limitations; or (iv) the payment of Tax by PepsiCo, TRICON, or any member of the PepsiCo Group or the TRICON Group, whichever is responsible for payment of such Tax under applicable law, with respect to any item disallowed or adjusted by a Taxing Authority, provided that the provisions of Section 8 hereof have been complied with, or, if such section is inapplicable, that the party responsible under the terms of this Agreement for such Tax is notified by the party paying such Tax that it has determined that no action should be taken to recoup such disallowed item, and the other party agrees with such determination.

"IRS" shall mean the Internal Revenue Service.

"LIBOR" shall be determined on the basis of the offered rates for deposits in U.S. Dollars for a period of 30 days which appear on the Reuters Screen LIBO Page as of 11:00 a.m., London time. If at least two rates appear on the Reuters Screen LIBO Page, the rate will be the arithmetic mean of such rates.

"Non-Restaurant Business" shall mean any business other than a Restaurant Business.

"PepsiCo Group" shall mean, with respect to any Taxable period, PepsiCo and its Affiliates (including their predecessors and successors) at any time prior to the Distribution other than those Affiliates comprising the TRICON Group.

"PepsiCo Tax Liability" shall mean, with respect to any Consolidated Group and any Taxable period, the PepsiCo Group's share of the Tax liability of such Consolidated Group, computed as if the relevant members of the PepsiCo Group were not and never were part of such Consolidated Group, but rather were a separate affiliated group of corporations filing a similar group Return (provided, however, that transactions with any member of the TRICON Group included in such Consolidated Group shall not be taken into account until the first Taxable period in which such transaction is required to be taken into account for Tax purposes under applicable law). Such computation shall be made (A) without regard to the income, deductions (including net operating loss and capital loss deductions) and credits in any year of any member of the TRICON Group, except to the extent that a payment was made to any member of the TRICON Group with respect thereto, (B) by taking account of any Tax Asset of the PepsiCo Group, (C) with regard to net operating loss and capital loss carryforwards and carrybacks and minimum Tax credits from earlier years of the PepsiCo Group and without reduction for any such losses, carryforwards, carrybacks or credits used by any member of the TRICON Group, (D) by applying the maximum applicable statutory Tax rate in effect under applicable law during the relevant year, and (E) reflecting the positions, elections and accounting methods used by the Consolidated Group in preparing the relevant Return for the Consolidated Group.

"PepsiCo Vice President, Tax" shall include any successor position or title.

"Person" shall have the meaning ascribed to it in Section 7701(a)(1) of the Code.

"Post-Distribution Period" shall mean any taxable period (or portion thereof) beginning after the close of business on the Distribution Date.

"Pre-Distribution Period" shall mean any Taxable period ending on or before the close of business on the Distribution Date; provided that if a Taxable period ending after the Distribution Date contains any days which fall prior to or on the Distribution Date, any portion of such Taxable period up to and including the Distribution Date shall also be included in the Pre-Distribution Period.

"Prime" shall mean the rate announced from time to time as "prime" by Chase Manhattan Bank as its prime rate with respect to the applicable currency.

"Restaurant Business" shall mean any business activity associated with the operation, development, franchising and licensing of restaurants (including the casual dining restaurants), as determined by the PepsiCo Vice President, Tax in accordance with past practice.

"Return" shall mean any Tax return, statement, report, form, election, claim or surrender (including estimated Tax returns and reports, extension requests and forms, and information returns and reports) required to be filed with any Taxing Authority.

"Tax" (and the correlative meaning, "Taxes," "Taxing" and "Taxable") shall mean (A) any tax imposed under Subtitle A of the Code, or any net income, gross income, gross receipts, alternative or add-on minimum, sales, use, business and occupation, value-added, trade, goods and services, ad valorem, franchise, profits, license, business royalty, withholding, payroll, employment, capital, excise, transfer, recording, severance, stamp, occupation, premium, property, asset, real estate acquisition, environmental, custom duty, or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest and any penalty, addition to tax or additional amount imposed by a Taxing Authority; (B) any liability of a member of the PepsiCo Group or the TRICON Group, as the case may be, for the payment of any amounts of the type described in clause (A) for any Taxable period resulting from such member being a part of a Consolidated Group pursuant to the application of Treasury Regulation Section 1.1502-6 or any similar provision applicable under state, local or foreign law; or (C) any liability of a member of the PepsiCo Group or the TRICON Group for the payment of any amounts described in clause (A) as a result of any express or implied obligation to indemnify any other party.

"Tax Asset" shall mean any net operating loss, net capital loss, investment Tax credit, foreign Tax credit, target jobs Tax credit, low income housing credit, research and experimentation credit, charitable deduction, or any other loss, credit or Tax attribute, including additions to basis of property and attributes which reduce or offset value-added Tax liability, which could reduce any Tax (domestic or foreign), including, without limitation, deductions, credits, or alternative minimum net operating loss carryforwards related to alternative minimum Taxes.

"Tax Packages" shall mean one or more packages of information that are (i) reasonably necessary for the purpose of preparing Returns of any Consolidated Group with respect to a Pre-Distribution Period and (ii) completed in all material respects in accordance with the standards that PepsiCo has established for its subsidiaries with respect to the relevant Pre-Distribution Period.

"Tax Proceeding" shall mean any Tax audit, dispute or proceeding (whether administrative or judicial).

"Taxing Authority" shall mean any governmental authority (domestic or foreign), including, without limitation, any state, municipality, political subdivision or governmental agency, responsible for the imposition of any Tax.

"TRICON Group" shall mean TRICON and its Affiliates immediately after the Distribution Date, including any predecessors thereto; provided, however, that for purposes of determining whether an entity is a member of the TRICON Group, a transfer of beneficial ownership of an entity shall be treated as a transfer of title, regardless of whether title has actually passed; provided further, that to the extent that an affiliate of PepsiCo or TRICON conducted both a Restaurant Business and a Non-Restaurant Business, the Restaurant Business shall be treated for purposes of this Agreement as a separate corporation that is a member of the TRICON Group and the Non-Restaurant Business shall be treated for purposes of this Agreement as a separate corporation that is a member of the PepsiCo Group; provided further, that if with respect to any Pre-Distribution Period (or portion thereof) any Affiliate of PepsiCo was involved solely in the conduct of a Restaurant Business, such member shall be treated as a member of the TRICON Group for such Pre-Distribution Period (or portion thereof); and provided further, that if with respect to any Pre-Distribution Period (or portion thereof) any Affiliate of TRICON was not involved in the conduct of a Restaurant Business, such member shall not be treated as a member of the TRICON Group for such Pre-Distribution Period (or portion thereof).

"TRICON Tax Liability" shall mean, with respect to any Consolidated Group and any Taxable period, the TRICON Group's share of the Tax liability of such Consolidated Group, computed as if the relevant members of the TRICON Group were not and never were part of such Consolidated Group, but rather were a separate affiliated group of corporations filing a similar group Return (provided, however, that transactions with any member of the PepsiCo Group included in such Consolidated Group shall not be taken into account until the first Taxable period in which such transaction is required to be taken into account for Tax purposes under applicable law). Such computation shall be made (A) without regard to the income, deductions (including net operating loss and capital loss deductions) and credits in any year of any member of the PepsiCo Group, except to the extent that a payment was made to any member of the PepsiCo Group with respect thereto, (B) by taking account of any Tax Asset of the TRICON Group, including net operating loss and capital loss carryforwards and carrybacks and minimum Tax credits from earlier years of the TRICON Group except to the extent that such losses, carryforwards, carrybacks or credits have been used by any member of the PepsiCo Group, (C) by applying the maximum applicable statutory Tax rate in effect under applicable law during the relevant year, and (D) reflecting the positions, elections and accounting methods used by the Consolidated Group in preparing the relevant Return for the Consolidated Group.

(b) Any term used in this Agreement which is not defined in this Agreement shall, to the extent the context requires, have the meaning assigned to it in the Code or the applicable Treasury regulations thereunder (as interpreted in administrative pronouncements and judicial decisions) or in comparable provisions of applicable law.

2. Administrative and Compliance Matters.

(a) Sole Tax Sharing Agreement. Any and all existing Tax sharing agreements or arrangements, written or unwritten, between any member of the PepsiCo Group and any member of the TRICON Group shall be or shall have been terminated as of the date of this Agreement. As of the date of this Agreement, neither the members of the TRICON Group nor the members of the PepsiCo Group shall have any further rights or liabilities thereunder, and this Agreement shall be the sole Tax sharing agreement between the members of the TRICON Group and the members of the PepsiCo Group. Notwithstanding the foregoing, if any such termination is not binding on any Taxing Authority, the TRICON Group shall hold the affected member of the PepsiCo Group harmless against any adverse effect which would have been avoided if such termination had been given effect by such Taxing Authority.

(b) Designation of Agent. TRICON and each member of the TRICON Group, and PepsiCo and each member of the PepsiCo Group, as the case may be, in each case with respect to any Consolidated Group of which such Person is a member, hereby irrevocably authorize PepsiCo or TRICON, as the case may be, and consistent with past practice and applicable law, to designate a member of the PepsiCo Group or the TRICON Group, as appropriate, or a successor of such member, as its agent, coordinator, and administrator, for the purpose of taking any and all actions (including the execution of waivers of applicable statutes of limitation) necessary or incidental to the filing of any Return, any amended Return, or any claim for refund (even where an item or Tax Asset giving rise to an amended Return or refund claim arises in a Post-Distribution Period), credit or offset of Tax or any other proceedings, and for the purpose of making payments to, or collecting refunds from, any Taxing Authority, in each case relating only to any Pre-Distribution Period. Such designated member of the PepsiCo Group or the TRICON Group, as the case may be, as agent, covenants to TRICON or PepsiCo, respectively, that it shall be responsible to see that all such administrative matters relating thereto shall be handled promptly and appropriately.

(c) Pre-Distribution Period Returns. With respect to a Consolidated Group, the member of the PepsiCo Group or the TRICON Group, as applicable, that is required by applicable law to file the Returns for all Pre-Distribution Periods will prepare such Returns with the assistance of the TRICON Group or the PepsiCo Group, respectively. With respect to each Consolidated Group, either a member of the PepsiCo Group or a member of the TRICON Group, as consistent with past practice and applicable law, will file the Pre-Distribution Period Returns for such Consolidated Group. PepsiCo and the members of the PepsiCo Group shall have the right with respect to any Consolidated Group Returns to determine (x) the manner in which such returns, documents or statements shall be prepared and filed, including, without limitation, the manner in which any item of income, gain, loss, deduction or credit shall be reported, (y) whether any extensions should be requested, and (z) the elections, including claims and surrenders for U.K. group relief and any similar foreign offsetting procedures, that will be made by any member of the PepsiCo Group or the TRICON Group. In addition, with respect to all Pre-Distribution Periods, except as provided in Section 8 (b), PepsiCo and the members of the PepsiCo Group shall have the right to (i) contest, compromise or settle any adjustment or deficiency proposed, asserted or assessed as a result of any audit of any consolidated return filed by the PepsiCo Group or the TRICON Group, (ii) file,

prosecute, compromise or settle any claim for refund, (iii) determine whether any refunds to which the PepsiCo Group may be entitled shall be received by way of refund or credited against the tax liability of the PepsiCo Group and (iv) determine whether a deposit will be made with a Taxing Authority to stop the running of interest. With respect to the 1997 Tax year, TRICON and the members of the TRICON Group shall prepare and deliver to PepsiCo all Tax Packages within 120 days after the Distribution Date, regardless of whether the member's Taxable year ends on the Distribution Date.

3. Tax Sharing.

(a) General. For each Taxable period of each Consolidated Group during which income, profits, gains, net worth, receipts, sales, loss or credit against Tax of at least one member of each of the TRICON Group and the PepsiCo Group are includible in a Return of such Consolidated Group, the TRICON Group or the PepsiCo Group, as appropriate, shall pay, as provided in this Section 3, to the PepsiCo Group or the TRICON Group, respectively, an amount equal to the TRICON Tax Liability or the PepsiCo Tax Liability, as appropriate, for such Taxable period, if any. Any Return filed by an entity described in clause (i) of the definition of Consolidated Group shall be treated as required to be filed by the PepsiCo Group and any payment made prior to the Distribution with respect to such Return shall be treated as having been made by the PepsiCo Group. Any Return filed by an entity described in clause (ii) of the definition of Consolidated Group shall be treated as required to be filed by the TRICON Group and any payment made prior to the Distribution with respect to such Return shall be treated as having been made by the TRICON Group.

(b) Estimated Payments. Not later than 3 days after a member of the PepsiCo Group or a member of the TRICON Group, as the case may be, makes an estimated Tax payment with respect to a Taxable period of a Consolidated Group, whether or not such payment is made prior to the Distribution, the PepsiCo Group shall (i) in good faith determine the amount of the TRICON Tax Liability or the PepsiCo Tax Liability, as appropriate, pursuant to this Agreement and (ii) deliver a written statement to TRICON reflecting the determination described above. Not later than three days after receipt of such statement, the TRICON Group shall pay to the PepsiCo Group or the PepsiCo Group shall pay to the TRICON Group, as appropriate, the amount so determined in accordance with Section 9 hereof.

(c) Payment of Taxes at Year-End.

(i) Not later than 5 business days before a member of the PepsiCo Group or a member of the TRICON Group, as the case may be, is required to file a Return (after taking extensions into account) with respect to any Consolidated Group for which payments are to be made under this Agreement, whether or not such Return is filed prior to the Distribution, the PepsiCo Group shall deliver to the TRICON Group a written statement setting forth the difference between (x) the TRICON Tax Liability or the PepsiCo Tax Liability, as appropriate, for such Return, and (y) the aggregate amount of payments with respect to the TRICON Tax Liability or the PepsiCo Tax Liability, as appropriate, for such year made pursuant to Section 3(b). Not later than the date such Return is required to be filed, the TRICON Group shall pay to the PepsiCo Group or the PepsiCo Group shall pay to the TRICON Group, as appropriate, in accordance with Section 9 hereof, an amount equal to such difference, if any; provided, however, that to the extent such payment is to be made to the TRICON Group and is attributable to a claim for refund of Taxes previously paid to a Taxing Authority, the PepsiCo Group will not be required to make such payment to the TRICON Group.

(ii) With respect to each Return described in Section 3(a) above and previously filed by a Consolidated Group, and for which the TRICON Tax Liability or the PepsiCo Tax Liability, as the case may be, has not been satisfied in full or for which the TRICON Group has not paid the PepsiCo Group in full for a benefit derived from the use of a Tax Asset of the PepsiCo Group, the TRICON Group shall pay to the PepsiCo Group or the PepsiCo Group shall pay to the TRICON Group, as appropriate, within 30 days of demand therefor, the amount in respect of such Return as determined by the PepsiCo Vice President, Tax.

(d) Certain Other Matters.

(i) With respect to each Consolidated Group, the TRICON Group shall pay to the PepsiCo Group the actual benefit received by such Consolidated Group from the use of any Tax Asset of the PepsiCo Group or any Tax Asset attributable to the Restaurant Business which is reattributed to PepsiCo pursuant to Treasury Regulation ss.1.1502-20(g) or any comparable provision of applicable law, whether arising in a Pre-Distribution Period or a Post-Distribution Period. Such benefit shall be considered equal to the excess of the amount of Tax that would have been payable to a Taxing Authority (or of the Tax refund that would have been receivable) by such Consolidated Group in the absence of such Tax Asset over the amount of Tax actually payable to a Taxing Authority (or of the Tax refund actually receivable) by such Consolidated Group. Payment of the amount of such benefit shall be made within 30 days of the receipt by any member of the TRICON Group of any refund, credit or other offset attributable thereto from the relevant Taxing Authority and the future Returns of the PepsiCo Group shall be adjusted to reflect such use.

(ii) If, subsequent to the payment by the TRICON Group to the PepsiCo Group of any amount referred to in Section 3(d)(i) above, there shall be (A) a Final Determination which results in a disallowance or a reduction of the Tax Asset so used or (B) a reduction in the amount of the benefit realized by the TRICON Group from such Tax Asset as a result of a Final Determination or the use by the TRICON Group of a Tax Asset of a member of the TRICON Group, the PepsiCo Group shall repay to the TRICON Group the amount which would not have been payable to the PepsiCo Group pursuant to Section 3(d)(i) had the amount of the benefit been determined in light of such event. In addition, the PepsiCo Group shall hold each member of the TRICON Group harmless for any penalty or interest payable by any member of the TRICON Group as a result of any such event referred to in the preceding sentence, unless such event is attributable to any action of any member of the TRICON Group. Any amounts payable under this Section 3(d)(ii) shall be paid by the PepsiCo Group within 30 days after receipt of written notice from the TRICON Group.

(e) Treatment of Adjustments.

(i) Except as provided in clause (iii) below if any adjustment is made in, or if a Taxing Authority assesses any deficiency with respect to, a Return of a Consolidated Group filed by a member of the TRICON Group which would have increased the PepsiCo Tax Liability under Section 3(c)(i), then within 30 days after a Final Determination of the adjustment, the PepsiCo Group shall pay to the TRICON Group the difference between all payments actually made under Section 3(c)(i) and all payments that would have been made under Section 3(c)(i) taking such adjustment into account.

(ii) If any adjustment is made in, or if a Taxing Authority assesses any deficiency with respect to, a Return of a Consolidated Group filed by a member of the PepsiCo Group which would have increased the TRICON Tax Liability under Section 3(c)(i), then within 30 days after any member of the PepsiCo Group makes a payment to a Taxing Authority or makes a deposit with a Taxing Authority to stop the running of interest with respect to such adjustment, the TRICON Group shall pay to the PepsiCo Group the difference between all payments actually made under Section 3(c)(i) and all payments that would have been made under Section 3(c)(i) taking such adjustment into account.

(iii) If any adjustment made in, or any deficiency assessed with respect to, a Return of a Consolidated Group results in a reduction in the amount of the benefit realized by the PepsiCo Group from a Tax Asset of the TRICON Group (whether or not the TRICON Group was paid in respect of such benefit), the TRICON Group shall, within 30 days after receipt of written notice from the PepsiCo Group, pay to the PepsiCo Group the amount of such reduction. In addition, the TRICON Group shall hold each member of the PepsiCo Group harmless for any penalty or interest payable by any member of the TRICON Group as a result of any such reduction.

(iv) Any refunds or credits of Tax (including a return of a deposit described in Section 3(e)(ii)) received by a member of the TRICON Group relating to a Pre-Distribution Period, shall be paid by such member of the TRICON Group to the PepsiCo Group within 30 days of receipt; provided that no such payment shall be required to the extent such refund or credit is attributable to (x) a Tax Asset of the PepsiCo Group for which payment has previously been made by the TRICON Group, or (y) an adjustment for which payment in respect thereof has previously been made pursuant to Section 3(e)(i) or 3(e)(ii).

4. Certain Representations and Covenants.

(a) (i) TRICON Representations. TRICON and each member of the TRICON Group represent that as of the date hereof, and covenants that on the Distribution Date, there is no plan or intention (A) to liquidate TRICON or to merge or consolidate TRICON, or any member of the TRICON Group conducting an active trade or business relied upon in connection with the Restructuring or the Distribution, with any other person subsequent to the Distribution, (B) to sell, rebrand or otherwise dispose of any asset, or close any restaurant unit, of TRICON or any member of the TRICON Group subsequent to the Distribution, in a manner that would result in any increased Tax liability or reduction of any Tax Asset of the PepsiCo Group or any member thereof, (C) to take any action inconsistent with the information and representations furnished to the IRS or any other Taxing Authority in connection with the request for a private letter ruling (or any comparable pronouncement by a Taxing Authority under applicable law) with respect to the Distribution or the Restructuring, (D) to enter into any negotiations, agreements, or arrangements with respect to transactions or events (including stock issuances, pursuant to the exercise of options or otherwise, capital contributions, or acquisitions, but not including the Distribution) which, if treated as consummated before the proposed distribution, would result in PepsiCo not having "control" of TRICON within the meaning of sections 355(a)(1)(A) and 368(c) of the Code at the time of the Distribution, (E) to make any change in equity structure that would result in PepsiCo not having such "control" (except for the Distribution), (F) to repurchase stock of TRICON in a manner contrary to the requirements of Revenue Procedure 96-30 or in a manner contrary to the representations made in connection with the request for a private letter ruling with respect to the Distribution or (G) to take any action that contravenes any existing gain recognition agreement or other agreement with a Taxing Authority to which any member of the TRICON Group or the PepsiCo Group is a party.

(ii) TRICON and PepsiCo Representations. Each of TRICON, PepsiCo and the members of the TRICON Group and the PepsiCo Group, respectively, represents that as of the date hereof, and covenants that on the Distribution Date, neither TRICON, PepsiCo nor the members of the TRICON Group or PepsiCo Group, respectively (as applicable), is aware of any present plan or intention by the current shareholders of PepsiCo to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, PepsiCo or TRICON subsequent to the Distribution. In making this representation, the parties hereto recognize that the shares of PepsiCo are, and the shares of TRICON will be, listed on certain stock exchanges and regular public trading in such shares can be expected.

(b) TRICON Covenants. TRICON covenants to PepsiCo that, without the prior written consent of the PepsiCo Vice President, Tax, (i) during the two-year period following the Distribution Date neither TRICON, nor any member of the TRICON Group conducting an active trade or business relied upon in connection with the Restructuring or the Distribution, will liquidate, merge or consolidate with any other person, (ii) during the two-year period following the Distribution Date TRICON will not sell, rebrand exchange, distribute or otherwise dispose of its assets or those of any member of the TRICON Group, or close any of its restaurant units or those of any member of the TRICON Group, in a manner that would result in any increased Tax liability or reduction of any Tax Asset of the PepsiCo Group or any member thereof, (iii) following the Distribution, TRICON will, for a minimum of two years, continue the active conduct of the historic business conducted by TRICON throughout the five year period prior to the Distribution, (iv) during the two-year period following the Distribution Date it will not enter into any transaction or make any change in equity structure (including stock issuances, pursuant to the exercise of options or otherwise, capital contributions, or acquisitions, but not including the Distribution) which, if treated as consummated before the proposed distribution, would result in PepsiCo not having "control" of TRICON within the meaning of sections 355(a)(1)(A) and 368(c) of the Code at the time of the Distribution,

(v) TRICON will not, nor will it permit any member of the TRICON Group to, take any action inconsistent with the information and

representations furnished to the IRS or any other Taxing Authority in connection with the request for a private letter ruling (or any comparable pronouncement by a Taxing Authority under applicable law) with respect to the Distribution or the Restructuring,

(vi) TRICON will not take any action that contravenes any existing gain recognition agreement or other agreement with a Taxing Authority to which any member of the TRICON Group or the PepsiCo Group is a party, (vii) TRICON will not repurchase stock of TRICON in a manner contrary to the requirements of Revenue Procedure 96-30 or in a manner contrary to the representations made in connection with the request for a private letter ruling with respect to the Distribution, and (viii) on or after the Distribution Date TRICON will not, nor will it permit any member of the TRICON Group to, make or change any accounting method, amend any Return or take any Tax position on any Return, take any other action, omit to take any action or enter into any transaction that results in any increased Tax liability or reduction of any Tax Asset of the PepsiCo Group or any member thereof in respect of any Pre-Distribution Period. TRICON agrees that PepsiCo is to have no liability for any tax resulting from any action referred to in the preceding sentence and agrees to indemnify and hold harmless the PepsiCo Group against any such tax. TRICON shall also bear all costs incurred by PepsiCo in connection with PepsiCo's determination of whether or not to grant any written consent required under this Section 4(b).

