

YUM BRANDS INC

FORM 10-K (Annual Report)

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Address	1441 GARDINER LANE LOUISVILLE, Kentucky 40213
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Industry	Restaurants
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED] for the fiscal year ended December 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file number 1-13163

TRICON GLOBAL RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of incorporation or organization)

13-3951308

(I.R.S. Employer Identification No.)

1441 Gardiner Lane, Louisville, Kentucky
(Address of principal executive offices)

40213
(Zip Code)

Registrant's telephone number, including area code: (502) 874-8300

	<u>Title of Class</u>	<u>Name of Each Exchange On which Registered</u>
Securities registered pursuant to 12(b) of the Act:	Common Stock, no par value Rights to purchase Series A Participating Preferred Stock, no par value, of the Registrant	New York Stock Exchange New York Stock Exchange
Securities registered pursuant to 12(g) of the Act:	None	

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

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

The aggregate market value of the voting stock (which consists solely of shares of Common Stock) held by non-affiliates of the registrant as of March 19, 2001 computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange Composite Tape on such date was \$5,446,619,649.

The number of shares outstanding of the Registrant's Common Stock as of March 19, 2001 was 147,086,677 shares.

Portions of the definitive proxy statement furnished to shareholders of the Registrant in connection with the annual meeting of shareholders to be held on May 17, 2001, are incorporated by reference into Part III.

PART I

Item 1. Business.

TRICON Global Restaurants, Inc. (referred to herein as "Tricon" or the "Company") was incorporated under the laws of the state of North Carolina in 1997. The principal executive offices of Tricon are located at 1441 Gardiner Lane, Louisville, Kentucky 40213, and its telephone number at that location is (502) 874-8300.

Tricon, the registrant, together with its restaurant operating companies and other subsidiaries, is referred to in this Form 10-K annual report ("Form 10-K") as the Company. Prior to October 6, 1997, the business of the Company was conducted by PepsiCo, Inc. ("PepsiCo") through various subsidiaries and divisions.

This Form 10-K should be read in conjunction with the Cautionary Statements on pages 36 through 37.

A. General Development of Business

In January 1997, PepsiCo announced its decision to spin-off its restaurant businesses to shareholders as an independent public company (the "Spin-off"). Effective as of October 6, 1997, PepsiCo disposed of its restaurant businesses by distributing all of the outstanding shares of common stock of Tricon to its shareholders. Tricon's Common Stock began trading on the New York Stock Exchange on October 7, 1997 under the symbol "YUM." (Prior to that date, from September 17, 1997 through October 6, 1997, Tricon's Common Stock was traded on the New York Stock Exchange on a "when-issued" basis). As used in this Form 10-K, references to Tricon or the Company include the historical operating results of the businesses and operations transferred to the Company in the Spin-off. Additionally, throughout this Form 10-K, the terms "restaurants," "stores" and "units" are used interchangeably.

B. Financial Information about Operating Segments

Tricon consists of four operating segments: KFC, Pizza Hut, Taco Bell and TRICON Restaurants International ("TRI" or "International"). For financial reporting purposes, management considers the three U.S. operating segments to be similar and, therefore, has aggregated them into a single reportable operating segment. Operating segment information for the years ended December 30, 2000, December 25, 1999 and December 26, 1998 is included in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the related Consolidated Financial Statements and footnotes in Part II, Item 7, pages 18 through 37; and Part II, Item 8, pages 38 through 75, respectively, of this Form 10-K.

C. Narrative Description of Business

General

Tricon is the world's largest quick service restaurant ("QSR") company based on number of system units, with more than 30,400 units in over 100 countries and territories. The Tricon organization is currently made up of four operating companies organized around its three core concepts; KFC, Pizza Hut and Taco Bell (the "Concepts"). The four operating companies are KFC, Pizza Hut, Taco Bell and Tricon Restaurants International. KFC is based in Louisville, Kentucky; Pizza Hut and Tricon Restaurants International are based in Dallas, Texas; and Taco Bell is based in Irvine, California.

Restaurant Concepts

Through its three widely-recognized Concepts, the Company develops, operates, franchises and licenses a worldwide system of restaurants which prepare, package and sell a menu of competitively priced food items. These restaurants are operated by the Company or, under the terms of franchise or license agreements, by franchisees or licensees who are independent third parties, or by international affiliates in which we own a non-controlling equity interest ("Unconsolidated Affiliates").

In each Concept, consumers can dine in and/or carry out food. In addition, Taco Bell and KFC offer a drive-thru option in many stores, and Pizza Hut offers a drive-thru option on a much more limited basis. 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.

The franchise program of the Company is designed to assure consistency and quality. The Company is selective in granting franchises and is not in the practice of franchising to investor groups or passive investors. Under the standard franchise agreement, franchisees supply capital-initially by paying a franchise fee to Tricon, purchasing or leasing the land and building and purchasing equipment, signs, seating, inventories and supplies, and over the longer term, by reinvesting in the business. Franchisees then contribute to the Company's revenues through the payment of royalties based on a percentage of sales.

The Company believes that it is important to maintain strong and open relationships with its franchisees and their representatives. To this end, the Company 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.

The Company is actively pursuing the strategy of multibranding, where two or more of its Concepts are operated in a single restaurant unit. By combining two or more of its Concepts in one location, particularly those that have complementary daypart strengths, the Company believes it can generate higher sales volumes from such units, significantly improve returns on per unit investment, and enhance its ability to penetrate a greater number of trade areas throughout the U.S. and internationally. Through the consolidation of market planning initiatives across all three of its Concepts, the Company has established multi-year development plans by trade area to optimize franchise and company penetration of all three Concepts and to improve returns on its existing asset base. The development of these multibranded units may be limited, in some instances, by prior development and/or territory rights granted to franchisees.

As of year-end 2000, there were 1,195 units in the worldwide system housing more than one Concept. Of these, 1,160 units offer food products from two of the Concepts (a "2n1"), and 35 units offer food products from each of the Concepts (a "3n1"). On a much more limited basis, the Company is testing multi-brand options involving one of the Concepts and a restaurant concept not owned by or affiliated with the Company.

Restaurant Operations

Through its Concepts, Tricon develops, operates, franchises and licenses a system of both traditional and non-traditional QSR restaurants. Traditional units feature dine-in, carryout and, in some instances, drive-thru or delivery services. Non-traditional units, which are typically licensed outlets, include express units and kiosks which have a more limited menu and operate in non-traditional locations like airports, gasoline service

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stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

The Company's restaurant management structure varies by concept and unit size. Generally, each Company restaurant is led by a restaurant general manager ("RGM"), together with one or more assistant managers, depending on the operating complexity and sales volume of the restaurant. Each restaurant usually has between 10 and 35 hourly employees, most of whom work part-time. The Company's four operating companies 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 control procedures. The restaurant management teams are responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. RGMs' efforts are monitored by area managers or market coaches, who work with approximately nine to eleven restaurants. The Company's restaurants are visited from time to time by various senior operators within their respective organizations to help ensure adherence to system standards.

RGMs attend and complete their respective operating company's required 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.

Following is a brief description of each Concept.

KFC

KFC 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. KFC now has more than 5,300 units in the U.S., and almost 6,000 units in 84 countries and territories outside the U.S. Approximately 25 percent of the U.S. units and 19 percent of the non-U.S. units are operated by the Company.

While product offerings vary throughout the worldwide system, all KFC restaurants offer fried chicken products and many also offer non-fried chicken-on-the-bone products. These products are primarily marketed under the names Original Recipe, Extra Tasty Crispy and Tender Roast. Other principal entree items include chicken sandwiches and Colonel's Crispy Strips, and, seasonally, Chunky Chicken Pot Pies. KFC restaurants also offer a variety of side items, such as biscuits, mashed potatoes and gravy, coleslaw, corn, Potato Wedges (in the U.S.) and french fries (outside of the U.S.), as well as desserts and non-alcoholic beverages. Restaurant decor is characterized by the image of the Colonel, and KFC's distinctive packaging includes the "Bucket" of chicken.

As of year-end 2000, KFC was the leader in the U.S. chicken QSR segment among companies featuring chicken as their primary product offering, with a 53 percent market share in that segment which is almost 6 times that of its closest national competitor.

Pizza Hut

Pizza Hut operates in 88 countries and territories throughout the world and features a variety of pizzas, which may include The Big New Yorker, Pan Pizza, Thin 'n Crispy, Pizzeria Stuffed Crust, Hand Tossed, Sicilian and The Insider, each offered with a variety of different toppings. Pizza Hut also features beverages

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and, in some restaurants, breadsticks, pasta, salads and sandwiches. The distinctive Pizza Hut image typically 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. 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 2000, the Concept had almost 8,000 units in the U.S., and more than 4,100 units outside of the U.S. Approximately 23 percent of the U.S. units and 16 percent of the non-U.S. units are operated by the Company.

As of year-end 2000, Pizza Hut was the leader in the U.S. pizza QSR segment, with a 22 percent market share in that segment which is double its closest national competitor.

Taco Bell

Taco Bell operates in 14 countries and territories throughout the world and specializes in Mexican-style food products, including various types of tacos, burritos, Gorditas, Chalupas, salads, nachos and other related items. Taco Bell units feature a distinctive bell logo on their signage.

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 year-end 2000, there were more than 6,700 Taco Bell units within the U.S., and approximately 250 units outside of the U.S. Approximately 17 percent of the U.S. units and 18 percent of the non-U.S. units are operated by the Company.

As of year-end 2000, Taco Bell was the leader in the U.S. Mexican QSR segment, with a market share in that segment of 72 percent.

International

The international operations of the three Tricon Concepts are consolidated into a separate operating company, which has directed its focus toward franchise system growth and concentration of Company development in those markets in which the Company believes sufficient scale is achievable. Tricon Restaurants International has developed global systems and tools designed to improve marketing, operations consistency, product delivery, market planning and development and franchise support capability.

As of year-end 2000, the Company had almost 10,400 units in the system outside of the U.S. Approximately 18 percent of the total non-U.S. units are operated by the Company. In 2000, TRI accounted for 35 percent of the Company's total system sales and 29 percent of the Company's total revenues.

Operating Structure

In all three of its Concepts, the Company either operates units or they are operated by independent franchisees or licensees. Franchisees can range in size from individuals owning just a few units to large publicly traded companies. In addition, the Company owns non-controlling interests in Unconsolidated Affiliates who operate as franchisees. As of year-end 2000, approximately 20 percent of Tricon's worldwide units were operated by the Company, approximately 63 percent by franchisees, approximately 11 percent by licensees and approximately 6 percent by Unconsolidated Affiliates.

Refranchising

Beginning in 1995, the Company began rebalancing the system toward more franchisee ownership to focus its resources on what it believes are high growth potential markets where it can more efficiently leverage its

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scale. Since the strategy began, the Company has refranchised 5,895 units: 757 units in 2000, 1,435 units in 1999, 1,373 units in 1998, 1,407 units in 1997, 659 units in 1996 and 264 units in 1995. As a result of the Company's refranchising activity, coupled with new points of distribution added by franchisees and licensees and the program to upgrade the asset portfolio by closing underperforming stores, the Company's overall ownership of total system units declined 27 percentage points in six years from 47 percent at year-end 1994 to 20 percent at year-end 2000. The refranchising program is expected to be substantially completed in 2001. In the future, the Company may sell additional stores to, or purchase stores from, franchise or license operators as it deems appropriate.

Supply and Distribution

The Company is a substantial purchaser of a number of food and paper products, equipment and other restaurant supplies. In 1996, to ensure reliable sources, the Company consolidated most of its worldwide food and supply procurement activities under an internal organization now called Supply Chain Management, which sources, negotiates contracts and buys specified food and supplies from hundreds of suppliers in a significant number of countries and territories. Supply Chain Management monitors market trends and seeks 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, paper and packaging materials, pinto beans, pork, seasonings, soft drink beverage products and tomato products.

Effective as of March 1, 1999, the Company, along with the KFC National Purchasing Cooperative, Inc. and representatives of the Company's KFC, Pizza Hut and Taco Bell franchisee groups, formed the Unified FoodService Purchasing Co-op, LLC (the "Unified Co-op") for the purpose of purchasing certain restaurant products and equipment in the U.S. The core mission of the Unified Co-op is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment. This arrangement combines the purchasing power of the Company and franchisee restaurants in the U.S., which the Company believes will further leverage the system's scale to drive cost savings and effectiveness in the purchasing function. In 2000, purchasing volume for the Unified Co-op was approximately \$3.6 billion, making it the largest purchasing cooperative of its kind in the QSR industry. The Company also believes that the Unified Co-op has resulted (and should continue to result) in an even closer alignment of interests and a stronger relationship with its franchisee community.

To ensure the wholesomeness of all food products, suppliers are required to meet or exceed strict quality control standards. Long-term contracts and long-term vendor relationships have been used to ensure availability of products. The Company has not experienced any significant continuous shortages of supplies, and alternative sources for most of these products are generally available. 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.

Historically, many food products, paper and packaging supplies, and equipment used in the operation of the Company's restaurants were distributed to individual Company units by PepsiCo Food Services ("PFS"), which was PepsiCo's restaurant distribution operation prior to its disposition in 1997 as described below. PFS also sold and distributed these same items to many franchisees and licensees that operate in the three restaurant systems, though principally to Pizza Hut and Taco Bell franchised/licensed units in the U.S. In May 1997, KFC, Pizza Hut and Taco Bell entered into a five-year Sales and Distribution Agreement with PFS to distribute the majority of their food and supplies for Company stores, subject to PFS maintaining certain performance levels. The Sales and Distribution Agreement became effective upon the closing of the sale by PepsiCo of the distribution 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.

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Effective as of November 1, 1998, Tricon, KFC, Pizza Hut and Taco Bell entered into an amended and restated Sales and Distribution Agreement with AmeriServe (the "Amended AmeriServe Agreement") which provided for a two and one-half year extension of the term of the original agreement with PFS through January 2005, as well as an additional two and one-half year renewal option that could extend the contract, based on market rates, through July 2007. The Amended AmeriServe Agreement substantially modified the way in which distribution fees are calculated, and included incentives for utilizing more efficient distribution practices by both parties. Under the terms of the Amended AmeriServe Agreement, Company KFC, Pizza Hut and Taco Bell restaurants in the U.S. could generally not use alternative distributors.

On January 31, 2000, AmeriServe filed for protection under Chapter 11 of the U.S. Bankruptcy Code. A plan of reorganization for AmeriServe (the "POR") was approved by the U.S. Bankruptcy Court on November 28, 2000. The POR provided for the sale of the AmeriServe U.S. distribution business to McLane Company, Inc., a subsidiary of Wal-Mart ("McLane"), effective on November 30, 2000. In connection with this sale, the Company agreed to, among other things, an extension of the Amended AmeriServe Agreement through October 31, 2010. Beginning on November 30, 2000, McLane assumed all supply and distribution responsibilities under the

Amended AmeriServe Agreement, as well as under distribution agreements covering a substantial portion of the Pizza Hut and Taco Bell franchise system, and, to a lesser extent, the KFC franchise system.

A discussion of the impact of the AmeriServe bankruptcy on the Company is contained in Note 21 to the Consolidated Financial Statements on pages 69 through 71.

Tricon, KFC, Pizza Hut, Taco Bell and TRI have also entered into multi-year agreements with Pepsi-Cola Company regarding the sale of Pepsi-Cola beverage products at Company stores.

Sale of Non-Core Concepts

In late 1996, the Company set a strategy to focus human and financial resources on growing the sales and profitability of its core Concepts. As a result, the non-core restaurant businesses of California Pizza Kitchen, Chevys Mexican Restaurant, D'Angelo's Sandwich Shops, East Side Mario's and Hot 'n Now (collectively, the "Non-core Businesses") were sold in 1997. The operations of these Non-core Businesses were not material to the operations of Tricon.

Trademarks and Patents

The Company has numerous registered trademarks and service marks. The Company believes that many of these marks, including its Kentucky Fried Chicken®, KFC®, Pizza Hut® and Taco Bell® trademarks, have significant value and are materially important to its business. The Company's policy is to pursue registration of its important trademarks whenever feasible and to oppose vigorously any infringement of its trademarks. The use of the Company's 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 generally last indefinitely. The Company also has certain patents on restaurant equipment, which, while valuable, are not material to its business.

Working Capital

Information about the Company's working capital is included in MD&A in Part II, Item 7, pages 18 through 37 of this Form 10-K and the Consolidated Statements of Cash Flows in Part II, Item 8, pages 38 through 75 of this Form 10-K.

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Customers

The Company's business is not dependent upon a single customer or small group of customers.

Seasonal Operations

The Company does not consider its operations to be seasonal to any material degree.

Backlog Orders

Company restaurants have no backlog orders.

Government Contracts

No material portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

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; currency fluctuations; demographic trends; traffic patterns; the type, number and location of competing restaurants; and disposable purchasing power. The Company 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, suitable real estate sites and qualified franchisees.

Research and Development ("R&D")

The Company operates R&D facilities in Louisville, Kentucky; Dallas, Texas; and Irvine, California. The Company expensed \$24

million in both 2000 and 1999 and \$21 million in 1998 for R&D activities. From time to time, independent suppliers also conduct research and development activities for the benefit of the Tricon restaurant system.

Environmental Matters

The Company is not aware of any federal, state or local environmental laws or regulations that will materially affect its earnings or competitive position, or result in material capital expenditures. However, the Company cannot predict the effect on its operations of possible future environmental legislation or regulations. During 2000, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

Government Regulation

U.S. The Company 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. In addition, each of the Tricon operating companies must comply with various state laws that regulate the franchisor/franchisee relationship. To date, the Company has not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

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A small portion of Pizza Hut's net sales is attributable to the sale of beer and wine. A license is required in most cases 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 Company is also subject to federal and state laws governing such matters as employment and pay practices, overtime, tip credits and working conditions. The bulk of the Company's employees are paid on an hourly basis at rates related to the federal minimum wage.

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 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. We believe that expenditures, if required, would not have a material adverse effect on the Company's operations.

International. Internationally, the Company's restaurants are subject to national and local laws and regulations which are similar to those affecting the Company's U.S. 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. International compliance with environmental requirements has not had a material adverse effect on the Company's results of operations, capital expenditures or competitive position.

Employees

As of year-end 2000, the Company employed over 190,000 persons, approximately 70 percent of whom were part-time employees. Over 65 percent of the Company's employees are employed in the U.S. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. Most Company employees are paid on an hourly basis. The Company's non-U.S. employees are subject to numerous labor council relationships that vary due to the diverse cultures in which the Company operates. The Company considers its employee relations to be good.

D. Financial Information about International and U.S. Operations

Financial information about International and U.S. markets is incorporated herein by reference from Selected Financial Data, MD&A and the related Consolidated Financial Statements and footnotes in Part II, Item 6, page 17; Part II, Item 7, pages 18 through 37; and Part II, Item 8, pages 38 through 75, respectively, of this Form 10-K.

Item 2. Properties.

As of year-end 2000, Tricon Concepts owned approximately 1,600 and leased approximately 2,700 units in the U.S.; and TRI owned approximately 400 and leased approximately 1,400 units outside the U.S. Company restaurants in the U.S. which are not owned are generally leased for initial terms of 15 or 20 years and generally have renewal options; however, Pizza Hut delivery/carryout units in the U.S. generally

are leased for significantly shorter initial terms with short renewal options. Pizza Hut leases TRI's and 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 leases office facilities for accounting services in both Louisville, Kentucky, and Albuquerque, New Mexico. Additional information about the Company's properties is included in the Consolidated Financial Statements and footnotes in Part II, Item 8, pages 38 through 75, of this Form 10-K.

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

Item 3. Legal Proceedings.

The Company is subject to various claims and contingencies related to lawsuits, taxes, real estate, environmental and other matters arising in the normal course of business. The following is a brief description of the more significant of these categories of lawsuits and other matters. Except as stated below, the Company believes that the ultimate liability, if any, in excess of amounts already provided for in these matters, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows.

Franchising

A substantial number of the restaurants of each of the Concepts are franchised to independent businesses operating under arrangements with the Concepts. In the course of the franchise relationship, occasional disputes arise between the Company and its franchisees relating to a broad range of subjects, including, without limitation, quality, service, and cleanliness issues, contentions regarding grants, transfers or terminations of franchises, territorial disputes and delinquent payments.

Suppliers

The Company, through approved distributors, purchases food, paper, equipment and other restaurant supplies from numerous independent suppliers throughout the world. These suppliers are required to meet and maintain the Company's standards and specifications. On occasion, disputes arise between the Company and its suppliers on a number of issues, including, but not limited to, compliance with product specifications and the Company's business relationship with suppliers.

Employees

At any given time, the Company employs hundreds of thousands of persons, primarily in its restaurants. In addition, thousands of persons, from time to time, seek employment with the Company and its restaurants. From time to time, disputes arise regarding employee hiring, compensation, termination and promotion practices.

Like some other retail employers, Pizza Hut and Taco Bell recently have been faced in a few states with allegations of purported class-wide wage and hour violations.

On May 11, 1998, a purported class action lawsuit against Pizza Hut, Inc., and one of its franchisees, PacPizza, LLC, entitled Aguardo, et al. v. Pizza Hut, Inc., et al., ("Aguardo") was filed in the Superior Court of the State of California of the County of San Francisco. The lawsuit was filed by three former Pizza Hut restaurant general managers purporting to represent approximately 1,300 current and former California restaurant general managers of Pizza Hut and PacPizza, LLC. The lawsuit alleges violations of state wage and hour laws involving unpaid overtime wages and vacation pay and seeks an unspecified amount in damages. On January 12, 2000, the Court certified a class of approximately 1,300 current and former restaurant general managers. The Court amended the class on June 1, 2000 to include approximately 150 additional current and former restaurant general

managers. This lawsuit is in the early discovery phase, and no trial date has been set.

On August 29, 1997, a class action lawsuit against Taco Bell Corp., entitled Bravo, et al. v. Taco Bell Corp., ("Bravo") was filed in the Circuit Court of the State of Oregon of the County of Multnomah. The lawsuit was filed by two former Taco Bell shift managers purporting to represent approximately 17,000 current and former hourly employees statewide. The lawsuit alleges violations of state wage and hour laws, principally involving unpaid wages including overtime, and rest and meal period violations, and seeks an unspecified amount in damages. Under Oregon class action procedures, Taco Bell was allowed an opportunity to "cure" the unpaid wage and hour allegations by opening a claims process to all putative class members prior to certification of the class. In this cure process, Taco Bell has currently paid out less than \$1 million. On January 26, 1999, the Court certified a class of all current and former shift managers and crew members who claim one or more of the alleged violations. A trial date of November 2, 1999 was set. However, on November 1, 1999, the Court issued a proposed order postponing the trial and establishing a pre-trial claims process. The final order regarding the claims process was entered on January 14, 2000. Taco Bell

moved for certification of an immediate appeal of the Court-ordered claims process and requested a stay of the proceedings. This motion was denied on February 8, 2000. Taco Bell appealed this decision to the Supreme Court of Oregon and the Court denied Taco Bell's Writ of Mandamus on March 21, 2000. A Court-approved notice and claim form was mailed to approximately 14,500 class members on January 31, 2000. A Court ordered pre-trial claims process went forward, and hearings were held for claimants employed or previously employed in selected Taco Bell restaurants. After the initial hearings, the damage claims hearings were discontinued. Trial began on January 4, 2001. On March 9, 2001, the jury reached verdicts on the substantive issues in this matter. A number of these verdicts were in favor of the Taco Bell position; however, certain issues were decided in favor of the plaintiffs. A number of procedural issues, including possible appeals, remain to determine the ultimate damages in this matter.

We have provided for the estimated costs of the Aguado and Bravo litigations, based on a projection of eligible claims (including claims filed to date, where applicable), the cost of each eligible claim, the estimated legal fees incurred by plaintiffs and the results of settlement negotiations in these and other wage and hour litigation matters. Although the outcome of these lawsuits cannot be determined at this time, we believe the ultimate cost of these cases in excess of the amounts already provided will not be material to our annual results of operations, financial condition or cash flows. Any provisions have been recorded in unusual items.

On October 2, 1996, a class action lawsuit against Taco Bell Corp., entitled Mynaf, et al. v. Taco Bell Corp. was filed in the Superior Court of the State of California of the County of Santa Clara. The lawsuit was filed by two former restaurant general managers and two former assistant restaurant general managers purporting to represent all current and former Taco Bell restaurant general managers and assistant restaurant general managers in California. The lawsuit alleged violations of California wage and hour laws involving unpaid overtime wages, and violations of the State Labor Code's record-keeping requirements. The complaint also included an unfair business practices claim. Plaintiffs claimed individual damages ranging from \$10,000 to \$100,000 each. On September 17, 1998, the court certified a class of approximately 3,000 current and former assistant restaurant general managers and restaurant general managers. Taco Bell petitioned the appellate court to review the trial court's certification order. The petition was denied on December 31, 1998. Taco Bell then filed a petition for review with the California Supreme Court, and the petition was subsequently denied. Class notices were mailed on August 31, 1999 to over 3,400 class members. Trial began on January 29, 2001. Before conclusion of the trial, the parties reached an agreement to settle this matter, and entered into a stipulation of discontinuance of the case. This settlement agreement is subject to approval by the court of the terms and conditions of the agreement and notice to the class with an opportunity to object and be heard. We have provided for the costs of this settlement in unusual items.

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Customers

The Company's restaurants serve a large and diverse cross-section of the public and in the course of serving so many people, disputes arise regarding products, service, accidents and other matters typical of large restaurant systems such as those of the Company.

Intellectual Property

The Company has registered trademarks and service marks, many of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to defend and protect its use of such registered marks.

Other Litigation

In 1993, C&F Meat Packing Co., Inc., a Chicago meat packing company ("C&F"), filed an action against Pizza Hut in the United States District court for the Northern District of Illinois entitled C&F Packing Co., Inc. v. Pizza Hut, Inc. This lawsuit alleges that Pizza Hut misappropriated various trade secrets relating to C&F's alleged process for manufacturing a precooked Italian sausage pizza topping. C&F's trade secret claims against Pizza Hut were originally dismissed by the trial court on statute of limitations grounds. That ruling was later overturned by the U.S. Court of Appeals for the Federal Circuit in August 2000 and the case was remanded to the trial court for further proceedings. On remand, Pizza Hut moved for summary judgment on its statute of limitations defense. That motion was denied in January 2001. This lawsuit is in the discovery phase and no trial date has been set. Similar trade secret claims against another defendant were tried by a jury in late 1998 and the jury returned a verdict for C&F. Judgment on that verdict was affirmed by the U.S. Court of Appeals for the Federal Circuit in August 2000.

The Company believes that C&F's claims are without merit and is vigorously defending the case. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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Executive Officers of the Registrant

The executive officers of the Company as of March 19, 2001, and their ages and current positions as of that date are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
David C. Novak	48	Chairman of the Board and Chief Executive Officer
David J. Deno	43	Chief Financial Officer
Gregg G. Dedrick	41	Executive Vice President, People and Shared Services
Aylwin B. Lewis	46	Executive Vice President, Operations and New Business Development
Christian L. Campbell	50	Senior Vice President, General Counsel and Secretary
Jonathan D. Blum	42	Senior Vice President - Public Affairs
Charles E. Rawley, III	50	Chief Development Officer
Brent A. Woodford	38	Vice President and Controller
Peter A. Bassi	51	President, Tricon Restaurants International
Cheryl A. Bachelder	44	President and Chief Concept Officer, KFC
Michael S. Rawlings	46	President and Chief Concept Officer, Pizza Hut
Emil J. Brolick	53	President and Chief Concept Officer, Taco Bell
Peter R. Hearl	49	Executive Vice President, Tricon Restaurants International
Mark S. Cosby	42	Chief Operating Officer, KFC
Michael A. Miles, Jr.	39	Chief Operating Officer, Pizza Hut
Robert T. Nilsen	41	Chief Operating Officer, Taco Bell

David C. Novak is Chairman of the Board and Chief Executive Officer of Tricon. He has served in this position since January 2001. From December 1999 to January 2001, Mr. Novak served as Vice Chairman of the Board, Chief Executive Officer and President of Tricon. From October 1997 to December 1999, he served as Vice Chairman and President of Tricon. Mr. Novak previously served as Group President and Chief Executive Officer, KFC and Pizza Hut from August 1996 to July 1997. 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, and in 1994 he became President and Chief Executive Officer of KFC North America.