(c) Deductions and Certain Taxes Related to Options. The PepsiCo Vice President, Tax shall determine whether the PepsiCo Group or the TRICON Group shall file Returns claiming the Tax deductions attributable to the exercise of options to purchase stock of PepsiCo which are held by employees or former employees of the TRICON Group. If it is determined that the PepsiCo Group shall claim all such Tax deductions, (i) the PepsiCo Group shall be entitled to the Tax deduction resulting from the exercise of any such option, (ii) the Returns of the PepsiCo Group and the TRICON Group shall reflect the entitlement of the PepsiCo Group to such deduction, (iii) to the extent such deduction is disallowed, the TRICON Group shall pay to the PepsiCo Group an amount equal to the Tax paid by the PepsiCo Group as a result of such disallowance and (iv) within 1 day of the exercise of any such option the TRICON Group will pay to the PepsiCo Group an amount equal to the liability of the PepsiCo Group under the Federal Insurance Contributions Act, the Federal Unemployment Tax Act or any state employment tax law in connection with the exercise of such an option, except to the extent such Tax is withheld from a payment to the employee and remitted to a Taxing Authority on the employee's behalf. If it is determined that the TRICON Group shall claim all such Tax deductions, (i) the Returns of the PepsiCo Group and the TRICON Group shall reflect such determination, (ii) within 1 day of the exercise of any such option, the TRICON Group shall pay to the PepsiCo Group an amount equal to the product of the amount of the related deduction and the PepsiCo Group's effective Tax rate for the relevant Taxable period, as determined by the PepsiCo Vice President, Tax, (iii) TRICON and each member of the TRICON Group will indemnify the PepsiCo Group against any Tax liability of the PepsiCo Group under the Federal Insurance Contributions Act or the Federal Unemployment Tax Act incurred in connection with the exercise of such an option, except to the extent such Tax is withheld from a payment to the employee and remitted to a Taxing Authority on the employee's behalf, and (iv) to the extent such deduction is disallowed, and if the PepsiCo Vice President, Tax determines that the PepsiCo Group should file an amended Return claiming such deduction, the PepsiCo Group shall pay to the TRICON Group the actual benefit received by the PepsiCo Group in respect of such deduction. For purposes of the immediately preceding clause (iii), such benefit shall be considered equal to the excess of the amount of Tax that would have been payable to a Taxing Authority (or of the Tax refund that would have been receivable) by the PepsiCo Group in the absence of such deduction over the amount of Tax actually payable to a Taxing Authority (or of the Tax refund actually receivable) by the PepsiCo Group. Payment of the amount of such benefit shall be made within 30 days of the receipt by any member of the PepsiCo Group of any refund, credit or other offset attributable thereto from the relevant Taxing Authority.

5. Indemnities.

(a) TRICON Indemnity. TRICON and each member of the TRICON Group will jointly and severally indemnify PepsiCo and the members of the PepsiCo Group that were members of a Consolidated Group that included such TRICON Affiliate against and hold them harmless from:

(i) any Tax liability of the TRICON Group and any Tax liability attributable to the Restructuring;

(ii) any liability or damage resulting from a breach by TRICON or any member of the TRICON Group of any representation or covenant made by TRICON herein;

(iii) any Tax liability resulting from the Distribution and attributable to any action of TRICON or any member of the TRICON Group;

(iv) any Tax liability resulting from the recapture, pursuant to Section 904(f) of the Code, of an overall foreign loss for a Pre-Distribution Period to the extent that the PepsiCo Vice President, Tax determines that such loss is attributable to operations of the Restaurant Business in a Pre-Distribution Period; and

(v) all liabilities, costs, expenses (including, without limitation, reasonable expenses of investigation and attorneys' fees and expenses), losses, damages, assessments, settlements or judgments arising out of or incident to the imposition, assessment or assertion of any Tax liability or damage described in (i), (ii), (iii), or (iv) including those incurred in the contest in good faith in appropriate proceedings relating to the imposition, assessment or assertion of any such Tax, liability or damage.

(b) PepsiCo Indemnity. PepsiCo and each member of the PepsiCo Group will jointly and severally indemnify TRICON and the members of the TRICON Group that were members of a Consolidated Group that included such PepsiCo Affiliate against and hold them harmless from:

(i) any Tax Liability of the PepsiCo Group and any Tax liability resulting from the Distribution, other than any such liabilities described in Section 5(a);

(ii) any liability or damage resulting from a breach by PepsiCo or any member of the PepsiCo Group of any representation or covenant made

by PepsiCo herein; and

(iii) all liabilities, costs, expenses (including, without limitation, reasonable expenses of investigation and attorneys' fees and expenses), losses, damages, assessments, settlements or judgments arising out of or incident to the imposition, assessment or assertion of any Tax liability or damage described in (i) or (ii) including those incurred in the contest in good faith in appropriate proceedings relating to the imposition, assessment or assertion of any such Tax, liability or damage.

If a member of the PepsiCo Group ceases to be an Affiliate of PepsiCo as a result of a sale of its stock to a third party (whether or not treated as a sale or exchange of stock for Tax purposes), such member of the PepsiCo Group shall be released from its obligations under this Agreement upon such sale and neither PepsiCo nor any member of the PepsiCo Group shall have any obligation to indemnify TRICON or any member of the TRICON Group under Section 5(b)(iii) for any liability or damage attributable to actions taken by such Affiliate after such sale.

(c) Discharge of Indemnity. TRICON, PepsiCo and the members of the TRICON Group and PepsiCo Group, respectively, shall discharge their obligations under Sections 5(a) and 5(b) hereof, respectively, by paying the relevant amount within 30 days of demand therefor. The PepsiCo Group shall be entitled to make such a demand at any time after a member of the PepsiCo Group makes a payment or deposit in respect of a Tax for which any member of the TRICON Group has an obligation under Section 5(a). The TRICON Group shall be entitled to make such a demand at any time after a Final Determination of an obligation of any member of the PepsiCo Group under Section 5(b). Any such demand shall include a statement showing the amount due under Section 5(a) or 5(b), as the case may be. Calculation mechanics relating to items described in Section 5(a)(i) and 5(b)(i) are set forth in Section 3(c). Notwithstanding the foregoing, if either TRICON, PepsiCo or any member of the TRICON Group or PepsiCo Group disputes in good faith the fact or the amount of its obligation under Section 5(a) or Section 5(b), then no payment of the amount in dispute shall be required until any such good faith dispute is resolved in accordance with Section 16 hereof; provided, however, that any amount not paid within 30 days of demand therefor shall bear interest as provided in Section 9.

(d) Tax Benefits. If an indemnification obligation of any member of the PepsiCo Group or any member of the TRICON Group, as the case may be, under this Section 5 with respect to a Consolidated Group arises in respect of an adjustment that makes allowable to a member of the TRICON Group or a member of the PepsiCo Group, respectively, any deduction, amortization, exclusion from income or other allowance (a "Tax Benefit") which would not, but for such adjustment, be allowable, then any payment by any member of the PepsiCo Group or any member of the TRICON Group, respectively, pursuant to this Section 5 shall be an amount equal to (x) the amount otherwise due but for this subsection (d), minus (y) the present value of the product of the Tax Benefit multiplied (i) by the maximum applicable federal, foreign or state, as the case may be, corporate tax rate in effect at the time such Tax Benefit becomes allowable to a member of the TRICON Group or a member of the PepsiCo Group (as the case may be) or (ii) in the case of a credit, by 100 percent. The present value of such product shall be determined by discounting such product from the time the Tax Benefit becomes allowable at a rate equal to Prime.

(e) For purposes of this Section 5, in the case of Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Distribution Date, the portion of such Tax related to the portion of such Tax period ending on the Distribution Date shall (x) in the case of any Taxes other than Taxes based upon or related to income, sales, gross receipts, wages, capital expenditures or expenses, be deemed to be the amount of such Tax for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the Tax period ending on the Distribution Date and the denominator of which is the number of days in the entire Tax period, and (y) in the case of any Tax based upon or related to income, sales, gross receipts, wages, capital expenditures or expenses, be deemed equal to the amount which would be payable if the relevant Tax period ended on the Distribution Date.

6. Guarantees. PepsiCo or TRICON, as the case may be, shall guarantee the obligations of each member of the PepsiCo Group or the TRICON Group, respectively, under this Agreement.

7. Communication and Cooperation.

(a) Consult and Cooperate. TRICON and PepsiCo shall consult and cooperate (and shall cause each member of the TRICON Group or the PepsiCo Group, respectively, to cooperate) fully at such time and to the extent reasonably requested by the other party in connection with all matters subject to this Agreement. Such cooperation shall include, without limitation,

(i) the retention and provision on reasonable request of any and all information including all books, records, documentation or other information pertaining to Tax matters relating to the PepsiCo Group and the TRICON Group, any necessary explanations of information, and access to personnel, until one year after the expiration of the applicable statute of limitation (giving effect to any extension, waiver, or mitigation thereof);

(ii) the execution of any document that may be necessary or helpful in connection with any required Return or in connection with any audit, proceeding, suit or action; and

(iii) the use of the parties' best efforts to obtain any documentation from a governmental authority or a third party that may be necessary or helpful in connection with the foregoing.

(b) Provide Information. PepsiCo and TRICON shall keep each other fully informed with respect to any material development relating to the matters subject to this Agreement.

(c) Tax Attribute Matters. PepsiCo and TRICON shall promptly advise each other with respect to any proposed Tax adjustments relating to a Consolidated Group, which are the subject of an audit or investigation, or are the subject of any proceeding or litigation, and which may affect any Tax liability or any Tax attribute of PepsiCo, TRICON, the PepsiCo Group, the TRICON Group or any member of the TRICON Group or the PepsiCo Group (including, but not limited to, basis in an asset or the amount of earnings and profits).

8. Audits and Contest.

(a) Notwithstanding anything in this Agreement to the contrary, PepsiCo shall have full control over all matters relating to any Return or any Tax Proceeding relating to any Tax matters of at least one member of the PepsiCo Group. Except as provided in Section 8(b), PepsiCo shall have absolute discretion with respect to any decisions to be made, or the nature of any action to be taken, with respect to any matter described in the preceding sentence.

(b) No settlement of any Tax Proceeding relating to any matter which would cause a payment obligation under Sections 5(a) or 5(b) shall be accepted or entered into by or on behalf of the party entitled to receive a payment under either Section 5(a) or 5(b), whichever is applicable, unless the party ultimately responsible for such payment under either Section 5(a) or 5(b), whichever is applicable (the "Indemnitor"), consents thereto in writing (which consent shall not be unreasonably withheld or delayed); provided, however, that, notwithstanding anything to the contrary in this Agreement, PepsiCo may settle any Tax Proceeding if it determines, in its sole judgment, that TRICON is not cooperating in such Tax Proceeding. If the Indemnitor does not respond to the indemnified party's request for consent within 30 days, the Indemnitor will be deemed to have consented to the settlement.

(c) The indemnified party agrees to give notice to the Indemnitor of the assertion of any claim, or the commencement of any suit, action or proceeding in respect of which indemnity may be sought hereunder within 30 days of such assertion or commencement, or such earlier time that would allow the Indemnitor to timely respond to such claim, suit action or proceeding.

(d) With respect to Returns relating to Taxes solely attributable to the TRICON Group, TRICON and the members of the TRICON Group shall have full control over all matters relating to any Tax Proceeding in connection therewith. TRICON and the members of the TRICON Group shall have absolute discretion with respect to any decisions to be made, or the nature of any action to be taken, with respect to any matter described in the preceding sentence.

9. Payments. All payments to be made hereunder shall be made in immediately available funds. Except as otherwise provided, all payments required to be made pursuant to this Agreement will be due 30 days after the receipt of notice of such payment or, where no notice is required, 30 days after the fixing of liability or the resolution of a dispute. Payments shall be deemed made when received. Any payment that is not made by the PepsiCo Group when due shall bear interest at LIBOR minus 10 basis points, as quoted from time to time, for each day until paid. Any payment that is not made by the TRICON Group when due shall bear interest at LIBOR plus 75 basis points, as quoted from time to time, for each day until paid. If, pursuant to a Final Determination, any amount paid by PepsiCo or the members of the PepsiCo Group or TRICON or the members of the TRICON Group, as the case may be, pursuant to this Agreement results in any increased Tax liability or reduction of any Tax Asset of TRICON or any member of the TRICON Group or PepsiCo or any member of the PepsiCo Group, respectively, then PepsiCo or TRICON, as appropriate, shall indemnify the other party and hold it harmless from any interest or penalty attributable to such increased Tax liability or the reduction of such Tax Asset and shall pay to the other party, in addition to amounts otherwise owed, the After-Tax Amount. With respect to any payment required to be made under this Agreement, the PepsiCo Vice President, Tax has the right to designate, by written notice to TRICON, which member of the TRICON Group or the PepsiCo Group, as the case may be, will make or receive such payment and in which currency such payment will be made.

10. Notices. Any notice, demand, claim, or other communication under this Agreement shall be in writing and shall be deemed to have been given upon the delivery or mailing thereof, as the case may be, if delivered personally or sent by certified mail, return receipt requested, postage prepaid, to the parties at the following addresses (or at such other address as a party may specify by notice to the other):

If to PepsiCo or the PepsiCo Group, to:

Matthew McKenna
Vice President, Tax
PepsiCo, Inc.
700 Anderson Hill Road
Purchase, New York 10577-1444

If to TRICON or the TRICON Group, to:

[name]
[address]

11. Costs and Expenses.

(i) Except as expressly set forth in this Agreement, each party shall bear its own costs and expenses incurred pursuant to this Agreement. For purposes of this Agreement, costs and expenses shall include, but not be limited to, reasonable attorney fees, accountant fees and other related

professional fees and disbursements. Notwithstanding anything to the contrary in this Agreement, the TRICON Group will be responsible for its allocable portion, as determined by the PepsiCo Vice President, Tax, of (i) all costs and expenses attributable to filing any Return that reflects the income, assets or operations of the TRICON Group and any Return required to be filed in connection with the Restructuring, and (ii) all costs and expenses incurred by PepsiCo in complying with the provisions of Section 7 of this Agreement.

(ii) With respect to all Tax Proceedings, including pending litigation with any Taxing Authority, costs shall be allocated in good faith by the PepsiCo Vice President, Tax. Each party hereto shall be liable for its allocable portion of such costs as provided in Section 5.

12. Effectiveness; Termination and Survival. This Agreement shall become effective upon the consummation of the Distribution. All rights and obligations arising hereunder with respect to a Pre-Distribution Tax Period shall survive until they are fully effectuated or performed and, provided, further, that notwithstanding anything in this Agreement to the contrary, this Agreement shall remain in effect and its provisions shall survive for one year after the full period of all applicable statutes of limitation (giving effect to any extension, waiver or mitigation thereof) and, with respect to any claim hereunder initiated prior to the end of such period, until such claim has been satisfied or otherwise resolved.

13. Section Headings. The headings contained in this Agreement are inserted for convenience only and shall not constitute a part hereof or in any way affect the meaning or interpretation of this Agreement.

14. Entire Agreement; Amendments and Waivers.

(a) Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein. No alteration, amendment, modification, or waiver of any of the terms of this Agreement shall be valid unless made by an instrument signed by an authorized officer of each of PepsiCo and TRICON, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) Amendments and Waivers. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver hereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege. This Agreement shall not be waived, amended or otherwise modified except in writing, duly executed by all of the parties hereto.

15. Governing Law and Interpretation. This Agreement shall be construed and enforced in accordance with the laws of the State of North Carolina without giving effect to laws and principles relating to conflicts of law.

16. Dispute Resolution. If the parties hereto are unable to resolve any disagreement or dispute relating to this Agreement, including but not limited to whether a transaction is part of the Restructuring and whether a Tax liability is a PepsiCo Tax Liability or a TRICON Tax Liability, such dispute shall be resolved in good faith by the PepsiCo Vice President, Tax.

17. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

18. Assignments; Third Party Beneficiaries. Except as provided below, this Agreement shall be binding upon and shall inure only to the benefit of the parties hereto and their respective successors and assigns, by merger, acquisition of assets or otherwise (including but not limited to any successor of a party hereto succeeding to the Tax attributes of such party under applicable law). This Agreement is not intended to benefit any person other than the parties hereto and such successors and assigns, and no such other person shall be a third party beneficiary hereof. If, during the period beginning on the Distribution Date and ending upon the expiration of the survival period set forth in Section 12, any corporation becomes an Affiliate of TRICON, such Affiliate shall be bound by the terms of this Agreement and TRICON shall provide evidence to PepsiCo of such Affiliate's agreement to be bound by the terms of this Agreement.

19. Authorization, etc. Each of the parties hereto hereby represents and warrants that it has the power and authority to execute, deliver and perform this Agreement, that this Agreement has been duly authorized by all necessary corporate action on the part of such party, that this Agreement constitutes a legal, valid and binding obligation of each such party, and that the execution, delivery and performance of this Agreement by such party does not contravene or conflict with any provision or law or of its charter or bylaws or any agreement, instrument or order binding on such party.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the day and year first written above.

PepsiCo on its own behalf and on behalf of the members of the PepsiCo Group.

By: _____

Title: _____

TRICON on its own behalf and on behalf of the members of the TRICON Group.

By: _____

Title: _____

Exhibit 10.02

EMPLOYEE PROGRAMS AGREEMENT

between

PepsiCo, Inc.

and

TRICON Global Restaurants, Inc.

Dated as of

_____, 1997

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EMPLOYEE PROGRAMS AGREEMENT

This EMPLOYEE PROGRAMS AGREEMENT, dated as of _____, 1997, is by and between PepsiCo, Inc., a North Carolina corporation ("PepsiCo"), and TRICON Global Restaurants, Inc., a North Carolina corporation ("TRICON").

WHEREAS, PepsiCo has decided to consolidate the assets and operations of its worldwide KFC, Pizza Hut and Taco Bell businesses (collectively, the "Restaurant Businesses") into TRICON and TRICON's subsidiaries and affiliates and to distribute the Common Stock of TRICON to the holders of PepsiCo Capital Stock (the "Distribution"); and

WHEREAS, PepsiCo and TRICON have entered into a Separation Agreement, dated as of the date of this agreement (the "Separation Agreement"), and certain other agreements that will govern certain matters relating to the Distribution and the relationship of PepsiCo and TRICON and their respective Subsidiaries following the Distribution; and

WHEREAS, pursuant to the Separation Agreement, PepsiCo and TRICON have agreed to enter into this Agreement for the purpose of allocating assets, liabilities, and responsibilities with respect to certain employee compensation and benefit plans and programs between them;

NOW, THEREFORE, in consideration of the mutual promises contained herein and in the Separation Agreement, the Parties (as that term is defined in the Separation Agreement) agree as follows:

ARTICLE

1

DEFINITIONS AND REFERENCES

1.1 DEFINITIONS

For purposes of this Agreement, capitalized terms used (other than the formal names of PepsiCo Plans (as defined below)) and not otherwise defined shall have the respective meanings assigned to them below or as assigned to them in the Separation Agreement (as defined above):

(a) 414(l)(1) Amount

"414(l)(1) Amount" means, the minimum amount necessary to fund vested benefits under the PepsiCo Pension Plan and the TRICON Pension Plan on a "termination basis" (as that term is defined in Treas. Reg. Sec. 1.414(l)-1(b)(5)) in accordance with the actuarial assumptions described in Section 3.2.

(b) Action

"Action" means any demand, action, cause of action, suit, countersuit, arbitration, inquiry, proceeding, or investigation by or before any Governmental Authority or any arbitration or mediation tribunal, pending or threatened, known or unknown.

(c) Agreement

"Agreement" means this Employee Programs Agreement, including all the attached Appendices.

(d) ASO Contract

"ASO Contract" means an administrative services only contract, related prior practice, or related understanding with a third-party administrator that pertains to any PepsiCo Health and Welfare Plan, PepsiCo Restaurants Health and Welfare Plan, or TRICON Health and Welfare Plan.

(e) Award

"Award" means an award under a Long-Term Incentive Plan or a Short-Term Incentive Plan or, as the context or facts may require, any other award under another incentive or special bonus, incentive, or award program or arrangement.

(f) Casual Dining Businesses

"Casual Dining Businesses" has the meaning given that term under the Separation Agreement.

(g) Bulk Asset Transfer

"Bulk Asset Transfer" is defined in Section 3.2(b)(2).

(h) Close of the Distribution Date

"Close of the Distribution Date" means 11:59:59 P.M., Eastern Standard Time or Eastern Daylight Time (whichever shall then be in effect), on the Distribution Date.

(i) Code

"Code" means the Internal Revenue Code of 1986, as amended, or any successor federal income tax law. Reference to a specific Code provision also includes any proposed, temporary, or final regulation in force under that provision.

(j) Conversion Formula

"Conversion Formula" means the appropriate formula described in the Form 10, filed with the Securities and Exchange Commission by PepsiCo in connection with the Distribution, which shall be applied for adjusting the exercise price and award size of PepsiCo stock options under the PepsiCo Long-Term Incentive Plan, PepsiCo SharePower Plan and PepsiCo Stock Option Incentive Plan or for determining the exercise price and number of TRICON stock options issued as a result of the conversion of PepsiCo options granted under the PepsiCo Long-Term Incentive Plan, the PepsiCo Stock Option Incentive Plan and the PepsiCo SharePower Plan, as applicable.

(k) Deferral Programs

"Deferral Programs," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo, Inc. Executive Income Deferral Program, the PepsiCo, Inc. Performance Share Unit Deferral Program, and the PepsiCo, Inc. Option Gains Deferral Program. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Deferral Plan" means the executive income deferral program, performance share unit deferral program and the option gains deferral program to be established by TRICON pursuant to Section 2.3.

(l) Distribution

"Distribution" has the meaning given that term under the Separation Agreement.

(m) Distribution Date

"Distribution Date" has the meaning given that term under the Separation Agreement.

(n) DRIP

"DRIP," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo Dividend Reinvestment Plan. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "DRIP" means the dividend reinvestment plan or program to be established by TRICON.

(o) ERISA

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended. Reference to a specific provision of ERISA also includes any proposed, temporary, or final regulation in force under that provision.