David J. Deno is Chief Financial Officer of Tricon. He has served in this position since November 1999. From August 1997 to November 1999, Mr. Deno served as Senior Vice President and Chief Financial Officer of Tricon Restaurants International. From August 1996 to August 1997, Mr. Deno served as Senior Vice President and Chief Financial Officer for Pizza Hut. From 1994 to August 1996, Mr. Deno was Division Vice President for the Southeast Division of Pizza Hut. Mr. Deno joined Pizza Hut in 1991 as Vice President and Controller.

Gregg R. Dedrick is Executive Vice President, People and Shared Services for Tricon. From July 1997 to November 1999, he served as Senior Vice President and Chief People Officer. Mr. Dedrick previously 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 a Vice President, Human Resources for Pizza Hut, and in 1995 he became Senior Vice President of Human Resources for KFC.

Aylwin B. Lewis is Executive Vice President, Operations and New Business Development for Tricon. From July 1997 to December 1999, he served as Chief Operating Officer of Pizza Hut. Mr. Lewis previously served as Senior Vice President, Operations for Pizza Hut, a position he assumed in 1996. He served in various positions at KFC, including Senior Director of Franchising and Vice President of restaurant Support

Services, becoming Division Vice President, Operations for KFC in 1993, and Senior Vice President, New Concepts for KFC in 1995. Mr. Lewis joined KFC in 1991 as a Regional General Manager.

Christian L. Campbell is Senior Vice President, General Counsel and Secretary of Tricon. He has served in this position since September 1997. From 1995 to September 1997, Mr. Campbell served as Senior Vice President, General Counsel and Secretary of Owens Corning, a building products company. Before joining Owens Corning, Mr. Campbell served as Vice President, General Counsel and Secretary of Nalco Chemical Company in Naperville, Illinois, from 1990 through 1994.

Jonathan D. Blum is Senior Vice President of Public Affairs for Tricon. He has served in this position since July 1997. Mr. Blum previously served as Vice President of Public Affairs for Taco Bell, a position that he held since joining Taco Bell in 1993.

Charles E. Rawley, III is Chief Development Officer of Tricon. He has served in this position since January 2001. From 1998 to January 2001, he served as President and Chief Operating Officer of KFC, and from 1995 to 1998, he served as Chief Operating Officer of KFC. 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 for KFC.

Brent A. Woodford is Vice President and Controller of Tricon. He has served in this position since April 2000. Mr. Woodford previously served as Controller of Tricon Restaurants International from March 1998 to April 2000. From October 1997 to March 1998, he served as Assistant Controller of Tricon Restaurants International. From 1993 until October 1997, he held various finance positions with PepsiCo and KFC's International Restaurant Division. Prior to joining the Company in 1993, Mr. Woodford was employed by KPMG LLP, A.G. Edwards & Sons, Inc. and Coopers and Lybrand.

Peter A. Bassi is President of Tricon Restaurants International. He has served in this position since July 1997. Mr. Bassi served as Executive Vice President, Asia, of PepsiCo Restaurants International from February 1996 to July 1997. From 1995 to 1996 he served as Senior Vice President and Chief Financial Officer at PepsiCo Restaurants International. He served as Senior Vice President, Finance and Chief Financial Officer at Taco Bell from 1987 to 1994. He joined Pepsi-Cola Company in 1972 and served in various management positions at Frito-Lay, Pizza Hut and PepsiCo Food Service International.

Cheryl A. Bachelder is President and Chief Concept Officer of KFC. She has served in this position since January 2001. Prior to joining KFC, Ms. Bachelder served as Executive Vice President, Build the Brand for Domino's Pizza LLC from June 1995 to December 2000. She joined Domino's in May 1995 as Executive Vice President of Marketing and Product Development. From 1992 to May 1995, Ms. Bachelder served as President of Bachelder & Associates, a management consulting firm which she founded. From 1984 to 1992, Ms. Bachelder held various positions with the Nabisco Foods Group of RJR Nabisco, Inc., including Vice President and General Manager of the LifeSavers Division.

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Michael S. Rawlings is President and Chief Concept Officer of Pizza Hut. He has served in this position since July 1997. From 1991 to 1996, 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. Previously, Mr. Rawlings was General Manager and Chief Operating Officer of Tracy-Locke, Inc., a position he assumed in 1989.

Emil J. Brolick is President and Chief Concept Officer of Taco Bell. He has served in this position since July 2000. Prior to joining Taco Bell, Mr. Brolick served as Vice President of New Product Marketing, Research & Strategic Planning for Wendy's International, Inc. from 1995 to July 2000. From 1988 to 1995, he held various positions at Wendy's including Manager, Planning and Evaluation and Vice President Strategic Planning and Research.

Peter R. Hearl is Executive Vice President of Tricon Restaurants International. He has served in this position since December 1998. Prior to that, he was Region Vice President for Tricon Restaurants International in Asia Pacific, a position he assumed in October 1997. From March 1996 to September 1997, Mr. Hearl was Regional Vice President for Tricon Restaurants International with responsibility for Australia, New Zealand and South Africa. Prior to that, he was Regional Vice President for KFC with responsibility for the United Kingdom, Ireland and South Africa, a position he assumed in January 1995. From September 1993 to December 1994, Mr. Hearl was Regional Vice President for KFC Europe.

Mark S. Cosby is Chief Operating Officer of KFC. He has served in this position since January 2001. From September 1997 to January 2001, Mr. Cosby served as Chief Development Officer of Tricon. From August 1996 to September 1997, Mr. Cosby was Senior Vice President Operations Development for KFC. From March 1993 to August 1996, he held various positions at KFC including Vice President of Planning, Vice President of Purchasing, and Vice President of Operations for the North Central Division. Mr. Cosby joined PepsiCo with Taco Bell in 1988.

Michael A. Miles, Jr. is Chief Operating Officer of Pizza Hut. He has served in this position since January 2000. From May 1996 to December 1999, Mr. Miles served as Senior Vice President, Concept Development and Franchise. From December 1994 to April 1996, he was Division Vice President for Pizza Hut. Mr. Miles joined PepsiCo in May 1993 as Director of Strategic Planning.

Robert T. Nilsen is Chief Operating Officer of Taco Bell. He has served in this position since January 2000. From January 1999 to December 1999, he was Senior Vice President and Managing Director of Tricon Restaurants International brands in the South Pacific. From October 1997 to January 1999, he served as Vice President and Managing Director of Tricon Restaurants International brands in the South Pacific. From April 1996 to October 1997, Mr. Nilsen was Region Vice President of Tricon Restaurants International with responsibility for franchise operations across South Asia, the Middle East and Hawaii. From 1995 to April 1996, he was Managing Director for KFC and Pizza Hut in Southern Africa.

Executive officers are elected by and serve at the discretion of the Board of Directors.

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PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

The Company's Common Stock trades under the symbol YUM and is listed on the New York Stock Exchange ("NYSE"). The following sets forth the high and low NYSE composite closing sale prices by quarter of the Company's Common Stock.

Quarter	2000		1999	
	High	Low	High	Low
First	\$ 38.63	\$ 25.69	\$ 69.50	\$ 46.00
Second	35.56	29.00	73.50	50.25
Third	32.38	23.75	56.38	35.75
Fourth	37.38	26.50	45.13	37.69

The approximate number of shareholders of record of the Company's common stock as of March 19, 2001 was 144,000.

The Company does not presently intend to pay dividends on its common stock.

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Item 6. Selected Financial Data.

Selected Financial Data TRICON Global Restaurants, Inc. and Subsidiaries (in millions, except per share and unit amounts)

	Fiscal Year			
	2000	1999	1998	1997
Summary of Operations				
System sales (a)				
U.S.	\$ 14,514	\$ 14,516	\$ 14,013	\$ 13,502
International	7,645	7,246	6,607	6,963
Total	22,159	21,762	20,620	20,465
Revenues				
Company sales(b)	6,305	7,099	7,852	9,112
Franchise and license fees	788	723	627	578
Total	7,093	7,822	8,479	9,690
Facility actions net gain (loss)(c)	176	381	275	(247)

Unusual items(d)	(204)	(51)	(15)	(184)
Operating profit	860	1,240	1,028	241
Interest expense, net	176	202	272	276
Income (loss) before income taxes	684	1,038	756	(35)
Net income (loss)	413	627	445	(111)
Basic earnings per common share(e)	2.81	4.09	2.92	N/A
Diluted earnings per common share(e)	2.77	3.92	2.84	N/A
Cash Flow Data				
Provided by operating activities	\$ 491	\$ 565	\$ 674	\$ 810
Capital spending	572	470	460	541
Proceeds from refranchising of restaurants	381	916	784	770
Balance Sheet				
Total assets	\$ 4,149	\$ 3,961	\$ 4,531	\$ 5,114
Operating working capital deficit	(634)	(832)	(960)	(1,073)
Long-term debt	2,397	2,391	3,436	4,551
Total debt	2,487	2,508	3,532	4,675
Investments by and advances from PepsiCo	-	-	-	-
Other Data				
Number of stores at year end(a)				
Company	6,123	6,981	8,397	10,117
Unconsolidated Affiliates	1,844	1,178	1,120	1,090
Franchisees	19,287	18,414	16,650	15,097
Licensees	3,163	3,409	3,596	3,408
System	30,417	29,982	29,763	29,712
U.S. Company same store sales growth(a)				
KFC	(3)%	2%	3%	2%
Pizza Hut	1%	9%	6%	(1)%
Taco Bell	(5)%	-	3%	2%
Blended	(2)%	4%	4%	1%
Shares outstanding at year end (in millions)	147	151	153	152
Market price per share at year end	\$ 33.00	\$ 37.94	\$ 47.63	\$ 28.31

N/A - Not Applicable.

TRICON Global Restaurants, Inc. and Subsidiaries ("TRICON") became an independent, publicly owned company on October 6, 1997 through the spin-off of the restaurant operations of its former parent, PepsiCo, Inc. ("PepsiCo"), to its shareholders. The historical consolidated financial data for 1997 and 1996 was prepared as if we had been an independent, publicly owned company for those periods. To facilitate this presentation, PepsiCo made certain allocations of its previously unallocated interest and general and administrative expenses as well as pro forma computations, to the extent possible, of separate income tax provisions for its restaurant segment. Fiscal year 2000 includes 53 weeks. Fiscal years 1996 to 1999 include 52 weeks. The selected financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

- A. Excludes Non-core Businesses.
- B. Declining company sales are largely the result of our refranchising initiatives.
- C. 1999 and 1998 include \$13 million (\$10 million after-tax) and \$54 million (\$33 million after-tax), respectively, of favorable adjustments to our 1997 fourth quarter charge which was \$410 million (\$300 million after-tax).
- D. See Note 5 to the Consolidated Financial Statements for a description of unusual items in 2000, 1999 and 1998. 1997 includes \$120 million (\$125 million after-tax) related to our 1997 fourth quarter charge and an additional \$54 million (\$34 million after-tax) related to the 1997 disposal of the Non-core Businesses. 1996 includes a \$246 million (\$189 million after-tax) writedown of our Non-core Businesses. 1999 and 1998 included favorable adjustments to our 1997 fourth quarter charge of \$11 million (\$10 million after-tax) and \$11 million (\$7 million after-tax), respectively.
- E. EPS data has been omitted for 1997 and 1996 as our capital structure as an independent, publicly owned company did not exist.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

TRICON Global Restaurants, Inc. and Subsidiaries (collectively referred to as "TRICON" or the "Company") is comprised of the worldwide operations of KFC, Pizza Hut and Taco Bell ("the Concepts") and is the world's largest quick service restaurant ("QSR") company based on the number of system units. Separately, each brand ranks in the top ten among QSR chains in U.S. system sales and units. Our 10,400 international units make us the second largest QSR company outside the U.S. TRICON became an independent, publicly owned company on October 6, 1997 (the "Spin-off Date") via a tax free distribution of our Common Stock (the "Distribution" or "Spin-off") to the shareholders of our former parent, PepsiCo, Inc. ("PepsiCo").

Throughout Management's Discussion and Analysis ("MD&A"), we make reference to ongoing operating profit which represents our operating profit excluding the impact of facility actions net gain, unusual items and our accounting and human resources policy changes in 1999 (collectively, the "1999 accounting changes"). See Note 5 to the Consolidated Financial Statements for a detailed discussion of these exclusions. We use ongoing operating profit as a key performance measure of our results of operations for purposes of evaluating performance internally and as the base to forecast future performance. Ongoing operating profit is not a measure defined in accounting principles generally accepted in the U.S. and should not be considered in isolation or as a substitution for measures of performance in accordance with accounting principles generally accepted in the U.S.

In 2000, our international business, Tricon Restaurants International ("TRI" or "International") accounted for 35% of system sales, 29% of total revenues and 29% of ongoing operating profit excluding unallocated and corporate expenses and foreign exchange gains and losses. We anticipate that, despite the inherent risks and typically higher general and administrative expenses required by international operations, we will continue to invest in key international markets with substantial growth potential.