(p) Executive Programs

"Executive Programs," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the executive benefit and nonqualified plans, programs, and arrangements established, maintained, agreed upon, or assumed by a member of the PepsiCo Group for the benefit of employees and former employees of members of the PepsiCo Group before the Close of the Distribution Date, including the plans and programs listed in Appendix A. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Executive Programs" means the executive benefit plans and programs to be established by TRICON pursuant to Section 2.3 that correspond to the respective PepsiCo Executive Programs including those plans and programs listed in Appendix A.

(q) Foreign Plan

"Foreign Plan," when immediately preceded by "PepsiCo," means a Plan maintained by the PepsiCo Group or when immediately preceded as

"TRICON," a plan maintained by the TRICON Group, in either case for the benefit of employees who are compensated under a payroll which is administered outside the 50 United States, its territories and possessions, and the District of Columbia.

(r) Governmental Authority

"Governmental Authority" means any federal, state, local, foreign, or international court, government, department, commission, board, bureau, agency, official, or other regulatory, administrative, or governmental authority, including the Department of Labor, the Internal Revenue Service, and the Pension Benefit Guaranty Corporation.

(s) Group Insurance Policy

"Group Insurance Policy" means a group insurance policy issued in connection with any PepsiCo Health and Welfare Plan, PepsiCo Restaurants Health and Welfare Plan, or any TRICON Health and Welfare Plan, as applicable.

(t) Health and Welfare Plans

"Health and Welfare Plans," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the health and welfare benefit plans, programs, and policies which are sponsored by PepsiCo. When immediately preceded by "PepsiCo Restaurant," "Health and Welfare Plans" means the benefit plans, programs and policies listed in the first part of Appendix B to this Agreement that are sponsored by a member of the TRICON Group for periods immediately before the Close of the Distribution Date, and such other welfare plans or programs as may apply to any such member's employees, retirees and dependents for such periods. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Health and Welfare Plans" means benefit plans, programs, and policies listed in the second part of Appendix B to this Agreement which are sponsored by a member of the TRICON Group for periods Immediately after the Distribution Date.

(u) Hiring Company

"Hiring Company," with respect to a Transition Individual described in Section 1.1(ddd)(1) or (4), means a member of the PepsiCo Group, and, with respect to a Transition Individual described in Section 1.1(ddd)(2) or (3), means a member of the TRICON Group.

(v) HMO

"HMO" means a health maintenance organization that provides benefits under the PepsiCo Health and Welfare Plans, PepsiCo Restaurants Health and Welfare Plans, or the TRICON Health and Welfare Plans, as applicable.

(w) HMO Agreements

"HMO Agreements" means contracts, letter agreements, practices, and understandings with HMOs that provide medical services under the PepsiCo Health and Welfare Plans, PepsiCo Restaurants Health and Welfare Plans, and TRICON Health and Welfare Plans, as applicable.

(x) Immediately after the Distribution Date

"Immediately after the Distribution Date" means 12:00 A.M., Eastern Standard Time or Eastern Daylight Time (whichever shall then be in effect), on the day after the Distribution Date.

(y) Individual Agreement

"Individual Agreement" means an individual contract or agreement (whether written or unwritten) entered into between a member of the PepsiCo Group or a member of the TRICON Group and any employee that establishes the right of such individual to special compensation or benefits, special bonuses, supplemental pension benefits, hiring bonuses, loans, guaranteed payments, special allowances, tax equalization payments, special expatriate compensation payments, disability benefits, or share units granted (and payable in the form of cash or otherwise) under individual phantom share agreements, or that provides benefits similar to those identified in Appendix A.

(z) Indemnitor

"Indemnitor" is defined in Section 9.18.

(aa) Initial Asset Transfer

"Initial Asset Transfer" is defined in Section 3.2(b)(2).

(bb) Liabilities

"Liabilities" means any and all losses, claims, charges, debts, demands, actions, costs and expenses (including administrative and related costs and expenses of any Plan, program, or arrangement), of any nature whatsoever, whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising.

(cc) Long-Term Incentive Plan

"Long-Term Incentive Plan," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo, Inc. 1987 Long-Term Incentive Plan, the PepsiCo, Inc. 1994 Long-Term Incentive Plan, and any other long-term incentive or stock-based incentive plans assumed by a member of the PepsiCo Group by reason of merger, acquisition, or otherwise. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Long-Term Incentive Plan" means the long-term incentive plan to be established by TRICON pursuant to Section 2.3.

(dd) LTD VEBA

"LTD VEBA," when immediately preceded by "PepsiCo," means the PepsiCo Long Term Disability Benefit Trust. When immediately preceded by "TRICON," "LTD VEBA" means the welfare benefit fund to be established by TRICON pursuant to Section 5.2 that corresponds to the PepsiCo LTD VEBA.

(ee) Master Trust

"Master Trust," when immediately preceded by "PepsiCo", means the master trusts evidenced by the PepsiCo, Inc. Master Trust Agreement dated February 1, 1978 and the PepsiCo, Inc. Special Master Trust Agreement dated September 11, 1985, as amended from time to time, and currently associated with, among other plans, the PepsiCo Pension Plan and the Pizza Hut Pension Plan. When immediately preceded by "TRICON," "Master Trust" means the master trust(s) to be established by TRICON pursuant to Section 3.1 that corresponds to the PepsiCo Master Trust.

(ff) Material Feature

"Material Feature" means any feature of a Plan that could reasonably be expected to be of material importance to the sponsoring employer or the participants and beneficiaries of the Plan, which could include, depending on the type and purpose of the particular Plan, the class or classes of employees eligible to participate in such Plan, the nature, type, form, source, and level of benefits provided by the employer under such Plan and the amount or level of contributions, if any, required to be made by participants (or their dependents or beneficiaries) to such Plan.

(gg) Participating Company

"Participating Company" means any Person (other than an individual) that is participating in a Plan sponsored by a member of the PepsiCo Group or a member of the TRICON Group, as the context requires.

(hh) Pension Equalization Plan

"Pension Equalization Plan," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo Pension Equalization Plan. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Pension Equalization Plan" means the plan to be established by TRICON pursuant to Section 2.3 that corresponds to the PepsiCo Pension Equalization Plan.

(ii) Pension Plan

"Pension Plan," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo Salaried Employees Retirement Plan. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Pension Plan" means the plan to be established by TRICON pursuant to Section 2.3 that corresponds to the PepsiCo Pension Plan. When immediately preceded by "Pizza Hut," "Pension Plan" means the Pizza Hut Hourly Employees Pension Plan.

(jj) PepsiCo Capital Stock

"PepsiCo Capital Stock" has the meaning given that term in the Separation Agreement.

(kk) PepsiCo Executive

"PepsiCo Executive" means an employee or former employee of a member of the PepsiCo Group or a member of the TRICON Group, who

immediately before the Close of the Distribution Date is or was eligible to participate in or receive a benefit under any PepsiCo Executive Program.

(ll) PepsiCo Group

"PepsiCo Group" has the meaning given that term under the Separation Agreement.

(mm) PepsiCo Leave of Absence Programs

"PepsiCo Leave of Absence Programs" means the leave of absence programs offered from time to time under the personnel policies and practices of PepsiCo and leaves offered in accordance with the Family and Medical Leave Act of 1993, as amended.

(nn) Person

"Person" means an individual, a general or limited partnership, a corporation, a trust, a joint venture, an unincorporated organization, a limited liability entity, any other entity, and any Governmental Authority.

(oo) Plan

"Plan," when immediately preceded by "PepsiCo" or "TRICON," means any plan, policy, program, payroll practice, on-going arrangement, contract, trust, insurance policy or other agreement or funding vehicle, whether written or unwritten, providing benefits to employees, or former employees of the PepsiCo Group or the TRICON Group, as applicable.

(pp) Prior Company

"Prior Company," with respect to a Transition Individual described in Section 1.1(ddd)(1) or (4), means a member of the TRICON Group and, with respect to a Transition Individual described in Section 1.1(ddd)(2) or (3), means a member of the PepsiCo Group.

(qq) Record Date

"Record Date" has the meaning given that term under the Separation Agreement.

(rr) Reimbursement Plans

"Reimbursement Plans," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo Inc. Health Care Reimbursement account plan that is part of the PepsiCo Employees Health Care Program and the PepsiCo, Inc. Dependent Care Reimbursement Account Plan, as applicable. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Reimbursement Account Plans" means the corresponding health care reimbursement account plan and the dependent care reimbursement account plan to be established by TRICON pursuant to Section 2.3.

(ss) Restaurant Businesses

"Restaurant Businesses" is defined in the second paragraph of the preamble of this Agreement.

(tt) Salaried Employee

"Salaried Employee" means any individual who is an eligible employee within the meaning of the PepsiCo Pension Plan or the TRICON Pension Plan, as applicable.

(uu) Savings Plan

"Savings Plan," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo Long Term Savings Program. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Savings Plan" means the TRICON Long Term Savings Program to be established by TRICON pursuant to Section 2.3.

(vv) Separation Agreement

"Separation Agreement" is defined in the third paragraph of the preamble of this Agreement.

(ww) SharePower Plan

"SharePower Plan," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo SharePower Stock Option Plan. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "SharePower Plan" means the stock option plan to be established by TRICON pursuant to Section 2.3.

(xx) Short-Term Incentive Plan

"Short-Term Incentive Plan," when immediately preceded by "PepsiCo," means the PepsiCo, Inc. 1994 Executive Incentive Compensation Plan, the PepsiCo, Inc. Executive Incentive Plan, the Middle Management Incentive Compensation Plan, and any other special compensation, bonus and incentive compensation programs. When immediately preceded by "TRICON," "Short-Term Incentive Plan" means the executive incentive compensation plan, executive incentive plan, the middle management compensation plan and any other special compensation, bonus and incentive compensation programs to be established by TRICON pursuant to Section 2.3.

(yy) Stock Option Incentive Plan

"Stock Option Incentive Plan" when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the "PepsiCo, Inc. 1995 Stock Option Incentive Plan" and any predecessor plans. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Stock Option Incentive Plan" means the stock option incentive plan established by TRICON pursuant to Section 2.3.

(zz) Stock Purchase Plan

"Stock Purchase Plan," when immediately preceded by "PepsiCo" or when the applicable Hiring Company or Prior Company is a member of the PepsiCo Group, means the PepsiCo Capital Stock Purchase Plan. When immediately preceded by "TRICON" or when the applicable Hiring Company or Prior Company is a member of the TRICON Group, "Stock Purchase Plan" means the employee stock purchase plan to be established by TRICON pursuant to Section 2.3.

(aaa) Subsequent Asset Transfer

"Subsequent Asset Transfer" is defined in Section 3.2(b)(2).

(bbb) Subsidiary

"Subsidiary" of any Person means any corporation or other organization whether incorporated or unincorporated of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries; provided, however, that no Person that is not directly or indirectly wholly owned by any other Person shall be a Subsidiary of such other Person unless such other Person controls, or has the right, power, or ability to control, that Person.

(ccc) Transferred Individual

"Transferred Individual" means any individual who, as of the Close of the Distribution Date: (1) is either then actively employed by, or then on a leave of absence from, a member of the TRICON Group; or (2) is neither then actively employed by, nor then on a leave of absence from, a member of the TRICON Group, but (A) whose most recent (through the Close of the Distribution Date) active employment with PepsiCo or a past or present affiliate of PepsiCo was with an entity or a corporate division of the Restaurant Businesses, the Casual Dining Businesses, and the predecessors of any such entities, to the extent such information is available, and who has not had an intervening period of employment covered by an agreement under which assets and liabilities with respect to the individual were or are to be transferred from a PepsiCo Pension Plan, or (B) who otherwise is identified pursuant to a methodology approved by PepsiCo and TRICON, which methodology shall be consistent with the intent of the parties that former employees of PepsiCo or a past or present affiliate of PepsiCo will be aligned with the entity for which they most recently (through the Close of the Distribution Date) worked and based upon the business of such entity. An alternate payee under a qualified domestic relations order (within the meaning of Code Sec. 414(p) and ERISA Sec. 206(d)), alternate recipient under a qualified medical child support order (within the meaning of ERISA Sec.

609(a)), beneficiary or covered dependent, in each case, of an employee or former employee described in (1) or (2) above shall also be a Transferred Individual with respect to that employee's or former employee's benefit under the applicable Plans. Such an alternate payee, alternate recipient, beneficiary, or covered dependent shall not otherwise be considered a Transferred Individual with respect to his or her own benefits under any applicable Plans unless he or she is a Transferred Individual by virtue of either of the first two sentences of this definition. In addition, PepsiCo, in its sole discretion, may designate any other individuals, or group of individuals, as Transferred Individuals. An individual may be a Transferred Individual pursuant to this definition regardless of whether such individual is, as of the Distribution Date, alive, actively employed, on a temporary leave of absence from active employment, on layoff, terminated from employment, retired or on any other type of employment or post-employment status relative to a PepsiCo or TRICON Plan, and regardless of whether, as of the Close of the

Distribution Date, such individual is then receiving any benefits from a PepsiCo or TRICON Plan. Transferred Individual includes any individual who is on an international assignment whether paid on a U.S. payroll or a payroll outside the U.S. if such individual otherwise falls within any of the above categories.

(ddd) Transition Individual

"Transition Individual" means any individual who:

(1) is a Transferred Individual who during the Transition Period becomes an employee of a member of the PepsiCo Group, without an intervening period of employment, as a result of transfer arranged by PepsiCo and TRICON; or

(2) is an employee of a member of the PepsiCo Group as of the Distribution Date (and is not a Transferred Individual) who during the Transition Period becomes an employee of a member of the TRICON Group, without an intervening period of employment, as a result of a transfer arranged by PepsiCo and TRICON; or

(3) is a Transferred Individual who during the Transition Period (A) becomes an employee of a member of the PepsiCo Group, and (B) subsequently becomes an employee of a member of the TRICON Group, in each case without an intervening period of employment and as a result of a transfer arranged by PepsiCo and TRICON; or

(4) is an employee of a member of the PepsiCo Group as of the Distribution Date (and is not a Transferred Individual) who during the Transition Period (A) becomes an employee of a member of the TRICON Group, and (B) subsequently becomes an employee of a member of the PepsiCo Group, in each case without an intervening period of employment and as a result of a transfer arranged by PepsiCo and TRICON.

An alternate payee under a qualified domestic relations order, (within the meaning of Code Sec. 414(p) and ERISA Sec. 206(d)), alternate recipient under a qualified medical child support order, (within the meaning of ERISA Sec. 609(a)), beneficiary or covered dependent, in each case, of an individual described in clause (1), (2), (3), or (4) of this definition shall also be a Transition Individual with respect to that individual's benefit under the applicable Plans. Such an alternate payee, alternate recipient, beneficiary, and covered dependent shall not otherwise be considered a Transition Individual with respect to his or her own benefits under any applicable Plans, unless he or she is a Transition Individual by virtue of clause (1), (2), (3), or (4) of this definition.

(eee) Transition Period

"Transition Period" means the period beginning Immediately after the Distribution Date and ending on December 31, 1998.

(fff) TRICON Common Stock

"TRICON Common Stock" has the meaning given that term in the Separation Agreement.

(ggg) TRICON Group

"TRICON Group" has the meaning given that term under the Separation Agreement.

1.2 REFERENCES

Unless the context clearly indicates otherwise, reference to a particular Article, Section, or subsection means the Article, Section, or subsection so delineated in this Agreement.

ARTICLE

GENERAL PRINCIPLES

2.1 ASSUMPTION OF LIABILITIES

TRICON hereby assumes and agrees to pay, perform, fulfill, and discharge, in accordance with their respective terms, all of the following (regardless of when or where such Liabilities arose or arise or were or are incurred): (i) all Liabilities to or relating to Transferred Individuals arising out of or resulting from employment by a member of the PepsiCo Group before becoming Transferred Individuals (including Liabilities under PepsiCo Plans and TRICON Plans); (ii) all other Liabilities to or relating to Transferred Individuals and other employees or former employees of a member of the TRICON Group, and their dependents and beneficiaries, to the extent relating to, arising out of or resulting from future, present or former employment with a member of the TRICON Group (including Liabilities under PepsiCo Plans and TRICON Plans); (iii) all Liabilities relating to, arising out of, or resulting from any other actual or alleged employment relationship with the TRICON Group; (iv) all Liabilities under any Individual Agreements relating to Transferred Individuals; and (v) all other Liabilities relating to, arising out of, or resulting from obligations, liabilities, and responsibilities expressly assumed or retained by a member of the TRICON Group, or a TRICON Plan pursuant to this Agreement. TRICON shall have assumed all such Liabilities described in this Agreement, unless the Liability is explicitly retained in writing by PepsiCo or excluded in writing by PepsiCo from those being assumed by TRICON.

2.2 TRICON PARTICIPATION IN PEPSICO PLANS

(a) Participation in PepsiCo Plans and PepsiCo Restaurant Health and Welfare Plans

Subject to the terms and conditions of this Agreement, each member of the TRICON Group that is, as of the date of this Agreement, a Participating Company in any of the PepsiCo Plans or the PepsiCo Restaurant Health and Welfare Plans shall continue as such through the Close of the Distribution Date. Effective as of any date before the Distribution Date, a member of the TRICON Group not described in the preceding sentence may, at its request and with the consent of PepsiCo (which shall not be unreasonably withheld), become a Participating Company in any or all of the PepsiCo Plans (applicable to Transferred Individuals) or PepsiCo Restaurant Health and Welfare Plans.

(b) PepsiCo's General Obligations as Plan Sponsor

PepsiCo shall continue through the Close of the Distribution Date to administer, or cause to be administered, in accordance with their terms and applicable law, the PepsiCo Plans and the PepsiCo Restaurant Health and Welfare Plans; provided, however, that effective September 1, 1997 through the Close of the Distribution Date (unless PepsiCo directs otherwise, in its sole discretion), TRICON shall be responsible, subject to the direction and control of PepsiCo, for administering, or causing to be administered, in accordance with their terms and applicable law, the PepsiCo Restaurant Health and Welfare Plans and such portion of the PepsiCo Plans as PepsiCo shall determine in its sole discretion. Through the Close of the Distribution Date, PepsiCo shall have the sole discretion and authority to interpret the PepsiCo Plans and the PepsiCo Restaurant Health and Welfare Plans as set forth therein.

(c) TRICON's General Obligations as Participating Company

TRICON shall perform with respect to its participation in the PepsiCo Plans and PepsiCo Restaurant Health and Welfare Plans, and shall cause each other member of the TRICON Group that is a Participating Company in any PepsiCo Plan or PepsiCo Restaurant Health and Welfare Plan to perform the duties of a Participating Company as set forth in such Plans or any procedures adopted pursuant thereto, including: (i) assisting in the administration of claims, to the extent requested by the claims administrator or plan administrator of the applicable PepsiCo Plan or PepsiCo Restaurant Health and Welfare Plan; (ii) cooperating fully with PepsiCo Plan or PepsiCo Restaurant Health and Welfare Plan auditors, benefit personnel and benefit vendors; (iii) preserving the confidentiality of all financial arrangements PepsiCo has or may have with any vendors, claims administrators, trustees or any other entity or individual with whom PepsiCo has entered into an agreement relating to the PepsiCo Plans or PepsiCo Restaurant Health and Welfare Plans; and (iv) preserving the confidentiality of participant health information (including health information in relation to leaves under the Family and Medical Leave Act of 1993, as amended).

(d) Termination of Participating Company Status

Effective as of the Close of the Distribution Date, TRICON and each other member of the TRICON Group shall cease to be a Participating Company in the PepsiCo Plans.

2.3 ESTABLISHMENT OF TRICON PLANS

Effective Immediately after the Distribution Date, unless otherwise provided, TRICON shall have adopted, or shall have caused to be adopted, before the Close of the Distribution Date, the TRICON Pension Plan, the TRICON Pension Equalization Plan, the TRICON Savings Plan, the TRICON SharePower Plan, the TRICON Stock Purchase Plan, and the TRICON Executive Programs for the benefit of Transferred Individuals and other current, future, and former employees of the TRICON Group. Before the Close of the Distribution Date, to the extent that it has not

already occurred, TRICON shall have adopted, or shall have caused to be adopted, effective Immediately after the Distribution Date, the TRICON Health and Welfare Plans listed in the second part of Appendix B to this Agreement, and it shall substitute itself or another member of the TRICON Group as the plan sponsor and administrator of the TRICON Health and Welfare Plans. In the context of TRICON's adoption of the TRICON Health and Welfare Plans, TRICON shall also take such steps as may be necessary to adopt and shall assume all Liabilities with respect to the PepsiCo Restaurant Health and Welfare Plans and those plans and programs under the PepsiCo Health and Welfare Plans in which Transferred Individuals participate as of the Close of the Distribution Date. TRICON shall convert such PepsiCo Restaurant Health and Welfare Plan, along with any PepsiCo Health and Welfare Plans in which Transferred Individuals participate as of the Close of the Distribution Date, to TRICON Health and Welfare Plans effective Immediately after the Distribution Date. Except for the TRICON Stock Option Incentive Plan, the TRICON Long-Term Incentive Plan, the TRICON SharePower Plan, and the TRICON Stock Purchase Plan, the foregoing TRICON Plans as in effect Immediately after the Distribution Date shall be substantially identical in all Material Features to the corresponding PepsiCo Plans as in effect as of the Close of the Distribution Date. The TRICON Stock Option Incentive Plan, the TRICON Long-Term Incentive Plan, the TRICON SharePower Plan, and the TRICON Stock Purchase Plan shall be adopted by TRICON and approved by PepsiCo as sole shareholder of TRICON, before the Close of the Distribution Date, to become effective Immediately after the Distribution Date.

2.4 TERMS OF PARTICIPATION BY TRANSFERRED INDIVIDUALS

The TRICON Plans shall be, with respect to Transferred Individuals, in all respects the successors in interest to, shall recognize all rights and entitlements as of the Close of the Distribution Date under, and shall not provide benefits that duplicate benefits provided by, the corresponding PepsiCo Plans for such Transferred Individuals. PepsiCo and TRICON shall agree on methods and procedures, including amending the respective Plan documents, to prevent Transferred Individuals from receiving duplicative benefits from the PepsiCo Plans and the TRICON Plans. TRICON shall not permit any TRICON Plan to commence benefit payments to any Transferred Individual until it receives notice from PepsiCo regarding the date on which payments under the corresponding PepsiCo Plan shall cease. With respect to Transferred Individuals, each TRICON Plan shall provide that all service, all compensation, and all other benefit-affecting determinations that, as of the Close of the Distribution Date, were recognized under the corresponding PepsiCo Plan (including the PepsiCo Restaurant Health and Welfare Plans) (for periods immediately before the Close of the Distribution Date) shall, as of Immediately after the Distribution Date, receive full recognition, credit, and validity and be taken into account under such TRICON Plan to the same extent as if such items occurred under such TRICON Plan, except to the extent that duplication of benefits would result. The provisions of this Agreement for the transfer of assets from certain trusts relating to PepsiCo Plans (including Foreign Plans) to the corresponding trusts relating to TRICON Plans (including Foreign Plans) are based upon the understanding of the parties that each such TRICON Plan will assume all Liabilities of the corresponding PepsiCo Plan to or relating to Transferred Individuals, as provided for herein. If there are any legal or other authoritative reasons that any such Liabilities are not effectively assumed by the appropriate TRICON Plan, then the amount of assets transferred to the trust relating to such TRICON Plan from the trust relating to the corresponding PepsiCo Plan shall be recomputed, ab initio, as set forth below but taking into account the retention of such Liabilities by such PepsiCo Plan, and assets shall be transferred by the trust relating to such TRICON Plan to the trust relating to such PepsiCo Plan so as to place each such trust in the position it would have been in, had the initial asset transfer been made in accordance with such recomputed amount of assets.