This MD&A should be read in conjunction with our Consolidated Financial Statements on pages 39-75 and the Cautionary Statements on pages 36-37. All Note references herein refer to the Notes to the Consolidated Financial Statements on pages 43-75. Tabular amounts are displayed in millions except per share and unit count amounts, or as otherwise specifically identified.

Factors Affecting Comparability of 2000 Results to 1999

Impact of AmeriServe Bankruptcy Reorganization Process

See Note 21 for a complete discussion of the impact of the AmeriServe Food Distribution, Inc. ("AmeriServe") bankruptcy reorganization process on the Company.

Kraft Taco Shell Recall

In the fourth quarter of 2000, allegations were made by a public environmental advocacy group that testing of corn taco shells, sold by Kraft Foods, Inc. ("Kraft") in grocery stores under a license to use the Taco Bell brand name, had indicated the presence of genetically modified ("GM") corn which had only been approved by the applicable U.S. governmental agencies for animal consumption. In light of the allegations, Kraft recalled this product line. We are not aware of any evidence that suggests that the GM corn at issue presents any significant health risk to humans. Nonetheless, consistent with our overall quality assurance procedures, we have taken significant actions to ensure that our restaurant supply chain is free of products containing the GM corn in question, and we will continue to take whatever actions are prudent or appropriate in this regard.

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Although we are unable to estimate the amount, we believe that our Taco Bell restaurants have experienced a negative impact on sales following the allegations and the Kraft recall. We do not currently believe this sales impact will be sustained over the long term.

Franchisee Financial Condition

Like others in the QSR industry, from time to time, some of our franchise operators experience financial difficulties with respect to their franchise operations. At present, certain of our franchise operators, principally in the Taco Bell system, are facing varying degrees of financial problems, primarily as a result of declines in store sales in the Taco Bell system, which we believe have been exacerbated by the grocery product recalls of corn taco shells by Kraft in the fourth quarter of 2000.

Depending upon the facts and circumstances of each situation, and in the absence of an improvement in business trends, there are a number of potential resolutions of these financial issues, including a sale of some or all of the operator's restaurants to us or a third party, a restructuring of the operator's business and/or finances, or, in the more unusual cases, bankruptcy of the operator. It is our practice to proactively work with financially troubled franchise operators in an attempt to positively resolve their issues.

Taco Bell has established a \$15 million loan program for those franchisees in need of short-term assistance due to the recent sales declines in the Taco Bell system. Through February 2001, this program has aided approximately 75 franchisees covering approximately 1,500 Taco Bell restaurants. Additionally, Taco Bell is in various stages of discussions with a number of other Taco Bell franchisees and their lenders. We

believe that many of these franchisees will require various types of business and/or financial restructuring. Based on currently available information, we believe that this group of franchisees represents approximately 1,000 Taco Bell restaurants.

In 2000, we charged approximately \$26 million to ongoing operating profit for expenses related to the financial situation of certain Taco Bell franchisees. These expenses, which relate primarily to allowances for doubtful franchise and license fee receivables, were reported as general and administrative expenses. On an ongoing basis, we assess our exposure from franchise-related risks which include estimated uncollectibility of accounts receivable related to franchise and license fees, contingent lease liabilities, guarantees to support certain third party financial arrangements with franchisees and potential claims by franchisees. The contingent lease liabilities and guarantees are more fully discussed in the Contingent Liabilities section of Note 21. Although the ultimate impact of these franchise financial issues cannot be predicted with certainty at this time, we have provided for our current estimate of the probable exposure to the Company as of December 30, 2000. It is reasonably possible that there will be additional costs which could be material to quarterly or annual results of operations, financial condition or cash flows.

Based on the information currently available to us, we have budgeted for an estimate of expenses and capital expenditures that may be required to address this situation. However, the Taco Bell franchise financial situation poses certain risks and uncertainties to us. The more significant of these risks and uncertainties are described below. Significant adverse developments in this situation, or in any of these risks or uncertainties, could have a material adverse impact on our quarterly or annual results of operations, financial condition or cash flows.

We intend to continue to proactively work with financially troubled franchise operators in an attempt to positively resolve their issues. However, there can be no assurance that the number of franchise operators or restaurants experiencing financial difficulties will not change from our current estimates. Nor can there be any assurance that we will be successful in resolving financial issues relating to any specific franchise operator. Additionally, there can be no assurance that resolution of these financial issues will not result in Taco Bell purchasing a significant number of restaurants from financially troubled Taco Bell franchise operators.

Unusual Items

We recorded unusual items of \$204 million (\$129 million after-tax), \$51 million (\$29 million after-tax) and \$15 million (\$3 million after-tax) in 2000, 1999 and 1998, respectively. See Note 5 for a detailed discussion of our unusual items.

Fifty-third Week in 2000

Our fiscal calendar results in a fifty-third week every 5 or 6 years. Fiscal year 2000 included a fifty-third week in the fourth quarter. The following table summarizes the estimated impact of the fifty-third week on system sales, revenues and ongoing operating profit:

	U.S.	International	Unallocated	Total
	-----	-----	-----	-----
System sales	\$ 230	\$ 65	\$ -	\$ 295
	=====	=====	=====	=====
<u>Revenues</u>				
Company sales	\$ 58	\$ 18	\$ -	\$ 76
Franchise fees	9	2	-	11
	-----	-----	-----	-----
Total Revenues	\$ 67	\$ 20	\$ -	\$ 87
	=====	=====	=====	=====
<u>Ongoing operating profit</u>				
Franchise fees	\$ 9	\$ 2	\$ -	\$ 11
Restaurant margin	11	4	-	15
General and administrative expenses	(3)	(2)	(2)	(7)
	-----	-----	-----	-----
Ongoing operating profit	\$ 17	\$ 4	\$ (2)	\$ 19
	=====	=====	=====	=====

The estimated favorable impact in net income was \$10 million or \$0.07 per diluted share.

Store Portfolio Strategy

Beginning in 1995, we have been strategically reducing our share of total system units by selling Company restaurants to existing and new franchisees where their expertise can generally be leveraged to improve our overall operating performance, while retaining Company ownership of key U.S. and International markets. This portfolio-balancing activity has reduced, and will continue to reduce, our reported

revenues and restaurant profits and has increased the importance of system sales as a key performance measure. We expect to substantially complete our refranchising program in 2001.

The following table summarizes our refranchising activities for the last three years:

	2000	1999	1998
Number of units refranchised	757	1,435	1,373
Refranchising proceeds, pre-tax	\$ 381	\$ 916	\$ 784
Refranchising net gains, pre-tax	\$ 200	\$ 422	\$ 279

In addition to our refranchising program, we have been closing restaurants over the past several years. Restaurants closed include poor performing restaurants, restaurants that are relocated to a new site within the

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same trade area or U.S. Pizza Hut delivery units consolidated with a new or existing dine-in traditional store within the same trade area.

The following table summarizes Company store closure activities for the last three years:

	2000	1999	19
Number of units closed	208	301	5
Store closure costs (credits)(a)	\$ 10	\$ 13	\$ (
Impairment charges for stores to be closed in the future	\$ 6	\$ 12	\$

A. Includes favorable adjustments to our 1997 fourth quarter charge of \$9 million in 1999 and \$56 million in 1998.

The impact on ongoing operating profit arising from our refranchising and store closure initiatives as well as the contribution of Company stores to a new unconsolidated affiliate as described in the Impact of New Unconsolidated Affiliates section (the "Portfolio Effect"), represents the net of (a) the estimated reduction in Company sales, restaurant margin and general and administrative expenses ("G&A"), (b) the estimated increase in franchise fees and (c) the equity income (loss) from investments in unconsolidated affiliates ("equity income"). The amounts presented below reflect the estimated impact from stores that were operated by us for all or some portion of the comparable period in the respective previous year and were no longer operated by us as of the last day of the respective year.

The following table summarizes the estimated revenue impact of the Portfolio Effect:

	2000		
	U.S.	International	Worldwide
Reduced sales	\$ (838)	\$ (246)	\$ (1,084)
Increased franchise fees	39	13	52
Reduction in total revenues	\$ (799)	\$ (233)	\$ (1,032)
	=====	=====	=====
	1999		
	U.S.	International	Worldwide
Reduced sales	\$ (1,065)	\$ (201)	\$ (1,266)
Increased franchise fees	51	9	60
Reduction in total revenues	\$ (1,014)	\$ (192)	\$ (1,206)
	=====	=====	=====

The following table summarizes the estimated impact on ongoing operating profit of the Portfolio Effect:

	2000		
	U.S.	International	Worldwide
Decreased restaurant margin	\$ (90)	\$ (25)	\$ (115)
Increased franchise fees	39	13	52
Decreased G&A	11	6	17
Equity income (loss)	-	(1)	(1)
(Decrease) in ongoing operating profit	\$ (40)	\$ (7)	\$ (47)
	=====	=====	=====
	1999		
	U.S.	International	Worldwide
Decreased restaurant margin	\$ (108)	\$ (18)	\$ (126)
Increased franchise fees	51	9	60
Decreased G&A	17	10	27
(Decrease) increase in ongoing operating profit	\$ (40)	\$ 1	\$ (39)
	=====	=====	=====

The estimated interest savings resulting from the reduction of average debt with the net after-tax cash proceeds from our refranchising activities largely mitigated the above reduction in ongoing operating profit.

Results of Operations

Worldwide Results of Operations

	2000	% B(W) vs. 1999	1999	% B(W) vs. 1998
System sales(a)	\$ 22,159	2	\$ 21,762	6
	=====		=====	
<u>Revenues</u>				
Company sales	\$ 6,305	(11)	\$ 7,099	(10)
Franchise and license fees	788	9	723	15
Total Revenues	\$ 7,093	(9)	\$ 7,822	(8)
	=====		=====	
Company restaurant margin	\$ 954	(13)	\$ 1,091	3
	=====		=====	
% of sales	15.1%	(0.3) ppts.	15.4%	1.9 ppts.
	=====		=====	
Ongoing operating profit	\$ 888	1	\$ 881	15
Accounting changes(b)	-	NM	29	NM
Facility actions net gain	176	(54)	381	38
Unusual items	(204)	NM	(51)	NM
	-----		-----	
Operating Profit	860	(31)	1,240	21
Interest expense, net	176	13	202	26
Income Tax Provision	271	34	411	(32)
	-----		-----	
Net Income	\$ 413	(34)	\$ 627	41
	=====		=====	
Diluted Earnings Per Share	\$ 2.77	(29)	\$ 3.92	38

A. Represents combined sales of Company, unconsolidated affiliate, franchise and license restaurants.

B. See Note 5 for a discussion of the 1999 accounting changes.

Worldwide Restaurant Unit Activity

	Company	Unconsolidated Affiliates	Franchisees	Licenses	Total
Balance at Dec. 26, 1998	8,397	1,120	16,650	3,596	29,763
Openings & Acquisitions	323	83	858	586	1,850
Refranchising & Licensing	(1,435)	(5)	1,443	(3)	-
Closures	(301)	(20)	(434)	(646)	(1,401)
Other	(3)	-	(103)	(124)	(230)
Balance at Dec. 25, 1999	6,981	1,178	18,414	3,409	29,982
Openings & Acquisitions	370	108	960	324	1,762
Refranchising & Licensing	(757)	(9)	775	(9)	-
Closures	(208)	(53)	(505)	(561)	(1,327)
Other(a)	(263)	620	(357)	-	-
Balance at Dec. 30, 2000(b)	6,123	1,844	19,287	3,163	30,417
% of total	20.1%	6.1%	63.4%	10.4%	100.0%

A. Primarily includes 320 Company units and 329 Franchisee units contributed in connection with the formation of a new unconsolidated affiliate in Canada as well as 57 units acquired by the Company from Unconsolidated Affiliates and Franchisees.

B. Includes 38 Company units approved for closure but not yet closed at December 30, 2000.

Worldwide System Sales

System sales increased \$397 million or 2% in 2000, after a 1% unfavorable impact from foreign currency translation. Excluding the negative impact of foreign currency translation and the favorable impact of the fifty-third week, system sales increased 1%. This increase was driven by new unit development, partially offset by store closures and same store sales declines.

In 1999, system sales increased \$1.1 billion or 6%. The improvement was driven by new unit development and same store sales growth. U.S. development was primarily at Taco Bell while International development was primarily in Asia. The increase was partially offset by store closures.

Worldwide Revenues

Company sales decreased \$794 million or 11% in 2000. As expected, the decline in Company sales was primarily due to the Portfolio Effect partially offset by the favorable impact from the fifty-third week in 2000. Excluding these items, Company sales increased 4%. This increase was primarily due to new unit development and favorable Effective Net Pricing, partially offset by volume declines. Effective Net Pricing includes increases or decreases in price and the effect of changes in product mix.

Franchise and license fees increased approximately \$65 million or 9% in 2000. The increase was driven by units acquired from us and new unit development, partially offset by store closures and franchisee same store sales declines in the U.S. The negative impact of foreign currency translation was essentially offset by the favorable impact from the fifty-third week in 2000.

Company sales decreased \$753 million or 10% in 1999. As expected, the decline in Company sales was due to the Portfolio Effect. Excluding the Portfolio Effect, Company sales increased 8%. The increase was

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primarily due to new unit development, favorable Effective Net Pricing and volume increases in the U.S. and International. The volume increase in the U.S. was led by the launch of "The Big New Yorker" pizza.

Franchise and license fees grew \$96 million or 15% in 1999. The growth was primarily driven by units acquired from us and new unit development, primarily in Asia and at Taco Bell in the U.S., partially offset by store closures by franchisees and licensees.