2.5 RESTRICTION ON PLAN AMENDMENTS

During the Transition Period, neither PepsiCo nor TRICON shall adopt any amendment, or allow any amendment to be adopted, to any of their respective Pension Plans or Savings Plans that, in the opinion of counsel acceptable to both PepsiCo and TRICON, would violate Code Sec. 411(d)(6) or that would create an optional form of benefit subject to Code Sec. 411(d)(6). During the Transition Period, TRICON shall not eliminate any investment option available under the TRICON Savings Plan as of Immediately after the Distribution Date.

ARTICLE

DEFINED BENEFIT PLANS

3.1 ESTABLISHMENT OF MIRROR PENSION TRUSTS

Effective Immediately after the Distribution Date, TRICON shall establish, or cause to be established, the TRICON Master Trust which shall be qualified under Code Sec. 401(a), exempt from taxation under Code Sec. 501(a)(1), and forming part of the TRICON Pension Plan and the Pizza Hut Pension Plan.

3.2 PIZZA HUT PENSION PLANS

TRICON shall continue to be responsible for all Liabilities relating to the Pizza Hut Pension Plan. Effective no later than the Close of the Distribution Date, TRICON shall substitute itself or another member of the TRICON Group for PepsiCo as the plan sponsor and administrator of the Pizza Hut Pension Plan.

3.3 ASSUMPTION OF PENSION PLAN AND PENSION EQUALIZATION PLAN LIABILITIES AND ALLOCATION OF INTERESTS IN THE PEPSICO PENSION TRUST

(a) Assumption of Liabilities by TRICON Pension Plan

Immediately after the Distribution Date all Liabilities to or relating to Transferred Individuals under the PepsiCo Pension Plan and the PepsiCo Pension Equalization Plan shall cease to be Liabilities of the PepsiCo Pension Plan and the PepsiCo Pension Equalization Plan, as applicable, and shall be assumed in full and in all respects by the TRICON Pension Plan and the TRICON Pension Equalization Plan, respectively.

(b) Asset Allocations and Transfers

(1) Calculation of Pension Plan Asset Allocation

(A) As soon as practicable after the Close of the Distribution Date, PepsiCo shall cause to be calculated the 414(l)(1) Amount for the PepsiCo Pension Plan and the TRICON Pension Plan as of the Close of the Distribution Date. The assumptions used in determining the 414(l)(1) Amount for each Pension Plan shall be as follows:

(i) As if each plan were terminating as of the Close of the Distribution Date and with 100% of participants who are active employees, employees on leave of absence, or former employees with rights to a future deferred vested pension assumed to elect a lump sum distribution of the value of the pension benefit accrued as of the Close of the Distribution Date.

(ii) For purposes of calculating the lump sum present value, mortality rates shall be based on the applicable mortality table under Code Sec. 417(e)(3)(A)(ii)(I) as specified in Rev. Rul. 95-6 and interest calculated based on the annual rate of interest on 30-year Treasury securities for the second month preceding the month of the Close of the Distribution Date.

(iii) For retired participants or former employees receiving benefits as of the Close of the Distribution Date, the lump sum present value of the form of benefit currently elected shall be valued in the same manner and using the same assumptions as in (i) and (ii) above. For active participants who are eligible to retire as of the Close of the Distribution Date, the lump sum benefit shall be based on the accrued benefit payable at the current age reflecting appropriate early retirement reductions under the plan. For all other participants, the lump sum value is the present value of the accrued benefit commencing at normal retirement age. Early retirement subsidies shall be considered only for those participants who are retired or eligible to retire as of the Close of the Distribution Date.

(B) If the aggregate amount of the assets of the PepsiCo Pension Plan, determined as of the Close of the Distribution Date, is not less than the sum of the 414(l)(1) Amounts for the PepsiCo Pension Plan and the TRICON Pension Plan determined in accordance with (A) above, then such assets shall be allocated between the PepsiCo Pension Plan and the TRICON Pension Plan in proportion to the 414(l)(1) Amounts of each plan.

(C) If the aggregate amount of the assets of the PepsiCo Pension Plan, determined as of the Close of the Distribution Date is less than the sum of the 414(l)(1) Amounts for the PepsiCo Pension Plan and the TRICON Pension Plan, then such assets shall be allocated between the PepsiCo Pension Plan and the TRICON Pension Plan proportionately to each priority category as specified under ERISA Sec. 4044, using the assumptions specified in (A) above.

(2) Transfer of Assets to TRICON Pension Trusts

Effective Immediately after the Distribution Date, PepsiCo shall cause to be transferred from the PepsiCo Master Trust to the TRICON Master Trust an initial amount of assets in cash ("the Initial Asset Transfer"). The amount of the Initial Asset Transfer shall be an estimate, determined by PepsiCo in its sole discretion, of the cash required by the TRICON Pension Plan and Pizza Hut Pension Plan to make payment of benefits and appropriate expenses from the TRICON Master Trust in accordance with the plans from Immediately after the Distribution Date to the time of the Bulk Asset Transfer, described below. In the event that the Initial Asset Transfer provides insufficient cash for this purpose and upon TRICON's written request therefor, PepsiCo will cause to be transferred other amounts of assets in cash ("Subsequent Asset Transfer"), but only to the extent required to make cash payments as described above.

As soon as practicable after the calculation of each plan's interest in the Master Trust pursuant to Section 3.2(b)(1), but in no event before PepsiCo (or its authorized representative) determines that the calculation and the data on which it is based are acceptably complete, accurate, and consistent, PepsiCo will cause the appropriate amount of assets to be transferred from the PepsiCo Master Trust to the TRICON Master Trust (the "Bulk Asset Transfer"). The amount of assets to be transferred in the Bulk Asset Transfer shall be equal to the aggregate of interests of the TRICON Pension Plan determined pursuant to Section 3.2(b)(1) and the Pizza Hut Pension Plan, adjusted by PepsiCo as of the date of the Bulk Asset Transfer to the extent necessary or appropriate to reasonably and appropriately reflect additional pension contributions, actual investment gains and losses experienced in the PepsiCo Master Trust, benefit payments, expenses, the Initial Asset Transfer, Subsequent Asset Transfers, data corrections, enhancements, and computational refinements from Immediately after the Distribution Date through the date of the actual asset transfer of such assets.

The specific assets to be transferred from the PepsiCo Master Trust to the TRICON Master Trust in the Bulk Asset Transfer shall represent a reasonable cross-section of the asset classes in the PepsiCo Master Trust consistent with the objective of enabling TRICON to implement an investment program for the TRICON Master Trust, but in no event shall PepsiCo or the PepsiCo Master Trust be required to incur unreasonable transaction costs in the process of transferring assets and subsequently re-balancing the investment portfolio held by the PepsiCo Master Trust. Furthermore, PepsiCo shall not transfer any shares of PepsiCo or TRICON stock or any interests in group annuity contracts held by the PepsiCo Master Trust unless specifically requested by TRICON in writing, and PepsiCo shall not be required to transfer any specific asset, any portion of any specific fund or investment manager account, or any specific portion of any specific asset, fund or investment manager account. In transferring specific assets, PepsiCo makes no representation as to the appropriateness of the resulting asset allocation or investment performance resulting from the specific assets transferred. By accepting the assets transferred, TRICON acknowledges that it and not PepsiCo is serving as the fiduciary for the TRICON Master Trust with respect to the determination and actual transfer of assets from the PepsiCo Master Trust and that, acting as fiduciary for the TRICON Pension Plan and Pizza Hut Pension Plan, TRICON further acknowledges that it is able to change the asset allocation as it deems appropriate at any time. Once the assets have been transferred to and received by the TRICON Master Trust, such event shall fully and finally foreclose any issue or matter of any nature whatsoever by TRICON, the TRICON Master Trust, the TRICON Pension Plan, and the Pizza Hut Pension Plan or any other trust(s) related to such plans against PepsiCo, the PepsiCo Master Trust, the PepsiCo Pension Plan, or any other trust(s) related to such plans relating to the condition, identity, or value of such assets and TRICON shall fully indemnify PepsiCo, its employees, officers, directors, and the PepsiCo Pension Plan and the PepsiCo Master Trust regarding any Liability or regulatory issue of any nature with respect thereto.

3.4 ACTION IN EVENT OF PBGC INTERVENTION

Notwithstanding any provision of this Agreement to the contrary, in the event that at any time the Pension Benefit Guaranty Corporation ("PBGC") asserts that the Distribution may provide justification for PBGC to seek termination of the PepsiCo Pension Plan pursuant to ERISA Sec. 4042 or otherwise asserts that the transaction may increase unreasonably the long-run loss to the PBGC (within the meaning of ERISA Sec. 4042(a)(4)) with respect to the PepsiCo Pension Plan, PepsiCo may, in its sole discretion (i) retain all assets and Liabilities with respect to Transferred Individuals and Transition Individuals under the PepsiCo Pension Plan and/or the PepsiCo Pension Equalization Plan and require TRICON to provide equivalent benefits under plans maintained by it with an offset for any benefits continued to be provided under the PepsiCo Pension Plan and/or the PepsiCo Pension Equalization Plan, (ii) enter into negotiations with the PBGC to resolve these issues and, upon satisfactorily resolving such issues, TRICON shall fully comply with the terms of this Article; or (iii) reach such other agreement as may be satisfactory to PepsiCo and TRICON. In any case and notwithstanding any other provision of this Agreement, TRICON shall be fully responsible and liable for any obligation to, agreement with, or undertaking (on behalf of or relating to the TRICON Pension Plan) to the PBGC and shall hold PepsiCo free from and fully indemnify it against any such obligation, agreement, or undertaking. For purposes of this Section 3.4, reference to the PepsiCo Pension or the TRICON Pension Plan, as applicable, shall mean and include the Pizza Hut Pension Plan. If PepsiCo retains any liability of any Transferred Individual under the PepsiCo Pension Equalization Plan, TRICON shall fully reimburse PepsiCo for the full costs of, and any administrative expenses relating to, any such liability.

ARTICLE

DEFINED CONTRIBUTION PLANS

4.1 SAVINGS PLAN

(a) Savings Plan Trust

Effective Immediately after the Distribution Date, TRICON shall establish, or cause to be established, a trust qualified under Code Sec. 401(a), exempt from taxation under Code Sec. 501(a)(1), and forming part of the TRICON Savings Plan.

(b) Assumption of Liabilities and Transfer of Assets

Effective Immediately after the Distribution Date: (i) the TRICON Savings Plan shall assume and be solely responsible for all Liabilities (including any amounts attributable to additional contributions with respect to Transferred Individuals required pursuant to negotiations with the Internal Revenue Service that began before the Distribution Date) to or relating to Transferred Individuals under the PepsiCo Savings Plan; (ii) the TRICON Savings Plan shall assume and be solely responsible for all ongoing rights of or relating to Transferred Individuals for future participation (including the right to make contributions through payroll deductions) in the TRICON Savings Plan; and (iii) PepsiCo shall cause the accounts of the Transferred Individuals under the PepsiCo Savings Plan which are held by its related trust as of the Close of the Distribution Date to be transferred to the TRICON Savings Plan and its related trust, and TRICON shall cause such transferred accounts to be accepted by such plan and trust. Effective no later than Immediately after the Distribution Date, TRICON shall use its reasonable best efforts to enter into such agreements to accomplish such assumptions and transfers, the maintenance of the necessary participant records, the appointment of State Street Bank and Trust Company as initial trustee under the TRICON Savings Plan, and the engagement of State Street Bank and Trust Company as initial recordkeeper under such plans. As soon as practicable after the Close of the Distribution Date, assets related to the accounts of all Transferred Individuals shall be transferred from the PepsiCo Savings Plan to the TRICON Savings Plan in cash or in kind, at PepsiCo's discretion, and to the extent practicable, shall be invested in comparable investment options in the TRICON Savings Plan as such accounts were invested immediately before the Close of the Distribution Date.

(c) Non-Employer Stock Funds

Effective Immediately after the Distribution Date, a TRICON common stock fund shall be added as an investment option to the PepsiCo Savings Plan and the TRICON Savings Plan shall provide for both a PepsiCo capital stock fund and a TRICON common stock fund as investment options. The TRICON common stock fund in the PepsiCo Savings Plan and the PepsiCo capital stock fund in the TRICON Savings Plan are each referred to as a "Non-Employer Stock Fund" with respect to the applicable plan. Each Non-Employer Stock Fund shall be maintained under the respective Plan at least through December 31, 1998. The PepsiCo Savings Plan and the TRICON Savings Plan shall each provide that, after the Distribution Date, no new contributions may be invested in, and no amounts may be transferred from other investment options to the Non-Employer Stock Fund under the respective Plan. The PepsiCo Savings Plan shall provide that no earnings or dividends under its Non-Employer Stock Fund may be reinvested in TRICON Common Stock and the TRICON Savings Plan shall provide that no earnings or dividends under its Non-Employer Stock Fund may be reinvested in PepsiCo Capital Stock.

(d) Miscellaneous Funds

In the event that PepsiCo determines that it is not feasible or appropriate to transfer in-kind the assets of a particular investment fund from the PepsiCo Savings Plan to the TRICON Savings Plan, then the value of the assets, as of the close of business on the Distribution Date (plus earnings attributable to such amount from the Distribution Date to the date the assets are actually transferred) shall be transferred in cash to the TRICON Savings Plan and TRICON shall invest such cash in its plan and trust in the same manner and proportion as it was invested in the PepsiCo Savings Plan or otherwise at the direction of each affected participant.

4.2 ESOP

At PepsiCo's election and as soon as reasonably practicable after the Distribution Date with respect to Transferred Individuals and Transition Individuals, after transfer to TRICON, the accounts of all Transferred Individuals and Transition Individuals (described in Section 1.1(ddd)(2) or (3)) shall either be (i) retained under the PepsiCo Employee Stock Ownership Plan and such individuals shall not be considered to have terminated service for any purposes under the Plan, or (ii) shall be transferred to the TRICON Savings Plan and invested in the PepsiCo or TRICON stock funds, as applicable, under the TRICON Savings Plan or, if such is not possible, in such fund or funds as otherwise determined by TRICON or, at TRICON's election, as directed by each such Transferred Individual or Transition Individual, respectively. If the accounts of Transferred Individuals and Transition Individuals are retained under the PepsiCo Employee Stock Ownership Plan, TRICON will undertake to inform PepsiCo of any change in employment status or any relevant information about TRICON employees who have balances in the PepsiCo Employee Stock Ownership Plan.

ARTICLE

HEALTH AND WELFARE PLANS

5.1 ASSUMPTION OF HEALTH AND WELFARE PLAN LIABILITIES

Immediately after the Distribution Date, all Liabilities for or relating to Transferred Individuals under the PepsiCo Health and Welfare Plans, PepsiCo Restaurant Health and Welfare Plans or TRICON Health and Welfare Plans shall cease to be Liabilities of PepsiCo or the PepsiCo Plans and shall be assumed by TRICON and the TRICON Health and Welfare Plans. Thus, TRICON shall be responsible for all Liabilities that pertain to Transferred Individuals, including all reported claims that are unpaid, all incurred but not reported claims as of the Close of the Distribution Date, and all future claims that pertain to Transferred Individuals under the PepsiCo Health and Welfare Plans, PepsiCo Restaurant Health and Welfare Plans and the TRICON Health and Welfare Plans. TRICON shall be required to make all payments due or payable to Transferred Individuals under the TRICON Health and Welfare Plans for the period beginning Immediately after the Distribution Date, including incurred but not reported claims. All treatments which have been pre-certified for or are being provided to a Transferred Individual as of the Close of the Distribution Date shall continue to be provided without interruption under the appropriate TRICON Health and Welfare Plan and TRICON shall continue to be responsible for all Liabilities relating to, arising out of, or resulting from such on-going treatments as of the Close of the Distribution Date. Unless otherwise specifically set forth in writing, TRICON shall not be entitled to assets associated with any PepsiCo Health and Welfare Plan, PepsiCo Restaurant Health and Welfare Plan, or TRICON Health and Welfare Plan including, but not limited to, premium stabilization reserves, contract or plan surpluses, any other reserve, prior inter-company assessments or premiums, any prior per-capita inter-company rate payments, reimbursement for charges or premiums previously collected or any other payment or credit, of any nature whatsoever, from PepsiCo, any trust associated with any plan or program or from any third-party vendor.

5.2 ESTABLISHMENT OF MIRROR LTD VEBA

On or before the Distribution Date, TRICON shall establish, or cause to be established, the TRICON LTD VEBA, for the purpose of funding long-term disability benefits under the TRICON Health and Welfare Plans. Such trust shall constitute a voluntary employees' beneficiary association under Code Sec.501(c)(9) which is exempt from the imposition of federal income tax under Code Sec.501(a).

5.3 LTD VEBA ASSET TRANSFERS

This Section 5.3 shall govern the transfer of assets from the PepsiCo LTD VEBA to the TRICON LTD VEBA. As soon as practicable after the Close of the Distribution Date, PepsiCo shall determine the aggregate present value, as of the Close of the Distribution Date, of the future benefit obligations of each PepsiCo Plan funded by the PepsiCo LTD VEBA (separately with respect to Transferred Individuals who are eligible to receive benefits under the PepsiCo LTD VEBA as of the Close of the Distribution Date, and with respect to other individuals who are not Transferred Individuals who are eligible for such benefits). The future benefit obligations will be determined by the actuary appointed by PepsiCo, for purposes of providing necessary actuarial services for the PepsiCo LTD VEBA, in the following manner: the disabled life reserve (exclusive of the incurred but not reported ("IBNR") reserve) will be calculated as of the Close of the Distribution Date using September 1, 1997 census information requested from the third-party administrator (Aetna). The reserve for the lives that will be transferred to TRICON will be calculated separately. The actuarial basis for the disabled life reserve will be calculated using the following assumptions: interest at 7% compounded annually; termination of disability based on rates of recovery and mortality developed from the 1975 study of the Society of Actuaries of experience under Group LTD policies for durations of disablement of three years or less. For durations of disablement in excess of three years, assumed terminations are based on a modification of the 1952 Disability Study. As soon as practicable after such determination is made, there shall be transferred from the PepsiCo LTD VEBA to the TRICON LTD VEBA an amount having a fair market value on the date of transfer equal to the amount calculated as $[(A)/(B)] \times (C)$, where "(A)" is the disabled life reserve as of the Close of the Distribution Date for the lives that will be transferred to TRICON using September 1, 1997 census information; "(B)" is the disabled life reserve for all lives under the PepsiCo LTD VEBA as of the Close of the Distribution Date using September 1, 1997 census information; and "(C)" is the market value of the PepsiCo LTD VEBA assets on the date of transfer. PepsiCo shall direct the trustee of the PepsiCo LTD VEBA to transfer cash to the trustee of the TRICON LTD VEBA in the amount determined above and TRICON shall direct the trustee of the TRICON LTD VEBA to accept such cash transfer.

5.4 CONTRIBUTIONS TO, INVESTMENTS OF, AND DISTRIBUTIONS FROM VEBAS

Before the Close of the Distribution Date, PepsiCo shall have sole authority to direct the trustee of the PepsiCo LTD VEBA, and any other VEBA sponsored by PepsiCo, as to the timing and manner of any contributions, if any, to the PepsiCo LTD VEBA, and any other VEBA sponsored by PepsiCo, the investment of any trust assets, and the distributions and/or transfers of trust assets to PepsiCo, TRICON, any Participating Company in the trusts, any paying agent, any successor trustee, or any other Person.

5.5 VENDOR CONTRACTS

(a) ASO Contracts, Group Insurance Policies, HMO Agreements and Letters of Understanding

(1) Before the Distribution Date, PepsiCo shall, in its sole discretion, take such steps as are necessary under each ASO Contract, Group

Insurance Policy, HMO Agreement and letters of understanding and arrangements in existence as of the date of this Agreement to permit TRICON to participate in the terms and conditions of such ASO Contract, Group Insurance Policy, HMO Agreement or letters of understanding and arrangements from Immediately after the Distribution Date through December 31, 1998. PepsiCo, in its sole discretion, may cause one or more of its ASO Contracts, Group Insurance Policies, HMO Agreements and letters of understanding and arrangements into which PepsiCo enters after the date of this Agreement, but before the Close of the Distribution Date, to allow TRICON to participate in the terms and conditions thereof. Nothing contained in this Section 5.5(a) shall preclude PepsiCo from choosing to enter into ASO Contracts, Group Insurance Policies, HMO Agreements or other letters of understandings and arrangements with new or different vendors.

(2) PepsiCo shall have the right to determine, and shall promptly notify TRICON of, the manner in which TRICON's participation in the terms and conditions of ASO Contracts, Group Insurance Policies, HMO Agreements, letters of understanding and arrangements as set forth above shall be effectuated. The permissible ways in which TRICON's participation may be effectuated include, but are not limited to, automatically making TRICON a party to the ASO Contracts, Group Insurance Policies, HMO Agreement or letters of understanding and arrangements or obligating the third party to enter into a separate ASO Contract, Group Insurance Policy, or HMO Agreement or letters of understanding and arrangements with TRICON providing (to the extent practicable and agreeable to such third party) for the same terms and conditions as are contained in the ASO Contracts, Group Insurance Policies, HMO Agreements and letters of understanding and arrangements to which PepsiCo is a party. Such terms and conditions shall include the financial and termination provisions, performance standards, methodology, auditing policies, quality measures, reporting requirements and target claims. TRICON hereby authorizes PepsiCo to act on its behalf to extend to TRICON the terms and conditions of the ASO Contracts, Group Insurance Policies, HMO Agreements and letters of understanding and arrangements. TRICON shall fully cooperate with PepsiCo in such efforts, and, for periods through December 31, 1998, TRICON shall not perform any act, including discussing any alternative arrangements with any third party, that would prejudice PepsiCo's efforts.

(b) Effect of Change in Rates

PepsiCo and TRICON shall use their reasonable best efforts to cause each of the insurance companies, HMOs, paid provider organizations and third-party administrators providing services and benefits under the PepsiCo Health and Welfare Plans and the TRICON Health and Welfare Plans to maintain the premium and/or administrative rates based on the aggregate number of participants in both the PepsiCo Health and Welfare Plans, after the Close of the Distribution Date, and the TRICON Health and Welfare Plans through December 31, 1998, separately rated or adjusted for the demographics, experience or other relevant factors related to the covered participants of PepsiCo and TRICON, respectively. To the extent they are not successful in such efforts, PepsiCo and TRICON shall each bear the revised premium or administrative rates for health and welfare benefits attributable to the individuals covered by their respective Plans.

(c) Management of the ASO Contracts, Group Insurance Policies, HMO Agreements, Letters of Understanding and other Vendor Contracts

From September 1, 1997 through the Close of the Distribution Date, TRICON shall be responsible, subject to the direction and control of PepsiCo, for the management of the existing contractual and other arrangements pertaining to the administration of the PepsiCo Restaurant Health and Welfare Plans. Immediately after the Distribution Date, TRICON shall be responsible for the management and control of the ASO contracts, Group Insurance Policies, HMO Agreements, letters of understanding, arrangements and other vendor contracts and relationships to the extent such contracts, policies and agreements apply to the TRICON Health and Welfare Plans. Notwithstanding the foregoing, nothing contained in this Section 5.5(c) shall permit TRICON to direct any insurance carrier, third-party vendor or claims administrator with respect to any contractual arrangement, policy or agreement pertaining to or impacting any PepsiCo Health and Welfare Plan.

5.6 PEPSICO SALARY CONTINUATION

PepsiCo shall be responsible for the administration of claims incurred under the PepsiCo Salary Continuation Plan by Transferred Individuals, and other employees and former employees of the TRICON Group before the Close of the Distribution Date; provided, however, that effective September 1, 1997 (unless PepsiCo directs otherwise in its sole discretion), TRICON shall be responsible, subject to the direction and control of PepsiCo, for administering or causing to be administered in accordance with its terms and applicable law, the TRICON Salary Continuation Plan. Any determination made or settlements entered into by PepsiCo with respect to such claims shall be final and binding. PepsiCo shall transfer to TRICON, effective Immediately after the Distribution Date, and TRICON shall assume responsibility for (i) administering all claims incurred by Transferred Individuals and other employees and former employees of the TRICON Group before the Close of the Distribution Date that are administered by PepsiCo as of the Close of the Distribution Date, and (ii) all Liabilities for Transferred Individuals as of the Close of the Distribution Date, in the same manner, and using the same methods and procedures, as PepsiCo used in determining and paying such claims. As of the Close of the Distribution Date, TRICON shall have sole discretionary authority to make any necessary determinations with respect to such claims, including entering into settlements with respect to such claims, and shall be solely responsible for any costs, liabilities or related expenses of any nature whatsoever related to such claims, payments or obligations.

5.7 POSTRETIREMENT HEALTH AND LIFE INSURANCE BENEFITS

As soon as practicable after the Distribution Date, TRICON shall determine all Transferred Individuals who are, to the best knowledge of TRICON, eligible to receive retiree medical coverage and/or postretirement life insurance coverage under the PepsiCo Health and Welfare Plans or PepsiCo Restaurant Health and Welfare Plans as of the Close of the Distribution Date, and the type of retiree medical coverage and the level of life insurance coverage for which they are eligible, as applicable. With respect to Transferred Individuals receiving postretirement health benefits or postretirement life insurance benefits under the PepsiCo Health and Welfare Plans or PepsiCo Restaurant Health and Welfare Plans as of the Close of the Distribution Date, TRICON agrees to provide substantially the same postretirement health and postretirement life insurance benefits Immediately after the Distribution Date. To the extent a claim or cause of action asserted by or on behalf of any Transferred

Individual or any Liabilities arise at any time following the Close of the Distribution Date in connection with such postretirement health or postretirement life insurance benefits, TRICON shall be solely responsible for such Liabilities and shall hold each member of the PepsiCo Group and their respective directors, officers and employees and the PepsiCo Plans harmless for all such Liabilities.

5.8 COBRA AND HIPAA

For periods prior to September 1, 1997, PepsiCo shall be responsible for administering compliance with the continuation coverage requirements for "group health plans" under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and the portability requirements under the Health Insurance Portability and Accountability Act of 1996 with respect to Transferred Individuals and other employees and former employees of the TRICON Group and beneficiaries and dependents thereof and the TRICON Group shall be responsible for filing all necessary employee change notices with respect to these persons in accordance with applicable PepsiCo policies and procedures. Effective September 1, 1997 and thereafter, TRICON shall be solely responsible for administering compliance with such health care continuation coverage and portability requirements with respect to these persons.

5.9 LEAVE OF ABSENCE PROGRAMS

TRICON shall be responsible for the administration and compliance of all leaves of absences and related programs (including compliance with the Family and Medical Leave Act) affecting Transferred Individuals for the period Immediately after the Closing Date.

5.10 PEPSICO WORKERS' COMPENSATION PROGRAM

Notwithstanding any other provision of this Agreement or the Separation Agreement, effective Immediately after the Distribution Date, TRICON shall assume all Liabilities for Transferred Individuals related to any and all workers' compensation matters under any law of any state, territory, or possession of the U.S. or the District of Columbia and TRICON shall be fully responsible for the administration of all such claims. If TRICON is unable to assume any such Liability or the administration of any such claim because of the operation of applicable state law or for any other reason, TRICON shall fully indemnify PepsiCo for all such Liabilities, including the costs of any administration that TRICON has not been able to assume.

5.11 PEPSICO PRIVATE LINE EMPLOYEE ASSISTANCE PROGRAM

Effective Immediately after the Distribution Date, TRICON shall be responsible for the TRICON Private Line Employee Assistance Program which is the employee assistance plan component of the TRICON Employees Health Care Program with respect to Transferred Individuals.

5.12 POST-DISTRIBUTION TRANSITIONAL ARRANGEMENTS

(a) Continuance of Elections, Co-Payments and Maximum Benefits

.....(1) TRICON shall cause the TRICON Health and Welfare Plans to recognize and maintain all coverage and contribution elections made by Transferred Individuals under the PepsiCo Restaurant Health and Welfare Plans in effect for the period immediately prior to the Distribution Date and shall apply such elections under the TRICON Health and Welfare Plans for the remainder of the period or periods for which such elections are by their terms applicable.

.....(2) TRICON shall cause the TRICON Health and Welfare Plans to recognize and give credit for (A) all amounts applied to deductibles, out-of-pocket maximums, and other applicable benefit coverage limits with respect to such expenses which have been incurred by Transferred Individuals under the PepsiCo Restaurant Health and Welfare Plans (or other PepsiCo Plans) for the remainder of the benefit limit year in which the Distribution occurs, and (B) all benefits paid to Transferred Individuals under the PepsiCo Restaurant Health and Welfare Plans, (or other PepsiCo Plans) during and prior to the benefit limit year in which the Distribution occurs, for purposes of determining when such persons have reached their lifetime maximum benefits under the TRICON Health and Welfare Plans.

(3) Subject to Section 5.8, TRICON shall recognize and cover under the TRICON Health and Welfare Plans through December 31, 1998 all eligible populations covered by the PepsiCo Health and Welfare Plans (pertaining to Transferred Individuals) and the PepsiCo Restaurant Health and Welfare Plans on the Close of the Distribution Date (determined under the applicable Plan documents), including term and temporary employees and all categories of part-time employees (which are fully and partially eligible for employer contributions).

(4) TRICON shall (A) provide coverage to Transferred Individuals under the TRICON Health and Welfare Plans without the need to undergo a physical examination or otherwise provide evidence of insurability, and (B) recognize and maintain all irrevocable assignments and elections made by Transferred Individuals in connection with their life insurance coverage under the PepsiCo Restaurant Health and Welfare Plans and any predecessor plans.

(b) Administration

(1) Coordination of Benefits for Spouses and Dependents

Effective as of the first January 1 or change in family status (within the meaning of the Code and applicable regulations) that occurs Immediately after the Distribution Date, TRICON shall cause the TRICON Health and Welfare Plans to permit eligible Transferred Individuals to cover their lawful spouses as dependents if such lawful spouses are active or retired PepsiCo employees (but were not otherwise covered as a dependent under the PepsiCo Restaurant Health and Welfare Plans or other PepsiCo Plans due to their previous status as both employee and dependent of a PepsiCo employee). As of the first January 1 or change in family status (within the meaning of the Code and applicable regulations) that occurs Immediately after the Distribution Date, PepsiCo shall cause the PepsiCo Health and Welfare Plans to permit eligible PepsiCo Group employees to cover their lawful spouses as dependents if such lawful spouses are active or retired TRICON employees. All benefits provided under any such plans to a lawful spouse dependent of the other company's employees shall be coordinated pursuant to the terms and conditions of the applicable PepsiCo and TRICON Plans.

(2) Health Care Financing Administration Data Match

Immediately after the Distribution Date, TRICON shall assume all Liabilities relating to, arising out of or resulting from claims verified by PepsiCo or TRICON under the Health Care Financing Administration data match reports that relate to Transferred Individuals. TRICON and PepsiCo shall share all information necessary to verify Health Care Financing Administration data match reports regarding Transferred Individuals. TRICON shall not change any employee identification numbers assigned by PepsiCo without notifying PepsiCo of the change and the new Employee Identification Number.

(c) Other Post-Distribution Transitional Rules

(1) PepsiCo Reimbursement Plans

To the extent any Transferred Individual contributed to an account under the TRICON Health Care Reimbursement Plan or PepsiCo Dependent Care Reimbursement Plan during the calendar year that includes the Distribution Date, effective as of the Close of the Distribution Date, TRICON shall be solely responsible for the account balances of Transferred Individuals for such calendar year under the TRICON Health Care Reimbursement Plan or TRICON Dependent Care Reimbursement Plan.

(2) Health and Welfare Plans Subrogation Recovery

If TRICON recovers any amounts through subrogation or otherwise for claims incurred by or reimbursed to employees and former employees of the PepsiCo Group and their respective beneficiaries and dependents (other than Transferred Individuals), TRICON shall pay such amounts to PepsiCo.

5.13 APPLICATION OF ARTICLE 5 TO THE TRICON GROUP

Any reference in this Article 5 to "TRICON" shall include a reference to another member of the TRICON Group when and to the extent TRICON has caused the other member of the TRICON Group to (a) become a party to a vendor contract, group insurance contract, HMO agreement, letter of understanding or arrangement associated with a TRICON Health and Welfare Plan, (b) become a self-insured entity for the purposes of one or more TRICON Health and Welfare Plans, (c) assume all or a portion of the Liabilities or administrative responsibilities for benefits which arose before the Close of the Distribution Date under a PepsiCo Restaurant Health and Welfare Plan and which were expressly assumed by TRICON pursuant to this Agreement, or (d) take any other action, extend any coverage, assume any other Liability or fulfill any other responsibility that TRICON would otherwise be required to take under the terms of this Article 5, unless it is clear from the context that the particular reference is not intended to include another member of the TRICON Group. In all such instances in which a reference in this Article 5 to "TRICON" includes a reference to another member of the TRICON Group, TRICON shall be responsible to PepsiCo for ensuring that the other member of the TRICON Group complies with the applicable terms of this Agreement and the Transferred Individuals allocated to such member of the TRICON Group shall have the same rights and entitlements to benefits under the applicable TRICON Health and Welfare Plans that the Transferred Individual would have had if he or she had instead been allocated to TRICON.

ARTICLE

6

EXECUTIVE PROGRAMS

6.1 ASSUMPTION OF OBLIGATIONS

Effective Immediately after the Distribution Date, the TRICON Group shall assume and be solely responsible for all Liabilities to or relating to Transferred Individuals under all PepsiCo Executive Programs. TRICON shall be solely responsible for all such Liabilities notwithstanding any failure by TRICON to complete its obligations under this Article 6.

SHORT-TERM INCENTIVE PLANS

With respect to all Awards that would otherwise be payable under a Short-Term Incentive Plan to Transferred Individuals for the 1997 performance year, TRICON shall be responsible for determining (a) the extent to which established performance criteria have been met, and (b) the payment level for each Transferred Individual for the 1997 performance year, and TRICON shall be solely responsible for paying all such Awards. Nothing contained in this Section 6.2 shall entitle PepsiCo or TRICON to any contributions for any Short-Term Incentive Plan payment made by the other under this Section.

6.3 LONG-TERM INCENTIVE PLAN AND STOCK OPTION INCENTIVE PLAN

PepsiCo and TRICON shall use their reasonable best efforts to take all actions necessary or appropriate so that each outstanding Award granted under any PepsiCo Long-Term Incentive Plan or PepsiCo Stock Option Incentive Plan held by any Transferred Individual shall be converted, as set forth in this Section 6.3, to an Award under the TRICON Long-Term Incentive Plan or TRICON Stock Option Incentive Plan, whichever is applicable, as provided below. References to PepsiCo and its affiliates under the PepsiCo Long-Term Incentive Plan and the PepsiCo Stock Option Incentive Plan shall be amended to refer to TRICON and its affiliates.

The treatment of outstanding Awards described below shall also apply to Transferred Individuals who are compensated under a payroll which is administered outside the 50 United States, its territories and possessions, and the District of Columbia; provided, however, if such treatment is not legally permitted, or results in adverse consequence for PepsiCo or the Transferred Individual, as determined by PepsiCo in its sole discretion, PepsiCo may determine in its sole discretion, a different treatment.

(a) Transferred Individuals Who Are Active Employees of TRICON

(1) Before 1996 Award Year Stock Options

Effective Immediately after the Distribution Date, each Award or grant consisting of an option based on or included in an award year before 1996, regardless of the date granted, that is outstanding under the PepsiCo Stock Option Incentive Plan or PepsiCo Long-Term Incentive Plan as of the Close of the Distribution Date for Transferred Individuals shall continue to be held as an option for PepsiCo Capital Stock. At PepsiCo's election, such Award or grant shall either (i) remain, and recordkeeping accounts shall be maintained, under the PepsiCo Stock Option Incentive Plan or PepsiCo Long-Term Incentive Plan, whichever is applicable, after the Distribution Date and, at PepsiCo's further election, TRICON shall be fully responsible for administering and providing for the recordkeeping for such PepsiCo options under the PepsiCo Stock Option Incentive Plan or PepsiCo Long-Term Incentive Plan in a manner consistent with provisions of such plans, or (ii) be held and treated, and recordkeeping accounts shall be maintained by TRICON, under the TRICON Stock Option Incentive Plan or TRICON Long-Term Incentive Plan. As soon as practicable after the Distribution Date, the number of options and the exercise price for such options which shall continue to be held as options for PepsiCo Capital Stock shall be adjusted, as of the Close of the Distribution Date, by a Conversion Formula. The determination of which company shall be entitled to any tax deduction and any other treatment related to any such tax deduction (federal and state) with respect to the exercise of such PepsiCo stock options shall be made in accordance with applicable provisions of the Tax Separation Agreement. TRICON shall be solely responsible for all recordkeeping, plan maintenance and administrative costs and fees associated with such PepsiCo options.

(2) 1996 or Later Award Year Stock Options

Effective Immediately after the Distribution Date, each Award or grant consisting of an option based on or included in an award year of 1996, regardless of the date of the grant, under the PepsiCo Long-Term Incentive Plan or PepsiCo Stock Option Incentive Plan that is outstanding as of the Close of the Distribution Date for all such Transferred Individuals shall be converted to options for TRICON Common Stock under the TRICON Long-Term Incentive Plan or TRICON Stock Option Incentive Plan, whichever is applicable, and shall be transferred to the recordkeeper of the TRICON Long-Term Incentive Plan or TRICON Stock Option Incentive Plan, as appropriate. As soon as practicable after the Distribution Date, the number of options and the exercise price for such options converted to options for TRICON Common Stock shall be determined, as of the Close of the Distribution Date, in accordance with a Conversion Formula. Such converted TRICON stock option grants shall continue to vest and become exercisable under the TRICON Stock Option Incentive Plan or TRICON Long-Term Incentive Plan in accordance with the terms of the original grant under the PepsiCo Stock Option Incentive Plan or PepsiCo Long-Term Incentive Plan, whichever is applicable. TRICON shall be the obligor with respect to such options. TRICON shall be solely responsible for all stock option

grants and payments under the TRICON Stock Option Incentive Plan or TRICON Long-Term Incentive Plan, with respect to, but not limited to, recordkeeping, administrative costs and fees, plan maintenance, option exercise and related tax filings.

(3) Performance Units

..... (i) 1994 Award Year

PepsiCo shall cause each Award under the PepsiCo Long-Term Incentive Plan consisting of PepsiCo performance unit awards based on the 1994 award year that is (A) outstanding as of the Close of the Distribution Date, and (B) is held by a Transferred Individual who, as of the Distribution Date, is an active employee of, or on leave of absence from, the TRICON Group, to remain an outstanding Award under the PepsiCo Long-Term Incentive Plan under its original terms and conditions; provided, however, that (i) Transferred Individuals shall not be deemed to have terminated employment under the PepsiCo Long-Term Incentive Plan until such time as they have terminated employment from TRICON, and (ii) PepsiCo, in its sole discretion, shall determine the administration and related recordkeeping with respect to Awards for Transferred Individuals, including transfer of all related recordkeeping and administration to TRICON. Notwithstanding the foregoing, for purposes of determining whether any performance unit targets have been attained for Awards from the 1994 award year, performance shall be measured based on the consolidated performance of PepsiCo and TRICON for the 1994 through 1997 performance period. TRICON agrees to furnish PepsiCo with such data and information as may be necessary for PepsiCo to determine consolidated performance results for the applicable performance period and PepsiCo, in its sole discretion, shall determine whether and to what extent performance criteria or targets have been attained.

(ii) 1996 Award Year

To the extent a Transferred Individual has an Award under the PepsiCo Long-Term Incentive Plan consisting of PepsiCo performance units from the 1996 award year or later that is (A) outstanding as of the Close of the Distribution Date, and (B) held by a Transferred Individual who, as of the Distribution Date, is an active employee of, or on leave of absence from, the TRICON Group, TRICON agrees to assume such Award under the TRICON Long-Term Incentive Plan, effective Immediately after the Distribution Date. The number of TRICON performance units shall be adjusted as determined by PepsiCo in its sole discretion. Each such Award assumed by TRICON shall otherwise have the same terms and conditions as were applicable to the corresponding PepsiCo Award as of the Close of the Distribution Date, except that references to PepsiCo and its affiliates shall be amended to refer to TRICON and its affiliates. For purposes of determining whether a performance unit target has been attained for the 1996 award year and any subsequent year Awards, TRICON shall be required to measure its performance period based solely on TRICON's performance and PepsiCo shall have no responsibility, financial or otherwise, to Transferred Individuals for these 1996 or later Awards. To the extent any Award of performance units has been assumed by TRICON, any shares distributable by reason of such Awards shall be in the form of TRICON Common Stock. TRICON shall be solely responsible for all such Liabilities notwithstanding any failure by TRICON to complete its obligations under this Article 6.

(b) Transferred Individuals Who Are Not Active Employees of TRICON

Each outstanding Award under the PepsiCo Long-Term Incentive Plan and each grant under the PepsiCo Stock Option Incentive Plan that is held by a Transferred Individual who, as of the Close of the Distribution Date, is not an active employee of, or on leave of absence from, the TRICON Group shall remain outstanding Immediately after the Distribution Date in accordance with its terms as applicable as of the Close of the Distribution Date, subject to such adjustments as may be applicable to outstanding Awards held by individuals who remain active employees of, or on leave of absence from, the PepsiCo Group after the Distribution Date.

6.4 DEFERRAL PROGRAMS

(a) PepsiCo Executive Income Deferral Program

Immediately after the Distribution Date, the liability with respect to the balance of any Transferred Individual in an account under the PepsiCo Executive Income Deferral Program as of the Close of the Distribution Date shall be transferred to the TRICON Executive Income Deferral Program. TRICON agrees to maintain and administer the TRICON Executive Income Deferral Program (1) so as to continue all elections by Transferred Individuals under the PepsiCo Executive Income Deferral Program, and (2) in a manner that will ensure that as of the Close of Distribution Date, the investment choices will be the same; provided, however, that TRICON may, in its sole discretion amend, modify or terminate investment alternatives after the Distribution Date. Account balances invested in whole or in part in PepsiCo phantom shares as of the Close of the Distribution Date, shall be converted to investments in phantom shares of PepsiCo and TRICON in a manner consistent with the treatment of employer securities in the PepsiCo Savings Plan and the TRICON Savings Plan, as determined in PepsiCo's sole discretion. After the Close of the Distribution Date, TRICON shall have the right to amend or modify such investment options.

(b) PepsiCo Performance Share Unit Deferral Program

Immediately after the Distribution Date, any obligations or Liabilities with respect to the balance of any Transferred Individual in an account under the PepsiCo Performance Share Unit Deferral Program as of the Close of the Distribution Date shall be transferred to and assumed by the TRICON Performance Share Unit Deferral Program.

TRICON agrees to maintain and continue all elections by Transferred Individuals under the PepsiCo Performance Share Unit Deferral

Program, and to provide, as of the Close of the Distribution Date, the same investment choices as provided by this Program.; provided, however, that deferrals credited to the phantom stock investment account shall be converted to investments in phantom shares of PepsiCo and TRICON in a manner consistent with the treatment of employer securities in the PepsiCo Savings Plan and the TRICON Savings Plan, as determined in PepsiCo's sole discretion. After the Close of the Distribution Date, TRICON shall have the right to amend or modify such investment options.

(c) PepsiCo Option Gains Deferral Program

Effective as of the Close of the Distribution Date, any obligations or Liabilities with respect to the balance of any Transferred Individual under the PepsiCo Option Gains Deferral Program shall be transferred to and assumed by TRICON. TRICON agrees to maintain and administer the current deferrals under the PepsiCo Option Gains Deferral Program, as of the Close of the Distribution Date, so as to maintain and continue all elections by Transferred Individuals under the PepsiCo Option Gains Deferral Program; provided, however, that Transferred Individuals shall not be permitted to defer any gains by reason of the exercise of any option after the Close of the Distribution Date under the PepsiCo Long-Term Incentive Plan and Transferred Individuals shall not be credited with any phantom PepsiCo stock, stock units, or dividend equivalents under the TRICON Option Gains Deferral Program following the Close of the Distribution Date.

6.5 RESTAURANT DEFERRED COMPENSATION PLAN

Effective Immediately after the Distribution Date, TRICON shall have established the TRICON Restaurant Deferred Compensation Plan and shall have assumed all Liabilities under the Restaurant Deferred Compensation Plan. Effective Immediately after the Distribution Date, TRICON shall cause such TRICON Restaurant Deferred Compensation Plan to have the same investment options and phase-out of investment features as TRICON will apply to the TRICON Savings Plan. PepsiCo shall not transfer any assets to TRICON in connection with the Restaurant Deferred Compensation Plan.