Worldwide Company Restaurant Margin

	2000	1999	1998
Company sales	100.0%	100.0%	100.0%
Food and paper	30.8	31.5	32.1
Payroll and employee benefits	27.7	27.6	28.6
Occupancy and other operating expenses	26.4	25.5	25.8
Restaurant margin	15.1%	15.4%	13.5%

Restaurant margin as a percentage of sales decreased approximately 25 basis points in 2000, including the unfavorable impact of 15 basis points from lapping the 1999 accounting changes. Restaurant margin included 70 basis points related to the favorable impact of the Portfolio Effect. Excluding the net effect of these items, our base restaurant margin declined approximately 80 basis points. Approximately 40 basis points of this decrease resulted from the favorable 1999 U.S. insurance-related adjustments of \$30 million, which are more fully discussed in Note 21. The remaining decrease was primarily due to a decline in U.S. restaurant margin, as discussed in the U.S. Restaurant Margin section.

In 1999, our restaurant margin as a percentage of sales increased approximately 190 basis points. The Portfolio Effect contributed nearly 50 basis points and accounting changes contributed approximately 15 basis points to our improvement. Excluding these items, our base restaurant margin increased approximately 125 basis points. This improvement was primarily attributable to Effective Net Pricing in excess of cost increases (primarily higher wage rates) in the U.S. Restaurant margin also benefited from improved food and paper cost management in both the U.S. and certain key International equity markets. Volume increases at Pizza Hut in the U.S. and in certain key International equity markets were fully offset by volume declines at Taco Bell and the unfavorable impact of the introduction of lower margin chicken sandwiches at KFC in the U.S.

Worldwide General & Administrative Expenses

G&A declined \$41 million or 4% in 2000. Excluding the benefit from lapping the 1999 accounting changes, ongoing G&A decreased \$59 million or 6%. The decrease was primarily due to lower incentive compensation expense and Year 2000 costs as well as the favorable impact of the Portfolio Effect. Reduced spending on conferences also contributed to the decline. The decrease was partially offset by higher franchise-related expenses, primarily allowances for doubtful franchise and license fee receivables, as more fully discussed in the Franchisee Financial Condition section. G&A included Year 2000 spending of approximately \$2 million in 2000 as compared to approximately \$30 million in 1999.

In 1999, G&A decreased \$21 million or 2%. Excluding the \$18 million favorable impact of the 1999 accounting changes, G&A decreased \$3 million. The favorable impacts of the Portfolio Effect, our fourth quarter 1998 decision to streamline our international business and the absence of costs associated with relocating certain operations from Wichita, Kansas in 1998 were partially offset by higher strategic and other

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corporate expenses. In addition, higher spending on conferences and the absence of favorable cost recovery agreements with AmeriServe and PepsiCo also partially offset the decreases discussed above.

Worldwide Other (Income) Expense

	2000	1999	1998
Equity income	\$ (25)	\$ (19)	\$ (18)
Foreign exchange net loss (gain)	-	3	(6)

Other (income) expense	\$ (25)	\$ (16)	\$ (24)
	=====	=====	=====

Other (income) expense increased \$9 million or 55% in 2000. The increase in equity income was primarily due to improved results of our unconsolidated affiliates in Japan, the United Kingdom and China.

In 1999, other (income) expense declined \$8 million or 31%. The decline was primarily due to foreign exchange losses in 1999 versus gains in 1998 related to U.S. dollar denominated short-term investments in Canada.

Worldwide Facility Actions Net Gain

We recorded facility actions net gain of \$176 million in 2000, \$381 million in 1999 and \$275 million in 1998. See the Store Portfolio Strategy section for more details regarding our refranchising and closure activities and Note 5 for a summary of the components of facility actions net gain by operating segment.

Impairment charges for stores that will continue to be used in the business were \$8 million in 2000 compared to \$16 million in 1999 and \$25 million in 1998 reflecting fewer underperforming stores. As a result of the adoption of the SEC's interpretation of Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets" ("SFAS 121") in 1998, we perform impairment evaluations when we expect to actually close a store beyond the quarter in which our closure decision is made. This change resulted in additional impairment charges of \$6 million in 2000, \$12 million in 1999 and \$6 million in 1998. Under our prior accounting policy, these impairment charges would have been included in store closure costs in the quarter in which the closure decision was made.

Worldwide Ongoing Operating Profit

	2000	% B(W) vs. 1999	1999	% B(W) vs. 1998
	-----	-----	-----	-----
U.S. ongoing operating profit	\$ 742	(9)	\$ 813	10
International ongoing operating profit	309	16	265	39
Foreign exchange net loss	-	NM	(3)	NM
Ongoing unallocated and corporate expenses	(163)	16	(194)	(14)
	-----		-----	
Ongoing operating profit	\$ 888	1	\$ 881	15
	=====		=====	

The changes in U.S. and International ongoing operating profit for 2000 and 1999 are discussed in the respective sections below.

Ongoing unallocated and corporate expenses decreased \$31 million or 16% in 2000. The decline was primarily due to lower Year 2000 spending and lower incentive compensation expense.

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In 1999, ongoing unallocated and corporate expenses increased \$25 million or 14%. The increase was driven by higher strategic and other corporate spending, system standardization investment spending and the absence of favorable cost recovery agreements from AmeriServe and PepsiCo. These increases were partially offset by the absence of costs associated with relocating certain of our operations from Wichita, Kansas in 1998.

Worldwide Interest Expense, Net

	2000	1999	1998
	-----	-----	-----
Interest expense	\$ 190	\$ 218	\$ 291
Interest income	(14)	(16)	(19)
	-----	-----	-----
Interest expense, net	\$ 176	\$ 202	\$ 272
	=====	=====	=====

Our net interest expense decreased \$26 million or 13%. The decline was due to a lower average debt outstanding in 2000 as compared to

1999, partially offset by an increase in interest rates on our variable rate debt. As discussed in Note 21, the interest expense on incremental borrowings related to the AmeriServe bankruptcy reorganization process of \$9 million has been included in unusual items.

In 1999, our net interest expense decreased \$70 million or 26%. The decline was primarily due to the reduction of debt through use of after-tax cash proceeds from our franchising activities and cash from operations.

Worldwide Income Taxes

	2000	1999	1998
	-----	-----	-----
Reported			
Income taxes	\$ 271	\$ 411	\$ 311
Effective tax rate	39.6%	39.5%	41.1%
Ongoing(a)			
Income taxes	\$ 268	\$ 267	\$ 210
Effective tax rate	37.7%	39.3%	42.3%

A. Excludes the effects of facility actions net gain, unusual items and the 1999 accounting changes. See Note 5 for a discussion of these exclusions.

The following table reconciles the U.S. federal statutory tax rate to our ongoing effective tax rate:

	2000	1999	1998
	-----	-----	-----
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	2.2	2.3	2.8
Foreign and U.S. tax effects attributable to foreign operations	(1.0)	1.5	6.3
Adjustments relating to prior years	1.3	0.8	(1.7)
Other, net	0.2	(0.3)	(0.1)
Ongoing effective tax rate	37.7%	39.3%	42.3%
	=====	=====	=====

The 2000 ongoing effective tax rate decreased 1.6 percentage points to 37.7%. The decrease in the ongoing effective tax rate was primarily due to a reduction in the tax on our international operations, including the initial benefits of becoming eligible in 2000 to claim substantially all of our available foreign income tax credits for foreign taxes paid in 2000 against our U.S. income tax liability. This decrease was partially offset by adjustments relating to prior years.

In 2000, the effective tax rate attributable to foreign operations was lower than the U.S. federal statutory rate due to our ability to claim foreign taxes paid against our U.S. income tax liability. The effective tax rate attributable to foreign operations in 1999 and 1998 was higher than the U.S. federal statutory tax 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 1999 ongoing effective tax rate decreased 3.0 percentage points to 39.3%. The decrease in the ongoing effective tax rate was primarily due to a one-time favorable international benefit in Mexico. The recent pattern of profitability in Mexico and expectations of future profitability have allowed us to reverse a previous valuation allowance against deferred tax assets. This will enable us to reduce future cash tax payments in Mexico.

Diluted Earnings Per Share

The components of diluted earnings per common share ("EPS") were as follows:

	2000(a)		1999(a)	
	Diluted	Basic	Diluted	Basic
Ongoing operating earnings	\$ 2.98	\$ 3.02	\$ 2.58	\$ 2.69
Accounting changes	-	-	0.11	0.12
Facility actions net gain(b)	0.66	0.67	1.41	1.47
Unusual items(c)	(0.87)	(0.88)	(0.18)	(0.19)
Total	\$ 2.77	\$ 2.81	\$ 3.92	\$ 4.09

- A. See Note 4 for the number of shares used in these calculations.
B. Includes favorable adjustments to our 1997 fourth quarter charge of \$0.06 per diluted share in 1999.
C. Includes favorable adjustments to our 1997 fourth quarter charge of \$0.07 per diluted share in 1999.

U.S. Results of Operations

	2000	% B(W) vs. 1999	1999	% B(W) vs. 1998
System sales	\$ 14,514	-	\$ 14,516	4
<u>Revenues</u>				
Company sales	\$ 4,533	(14)	\$ 5,253	(13)
Franchise and license fees	529	7	495	16
Total Revenues	\$ 5,062	(12)	\$ 5,748	(11)
Company restaurant margin	\$ 687	(17)	\$ 825	1
% of sales	15.2%	(0.5) ppts.	15.7%	2.1 ppts
Ongoing operating profit	\$ 742	(9)	\$ 813	10

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U.S. Restaurant Unit Activity

	Company	Franchisees	Licensees	Total
Balance at Dec. 26, 1998	6,232	10,862	3,275	20,369
Openings & Acquisitions	155	432	539	1,126
Refranchising & Licensing	(1,170)	1,167	3	-
Closures	(230)	(248)	(593)	(1,071)
Other	(3)	(103)	(124)	(230)
Balance at Dec. 25, 1999	4,984	12,110	3,100	20,194
Openings & Acquisitions	143	366	303	812
Refranchising & Licensing	(672)	681	(9)	-
Closures	(153)	(295)	(521)	(969)
Balance at Dec. 30, 2000(a)	4,302	12,862	2,873	20,037
% of total	21.5%	64.2%	14.3%	100.0%

- A. Includes 37 Company units approved for closure, but not yet closed at December 30, 2000.

U.S. System Sales

System sales were essentially flat in 2000. Excluding the favorable impact of the fifty-third week in 2000, system sales decreased 2%. The decrease was due to same stores sales declines at Taco Bell and KFC as well as store closures, partially offset by new unit development.

In 1999, system sales increased \$503 million or 4%. The improvement was driven by new unit development and same store sales growth. These increases were partially offset by store closures.

U.S. Revenues

Company sales decreased \$720 million or 14%. As expected, the decline in Company sales was due to the Portfolio Effect partially offset by the favorable impact from the fifty-third week in 2000. Excluding these items, Company sales increased 1% in 2000. This increase was primarily due to new unit development and favorable Effective Net Pricing almost fully offset by volume declines.

In 2000, U.S. blended Company same store sales for our three Concepts decreased 2%. The decline in transactions of 4% was partially offset by favorable Effective Net Pricing of 2%. Same store sales at Pizza Hut increased 1%. Favorable Effective Net Pricing of 3% was partially offset by transaction declines of 2%. Same store sales at KFC decreased 3%, primarily due to transaction declines. Same store sales at Taco Bell decreased 5% as a result of transaction declines.

Franchise and license fees grew \$34 million or 7% in 2000. Excluding the favorable impact from the fifty-third week in 2000, franchise and license fees increased 5%. The increase was driven by units acquired from us and new unit development, partially offset by franchisee same store sales declines and store closures.

In 1999, Company sales declined \$760 million or 13%. As expected, the decline in Company sales was due to the Portfolio Effect. Excluding the Portfolio Effect, Company sales increased 6%. This increase was primarily due to new unit development, favorable Effective Net Pricing and volume increases led by the launch of "The Big New Yorker" pizza.

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In 1999, U.S. blended same stores sales for our three Concepts increased 4%. Favorable Effective Net Pricing of 5% was partially offset by a 1% decline in transactions. Same store sales at Pizza Hut increased 9% in 1999. The improvement was primarily driven by an increase in transactions of over 5%, resulting from the launch of "The Big New Yorker." The growth at Pizza Hut was also aided by Effective Net Pricing of over 3%. Same store sales at KFC grew 2%. The increase was almost equally driven by Effective Net Pricing and transaction growth. Same store sales at Taco Bell were flat as an increase in Effective Net Pricing of approximately 4% was fully offset by transaction declines.

Franchise and license fees increased \$69 million or 16% in 1999. The increase was driven by units acquired from us, new unit development and franchisee same store sales growth, primarily at Pizza Hut. These increases were partially offset by store closures.

U.S. Company Restaurant Margin

	2000	1999	1998
Company sales	100.0%	100.0%	100.0%
Food and paper	28.6	30.0	31.0
Payroll and employee benefits	30.8	29.8	30.4
Occupancy and other operating expenses	25.4	24.5	25.0
Restaurant margin	15.2%	15.7%	13.6%

Restaurant margin as a percentage of sales decreased approximately 55 basis points in 2000, including the unfavorable impact of nearly 25 basis points from lapping the 1999 accounting changes. Restaurant margin included 70 basis points related to the favorable impact of the Portfolio Effect. Excluding these items, our base restaurant margin declined approximately 100 basis points. This decrease included approximately 60 basis points resulting from the absence of favorable 1999 insurance-related adjustments of \$30 million, which are more fully discussed in Note 21. The remaining decrease was due to a shift to lower margin chicken sandwiches at KFC and volume declines at Taco Bell, partially offset by Effective Net Pricing. Favorable commodity costs, primarily cheese, were almost fully offset by higher occupancy and other costs as well as increased wage rates.

In 1999, our restaurant margin as a percentage of sales increased approximately 210 basis points. The Portfolio Effect contributed

approximately 45 basis points and accounting changes contributed nearly 25 basis points to the improvement. Excluding these items, our base restaurant margin grew approximately 140 basis points. The increase was primarily attributable to favorable Effective Net Pricing. Labor cost increases, primarily driven by higher wage rates, were almost fully offset by lower food and paper costs as improved product cost management resulted in lower overall beverage and distribution costs. The improvement also included approximately 15 basis points from retroactive beverage rebates related to 1998 recognized in 1999. In addition, an increase in favorable insurance-related adjustments over 1998 contributed approximately 10 basis points to our improvement. See Note 21 for additional information regarding our insurance-related adjustments. All of these improvements were partially offset by volume declines at Taco Bell and the unfavorable impact of the introduction of lower margin chicken sandwiches at KFC.