6.6 EXECUTIVE LOAN PROGRAM

Effective Immediately after the Distribution Date, TRICON shall assume, accept the assignment of, and be solely responsible for all loans extended to Transferred Individuals under the PepsiCo Executive Loan Program. TRICON agrees to execute such documents as may be necessary to effect the assignment of any outstanding loans and any related security for such loans and agrees to guarantee all such loan repayments to the applicable lender and to hold PepsiCo harmless for any amounts due and owing on such loans with respect to Transferred Individuals.

6.7 STOCK OPTION INCENTIVE PLAN RECORDKEEPING ACCOUNTS

PepsiCo and TRICON shall make their reasonable best efforts to provide accurate, timely information with respect to stock options granted Transferred Individuals under the PepsiCo Stock Option Incentive Plan and PepsiCo Long-Term Incentive Plan and the TRICON Stock Option Incentive Plan and TRICON Long-Term Incentive Plan. Whichever of PepsiCo or TRICON controls, and is responsible for providing, the information to a recordkeeper, may take such action as is necessary to effectuate a correction of any erroneous or inaccurate information provided to the recordkeepers of the TRICON Stock Option Incentive Plan or the TRICON Long-Term Incentive Plan and the PepsiCo Stock Option Incentive Plan or the PepsiCo Long-Term Incentive Plan, respectively. On or after the Close of the Distribution Date, PepsiCo shall be under no obligation to accept any data correction with respect to any TRICON employee's eligibility for stock option grants. TRICON agrees that in the event that any stock option is incorrectly or erroneously exercised under the PepsiCo Stock Option Incentive Plan or the PepsiCo Long-Term Incentive Plan, due to the untimely or inaccurate transmission of data to the recordkeeper of the PepsiCo Stock Option Incentive Plan or the PepsiCo Long-Term Incentive Plan, TRICON shall indemnify PepsiCo and hold PepsiCo and its directors, officers, employees and the Plans harmless for any Liabilities arising as a result of such transaction, including reimbursing PepsiCo for amounts paid to any individual by reason of the improper exercise of an option.

TRICON shall be responsible for the integrity of any data or information that it provides to the recordkeeper of the PepsiCo Stock Option Incentive Plan or the PepsiCo Long-Term Incentive Plan. TRICON agrees to provide to PepsiCo unlimited access to records in its possession which may be relevant to eligibility, vesting, exercise or other aspects of the PepsiCo Stock Option Incentive Plan or the PepsiCo Long-Term Incentive Plan with respect to any Transferred Individual or Transition Individual.

TRICON shall provide or cause to be provided all such information as may be reasonably necessary or required by PepsiCo, in its sole discretion, to prepare any financial returns, records or reports and shall provide such information on a timely basis sufficiently far in advance to permit the orderly preparation and filing of such financial returns, records and reports.

ARTICLE

MISCELLANEOUS BENEFITS

7.1 SHAREPOWER PLAN

(a) Treatment of Outstanding Grants Under PepsiCo SharePower Plan

Effective Immediately after the Distribution Date, all outstanding vested stock option grants under the PepsiCo SharePower Plan as of the Close of the Distribution Date of all Transferred Individuals shall continue to be held as options for PepsiCo Capital Stock and, at PepsiCo's election, shall either

(1) remain, and recordkeeping accounts shall be maintained, under the PepsiCo SharePower Plan after the Distribution Date and, at PepsiCo's further election, TRICON shall be fully responsible for administering and providing for the recordkeeping for such PepsiCo options under the PepsiCo SharePower Plan in a manner consistent with provisions of such plan, or (2) be held and treated, and recordkeeping accounts shall be maintained, under the TRICON SharePower Plan. As soon as practicable after the Distribution Date, the number of options and the exercise price for such options which shall continue to be held as options for PepsiCo Capital Stock shall be adjusted, as of the Close of the Distribution Date, by a Conversion Formula. The determination of which company shall be entitled to any tax deduction and any other treatment related to any such tax deduction (federal and state) with respect to the exercise of such PepsiCo stock options shall be made in accordance with applicable provisions of the Tax Separation Agreement. Effective Immediately after the Distribution Date, all outstanding nonvested stock option grants under the PepsiCo SharePower Plan as of the Close of the Distribution Date of all such Transferred Individuals shall be converted to options for TRICON Common Stock under the TRICON SharePower Plan and shall be transferred to the recordkeeper of the TRICON SharePower Plan. The number of options and the exercise price for such TRICON options shall be determined in accordance with the Conversion Formula. Such converted, transferred TRICON stock option grants shall continue to vest and become exercisable under the TRICON SharePower Plan in accordance with the terms in effect as of the date of the original grant under the PepsiCo SharePower Plan. TRICON shall be the obligor with respect to such options. TRICON shall be solely responsible for all aspects of the stock option grants under the TRICON SharePower Plan, including, but not limited to, recordkeeping, administrative costs and fees, plan maintenance, option exercise and related tax filings.

The foregoing shall apply to Transferred Individuals who are compensated under a payroll which is administered outside the 50 United States, its territories and possessions, and the District of Columbia; provided, however, if such treatment is not legally permitted, or results in adverse consequences for PepsiCo or the Transferred Individual, as determined by PepsiCo in its sole discretion, PepsiCo may determine in its sole discretion, a different treatment.

(b) Recordkeeping Accounts

PepsiCo and TRICON shall make their reasonable best efforts to provide accurate, timely information with respect to stock options granted Transferred Individuals under the PepsiCo SharePower Plan. Whichever of PepsiCo or TRICON controls, and is responsible for providing, the information to a recordkeeper, may take such action as is necessary to effectuate a correction of any erroneous or inaccurate information provided to the recordkeepers of the TRICON SharePower Plan or the PepsiCo SharePower Plan, respectively. On or after the Close of the Distribution Date, PepsiCo shall be under no obligation to accept any data correction with respect to any TRICON employee's eligibility for stock option grants. TRICON agrees that in the event that any stock option is incorrectly or erroneously exercised under the PepsiCo SharePower Plan, due to the untimely or inaccurate transmission of data to the recordkeeper, TRICON shall indemnify PepsiCo and hold PepsiCo and its directors, officers, employees and the Plans harmless for any Liabilities arising as a result of such transaction, including reimbursing PepsiCo for amounts paid to any individual by reason of the improper exercise of an option.

TRICON shall be responsible for the integrity of any data or information that it provides to the recordkeeper. TRICON agrees to provide to PepsiCo unlimited access to records in its possession which may be relevant to eligibility, vesting, exercise or other aspects of the PepsiCo SharePower Plan with respect to any Transferred Individual or Transition Individual.

TRICON shall provide or cause to be provided all such information as may be reasonably necessary or required by PepsiCo, in its sole discretion, to prepare any financial returns, records or reports and shall provide such information on a timely basis sufficiently far in advance to permit the orderly preparation and filing of such financial returns, records and reports.

7.2 STOCK PURCHASE PLAN

(a) Transfer of PepsiCo Capital Stock

With respect to all Transferred Individuals who have beneficial ownership of PepsiCo Capital Stock in the PepsiCo Stock Purchase Plan, as of the Close of the Distribution Date, PepsiCo shall create individual accounts under the PepsiCo DRIP, and shall transfer such PepsiCo Capital Stock to those accounts, as of the Close of the Distribution Date or as soon as practicable thereafter.

(b) Transfer of TRICON Common Stock

With respect to all Transferred Individuals who become beneficial owners of TRICON Common Stock received under the PepsiCo Stock Purchase Plan, as a result of the Distribution, TRICON shall create individual accounts under the TRICON Stock Purchase Plan for the purpose of receiving such TRICON Common Stock which shall be transferred by PepsiCo, as of the Close of the Distribution Date or as soon as practicable thereafter.

With respect to all employees or former employees of the PepsiCo Group who become beneficial owners of TRICON Common Stock received under the PepsiCo Stock Purchase Plan, as a result of the Distribution, TRICON shall create individual accounts under the TRICON DRIP, for the purpose of receiving such TRICON Common Stock which shall be transferred by PepsiCo, as of the Close of the Distribution Date or as soon as practicable thereafter.

ARTICLE

8

TRANSITIONAL ARRANGEMENTS

8.1 TRANSITION INDIVIDUALS/RECOGNITION OF SERVICE

The parties intend that, for the duration of the Transition Period, the respective Plans of PepsiCo and TRICON shall mutually recognize service, compensation, and other benefit determining factors (except as otherwise provided herein with respect to stock options) with respect to Transition Individuals as if the Transition Individual's service recognized by either the PepsiCo Group or the TRICON Group, respectively, had been performed entirely for the Hiring Company. In this regard, in determining a Transition Individual's service under the Hiring Company's Pension Plan, Pension Equalization Plan, Savings Plan, SharePower Plan, Stock Purchase Plan, Health and Welfare Plans, Executive Programs, vacation and payroll practices, and other Plans, the Hiring Company shall grant full credit for and recognition of the Transition Individual's service as such may be recognized under the above mentioned plans and programs.

8.2 PENSION PLANS

(a) Assumption of Liabilities/Noncommencement of Pensions

Effective as of the date a Transition Individual is transferred to a Hiring Company: (i) the Hiring Company's Pension Plan shall assume and be solely responsible for all Liabilities to or relating to the Transition Individual under the Prior Company's Pension Plan; and (ii) no pension benefits with respect to the Transition Individual from a Prior Company's Pension Plan or Pension Equalization Plan shall commence while he or she is employed by the Hiring Company.

(b) Asset/Liability Allocations and Transfers

PepsiCo or TRICON, as applicable, shall arrange to transfer liabilities and assets under the Prior Company Pension Plan and/or Pension Equalization Plan to the Hiring Company Pension Plan and/or Pension Equalization Plan relating to the benefit of each Transition Individual effective as of the date a Transition Individual is transferred to a Hiring Company. The calculation of the liability related to each such Transition Individual shall be calculated in accordance with the same procedures and assumptions provided in Section 3.2(b) effective as of the date the Transition Individual is transferred to the Hiring Company. The assets relating to such liability shall be transferred, as soon as practicable after the Transition Period, from the plan and trust maintained by the company which transferred the greater aggregate liability related to Transition Individuals to the plan and trust maintained by the company which transferred the lesser aggregate liability related to Transition Individuals during the entire Transition Period. The amount of the assets to be transferred from the Master Trust shall be aggregated with the amount of assets equal to all liabilities, to the extent funded, for all Transition Individuals transferred during the Transition Period, adjusted by decreasing such amount for the amount of Liabilities related to Transition Individuals transferred during the Transition Period from the company receiving assets. Assets shall be transferred only to the extent that transferred liabilities are funded. Thus, no assets will be transferred with respect to any Pension Equalization Plan Liabilities.

8.3 SAVINGS PLAN

Upon a Transition Individual's transfer to a Hiring Company (i) the Prior Company shall cause the accounts of the Transition Individual under the Prior Company's Savings Plan which are held by their related trusts to be transferred to the corresponding Hiring Company's Savings Plan and their related trusts as soon as practicable after the Transition Individual's date of transfer; and (ii) the Hiring Company shall cause the transferred accounts to be accepted by its plans and trusts; and (iii) as soon as the assets relating to the Transition Individual's account have been transferred, the Hiring Company's Savings Plan shall assume and be solely responsible for all Liabilities to or relating to the Transition Individual under the corresponding Prior Company's Savings Plan. Assets may be transferred from the Prior Company Savings Plan to the Hiring Company Savings Plan in cash or in kind and, to the extent practicable, the Transition Individual's accounts shall be invested in comparable investment options under the Hiring Company Savings Plan as his or her accounts were invested under the Prior Company Savings Plan immediately before the transfer.

8.4 HEALTH AND WELFARE PLANS

(a) Continuance of Elections, Co-Payments, and Maximum Benefits.

Each of PepsiCo and TRICON shall cause the Health and Welfare Plans of itself and its affiliates to recognize and maintain all coverage and contribution elections made by Transition Individuals under the Health and Welfare Plans of the other company and its affiliates. Each Hiring Company shall apply such elections under its Health and Welfare Plans for the remainder of the period or periods for which the elections are by their terms originally applicable; provided, however that Hiring Company shall cause the Hiring Company Health and Welfare Plans to permit new coverage and contribution elections by Transition Individuals in the same manner as such elections were permitted by PepsiCo for transfers between its divisions before the Distribution Date.

PepsiCo Health and Welfare Plans and TRICON Health and Welfare Plans shall recognize and give credit for all amounts applied to deductibles, out-of-pocket maximums, and other applicable benefit coverage limits with respect to the current year.

(b) Reimbursement Plans

To the extent any Transition Individual contributed to an account under a Prior Company's Reimbursement Plan during a calendar year falling within the Transition Period, the Prior Company shall transfer to the Hiring Company (a) the liability for such account balances for that calendar year and (b) an equal amount of cash to cover such liability.

8.5 EXECUTIVE PROGRAMS

(a) Long-Term Incentive Plan and Stock Option Incentive Plan

Effective as of the date a Transition Individual is transferred to a Hiring Company, the Transition Individual shall retain such stock options, phantom shares, and performance units as were granted or awarded and in effect as of the effective date of transfer under the Prior Company Plans. Service with the Prior Company and the Hiring Company shall be mutually recognized under each company's Long-Term Incentive Plan and Stock Option Incentive Plan.

(b) Restaurant Deferred Compensation Plan

To the extent the Transition Individual is a participant in the Restaurant Deferred Compensation Plan, and is transferred from TRICON to PepsiCo, TRICON shall retain all Liabilities with regard to such Transition Individual under the Restaurant Deferred Compensation Plan. TRICON will amend its plan to preclude distributions on account of termination of employment prior to the Transition Individual's termination of employment from PepsiCo or TRICON.

(c) Deferral Programs

Effective as of the date a Transition Individual is transferred to a Hiring Company, the Transition Individual's account balance under the Deferral Programs of the Prior Company shall remain on the books and records of the Prior Company. The Transition Individual shall not be entitled to a distribution from such Deferral Programs at the Prior Company by reason of the transfer.

8.6 SHAREPOWER PLANS

Effective as of the date a Transition Individual is transferred to a Hiring Company, the Transition Individual shall retain such stock options as were granted or awarded and in effect as of the effective date of transfer under the Prior Company SharePower Plan. Service with the Prior Company and the Hiring Company shall be mutually recognized under each company's SharePower Plans.

8.7 STOCK PURCHASE PLANS

As soon as practicable after a Transition Individual is transferred to a Hiring Company, the Prior Company shall determine whether the Transition Individual has a beneficial interest in any stock (PepsiCo Capital Stock or TRICON Common Stock, as applicable) purchased under the Prior Company Stock Purchase Plan. In the event that a Transition Individual has a beneficial interest in any stock (PepsiCo Capital Stock or TRICON Common Stock, as applicable) purchased under the Prior Company Stock Purchase Plan, the Prior Company shall transfer such stock to an individual account established under its DRIP for the benefit of such Transition Individual

8.8 SHORT-TERM INCENTIVE PLAN

To the extent a Transition Individual is hired or rehired by a Hiring Company during the Transition Period, the payment of any Award under the PepsiCo Short-Term Incentive Plan or TRICON Short-Term Incentive Plan or any comparable or other incentive or award program shall be paid for in its entirety by the entity (PepsiCo or TRICON) on whose payroll the Transition Individual was employed on December 31, 1997 (for the 1997 performance year) or December 31, 1998 (for the 1998 performance year) and shall be based on the Transition Individual's period of employment with both the Hiring Company and the Prior Company during the performance year in question. Neither PepsiCo nor TRICON shall be entitled to any reimbursement from the other for payments under this Section.

ARTICLE

9

GENERAL

9.1 PAYMENT OF AND ACCOUNTING TREATMENT FOR EXPENSES AND BALANCE SHEET AMOUNTS

(a) Expenses

All expenses (and the accounting treatment related thereto) through the Close of the Distribution Date regarding matters addressed herein shall be handled and administered by PepsiCo and TRICON in accordance with past PepsiCo accounting and financial practices and procedures pertaining to such matters. To the extent expenses are unpaid as of the Close of the Distribution Date that pertain to Transferred Individuals, TRICON or any member of the TRICON Group, TRICON shall be solely responsible for such payment, without regard to any accounting treatment to be accorded such expense by PepsiCo or TRICON on their respective books and records. The accounting treatment to be accorded all such expenses, whether such expenses are paid by PepsiCo or TRICON, shall be determined by PepsiCo in its sole discretion.

(b) Balance Sheet Amounts

TRICON shall assume any balance sheet liability for any Liability assumed by it under this Agreement as of the Close of the Distribution Date or thereafter, with respect to any Transferred Individual or Transition Individual. The determination of any balance sheet liability as of the Close of the Distribution Date shall be determined by PepsiCo in its sole discretion consistent with past accounting practices, consistently applied.

9.2 SHARING OF PARTICIPANT INFORMATION

PepsiCo and TRICON shall share, PepsiCo shall cause each applicable member of the PepsiCo Group to share, and TRICON shall cause each applicable member of the TRICON Group to share, with each other and their respective agents and vendors (without obtaining releases) all participant information necessary for the efficient and accurate administration of each of the PepsiCo Plans and the TRICON Plans during the Transition Period. PepsiCo and TRICON and their respective authorized agents shall, subject to applicable laws on confidentiality, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of the other party, to the extent necessary for such administration. Until the Close of the Distribution Date, all participant information shall be provided in the manner and medium applicable to Participating Companies in the PepsiCo Plans generally, and thereafter until December 31, 1998, all participant information shall be provided in a manner and medium that is compatible with the data processing systems of PepsiCo as in effect of the Close of the Distribution Date, unless otherwise agreed to by PepsiCo and TRICON.

9.3 RESTRICTIONS ON EXTENSION OF OPTION EXERCISE PERIODS, AMENDMENT OR MODIFICATION OF OPTION TERMS AND CONDITIONS

TRICON agrees that, without the prior written consent of PepsiCo, neither TRICON nor any of its affiliates shall take any action to extend the exercise period of or to provide for additional vesting with respect to any PepsiCo options for Transferred or Transition Individuals, including, but not limited to, providing such Transferred or Transition Individuals with leaves of absences or special termination or severance arrangements. Neither TRICON nor any of its affiliates may in any way or for any purpose modify, alter, amend or terminate any terms or conditions with respect to any PepsiCo option.

9.4 NON-SOLICITATION OF EMPLOYEES

For a period of two years from the Close of the Distribution Date, TRICON and its affiliates will not, without the prior written consent of PepsiCo, and PepsiCo and its affiliates will not, without the prior written consent of TRICON, whether directly or indirectly, solicit (in writing or orally) for employment or other services, whether as an employee, officer, director, agent, consultant or independent contractor, any person who or which is at the time of such solicitation an employee, agent, representative, officer or director of the other party; provided, however, that this covenant shall continue to apply in the case of Persons who have left the employ of either party within a thirty day period prior to being solicited by the other party.

9.5 REPORTING AND DISCLOSURE AND COMMUNICATIONS TO PARTICIPANTS

While TRICON is a Participating Company in the PepsiCo Plans, TRICON shall take, and shall cause each other applicable member of the TRICON Group to take, all actions necessary or appropriate to facilitate the distribution of all PepsiCo Plan-related communications and materials to employees, participants and beneficiaries, including summary plan descriptions and related summaries of material modification, summary annual reports, investment information, prospectuses, notices and enrollment material for the TRICON Plans. TRICON shall assist, and TRICON shall cause each other applicable member of the TRICON Group to assist, PepsiCo in complying with all reporting and disclosure requirements of ERISA, including the preparation of Form 5500 annual reports for the PepsiCo Plans, where applicable.

9.6 PLAN AUDITS

(a) Audit Rights with Respect to the Allocation or Transfer of Plan Assets

The allocation of Pension Plan assets and liabilities pursuant to Section 3.2 and the transfer of assets from PepsiCo VEBAs pursuant to Section 5.2, shall, at the election of TRICON, be audited on behalf of both PepsiCo and TRICON by an actuarial and benefit consulting firm mutually selected by the parties. The scope of such audit shall be limited to the accuracy of the data and the accuracy of the computation and adherence to the methodology specified in this Agreement and except as set forth in the penultimate sentence of this

Section 9.6(a), such audit shall not be binding on the parties. The actuarial and benefit consulting firm shall provide its report to both PepsiCo and TRICON. No other audit shall be conducted with respect to the transfer or allocation of Plan assets and no issue of any nature whatsoever may be raised by TRICON once the allocation has been effected. TRICON shall pay or shall be responsible for the payment of the full costs of such audit. To the extent such audit recommends a change to the value of assets allocated to a TRICON Plan of less than 5%, the original determination shall be binding on the parties and shall not be subject to the dispute resolution process provided under the Separation Agreement. To the extent such audit recommends such a change of 5% or more, any unresolved dispute between the parties as to whether and how to make any change in response to such recommendation shall be subject to the dispute resolution process provided under the Separation Agreement.

(b) Audit Rights With Respect to Information Provided

.....(1) Each of PepsiCo and TRICON, and their duly authorized representatives, shall have the right to conduct audits at any time upon reasonable prior notice, at their own expense, with respect to all information provided to it or to any Plan recordkeeper or third party administrator by the other party; provided, however, that PepsiCo or its authorized representatives may, at TRICON's expense, conduct audits at any time with respect to any information related to PepsiCo options granted to Transferred Individuals or Transition Individuals. The party conducting the audit shall have the sole discretion to determine the procedures and guidelines for conducting audits and the selection of audit representatives under this Section 9.6(b); provided, that audits with respect to the allocation or transfer of Plan assets and liabilities shall be subject only to Section 9.6(a). The auditing party shall have the right to make copies of any records at its expense, subject to the confidentiality provisions set forth in the Separation Agreement, which are incorporated by reference herein. The party being audited shall provide the auditing party's representatives with reasonable access during normal business hours to its operations, computer systems and paper and electronic files, and provide workspace to its representatives. After any audit is completed, the party being audited shall have the right to review a draft of the audit findings and to comment on those findings in writing within five business days after receiving such draft.

.....(2) The auditing party's audit rights under this Section 9.6(b) shall include the right to audit, or participate in an audit facilitated by the party being audited, of any Subsidiaries and affiliates of the party being audited and of any benefit providers and third parties with whom the party being audited has a relationship, or agents of such party, to the extent any such persons are affected by or addressed in this Agreement (collectively, the "Non-parties"). The party being audited shall, upon written request from the auditing party, provide an individual (at the auditing party's expense) to supervise any audit of any such benefit provider or third party. The auditing party shall be responsible for supplying, at its expense, additional personnel sufficient to complete the audit in a reasonably timely manner.