U.S. Ongoing Operating Profit

Ongoing operating profit declined \$71 million or 9% in 2000. Excluding the negative impact of the Portfolio Effect and the favorable impact from the fifty-third week in 2000, ongoing operating profit decreased approximately 6%. The decrease was primarily due to a 100 basis point decline in base restaurant margin and lower franchise and license fees (excluding the Portfolio Effect), partially offset by reduced G&A. The decrease in G&A was largely due to lower incentive compensation, decreased professional fees and lower spending at Pizza Hut and Taco Bell on conferences. The G&A declines were partially offset by higher

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franchise-related expenses, primarily allowances for doubtful franchise and license fee receivables, as more fully discussed in the Franchisee Financial Condition section.

In 1999, ongoing operating profit increased \$73 million or 10%. Excluding the negative impact of the Portfolio Effect, ongoing operating profit increased 15%. The increase was due to base restaurant margin improvement of 140 basis points and higher franchise fees primarily from new unit development, partially offset by higher G&A, net of field G&A savings from the Portfolio Effect. This increase in G&A was largely due to higher spending on conferences at Pizza Hut and Taco Bell.

International Results of Operations

	2000	% B(W) vs. 1999	1999	% B(W) vs. 1998
System sales	\$ 7,645	6	\$ 7,246	10
<u>Revenues</u>				
Company sales	\$ 1,772	(4)	\$ 1,846	-
Franchise and license fees	259	14	228	13
Total Revenues	\$ 2,031	(2)	\$ 2,074	2
Company restaurant margin	\$ 267	-	\$ 266	11
% of sales	15.1%	0.7 ppts.	14.4%	1.4 ppts.
Ongoing operating profit	\$ 309	16	\$ 265	39

International Restaurant Unit Activity

	Company	Unconsolidated Affiliates	Franchisees	Licensees	Total
Balance at Dec. 26, 1998	2,165	1,120	5,788	321	9,394
Openings & Acquisitions	168	83	426	47	724
Refranchising & Licensing	(265)	(5)	276	(6)	-
Closures	(71)	(20)	(186)	(53)	(330)
Balance at Dec. 25, 1999	1,997	1,178	6,304	309	9,788

Openings	227	108	594	21	950
Refranchising & Licensing	(85)	(9)	94	-	-
Closures	(55)	(53)	(210)	(40)	(358)
Other(a)	(263)	620	(357)	-	-
	-----	-----	-----	-----	-----
Balance at Dec. 30, 2000(b)	1,821	1,844	6,425	290	10,380
	=====	=====	=====	=====	=====
% of Total	17.5%	17.8%	61.9%	2.8%	100.0%

- A. Primarily includes 320 Company units and 329 Franchisee units contributed in connection with the formation of a new unconsolidated affiliate in Canada as well as 57 units acquired by the Company from Unconsolidated Affiliates and Franchisees.
- B. Includes 1 Company unit approved for closure, but not yet closed at December 30, 2000.

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International System Sales

System sales increased \$399 million or 6% in 2000, after a 2% unfavorable impact from foreign currency translation. Excluding the negative impact of foreign currency translation and the favorable impact of the fifty-third week in 2000, system sales increased 7%. This increase was driven by new unit development, led by China, Korea and Japan and same store sales growth. The increase was partially offset by store closures.

In 1999, system sales increased \$639 million or 10%, including a 2% favorable impact from foreign currency translation. This increase was largely driven by strong performance in Asia, where system sales increased \$426 million or 19%, including a 10% favorable impact of foreign currency translation. In 1999, the economy in Asia began to show signs of a steady recovery after the overall economic turmoil and weakening of local currencies against the U.S. dollar that began in late 1997. The increase in system sales in Asia was driven by new unit development and same store sales growth. Outside of Asia, the improvement was driven by new unit development and same store sales growth. The increases were partially offset by store closures primarily by franchisees in Canada, Latin America and Japan.

International Revenues

Company sales decreased \$74 million or 4% in 2000, after a 3% unfavorable impact from foreign currency translation. As expected, the decline in Company sales was primarily due to the Portfolio Effect partially offset by the favorable impact from the fifty-third week in 2000. Excluding all three of these items, Company sales increased 11% primarily due to new unit development and favorable Effective Net Pricing.

Franchise and license fees increased approximately \$31 million or 14% in 2000, after a 3% unfavorable impact from foreign currency translation. Excluding the negative impact of foreign currency translation and the favorable impact from the fifty-third week in 2000, franchise and license fees increased 16%. The increase was driven by new unit development, units acquired from us and franchisee same store sales growth. These increases were partially offset by store closures.

Company sales increased less than 1% in 1999. Excluding the Portfolio Effect, Company sales increased 13% largely driven by the strong performance in Asia. The increase was primarily due to new unit development, favorable Effective Net Pricing and volume increases.

Franchise and license fees rose \$27 million or 13% in 1999. The increase in franchise and license fees was driven by new unit development, franchisee same store sales growth and units acquired from us. New unit development was primarily in Asia. These increases were partially offset by store closures.

International Company Restaurant Margin

	2000	1999	1998
	-----	-----	-----
Company sales	100.0%	100.0%	100.0%
Food and paper	36.5	36.0	35.8
Payroll and employee benefits	19.5	21.0	22.6
Occupancy and other operating expenses	28.9	28.6	28.6
	-----	-----	-----
Restaurant margin	15.1%	14.4%	13.0%
	=====	=====	=====

Restaurant margin as a percentage of sales increased approximately 65 basis points in 2000. Excluding the Portfolio Effect of approximately 70 basis points, base restaurant margin was essentially flat.

Restaurant margin as a percentage of sales increased approximately 140 basis points in 1999. Excluding the favorable impact of foreign currency translation, restaurant margin increased approximately 130 basis

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points. Portfolio Effect contributed approximately 50 basis points. Excluding these items, our base restaurant margin grew approximately 80 basis points. The improvement was driven by volume increases in China, Korea and Australia and favorable Effective Net Pricing in excess of cost increases, primarily in the United Kingdom, Puerto Rico and Korea. Our growth in 1999 was partially offset by volume decreases in Taiwan and Poland. In addition to the factors described above, restaurant margin benefited from improved cost management, primarily in China.

International Ongoing Operating Profit

Ongoing operating profit grew \$44 million or 16% in 2000, after a 2% unfavorable impact from foreign currency translation. Excluding the negative impacts of the Portfolio Effect and foreign currency translation and the favorable impact from the fifty-third week in 2000, ongoing operating profit grew 19%. Higher franchise and license fees and Company new unit development drove the increase.

In 1999, ongoing operating profit grew \$74 million or 39%, including a 3% favorable impact from foreign currency translation. The increase in operating profit was driven by our base margin improvement of approximately 80 basis points, higher franchise and license fees and a decline in G&A. Ongoing operating profit benefited from the economic recovery in Asia. Operating profit in Asia increased \$55 million or 84%, including a 12% favorable impact from foreign currency translation. Additionally, ongoing operating profit included benefits of approximately \$15 million principally from our 1998 fourth quarter decision to streamline our international infrastructure in Asia, Europe and Latin America.

Consolidated Cash Flows

Net cash provided by operating activities decreased \$74 million to \$491 million primarily due to unusual charges associated with the AmeriServe bankruptcy reorganization process. Changes in operating working capital reflected a net use of cash of \$207 million. The primary drivers of the net use were receivables from the AmeriServe bankruptcy estate and franchisee receivables arising from the Company's program to temporarily purchase food and supply inventories directly from third party suppliers for the TRICON system and sell a portion of these supplies to franchisees and licensees (the "Temporary Direct Purchase Program") related to the AmeriServe bankruptcy reorganization process. These items resulted in a net cash usage of approximately \$135 million of working capital. See Note 21 for a discussion of the AmeriServe bankruptcy reorganization process.

Excluding the AmeriServe-related items noted above, our operating working capital deficit reflects a decrease of \$63 million versus a decrease of \$128 million in the prior year. Our operating working capital deficit, which excludes cash, short-term investments and short-term borrowings, is typical of restaurant operations where the majority of sales are for cash while payment to suppliers carry longer payment terms, generally from 10-30 days. The lower working capital deficit reduction in 2000 is the result of refranchising significantly fewer restaurants in 2000 versus 1999, as well as a change in payment terms in our distribution agreement from 30 to 15 days.

In 1999, net cash provided by operating activities decreased \$109 million to \$565 million. The decline was primarily due to a \$128 million decrease in our working capital deficit. This decrease was driven by our portfolio activities which resulted in a significant reduction in accounts payable and other accrued liabilities partially offset by higher accounts receivable.

Net cash used in investing activities was \$237 million in 2000, compared to net cash provided by investing activities of \$522 million in 1999. The decline in cash flow from investing activities was primarily due to lower gross refranchising proceeds as a result of selling fewer restaurants to franchisees in 2000 versus

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1999, increased capital spending related to development and funding of AmeriServe during its bankruptcy reorganization process.

In 1999, net cash provided by investing activities increased \$220 million to \$522 million. The majority of the increase is due to higher gross refranchising proceeds and proceeds from the sale of international short-term investments in connection with a planned tax-efficient repatriation to the U.S.

Although we report gross proceeds in our Consolidated Statements of Cash Flows, we also consider refranchising proceeds on an "after-tax" basis. We define after-tax proceeds as gross refranchising proceeds less the settlement of working capital liabilities (primarily accounts payable and property taxes) related to the units refranchised and payment of taxes on the gains. The after-tax proceeds can be used to pay down debt or repurchase shares. After-tax proceeds were approximately \$261 million in 2000 which reflects a 62% decrease from 1999. This decrease was

due to the refranchising of significantly fewer restaurants in 2000. After-tax proceeds were approximately \$683 million in 1999, a 13% increase versus 1998. The increase was principally due to a greater number of units refranchised as well as the mix of restaurants sold and the level of taxable gains from each refranchising.

Net cash used in financing activities was \$207 million compared to \$1.1 billion last year. Less cash was available for financing activities in 2000 due to a net cash use from investing activities as described above, and a use of cash to fund increased share repurchases as more fully discussed in Note 18. Accordingly, we repaid less debt in 2000 than 1999.

In 1999, net cash used in financing activities was essentially unchanged versus 1998 at \$1.1 billion. Payments on our unsecured Term Loan Facility and our unsecured Revolving Credit Facility totaled \$1.0 billion.

In 1999, our Board of Directors authorized the repurchase of up to \$350 million of our outstanding Common Stock, excluding applicable transaction fees. This Share Repurchase Program was completed in 2000. During 2000, we repurchased over 6.4 million shares for approximately \$216 million. During 1999, we repurchased over 3.3 million shares for approximately \$134 million. See Note 18.

On February 14, 2001, our Board of Directors authorized a new Share Repurchase Program, as more fully described in Note 18. The new Share Repurchase Program authorizes us to repurchase, over the next two years, up to \$300 million of our outstanding Common Stock, excluding applicable transaction fees. We have not repurchased any shares under this Program as of March 9, 2001.

Financing Activities

Our primary bank credit agreement, as amended in 2000 and 1999, is comprised of a senior, unsecured Term Loan Facility and a \$3 billion senior unsecured Revolving Credit Facility (collectively referred to as the "Credit Facilities"), both of which mature on October 2, 2002. Amounts outstanding under our Revolving Credit Facility are expected to fluctuate, but Term Loan Facility reductions may not be reborrowed. At December 30, 2000, we had unused Revolving Credit Facility borrowings available aggregating \$1.8 billion, net of outstanding letters of credit of \$190 million. We believe that we will be able to refinance a portion of our Credit Facilities with publicly issued bonds within the next twelve months. As a result of this refinancing, we are likely to experience an increase in our interest rates, subject to rates available at the time of refinancing. We also believe we will be able to replace or refinance the remaining Credit Facilities prior to maturity with new borrowings which will reflect the market conditions or terms available at that time.

The Credit Facilities subject us to significant interest expense and principal repayment obligations, which are limited in the near term, to repayment events as defined in the credit agreement. Interest on the Credit

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Facilities is based principally on the London Interbank Offered Rate ("LIBOR") plus a variable margin factor as defined in the credit agreement. Therefore, our future borrowing costs may fluctuate depending upon the volatility in LIBOR. We currently mitigate a portion of our interest rate risk through the use of derivative financial instruments. See Notes 11 and 13 and our market risk discussion for further discussions of our interest rate risk.

Consolidated Financial Condition

Assets increased \$188 million or 5% to \$4.1 billion. The increase is primarily attributable to the increase in receivables arising from the impact of the AmeriServe bankruptcy reorganization process as more fully discussed in Note 21.

Liabilities decreased \$50 million or 1% to \$4.5 billion.

Excluding the impact of the aforementioned increase in accounts receivable arising from the AmeriServe bankruptcy reorganization process, our working capital deficit decreased 8% to approximately \$769 million at December 30, 2000 from \$832 million at December 25, 1999. The decline was primarily due to a reduction in accounts payable related to fewer Company restaurants as a result of our portfolio actions, a change in payment terms to our new primary U.S. distributor of food and paper and a reduction in accrued compensation. These decreases were partially offset by an increase in accrued income taxes.

We believe the Company has adequate financial resources to meet its requirements in 2001 and beyond.

Other Significant Known Events, Trends or Uncertainties Expected to Impact 2001 Ongoing Operating Profit Comparisons with 2000

Impact of New Unconsolidated Affiliates

Consistent with our strategy to focus our capital on key international markets, we entered into an agreement in 1999 to form a new venture during 2000 in Canada with our largest franchisee in that market. During the third quarter of 2000, we contributed 320 restaurants in exchange

for a 50% equity interest in the venture. These stores represented approximately 16% of the total International Company restaurants at the time of the formation of the new venture. Including the stores contributed by our partner, the new venture had approximately 650 restaurants at the time of formation. We did not record any gain or loss on the transfer of assets to this new venture.