(c) Audits Regarding Vendor Contracts

From Immediately after the Distribution Date through December 31, 1998, PepsiCo and TRICON and their duly authorized representatives shall have the right to conduct joint audits with respect to any vendor contracts that relate to both the PepsiCo Health and Welfare Plans and the TRICON Health and Welfare Plans. The scope of such audits shall encompass the review of all correspondence, account records, claim forms, canceled drafts (unless retained by the bank), provider bills, medical records submitted with claims, billing corrections, vendor's internal corrections of previous errors and any other documents or instruments relating to the services performed by the vendor under the applicable vendor contracts. PepsiCo and TRICON shall agree on the performance standards, audit methodology, auditing policy and quality measures and reporting requirements relating to the audits described in this Section 9.6 and the manner in which costs incurred in connection with such audits will be shared.

9.7 BENEFICIARY DESIGNATIONS

All beneficiary designations made by Transferred Individuals for PepsiCo Plans shall be transferred to and be in full force and effect under the corresponding TRICON Plans until such beneficiary designations are replaced or revoked by the Transferred Individual who made the beneficiary designation. All beneficiary designations made by Transition Individuals for Prior Company Plans shall be transferred to and be in full force and effect under the corresponding Hiring Company Plans until such beneficiary designations are replaced or revoked by the Transition Individual who made the beneficiary designation.

9.8 REQUESTS FOR INTERNAL REVENUE SERVICE RULINGS AND UNITED STATES DEPARTMENT OF LABOR OPINIONS

(a) Cooperation

TRICON shall cooperate fully with PepsiCo on any issue relating to the transactions contemplated by this Agreement for which PepsiCo elects to seek a determination letter or private letter ruling from the Internal Revenue Service or an advisory opinion from the United States

Department of Labor. PepsiCo shall cooperate fully with TRICON with respect to any request for a determination letter or private letter ruling from the Internal Revenue Service or advisory opinion from the United States Department of Labor with respect to any of the TRICON Plans relating to the transactions contemplated by this Agreement.

(b) Applications

PepsiCo and TRICON shall make such applications to regulatory agencies, including the Internal Revenue Service and the United States Department of Labor, as may be necessary to ensure that any transfers of assets from the PepsiCo LTD VEBA to the TRICON LTD VEBA will neither (i) result in any adverse tax, legal or fiduciary consequences to PepsiCo and TRICON, the PepsiCo LTD VEBA, the TRICON LTD VEBA, any participant therein or beneficiaries thereof, , any successor welfare benefit funds established by or on behalf of TRICON, or the trustees of such trusts, nor (ii) contravene any statute, regulation or technical pronouncement issued by any regulatory agency. Before the Close of the Distribution Date, TRICON shall prepare all forms required to obtain favorable determination letters from the Internal Revenue Service with respect to the tax-exempt status of the TRICON LTD VEBA. TRICON and PepsiCo agree to cooperate with each other to fulfill any filing and/or regulatory reporting obligations with respect to such transfers.

9.9 FIDUCIARY AND RELATED MATTERS

TRICON acknowledges that PepsiCo will not be a fiduciary with respect to the TRICON Plans. TRICON also acknowledges that PepsiCo shall not be deemed to be in violation of this Agreement if it fails to comply with any provisions hereof based upon its good faith determination that to do so would violate any applicable fiduciary duties or standards of conduct under ERISA or other applicable law. Notwithstanding any other provision in this Agreement, the Parties may take such actions as necessary or appropriate to effectuate the terms and provisions of this Agreement.

9.10 NON-TERMINATION OF EMPLOYMENT; NO THIRD-PARTY BENEFICIARIES

No provision of this Agreement or the Separation Agreement shall be construed to create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any Transferred Individual or other future, present, or former employee of the PepsiCo Group or the TRICON Group under any PepsiCo Plan or TRICON Plan or otherwise. Without limiting the generality of the foregoing, except as expressly provided in this Agreement: (i) neither the Distribution nor the termination of the Participating Company status of a member of the TRICON Group shall cause any employee to be deemed to have incurred a termination of employment which entitles such individual to the commencement of benefits under any of the PepsiCo Plans, any of the TRICON Plans, or any of the Individual Agreements; and (ii) nothing in this Agreement other than those provisions specifically set forth herein to the contrary shall preclude TRICON, at any time after the Close of the Distribution Date, from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any TRICON Plan, any benefit under any Plan or any trust, insurance policy or funding vehicle related to any TRICON Plan.

9.11 COLLECTIVE BARGAINING

To the extent any provision of this Agreement is contrary to the provisions of any applicable collective bargaining agreement to which PepsiCo or any affiliate of PepsiCo is a party, the terms of such collective bargaining agreement shall prevail. Should any provisions of this Agreement be deemed to relate to a topic determined by an appropriate authority to be a mandatory subject of collective bargaining, PepsiCo or TRICON may be obligated to bargain with the union representing affected employees concerning those subjects. Neither party will agree to a modification of any applicable collective bargaining agreement without the consent of the other. In the event a force surplus affecting members of a bargaining unit in both the PepsiCo Group (on the one hand) and the TRICON Group (on the other hand) directly results, due to the provisions of such a collective bargaining agreement, in an employee involuntarily leaving the payroll of the party not declaring the surplus, then the party declaring the surplus shall bear the cost of any severance payable to such employee.

9.12 CONSENT OF THIRD PARTIES

If any provision of this Agreement is dependent on the consent of any third party (such as a vendor or a union) and such consent is withheld, PepsiCo and TRICON shall use their reasonable best efforts to implement the applicable provisions of this Agreement to the full extent practicable. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, PepsiCo and TRICON shall negotiate in good faith to implement the provision in a mutually satisfactory manner. The phrase "reasonable best efforts" as used in this Agreement shall not be construed to require the incurrence of any non-routine or unreasonable expense or liability or the waiver of any right.

9.13 FOREIGN PLANS

As soon as practicable after the date of this Agreement, PepsiCo and TRICON shall enter into an agreement regarding the treatment of Foreign Plans consistent with the principles set forth in Appendix C.

9.14 EFFECT IF DISTRIBUTION DOES NOT OCCUR

If the Distribution does not occur, then all actions and events that are, under this Agreement, to be taken or occur effective as of the Close of the Distribution Date, Immediately after the Distribution Date, or otherwise in connection with the Distribution, shall not be taken or occur except to the extent specifically agreed by TRICON and PepsiCo.

9.15 RELATIONSHIP OF PARTIES

Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship set forth herein.

9.16 AFFILIATES

Each of PepsiCo and TRICON shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by members of the PepsiCo Group or members of the TRICON Group, respectively, where relevant.

9.17 ARBITRATION

Any controversy or claim arising out of or relating to this Agreement, or the breach hereof, shall be settled by arbitration in accordance with the then prevailing Commercial Arbitration Rules of the American Arbitration Association (the "AAA") as such rules may be modified herein.

An award rendered in connection with an arbitration pursuant to this Section shall be final and binding and judgment upon such an award may be entered and enforced in any court of competent jurisdiction.

The forum for arbitration under this Section shall be agreed upon by the Parties, or, failing such agreement, shall be New York, New York.

Arbitration shall be conducted by a single arbitrator selected jointly by PepsiCo and TRICON. If within 30 days after a demand for arbitration is made, PepsiCo and TRICON are unable to agree on a single arbitrator, three arbitrators shall be appointed. Within 30 days after such inability to agree, PepsiCo and TRICON shall each select one arbitrator and those two arbitrators shall then select a third arbitrator unaffiliated with either Party. In connection with the selection of the third arbitrator, consideration shall be given to familiarity with employee benefit plans and programs and related matters and experience in dispute resolution between parties, as a judge or otherwise. If the arbitrators selected by PepsiCo and TRICON cannot agree on the third arbitrator within such 30 day period, they shall discuss the qualifications of such third arbitrator with the AAA prior to selection of such arbitrator, which selection shall be in accordance with the Commercial Arbitration Rules of the AAA.

If an arbitrator cannot continue to serve, a successor to an arbitrator selected by PepsiCo or TRICON, as the case may be, also shall be selected by the same Party, and a successor to the neutral arbitrator shall be selected as specified above. A full rehearing will be held only if the neutral arbitrator is unable to continue to serve or if the remaining arbitrators unanimously agree that such a rehearing is appropriate.

The arbitrator or arbitrators shall be guided, but not bound, by the Federal Rules of Evidence and by the procedural rules, including discovery provisions, of the Federal Rules of Civil Procedure. Any discovery shall be limited to information directly relevant to the controversy or claim in arbitration.

9.18 INDEMNIFICATION

Effective on the Distribution Date, TRICON agrees to indemnify and hold harmless each member of the PepsiCo Group and each of their respective officers, directors, employees and agents and the PepsiCo Plans from and against any and all losses, Liabilities, claims, suits, damages, costs and expenses (including without limitation, reasonable attorneys' fees and any and all expenses reasonably incurred in investigating, preparing or defending against any pending or seriously threatened litigation or claim) arising out of or related in any manner to Transferred Individuals and Transition Individuals described in Section 1.1(ddd)(2) and (3). Similarly, effective on the Distribution Date, PepsiCo agrees to indemnify and hold harmless each member of the TRICON Group and each of their respective officers, directors, employees and agents and the TRICON Plans from and against any and all losses, Liabilities, claims, suits, damages, costs and expenses (including, without, limitation reasonable attorneys' fees and any and all expenses reasonably incurred in investigating, preparing or defending against any pending or seriously threatened litigation or claim) arising out of or related in any manner to Transferred Individuals and Transition Individuals described in Section 1.1(ddd)(1) and (4).

If any action is brought or any claim is made against a Party or person in respect of which indemnity may be sought pursuant to this Section 9.18 (the "Indemnitee"), the Indemnitee shall, within ten days after the receipt of information indicating that an action or claim is likely, notify in writing the Party from whom indemnification is sought (the "Indemnitor") of the institution of the action or the making of the claim, and the Indemnitor shall have the right, and at the request of the Indemnitee, shall have the obligation, to assume the defense of the action or claim, including the employment of counsel. If the Indemnitor assumes the defense of the action or claim, the Indemnitor shall be entitled to settle the action or claim on behalf of the Indemnitee without the prior written consent of the Indemnitee unless such settlement would, in addition to the payment of money, materially affect the ongoing business or employment of the Indemnitee.

The Indemnitee shall have the right to employ its own counsel, but the fees and expenses of that counsel shall be the responsibility of the Indemnitee unless (i) the employment of that counsel shall have been authorized in writing by the Indemnitor in connection with the defense of the action or claim; (ii) the Indemnitor shall not have employed counsel to have charge of the defense of such action or claim; or (iii) such Indemnitee shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available

to the Indemnitor (in which case the Indemnitor shall not have the right to direct any different defense of the action or claim on behalf of the Indemnatee). The Indemnatee shall, in any event, be kept fully informed of the defense of any such action or claim. Except as expressly provided above, in the event that the Indemnitor shall not previously have assumed the defense of an action or claim, at such time as the Indemnitor does assume the defense of the action or claim, the Indemnitor shall not thereafter be liable to any Indemnatee for legal or other expenses subsequently incurred by the Indemnatee in investigating, preparing or defending against such action or claim.

Anything in this Section 9.18 to the contrary notwithstanding, the Indemnitor shall not be liable for any settlement of any claim or action effected without its written consent; provided, however, that if after due notice the Indemnitor refuses to defend a claim or action, the Indemnatee shall have the right to defend and/or settle such action, and the Indemnatee shall not be precluded from making a claim against the Indemnitor for reasonable expenses and liabilities resulting from such defense and/or settlement in accordance with this Section 9.18.

Notwithstanding the foregoing provisions of this Section 9.18, there may be particular actions or claims which reasonably could result in both Parties being liable to the other under the indemnification provisions of this Agreement. In such events, the Parties shall endeavor, acting reasonably and in good faith, to agree upon a manner of conducting the defense and settlement of the action or claim with a view to minimizing the legal expenses and associated costs that might otherwise be incurred by the Parties, such as, by way of illustration only, agreeing to use the same legal counsel.

The indemnification provisions of this Section 9.18 shall not inure to the benefit of any third party. By way of illustration only, an insurer who would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto, or, solely by virtue of the indemnification provisions, hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of these indemnification provisions.

9.19 NOTICES

Any notice, demand, claim, or other communication under this Agreement shall be in writing and shall given in accordance with the provisions for giving notice under the Separation Agreement.

9.20 INTERPRETATION

Words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other genders as the context requires. The terms "hereof," "herein," and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all Exhibits hereto) and not to any particular provision of this Agreement. The word "including" and words of similar import when used in this Agreement shall mean "including, without limitation," unless the context otherwise requires or unless otherwise specified. The word "or" shall not be exclusive.

9.21 GOVERNING LAW/EXECUTION

This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, may not be assigned by either Party without the written consent of the other, and shall bind and inure to the benefit of the Parties hereto and their respective successors and permitted assignees. This Agreement may not be amended or supplemented except by an agreement in writing signed by PepsiCo and TRICON. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Employee Programs Agreement to be duly executed as of the day and year first above written.

PepsiCo, Inc.

By: -----

Name:

Title:

TRICON, Inc.

By: -----

Name:

Title:

APPENDIX A

PEPSICO EXECUTIVE PROGRAMS

PepsiCo, Inc. Executive Income Deferral Program PepsiCo, Inc. Performance Share Unit Deferral Program PepsiCo, Inc. 1994 Executive Incentive Compensation Plan PepsiCo, Inc. Option Gains Deferral Program Middle Management Incentive Compensation Plan PepsiCo Inc. Executive Incentive Plan
PepsiCo, Inc. 1987 Long-Term Incentive Plan PepsiCo, Inc. 1995 Stock Option Incentive Plan PepsiCo, Inc. 1994 Long-Term Incentive Plan
Financial Planning (including tax planning and return preparation) Country Club Program
Split-Dollar Life Insurance
Executive Automobile Program
Executive Loan Program
Individual Agreements (including employment, separation and consulting agreements, special bonus arrangements, leave of absence agreements and commitments made in the context of any merger, acquisition or similar activity) Restaurant Deferred Compensation Plan

APPENDIX B

HEALTH AND WELFARE PLANS

Part One: PepsiCo Restaurant Health and Welfare Plans

Health Plan:

Restaurant Employees Health Care Program (which includes medical, post-retirement medical, dental, prescription drug, mental health/substance abuse, various HMOs and OSCs, vision/hearing, LensCrafters vision, health care reimbursement, and employee assistance benefits).

Group Insurance Plan:

Restaurant Employees Group Insurance Program (which includes basic and optional life, accidental death and dismemberment, and business travel accident insurance benefits).

Disability Plans:

PepsiCo Long Term Disability Plan

PepsiCo Salary Continuation Plan (short-term disability plan) Salary Continuation Plan for Employees Working in States other than California

Combination Plan (Health and Cafeteria):

Taco Bell Pre-Tax Elective Benefits Plan

Severance Plans:

Pizza Hut Severance Plan

KFC Severance Plan

Taco Bell Severance Plan

Miscellaneous Plans (ERISA):

PepsiCo Group Legal Services Plan

PepsiCo Vacation Plan for Hourly Crew Employees

Cafeteria Plans (non-ERISA):

Pizza Hut Benefits Plus

Pizza Hut Pre-Tax Crew Benefits Plan KFC Benefits Plus

PepsiCo One + Plus (KFC hourly plan) Taco Bell Benefits Plus

Miscellaneous Plans (non-ERISA):

PepsiCo Dependent Care Reimbursement Plan

PepsiCo Educational Assistance Program

Part Two: TRICON Health and Welfare Plans

Health Plan:

TRICON Employees Health Care Program (which includes medical, post-retirement medical, dental, prescription drug, mental health/substance abuse, various HMOs and OSCs, vision/hearing, LensCrafters vision, health care reimbursement, and employee assistance benefits).

Group Insurance Plan:

TRICON Employees Group Insurance Program (which includes basic and optional life, accidental death and dismemberment, and employee assistance benefits).

Disability Plans:

TRICON Long Term Disability Plan

TRICON Salary Continuation Plan (Short-Term disability plan) TRICON Salary Continuation Plan for Employees Working in States other than California

Combination Plan (Health and Cafeteria):

Taco Bell Pre-Tax Elective Benefits Plan

Severance Plans:

Pizza Hut Severance Plan

KFC Severance Plan

Taco Bell Severance Plan

Miscellaneous Plans (ERISA):

TRICON Group Legal Services Plan

TRICON Vacation Plan for Hourly Crew Employees

Cafeteria Plan (non-ERISA):

Pizza Hut Benefits Plus

Pizza Hut Pre-Tax Crew Benefits Plan KFC Benefits Plus

KFC One + Plus

Taco Bell Benefits Plan

Miscellaneous Plans (non-ERISA):

TRICON Dependent Care Reimbursement Plan

TRICON Educational Assistance Program

APPENDIX C

FOREIGN PLANS

This Appendix C describes the principles under which Foreign Plans shall be treated. For purposes of this Appendix, outside the U.S. means outside the 50 United States, its territories and possessions, and the District of Columbia, and employed outside the U.S. means compensated under a payroll which is administered outside the U.S..

C.1 Plans Covering only Employees of PepsiCo or TRICON

Effective as of the Close of the Distribution Date or such later date as may be required by applicable law, union, or works council agreement, any Foreign Plan that covers only individuals employed outside the U.S. by the PepsiCo Group shall be the sole responsibility of the PepsiCo Group and no member of the TRICON Group shall have any Liability with respect to such a Plan; and any Foreign Plan that covers only individuals employed outside the U.S. by the TRICON Group shall be the sole responsibility of the TRICON Group and no member of the PepsiCo Group shall have any Liability with respect to such a Plan.

C.2 Plans Covering Employees of Both PepsiCo and TRICON

(a)....Termination of Participation

Effective as of the Close of the Distribution Date, if legally permitted, or as soon as possible thereafter, TRICON and each other applicable member of the TRICON Group shall cease to be a Participating Company in each Foreign Plan maintained by the PepsiCo Group and PepsiCo and each other applicable member of the PepsiCo Group shall cease to be a Participating Company in each Foreign Plan maintained by the TRICON Group.

(b)....Mirror Plans

.....(1) Effective Immediately after the Distribution Date, TRICON shall adopt, or cause to be adopted, Foreign Plans for the benefit of employees of the TRICON Group employed outside the United States who are eligible to participate in PepsiCo Foreign Plans and shall cause such TRICON Foreign Plans to be substantially identical in all Material Features to the corresponding PepsiCo Foreign Plans as in effect on the Distribution Date; provided, however, that TRICON may satisfy this requirement by extending coverage to such individuals under a Foreign Plan of the TRICON Group which was in effect before the Distribution Date.

.....(2) Effective Immediately after the Distribution Date, PepsiCo shall adopt, or cause to be adopted, Plans for the benefit of employees of the PepsiCo Group employed outside the United States who are eligible to participate in Plans and shall cause such Plans to be substantially identical in all Material Features to the corresponding TRICON Foreign Plans as in effect on the Distribution Date; provided, however, that PepsiCo may satisfy this requirement by extending or continuing coverage to such individuals under a PepsiCo Foreign Plan of the PepsiCo Group which was in effect before the Distribution Date.

.....(3) The continuation by PepsiCo or TRICON of separate employment terms and conditions for employees previously covered by the other entity's Plans shall not continue beyond the time legally required.

(c)....Transfer of Assets

As of the Close of the Distribution Date, PepsiCo and TRICON will use their reasonable best efforts to ensure that, to the extent legally permitted:

(i) Liabilities of the Foreign Plans of PepsiCo to or relating to Transferred Individuals shall be assumed by the appropriate Foreign Plans of TRICON; and

(ii) a portion of any assets of the Foreign Plans of PepsiCo shall be transferred to the appropriate Foreign Plans of TRICON, and vice versa.

C.3 Severance Issues

If under applicable law, any Transferred Individual employed outside the U.S. is deemed to have incurred a termination of employment as a result of the Distribution or any other transaction contemplated by the Separation Agreement or this Agreement, which entitles such individual to receive any payment or benefit under any Foreign Plan, governmental plan or arrangement or pursuant to any law or regulation, including severance benefits, notwithstanding such individual's continued employment by the TRICON Group, then TRICON shall be liable for any such payment or benefit and, notwithstanding any other provision hereof, to the extent legally permitted, appropriate adjustments shall be made to the treatment of such individual during such continued employment, including not giving such individual credit for prior service and/or treating such individual as having been newly hired immediately after such deemed termination, for purposes of all applicable Foreign Plans. Liability with respect to such payments shall be the responsibility of TRICON.

C.4 Legally Permitted

For purposes of this Appendix C, "legally permitted" means permitted under the laws of the country, the labor union, works council, or collective agreement without adverse consequences to PepsiCo, TRICON or Transferred Individuals, as determined by PepsiCo, in its sole discretion, including mandated waiting periods before which working conditions (including benefits) cannot be changed, and upon receiving required agreement from individual employees and/or Plan trustees, foundation boards and members, and any other organizations having a recognized right to determine or affect benefits and/or funding of the Plan.

C.5 Multinational Pooling

PepsiCo and TRICON shall keep their existing multinational pooling arrangements intact through December 31, 1997. If there is any dividend payable from the consolidated pooling arrangements with respect to the 1997 pool accounting year, that dividend will be allocated between PepsiCo and TRICON proportionately, based on the contribution to the overall surplus of the pooling arrangements by the PepsiCo Group and the TRICON Group, respectively. Alternatively, any net deficits incurred under any one (or all) consolidated pooling arrangement(s) will be apportioned back to the entity which incurred the deficit proportionately based on each entities' contribution to the net deficit.

Any potential additions (local insurance contracts) to the consolidated pooling arrangement during the remainder of the 1997 international accounting period will be mutually agreed upon between PepsiCo and TRICON.

Exhibit 10.03

TELECOMMUNICATIONS, SOFTWARE AND

COMPUTING SERVICES AGREEMENT

This agreement is made as of _____, 1997 by and between PepsiCo, Inc., a North Carolina corporation ("PepsiCo"), and TRICON Global Restaurants, Inc., a North Carolina corporation ("TRICON") and, as of the date hereof, a wholly-owned subsidiary of PepsiCo.

WHEREAS, the PepsiCo Data Services Center ("PDS"), located at Hillcrest Oak, 6600 and 6606 LBJ Freeway, Dallas, Texas, is operated by [PepsiCo Restaurant Services Group, Inc. ("PRSG")], a subsidiary of [TRICON]; and

WHEREAS, the PDS provides certain telecommunications and computing services to (i) PepsiCo, its Pepsi-Cola division and subsidiaries of PepsiCo other than TRICON and its subsidiaries (the "PepsiCo Organization") and (ii) TRICON and its subsidiaries (the "TRICON Organization"); and

WHEREAS, PepsiCo has decided to consolidate its restaurant operations and assets into TRICON and TRICON's subsidiaries and to distribute the Capital Stock of TRICON to the holders of the Capital Stock of PepsiCo (the effective date of such distribution shall hereinafter be referred to as the "Distribution Date"); and

WHEREAS, pursuant to Section 8 of the Separation Agreement dated as of _____, 1997 between PepsiCo and TRICON, the parties hereto have agreed to set forth the arrangements between them with respect to software, telecommunication services and computing services and third party agreements relating thereto.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties hereto agree as follows:

1. A. Until the Transfer (as hereinafter defined), TRICON shall cause the PDS to provide computer services to the PepsiCo Organization, which such services are described in Exhibit A attached hereto. TRICON shall cause the PDS (a) to perform such services in a competent and timely manner using the highest level of professional skill, care and diligence, and (b) to perform such services in a manner which is consistent with the services currently provided by the PDS to the PepsiCo Organization.