Previously, the results from the restaurants we contributed to the Canadian venture were consolidated. The impact of this transaction on operating results is similar to the Portfolio Effect of our refranchising activities. Consequently, this transaction will result in a decline in our Company sales, restaurant margin dollars and G&A expenses as well as higher franchise fees and equity income. In addition to the Portfolio Effect, franchise fees will be higher since the royalty rate was increased for those stores contributed by our partner to this venture. The overall impact from the formation of this venture on 2000 ongoing operating profit was slightly favorable. Had this venture been formed at the beginning of 2000, our International Company sales would have declined approximately 10% compared to the reported decline of 4% for the year ended December 30, 2000.

In addition, we anticipate contributing about 50 restaurants to a new venture in Poland to be formed in 2001. We believe the impact on ongoing operating profit from the formation of the venture will not be significant.

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Impact of the Consolidation of an Unconsolidated Affiliate

Beginning in fiscal 2001, we will consolidate a previously unconsolidated affiliate in our Consolidated Financial Statements as a result of a change in our intent to temporarily retain control of this affiliate. While we believe that the overall impact on our ongoing operating profit will not be significant, this change is expected to result in higher Company sales, restaurant margin dollars and G&A as well as decreased franchise fees and equity income. Had this change occurred at the beginning of 2000, our International Company sales would have increased approximately 2% compared to the reported decline of 4% for the year ended December 30, 2000.

Change in Casualty Loss Estimates

Due to the inherent volatility of our actuarially-determined casualty loss estimates, it is reasonably possible that we will experience changes in estimated losses which could be material to our growth in ongoing operating profit in 2001. See Note 21 for a discussion of our casualty loss programs and estimates.

Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Economic and Monetary Union ("EMU") adopted the Euro as a common legal currency and fixed conversion rates were established. Greece has since adopted the single currency on January 1, 2001, taking the total adopting countries to twelve. From January 1, 1999 through no later than February 28, 2002, all adopting countries will maintain a period of dual currency, where both legacy currencies and the Euro can be used in day-to-day credit transactions. Beginning January 1, 2002, new Euro-denominated bills and coins will be issued, and a transition period of up to two months will begin during which local currencies will be removed from circulation.

We have Company and franchised businesses in the adopting member countries, which are preparing for the conversion. To date, expenditures associated with our conversion efforts have been relatively insignificant, totaling under \$2 million. These expenditures have been concentrated mainly on consulting expenses for initial impact studies and head office accounting systems. We currently estimate that the total spending over the transition period will be approximately \$5 million related to the conversion in the EMU member countries in which we operate stores. This is a reduction from our previous estimate of \$10 million, primarily due to the refranchising of Company stores in certain EMU countries. Approximately 45% of these expenditures relate to capital expenditures for new point-of-sale and back-of-restaurant hardware and software to accommodate Euro-denominated transactions. We believe that adoption of the Euro by the United Kingdom would significantly increase this estimate due to the size of our businesses there relative to our aggregate businesses in the adopting member countries in which we operate.

The pace of ultimate consumer acceptance of and our competitors' responses to the Euro are currently unknown and may impact our existing plans. However, we know that, from a competitive perspective, we will be required to assess the impacts of product price transparency, potentially revise product bundling strategies and create Euro-friendly price points prior to 2002. We do not believe that these activities will have sustained adverse impacts on our businesses. Although the Euro does offer certain benefits to our treasury and procurement activities, these are not currently anticipated to be significant.

We currently anticipate that our suppliers and distributors will continue to invoice us in local currencies until late 2001. We expect to begin dual pricing in our restaurants in late 2001. We expect to compensate employees in Euros beginning in 2002. We believe that the most critical activity regarding the conversion for our businesses is the completion of the rollout of Euro-ready point-of-sale equipment and software by the end of 2001. Our current plans should enable us to be Euro-compliant prior to the requirements for these changes. Any delays in our ability to complete our plans, or in the ability of our key suppliers to be Euro-compliant, could have a material adverse impact on our results of operations, financial condition or cash flows.

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Quantitative and Qualitative Disclosures About Market Risk of Financial Instruments

Market Risk of Financial Instruments

Our primary market risk exposure with regard to financial instruments is to changes in interest rates, principally in the United States. We attempt to minimize this risk and lower our overall borrowing costs through utilization of derivative instruments such as interest rate swaps, collars and forward rate agreements.

We are also exposed to the impact of foreign currency rate fluctuations. We attempt to minimize the risk exposure to foreign currency rate fluctuations on our investments in foreign operations by financing those investments with local currency debt when practical. We also use forward contracts on a limited basis to reduce our exposure to foreign currency rate fluctuations on foreign currency denominated financial instruments and significant foreign currency denominated cash flows. Additionally, certain foreign currency denominated cash, cash equivalents and short-term investments are subject to tax considerations and local regulatory restrictions which limit our ability to utilize these funds outside the country in which they are held.

At December 30, 2000, a hypothetical 100 basis point increase in short-term interest rates would result in a reduction of \$19 million in annual income before income taxes. The estimated reduction is based upon the unhedged portion of our variable rate debt and assumes no change in the volume or composition of debt at December 30, 2000. In addition, the fair value of our interest rate derivative contracts would decrease approximately \$11 million in value to us, and the fair value of our Senior Unsecured Notes would decrease approximately \$25 million. Fair value was determined by discounting the projected cash flows.

New Accounting Pronouncement

See Note 2.

Cautionary Statements

From time to time, in both written reports and oral statements, we present "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements include those identified by such words as "may," "will," "expect," "anticipate," "believe," "plan" and other similar terminology. These "forward-looking statements" reflect our current expectations and are based upon data available at the time of the statements. Actual results involve risks and uncertainties, including both those specific to the Company and those specific to the industry, and could differ materially from expectations.

Company risks and uncertainties include, but are not limited to, potentially substantial tax contingencies related to the Spin-off, which, if they occur, require us to indemnify PepsiCo, Inc.; our substantial debt leverage and the attendant potential restriction on our ability to borrow in the future, as well as our substantial interest expense and principal repayment obligations; our ability to replace or refinance the Credit Facilities at reasonable rates; potential unfavorable variances between estimated and actual liabilities including the liabilities related to the sale of the non-core businesses; the ongoing business viability of our key distributor of restaurant products and equipment in the U.S. and our ability to ensure adequate supply of restaurant products and equipment in our stores; our ability to complete our Euro conversion plans or the ability of our key suppliers to be Euro-compliant; the ongoing financial viability of our franchisees and licensees, our potential inability to identify qualified franchisees to purchase restaurants at prices we consider appropriate under our strategy to reduce the percentage of system units we operate; volatility of actuarially determined casualty loss estimates and adoption of new or changes in accounting policies and practices.

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Industry risks and uncertainties include, but are not limited to, global and local business, economic and political conditions; legislation and governmental regulation; competition; success of operating initiatives and advertising and promotional efforts; volatility of commodity costs and increases in minimum wage and other operating costs; availability and cost of land and construction; consumer preferences, spending patterns and demographic trends; political or economic instability in local markets and currency exchange rates.

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Item 8. Financial Statements and Supplementary Data.

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Item 8(a)(1) Consolidated Financial Statements

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Item 8(a)(2) Financial Statement Schedules

No schedules are required because either 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 notes thereto.

Consolidated Statements of Income

TRICON Global Restaurants, Inc. and Subsidiaries

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

(in millions, except per share amounts)

	2000	1999	1998
Revenues			
Company sales	\$ 6,305	\$ 7,099	\$ 7,852
Franchise and license fees	788	723	627
	7,093	7,822	8,479
Costs and Expenses, net			
Company restaurants			
Food and paper	1,942	2,238	2,521
Payroll and employee benefits	1,744	1,956	2,243
Occupancy and other operating expenses	1,665	1,814	2,030
	5,351	6,008	6,794
General and administrative expenses	879	920	941
Other (income) expense	(25)	(16)	(24)
Facility actions net (gain)	(176)	(381)	(275)
Unusual items	204	51	15
Total costs and expenses, net	6,233	6,582	7,451
Operating Profit	860	1,240	1,028
Interest expense, net	176	202	272

Income Before Income Taxes	684	1,038	756
Income Tax Provision	271	411	311
Net Income	\$ 413	\$ 627	\$ 445
Basic Earnings Per Common Share	\$ 2.81	\$ 4.09	\$ 2.92
Diluted Earnings Per Common Share	\$ 2.77	\$ 3.92	\$ 2.84

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TRICON Global Restaurants, Inc. and Subsidiaries

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

(in millions)

	2000	1999	1998
Cash Flows - Operating Activities			
Net income	\$ 413	\$ 627	\$ 445
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	354	386	417
Facility actions net gain	(176)	(381)	(275)
Unusual items	120	45	15
Other liabilities and deferred credits	(5)	65	58
Deferred income taxes	(51)	(16)	3
Other non-cash charges and credits, net	43	66	117
Changes in operating working capital, excluding effects of acquisitions and dispositions:			
Accounts and notes receivable	(161)	(28)	(8)
Inventories	11	6	4
Prepaid expenses and other current assets	(3)	(13)	(20)
Accounts payable and other current liabilities	(94)	(215)	10
Income taxes payable	40	23	(92)
Net change in operating working capital	(207)	(227)	(106)
Net Cash Provided by Operating Activities	491	565	674
Cash Flows - Investing Activities			
Capital spending	(572)	(470)	(460)
Proceeds from refranchising of restaurants	381	916	784
Acquisition of restaurants	(24)	(6)	-
AmeriServe funding, net	(70)	-	-
Short-term investments	(21)	39	(57)
Sales of property, plant and equipment	64	51	58
Other, net	5	(8)	(23)
Net Cash (Used in) Provided by Investing Activities	(237)	522	302

Cash Flows - Financing Activities			
Proceeds from Notes	-	-	604
Revolving Credit Facility activity, by original maturity			
More than three months - proceeds	-	-	400
More than three months - payments	-	-	(900)
Three months or less, net	82	(860)	(120)
Proceeds from long-term debt	-	4	4
Payments of long-term debt	(99)	(180)	(1,068)
Short-term borrowings-three months or less, net	(11)	21	(53)
Repurchase shares of common stock	(216)	(134)	-
Other, net	37	30	13
Net Cash Used in Financing Activities	(207)	(1,119)	(1,120)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3)	-	(3)
Net Increase (Decrease) in Cash and Cash Equivalents	44	(32)	(147)
Cash and Cash Equivalents - Beginning of Year	89	121	268
Cash and Cash Equivalents - End of Year	\$ 133	\$ 89	\$ 121
Supplemental Cash Flow Information			
Interest paid	\$ 194	\$ 212	\$ 303
Income taxes paid	252	340	310
Significant Non-Cash Investing and Financing Activities			
Issuance of promissory note to acquire an unconsolidated affiliate	\$ 25	-	-
Contribution of non-cash net assets to an unconsolidated affiliate	67	-	-

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

TRICON Global Restaurants, Inc. and Subsidiaries
December 30, 2000 and December 25, 1999
(in millions)

	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 133	\$ 89
Short-term investments, at cost	63	48
Accounts and notes receivable, less allowance: \$82 in 2000 and \$13 in 1999	302	161
Inventories	47	61
Prepaid expenses and other current assets	68	68
Deferred income tax assets	75	59
Total Current Assets	688	486
Property, Plant and Equipment, net	2,540	2,531
Intangible Assets, net	419	527

Investments in Unconsolidated Affiliates		257	170
Other Assets		245	247
		-----	-----
Total Assets	\$ 4,149	\$ 3,961	
		=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current Liabilities			
Accounts payable and other current liabilities		\$ 978	\$ 1,085
Income taxes payable		148	96
Short-term borrowings		90	117
		-----	-----
Total Current Liabilities	1,216	1,298	
Long-term Debt		2,397	2,391
Other Liabilities and Deferred Credits		848	825
Deferred Income Taxes		10	7
		-----	-----
Total Liabilities	4,471	4,521	
		-----	-----
Shareholders' Deficit			
Preferred stock, no par value, 250 shares authorized; no shares issued		-	-
Common stock, no par value, 750 shares authorized; 147 and 151 shares issued in 2000 and 1999, respectively		1,133	1,264
Accumulated deficit		(1,278)	(1,691)
Accumulated other comprehensive income		(177)	(133)
		-----	-----
Total Shareholders' Deficit	(322)	(560)	
		-----	-----
Total Liabilities and Shareholders' Deficit	\$ 4,149	\$ 3,961	
		=====	=====

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Deficit and Comprehensive Income

TRICON Global Restaurants, Inc. and Subsidiaries

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

(in millions)

	Issued Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount			
Balance at December 27, 1997	152	\$ 1,271	\$ (2,763)	\$ (128)	\$ (1,62)
Net income			445		44
Foreign currency translation adjustment				(20)	(2)
Minimum pension liability adjustment (includes tax of \$1 million)				(2)	(

Comprehensive Income					42
Adjustment to opening equity related to net advances from PepsiCo		12			1
Stock option exercises (includes tax benefits of \$3 million)	1	22			2

Balance at December 26, 1998	153	\$ 1,305	\$ (2,318)	\$ (150)	\$ (1,16)
Net income			627		62
Foreign currency translation adjustment				15	1
Minimum pension liability adjustment (includes tax of \$1 million)				2	
Comprehensive Income					64
Adjustment to opening equity related to net advances from PepsiCo		7			
Repurchase of shares of common stock	(3)	(134)			(13)
Stock option exercises (includes tax benefits of \$14 million)	1	39			3
Compensation-related events		47			4
Balance at December 25, 1999	151	\$ 1,264	\$ (1,691)	\$ (133)	\$ (56)
Net income			413		41
Foreign currency translation adjustment				(44)	(4)
Comprehensive Income					36
Repurchase of shares of common stock	(6)	(216)			(21)
Stock option exercises (includes tax benefits of \$5 million)	2	46			4
Compensation-related events		39			3
Balance at December 30, 2000	147	\$ 1,133	\$ (1,278)	\$ (177)	\$ (32)

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular amounts in millions, except share data)

Note 1 - Description of Business

TRICON Global Restaurants, Inc. and Subsidiaries (collectively referred to as "TRICON" or the "Company") is comprised of the worldwide operations of KFC, Pizza Hut and Taco Bell (the "Concepts") and is the world's largest quick service restaurant company based on the number of system units, with over 30,000 units in over 100 countries and territories. Approximately 34% of our system units are located outside the U.S. References to TRICON throughout these Consolidated Financial Statements are made using the first person notations of "we," "us" or "our." Through our widely-recognized Concepts, TRICON develops, operates, franchises and licenses a system of both traditional and non-traditional quick service restaurants. Our traditional restaurants feature dine-in, carryout and, in some instances, drive-thru or delivery service. Non-traditional units, which are principally licensed outlets, include express units and kiosks which have a more limited menu and operate in non-traditional locations like airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. 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.