B. The parties hereto shall cooperate to effect a transfer of that portion of the PDS sufficient to provide the computing services to the PepsiCo Organization described in Section 1B, above, to the Frito-Lay data center or some other new or existing data center chosen by PepsiCo (the "Transfer"). The parties expect the Transfer to be completed by [March 31, 1998]. The hardware and software to be so transferred is listed on Exhibit B, attached hereto. TRICON warrants that such hardware is currently leased to, and the software licensed to, PepsiCo or a member of the PepsiCo Organization. Each party will bear its own expenses incurred by it relating to the Transfer including, by way of example, (i) expenses for consulting services, additional personnel or duplicate hardware directly related to preparation for the Transfer, and (ii) severance of excess personnel as a result of the Transfer. There shall be no charge or cost to the PepsiCo Organization for the physical Transfer other than reasonable out-of-pocket costs for the physical move of the hardware.

C. TRICON warrants that the PDS currently has, and immediately after the Transfer shall have, hardware and software owned, leased, or licensed by the TRICON Organization which is adequate to provide all computer services to the TRICON Organization at a level and in a manner consistent with services provided currently and immediately prior to the Transfer, and TRICON agrees that PepsiCo and the PepsiCo Organization shall have no liability or responsibility with respect to any matters relating to the hardware, software or services provided to the TRICON Organization.

D. From the Distribution Date until the Transfer PepsiCo shall pay to TRICON for the PDS services provided hereunder \$ _____ per PepsiCo accounting period, payable at the beginning of each accounting period. Such amount shall be apportioned for any partial accounting period during which such services are performed. The foregoing fees include all applicable federal, state, and local sales, use or similar taxes currently in force.

2. PepsiCo hereby assigns to TRICON the Services Agreement dated as of June _____, 1997 by and between PepsiCo, Inc. and AmeriServe Distribution, Inc. ("AmeriServe") a copy of which is attached hereto, and all of PepsiCo's rights, obligations and duties thereunder. The subject of the Services Agreement is, in essence, the provision of PDS services to AmeriServe. TRICON hereby accepts such assignment, and agrees to abide by the terms of the Services Agreement and to properly perform all of PepsiCo's obligations and duties thereunder.

3. A. The PepsiCo Organization and the TRICON Organization shall each continue to use and pay for AT&T telecommunications services pursuant to the Virtual Telecommunications Network Services Agreement, as amended, between AT&T Corp. and PepsiCo which became effective on July 23, 1990 (the "Tariff 12 Contract") in a manner and at a level consistent with current utilization, in order to continue to meet the volume commitments and other requirements thereof. This obligation shall continue through the term of the Tariff 12 Contract, which such term ends October 8, 1998. As presently in place, the Tariff 12 Contract provides for a total of 13 dedicated AT&T support people, no more than 4 of which will be dedicated to the TRICON Organization. All dedicated support personnel will be accountable to the PepsiCo National Account Manager of AT&T. Those support people dedicated to the TRICON Organization may be assigned in cities designated by TRICON provided that major TRICON operations or divisional headquarters are retained in such cities. TRICON understands that AT&T Corp. considers that PepsiCo is acting as a "reseller" with respect to the provision of services by AT&T, and the parties hereto agree to cooperate in all matters relating to such services. The parties hereto understand and agree that AT&T services under PepsiCo's Tariff 12 Contract shall not be extended to the TRICON Organization after October 8, 1998 unless otherwise agreed in writing between the parties.

B. The Pizza Hut, Taco Bell and KFC businesses of the TRICON Organization can continue as active (non-terminated) Passport Customers under the PepsiCo, Inc. Lotus Passport Program agreement dated as of May __, 1995, incorporated herein by reference, through its extended termination date of May __, 1998 subject to their performance of all of their duties and obligations thereunder.

4. PepsiCo shall allow the TRICON Organization to continue to use the PepsiCo e-mail hub ("hub") for the purpose of maintaining e-mail service among the divisions of the TRICON Organization until 1/1/98. TRICON's use and management of the hub, and PepsiCo's maintenance thereof, shall be in a manner consistent with such use, management and maintenance currently provided. TRICON shall pay PepsiCo a one-time fee of \$110,000 at the Distribution Date for the use of the hub from that time until December 31, 1997.

TRICON will arrange to remove all users other than the PepsiCo Organization from the hub not later than 12/31/97, and shall cooperate with the PepsiCo Organization so that the hub is physically moved to a location within the PepsiCo Organization chosen by PepsiCo not later than 1/1/98, with continuity of use by the PepsiCo Organization to be maintained throughout. PepsiCo shall pay TRICON \$10,000 per PepsiCo accounting period, prorated for any partial period, from the Distribution Date until the physical move, for the management of the hub.

5. A. Programs and systems developed in-house by PepsiCo and utilized (exclusively or non-exclusively) in the restaurant business ("Internal Software") are listed on Exhibit D1 hereto. Each Internal Software application with respect to which it has been agreed to transfer a copy to TRICON for its use in the restaurant business ("Transferred Internal Application" or "Application") is noted on Exhibit D1. With respect to

each Transferred Internal Application:

- i) PepsiCo grants to TRICON a non-transferable and non-exclusive right and license to use the Application in its restaurant business;
- ii) The transfer to TRICON shall be accomplished no later than December 31, 1997, and PepsiCo shall not be responsible for running or maintaining such Application after the transfer;
- iii) Certain Applications require licenses from third parties as identified on Schedule D1, and the parties shall cooperate to arrange for the additional licenses needed, any additional license cost to be borne by TRICON;
- iv) Each Application is provided "as is", and without warranty of any kind;
- v) PEPSICO DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE; AND
- vi) PepsiCo and TRICON each assumes responsibility for its own use of such Application, and will indemnify and defend the other party (including reasonable attorneys fees) against any claim of a third party resulting from such use, and the party seeking such indemnity will give the other prompt written notice of all such claims and reasonably cooperate in the defense thereof.

B. Prepackaged systems commercially available from third-party vendors utilized by PepsiCo at Purchase, NY in the restaurant business ("Commercial Systems") are listed on Exhibit D2 hereto. No transfer to TRICON is being made of Commercial Systems. TRICON is solely responsible for obtaining its own license(s) at its cost and expense for any Commercial Licenses it desires to utilize after the Distribution Date.

6. The PepsiCo Organization shall continue to provide vendor information management ("VIM") services for TRICON Organization employee benefits after the Distribution for a mutually agreed time not to extend past 12/31/97. Such services, and the costs therefor, shall be as outlined in Exhibit C attached hereto, but no services shall include anything to do with 1998 "flexible benefits".

7. The parties will also furnish such other telecommunications, software and /or computing services as may be necessary or appropriate to carry out the terms, conditions and intent of the Employee Benefits Agreement entered into pursuant to Section 7 of the Separation Agreement.

8. TRICON agrees to indemnify and hold harmless PepsiCo and the PepsiCo Organization and its and their officers, employees and agents against any losses, claims, damages, judgments, liabilities or expenses (including reasonable counsel fees and expenses) resulting from (i) any negligent act or omission or willful misconduct of TRICON, the TRICON Organization, the PDS or any of its or their directors, officers, employees, consultants, contractors, or agents in performing their obligations hereunder; or (ii) any failure by TRICON or the PDS to properly provide the services described herein or any other default by TRICON or the PDS hereunder, including, without limitations, losses incurred as a result of any violations of software or other intellectual property rights on the part of TRICON, the TRICON Organization or the PDS, or (iii) the failure to utilize or pay for AT&T services pursuant to paragraph 3, except for the force majeure causes described in Section 9 below. PepsiCo agrees to indemnify and hold harmless TRICON and the TRICON Organization and its and their officers, employees and agents against any losses, claims, damages, judgments, liabilities or expenses (including reasonable counsel fees and expenses) resulting from any negligent act or omission or willful misconduct of PepsiCo or the PepsiCo Organization or any of its or their officers, employees, consultants, contractors, or agents in performing their obligations hereunder, or any default by PepsiCo hereunder, except for the force majeure causes described in Section 9 below. The provisions of this Section 8 shall survive the expiration or prior termination of this Agreement.

9. Delays in performance by TRICON and PepsiCo hereunder will be excused due solely to circumstances beyond its reasonable control, including but not limited to acts of God, fluctuations or non-availability of electrical power, heat, light or air conditioning.

10. All notices and requests in connection with this Agreement shall be made upon the respective parties in writing and shall be deemed given by hand delivery, effective upon receipt thereof, or via overnight courier, effective upon receipt. All notices shall be addressed as follows:

| | |
|----------------|--|
| If to PepsiCo: | PepsiCo, Inc. 700 Anderson Hill Road Purchase, New York 10577 Attention: [] |
|----------------|--|

If to TRICON: TRICON Global Restaurants, Inc.

or to such other address as the party to receive the notice so designates by written notice to the other party.

11. This Agreement and performance hereunder shall be governed by and construed in accordance with the laws of the State of North Carolina.

12. It is expressly understood that neither PepsiCo nor TRICON has the authority to bind the other to any third person, or otherwise to act in any way as the representative of the other, unless otherwise expressly agreed to in writing signed by both parties hereto.

13. This Agreement and the rights and duties hereunder shall not be assignable by the other party except with the prior written consent to such assignment by the other party.

14. Each party shall keep confidential all information relating to the business of the other party which it obtains as a result of the services provided under this Agreement. The foregoing shall not apply with respect to any information (i) that is or becomes publicly known through no fault of the party receiving the information (the "Receiver"); (ii) that is legally obtained by the Receiver from a third party believed by the Receiver to be legally entitled to disclose it; (iii) that is required to be disclosed pursuant to a requirement of a government agency or law; (iv) that can be documented through the Receiver's files as known to the Receiver prior to receipt pursuant to this Agreement, except with respect to data processed by PDS under this Agreement; or (v) that is developed by or for the Receiver, independent of activities under this Agreement.

15. Each party acknowledges that it has read this Agreement, understands it, and agrees to be bound by its terms and further agrees that it is the complete and exclusive statement of the agreement between the parties, which supersedes and merges all prior proposals, understandings and all other agreements, oral and written between the parties relating to the subject matter of this Agreement. The Agreement may not be modified or altered except by written instrument duly executed by both parties.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement as of the date and year first written above.

TRICON Global Restaurants, Inc. PepsiCo, Inc.

By: _____ By: _____

**EXHIBIT A TO TELECOMMUNICATIONS, SOFTWARE AND
COMPUTING SERVICES AGREEMENT
PDS SERVICES AND SUPPORT**

TABLE OF CONTENTS TO EXHIBIT A

- I. PDS Obligations
- II. PDS Support Areas
- III. Maintenance Activities
- IV. PDS-PepsiCo Organization Management Contacts
- V. Problem Resolution Procedures
- VI. Hours of Operation
- VII. Project Accountability
- VIII. Hardware/Software Strategy

I. PDS Obligations

The PDS shall provide cost effective information processing services to the PepsiCo Organization to enable the PepsiCo Organization to attain its business objectives, based upon the scope of the work set forth in this Exhibit A, and for the fees (and based upon the other terms and conditions) set forth in the attached Telecommunications, Software and Computing Services Agreement (the "Services Agreement"). The parties hereby confirm their mutual intention that, unless expressly provided to the contrary herein, the services to be provided by PDS to the PepsiCo Organization during the term of this Agreement shall be substantially the same services as have been provided by PDS to the PepsiCo Organization prior to the effective date of this Agreement. The parties shall execute and deliver such further instruments, documents, conveyances and assurances, and take such other action (including, without limitation, amending, modifying or supplementing this Agreement), as may be necessary or appropriate to carry out the foregoing intention of the parties.

II. PDS Support Areas

The PDS will provide support to the PepsiCo Organization in the following major categories:

Technical Services: This group supports the mainframe operating systems (MVS & VM) along with 400 different products that run on the mainframes. Software standardization, keeping all products on supported releases, and maximum availability are the group's primary services.

Computer Resources: This group supports the storage areas (DASD and Tape) associated with mainframe data processing. Quarterly performance reports are provided to each division, along with capacity planning and disaster recovery.

Network Services: The network services group will continue to provide expertise and management for the PepsiCo e-mail hub and support mainframe networking software along with the routers, bridges, hubs and other telecomm equipment associated with the PepsiCo Wide Area Network (WAN) in a manner consistent with their current delivery of services. In addition, the network services group will continue to provide polling expertise for PCNA bottlers until other such arrangements can be made. Network management will be provided according to the existing arrangement with PCNA.

Computer Operations: This group monitors the system consoles, mounts tapes, and coordinates all hardware installs and environmental changes supporting the raised floor areas. In addition, this group handles the mailing and receiving of tapes, coordinates the change control process to ensure minimum service disruption when hardware and software changes are implemented. This group takes the problem calls from divisional help desks, open problem tickets, and assigns the ticket to the appropriate technician.

III. Maintenance Activities Standard software and hardware maintenance is scheduled on Sundays from 6:00 a.m. - 10:00 p.m. CST and documented weekly through PDS change control system. Non-standard maintenance (CPU swapout, operating system upgrades, etc.) require an extended outage time and is coordinated through a divisional liaison.

IV. PDS-PepsiCo Organization Management Contacts PDS and the PepsiCo Organization will each designate, and inform the other of, a representative to resolve any issues with priority setting or problem resolution.

V. Problem Resolution Procedures Problems are phoned in to PDS operations and then assigned to one of the PDS technicians. There are four severity levels which the division can assign to a problem. The PDS provides guidelines for assigning the severity level as well as problem resolution guidelines and timelines. All PDS technicians and managers carry pagers, and the primary on-call technician for the different functions carries a cell phone. The PepsiCo Organization has access to the PDS change control system for data center communications.

VI. Hours of Operation The PDS shall conduct its operations at all times, 24 hours a day, every day until the Transfer (as defined in the Services Agreement). The technicians are on-site during normal business hours. (Monday through Friday and pageable at all times.)

VII. Project Accountability In scope projects are agreed upon by each division and the PDS during the budgeting cycle of the previous year. Out-of-scope projects are handled on a best effort or at an additional cost to the division. The PDS is project/lead coordinator and provides project plans as well as the testing requirement that the division must provide.

VIII. Hardware/Software Strategy PDS, in providing its services hereunder, shall implement a PepsiCo Organization hardware and software strategy to isolate the PepsiCo Organization from the rest of the divisions, providing the PepsiCo Organization with its own CPU and non-shared DASD and Tape devices. Other strategies to be implemented by PDS include hardware and software asset management to complement the planned Transfer.

EXHIBIT B

HARDWARE AND SOFTWARE TO BE TRANSFERRED

Paradyne Pixnet
Barr RJE

E-Mail Hub (R/S/6000)
Routers
DSU's
Intelligent Hubs

[TO BE COMPLETED]

Exhibit C

Spin-off - Telecommunications, Software and Computing Services Agreement

-Accept employee update files from the division, perform standard editing and reporting back to the divisions, and perform data feeds to benefits vendors via the VIM system. The following rates would apply:

-For regular ongoing fees according to the current production schedule to the following vendors:

-\$1,500 per division (Pizza Hut, Taco Bell and KFC Divisions) input feed per period (VIMIN) \$250 per vendor feed period HBA Premium Reconciliation Hyatt Group Legal Eye Care Plan of America Lenscrafters
-\$1,500 per vendor feed per period Aetna Inforce United Healthcare Inforce
CIGNA DMO

John Hancock Managed STD

MetLife Dental

KPMG JumpStart

Merrill Lynch weekly demographics State Street Bank demographics -VIM will not provide services for the following vendor feeds. They will stop as of the Distribution date:

Mercer Pension Information Line

Mercer Pension Valuation Worker Compensation

Merrill Lynch Mini-Grant updates Merrill Lynch Annual SharePower Grant Benefacts Mini Grant update statements Benefacts Total Compensation Statement Benefacts SharePower Statement Group Insurance Billing -Special processing, programming or general support above and beyond ongoing vendor processing. These could be for example, reports, data dumps, new programs, updates to current programs, VIM Reporter development.

\$450 per day

-VIM Reporter Access \$500 per period

Exhibit D

EXHIBIT D1

In-House Developed Applications Transition To TRICON

| Application | Name | # Users | Front -End | Back End | Other tools | Size | Vendor | Estimated License Fees | Telecomm | Start Up Effort |
|--|--------|---------|-----------------|------------------|----------------------|------------------------|----------------------------|------------------------|-------------------------------|-----------------|
| Accounting | | | | | | | | | | |
| Data Collection | FDO | | Visual Basic 3 | MS-Access/Oracle | Visual Tools | | Microsoft, Oracle | | Remote MS-Mail or FTP | |
| Personnel | | | | | | | | | | |
| Executive Comp. | ECLIPS | 1-3 | Power-Builder | Oracle | Word/Excel MS-Access | 200MB F/S 1 GIG D/B | Sybase, Oracle, Microsoft | | | 30 |
| HR-EIS | HR-EIS | 10 | Power-Builder | Oracle/Watcom | | 50MB F/S 100MB D/B | Sybase, Oracle, Microsoft | | MS-Mail | 10 |
| International Personnel | | | | | | | | | | |
| International Personnel System (includes Bonus, Benefits, Pension) | IPS | 13-18 | Power-Builder | SQL *Server; NT | C++ | 125MB D/B | Sybase, Microsoft | | PCI WorldOne WAN | 30 |
| Human Resource Planning (HRP) | HRP | 13-18 | MS-Access 2 | MS-Access 2 | | 25MB | Microsoft | | PCI WorldOne WAN | 10 |
| Treasury | | | | | | | | | | |
| Bank Administrator | BAS | 1 | SQL*Forms | Oracle | | 15MB | Oracle | | | 10 |
| Foreign Exchange | FX | 1 | MS-Access 2 | MS-Access 2 | Word | 11MB | Microsoft | | terminal dependent on Reuters | 3 |
| Capital Markets | CMS | 2 | MS-Access 2 | MS-Access 2 | | 5MB | Microsoft | | | |
| Securities Guarantee | STS | 2 | Power Builder 4 | Oracle 7.2 | Word | 20MB | Sybase, Oracle | | | 20 |
| Intl. Entity Funding | | 1 | MS-Access 2 | MS-Access 2 | | 5MB | Microsoft | | | 2 |
| Planning | | | | | | | | | | |
| Capex Tracking | Capex | 2-3 | MS-Access 7 | MS-Access 7 | | 20MB | Microsoft | | | 1 |
| Restaurant Unit | SLU | 2-3 | MS-Access 7 | MS-Access 7 | | 50MB | Microsoft | | | 1 |
| Audit | | | | | | | | | | |
| Audit Planning & Tracking | APT | 12-16 | Power Builder 4 | Oracle 7.2 | | 25MB | Sybase, Oracle | | WAN to Hong Kong and Richmond | 15 |
| Law | | | | | | | | | | |
| International Standards Form Document | ISFD | 2-6 | Lotus Notes 4 | Lotus Notes 4 | | 45MB | IBM | | | 1 |
| Public Affairs | | | | | | | | | | |
| Corporate Contributions | | 3 | Visual Basic 4 | MS-Access 2 | Crystal Reports | 20MB | Microsoft, Crystal Reports | | | 10 |
| Political Grassroot | PGS | 1-3 | MS-Access 2 | MS-Access 2 | | 30MB | Microsoft | | | 10 |
| Note: \$19,200 for legislative data per year | | | | | | | | | | |

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TRICON GLOBAL RESTAURANTS, INC. COMBINED FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED DECEMBER 28, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000,000

| PERIOD TYPE | Year |
|----------------------------|-------------|
| FISCAL YEAR END | Dec 28 1996 |
| PERIOD END | Dec 28 1996 |
| CASH | 137 |
| SECURITIES | 50 |
| RECEIVABLES | 134 |
| ALLOWANCES | 9 |
| INVENTORY | 88 |
| CURRENT ASSETS | 962 |
| PP&E | 6,852 |
| DEPRECIATION | 2,802 |
| TOTAL ASSETS | 6,520 |
| CURRENT LIABILITIES | 1,416 |
| BONDS | 231 |
| COMMON | 0 |
| PREFERRED MANDATORY | 0 |
| PREFERRED | 0 |
| OTHER SE | 4,239 |
| TOTAL LIABILITY AND EQUITY | 6,520 |
| SALES | 9,738 |
| TOTAL REVENUES | 10,232 |
| CGS | 6,008 |
| TOTAL COSTS | 8,719 |
| OTHER EXPENSES | 0 |
| LOSS PROVISION | 4 |
| INTEREST EXPENSE | 300 |
| INCOME PRETAX | 78 |
| INCOME TAX | 125 |
| INCOME CONTINUING | (53) |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 0 |
| NET INCOME | (53) |
| EPS PRIMARY | 0.00 |
| EPS DILUTED | 0.00 |

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TRICON GLOBAL RESTAURANTS, INC. CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE 12 WEEKS ENDED MARCH 22, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000,000

| | |
|----------------------------|-------------|
| FISCAL YEAR END | Dec 27 1997 |
| PERIOD END | Mar 22 1997 |
| PERIOD TYPE | 3 MOS |
| CASH | 117 |
| SECURITIES | 22 |
| RECEIVABLES | 137 |
| ALLOWANCES | 11 |
| INVENTORY | 87 |
| CURRENT ASSETS | 1,002 |
| PP&E | 6,770 |
| DEPRECIATION | 2,816 |
| TOTAL ASSETS | 6,413 |
| CURRENT LIABILITIES | 1,411 |
| BONDS | 222 |
| COMMON | 0 |
| PREFERRED MANDATORY | 0 |
| PREFERRED | 0 |
| OTHER SE | 4,170 |
| TOTAL LIABILITY AND EQUITY | 6,413 |
| SALES | 2,123 |
| TOTAL REVENUES | 2,237 |
| CGS | 1,317 |
| TOTAL COSTS | 1,889 |
| OTHER EXPENSES | 0 |
| LOSS PROVISION | 2 |
| INTEREST EXPENSE | 66 |
| INCOME PRETAX | 96 |
| INCOME TAX | 44 |
| INCOME CONTINUING | 52 |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 0 |
| NET INCOME | 52 |
| EPS PRIMARY | 0.00 |
| EPS DILUTED | 0.00 |

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