We also previously operated other restaurant businesses which were disposed of in 1997, which included California Pizza Kitchen, Chevys Mexican Restaurant, D'Angelo's Sandwich Shops, East Side Mario's and Hot 'n Now (collectively, the "Non-core Businesses").

Note 2 - Summary of Significant Accounting Policies

Our preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, 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 the estimates.

Principles of Consolidation and Basis of Preparation. TRICON was created as an independent, publicly owned company on October 6, 1997 (the "Spin-off Date") via a tax-free distribution by our former parent, PepsiCo, Inc. ("PepsiCo"), of our Common Stock (the "Distribution" or "Spin-off") to its shareholders. Intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliates in which we exercise significant influence but do not control are accounted for by the equity method. Our share of the net income or loss of those unconsolidated affiliates and net foreign exchange gains or losses are included in other (income) expense.

Internal Development Costs and Abandoned Site Costs. We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs and direct external costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. We consider acquisition probable upon final site approval. If we subsequently make a determination that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed at this date and included in general and administrative expenses.

Fiscal Year. Our fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. Fiscal year 2000 included 53 weeks. Fiscal years 1999 and 1998 included 52 weeks. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 17

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weeks in fiscal years with 53 weeks and 16 weeks in fiscal years with 52 weeks. Our subsidiaries operate on similar fiscal calendars with period end dates suited to their businesses. Period end dates are within one week of TRICON's period end date with the exception of our international businesses, which close one period or one month earlier to facilitate consolidated reporting.

Direct Marketing Costs. We report substantially all of our direct marketing costs in occupancy and other operating expenses. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year. To the extent we participate in independent advertising cooperatives, we expense our contributions as incurred. At the end of 2000 and 1999, we had deferred marketing costs of \$8 million and \$3 million, respectively. Our advertising expenses were \$325 million, \$385 million and \$435 million in 2000, 1999 and 1998, respectively. The decline in our advertising expense is primarily due to fewer Company stores as a result of our refranchising program.

Research and Development Expenses. Research and development expenses, which we expense as incurred, were \$24 million in both 2000 and 1999 and \$21 million in 1998.

Stock-Based Employee Compensation. We measure stock-based employee compensation cost for financial statement purposes in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. We include pro forma information in Note 15 as required by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Accordingly, we measure compensation cost for the stock option grants to the employees as the excess of the average market price of the Common Stock at the grant date over the amount the employee must pay for the stock. Our policy is to generally grant stock options at the average market price of the underlying Common Stock at the date of grant.

Derivative Instruments. As discussed in the New Accounting Pronouncement Not Yet Adopted section which follows, we have not yet adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") as of December 30, 2000. In all years presented, our treatment of derivative instruments is as follows.

We utilize interest rate swaps, collars and forward rate agreements to hedge our exposure to fluctuations in interest rates. We recognize the interest differential to be paid or received on interest rate swap and forward rate agreements as an adjustment to interest expense as the differential occurs. We recognize the interest differential to be paid or received on an interest rate collar as an adjustment to interest expense when the interest rate falls below or rises above the collared range. We reflect the recognized interest differential not yet settled in cash in the accompanying Consolidated Balance Sheets as a current receivable or payable. If we terminate an interest rate swap, collar or forward rate position, any gain or loss realized upon termination would be deferred and amortized to interest expense over the remaining term of the underlying debt instrument it was intended to modify or would be recognized immediately if the underlying debt instrument was settled prior to maturity.

Each period, we recognize in income foreign exchange gains and losses on forward contracts that are designated and effective as hedges of foreign currency receivables or payables as the differential occurs. These gains or losses are largely offset by the corresponding gain or loss recognized in income on the currency translation of the receivable or payable, as both amounts are based upon the same exchange rates. We reflect the recognized foreign currency differential for forward contracts not yet settled in cash on the accompanying Consolidated Balance Sheets each period as a current receivable or payable. Each period, we recognize in income the change in fair value of foreign exchange gains and losses on forward contracts that are entered into to mitigate the foreign exchange risk of certain forecasted foreign currency denominated royalty receipts. We

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reflect the fair value of these forward contracts not yet settled on the Consolidated Balance Sheets as a current receivable or payable. If a foreign currency forward contract is terminated prior to maturity, the gain or loss recognized upon termination would be immediately recognized in income.

We defer gains and losses on futures and options contracts that are designated and effective as hedges of future commodity purchases and include them in the cost of the related raw materials when purchased. Changes in the value of futures and options contracts that we use to hedge components of our commodity purchases are highly correlated to changes in the value of the purchased commodity attributable to the hedged component. If the degree of correlation were to diminish such that the two were no longer considered highly correlated, we would immediately recognize subsequent changes in the value of the futures and option contracts in income.

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

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

Property, Plant and Equipment. We state property, plant and equipment ("P&E") at cost less accumulated depreciation and amortization, impairment writedowns and valuation allowances. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 5 to 25 years for buildings and improvements, 3 to 20 years for machinery and equipment and 3 to 7 years for capitalized software costs. As discussed further below, we suspend depreciation and amortization on assets related to restaurants that are held for disposal. Our depreciation and amortization expense was \$319 million, \$345 million and \$372 million in 2000, 1999 and 1998, respectively.

Intangible Assets. Intangible assets include both identifiable intangibles and goodwill arising from the allocation of purchase prices of businesses acquired. Where appropriate, intangible assets are allocated to individual restaurants at the time of acquisition. We base amounts assigned to identifiable intangibles on independent appraisals or internal estimates. Goodwill represents the residual purchase price after allocation to all identifiable net assets. Our intangible assets are stated at historical allocated cost less accumulated amortization and impairment writedowns. We amortize intangible assets on a straight-line basis as follows: up to 20 years for reacquired franchise rights, 3 to 34 years for trademarks and other identifiable intangibles and up to 20 years for goodwill. As discussed further below, we suspend amortization on intangible assets allocated to restaurants that are held for disposal. Our amortization expense was \$38 million, \$44 million and \$52 million in 2000, 1999 and 1998, respectively.

Franchise and License Fees. We execute franchise or license agreements for each point of distribution which sets out the terms of our arrangement with the franchisee or licensee. Our franchise and certain license agreements require the franchisee or licensee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and payment of a renewal fee, a franchisee may generally renew its agreement upon its expiration. Our direct costs of the sales and servicing of franchise and license agreements are charged to general and administrative expenses as incurred.

We recognize initial fees as revenue when we have performed substantially all initial services required by the franchise or license agreement, which is generally upon opening of a store. We recognize continuing fees as earned with an appropriate provision for estimated uncollectible amounts, which is included in general and administrative expenses. We recognize renewal fees in income when a renewal agreement becomes effective. We include initial fees collected upon the sale of a restaurant to a franchisee in refranchising gains (losses). Fees for development rights are capitalized and amortized over the life of the development agreement.

Refranchising Gains (Losses). Refranchising gains (losses) includes the gains or losses from the sales of our restaurants to new and existing franchisees and the related initial franchise fees, reduced by transaction costs and direct administrative costs of refranchising. In executing our refranchising initiatives, we most often offer groups of restaurants. We recognize gains on restaurant refranchisings when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity and we are satisfied that the franchisee can meet its financial obligations. Otherwise, we defer refranchising gains until those criteria have been met. We only consider the stores in the group "held for disposal" when the group is expected to be sold at a loss. We recognize estimated losses on restaurants to be refranchised and suspend depreciation and amortization when: (a) we make a decision to refranchise stores; (b) the estimated fair value less costs to sell is less than the carrying amount of the stores; and (c) the stores can be immediately removed from operations. When we make a decision to retain a store previously held for refranchising, we revalue the store at the lower of its net book value at our original disposal decision date less normal depreciation and amortization during the period held for disposal or its current fair market value. This value becomes the store's new cost basis. We charge (or credit) any difference between the store's carrying amount and its new cost basis to refranchising gains (losses). When we make a decision to close a store previously held for refranchising, we reverse any previously recognized refranchising loss and then record the store closure costs as described below. For groups of restaurants expected to be sold at a gain, we typically do not suspend depreciation and amortization until the sale is probable. For practical purposes, we treat the closing date as the point at which the sale is probable. Refranchising gains (losses) also include charges for estimated exposures related to those partial guarantees of franchisee loan pools and contingent lease liabilities which arose from refranchising activities. These exposures are more fully discussed in Note 21.

Store Closure Costs. Effective for closure decisions made on or subsequent to April 23, 1998, we recognize the cost of writing down the carrying amount of a restaurant's assets as store closure costs when we have closed or replaced the restaurant within the same quarter our decision is made. Store closure costs also include costs of disposing of the assets as well as other facility-related expenses from previously

closed stores. These costs are expensed as incurred. Additionally, we record a liability for the net present value of any remaining operating lease obligations after the expected closure date, net of estimated sublease income, if any, at the date the closure is considered probable.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from the estimates.

Impairment of Long-Lived Assets. We review our long-lived assets related to each restaurant to be held and used in the business, including any allocated intangible assets, semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. Based on the best information available, we write down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. We generally measure estimated fair market value by discounting estimated future cash flows. In addition, after April 23, 1998, when we decide to close a store beyond the quarter in which the closure decision is made, it is reviewed for impairment and depreciable lives are adjusted. The impairment evaluation is based on the estimated cash flows from continuing use until the expected disposal date plus the expected terminal value.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from our estimates.

Impairment of Investments in Unconsolidated Affiliates and Enterprise-Level Goodwill. Our methodology for determining and measuring impairment of our investments in unconsolidated affiliates and enterprise-level goodwill is similar to the methodology we use for our restaurants except: (a) the recognition

test for an investment in an unconsolidated affiliate compares the carrying amount of our investment to a forecast of our share of the unconsolidated affiliate's undiscounted cash flows after interest and taxes instead of undiscounted cash flows before interest and taxes used for our restaurants; and (b) enterprise-level goodwill is generally evaluated at a country level instead of by individual restaurant. Also, we record impairment charges related to investments in unconsolidated affiliates whenever other circumstances indicate that a decrease in the value of an investment has occurred which is other than temporary.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from our estimates.

New Accounting Pronouncement Not Yet Adopted. In June 1998, the Financial Accounting Standards Board (the "FASB") issued SFAS 133. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related change in fair value on the hedged item in the Consolidated Statements of Income or be deferred through Accumulated Other Comprehensive Income until a hedged forecasted transaction affects earnings. SFAS 133 requires that a company formally document, designate and assess the effectiveness of transactions to receive hedge accounting treatment. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended certain provisions of SFAS 133.

As required, we adopted these statements on December 31, 2000, which is the beginning of our 2001 fiscal year. The transition adjustments resulting from the adoption of SFAS 133 were not significant. In addition, the adoption of these statements could increase volatility in our earnings and other comprehensive income.

Note 3 - Comprehensive Income

Accumulated Other Comprehensive Income of \$177 million and \$133 million as of December 30, 2000 and December 25, 1999, respectively, consisted entirely of foreign currency translation adjustment.

The changes in foreign currency translation adjustment are as follows:

	2000	1999	1998
	-----	-----	-----
Foreign currency translation adjustment arising during the period	\$ (44)	\$ 15	\$ (21)
Less: Foreign currency translation adjustment included in net income	-	-	1
Net foreign currency translation adjustment	\$ (44)	\$ 15	\$ (20)
	=====	=====	=====

Note 4 - Earnings Per Common Share ("EPS")

	2000	1999	1998
Net income	\$ 413	\$ 627	\$ 445
<u>Basic EPS:</u>			
Weighted-average common shares outstanding	147	153	153
Basic EPS	\$ 2.81	\$ 4.09	\$ 2.92
<u>Diluted EPS:</u>			
Weighted-average common shares outstanding	147	153	153
Shares assumed issued on exercise of dilutive share equivalents	19	24	20
Shares assumed purchased with proceeds of dilutive share equivalents	(17)	(17)	(17)
Shares applicable to diluted earnings	149	160	156
Diluted EPS	\$ 2.77	\$ 3.92	\$ 2.84

Unexercised employee stock options to purchase approximately 10.8 million, 2.5 million and 1.0 million shares of our Common Stock for the years ended December 30, 2000, December 25, 1999 and December 26, 1998, respectively, were not included in the computation of diluted EPS because their exercise prices were greater than the average market price of our Common Stock during the year.

Note 5 - Items Affecting Comparability of Net IncomeAccounting Changes

In 1998 and 1999, we adopted several accounting and human resource policy changes (collectively, the "accounting changes") that impacted our 1999 operating profit. These changes, which we believe are material in the aggregate, fall into three categories:

- required changes in accounting principles generally accepted in the U.S. ("GAAP"),
- discretionary methodology changes implemented to more accurately measure certain liabilities and
- policy changes driven by our human resource and accounting standardization programs.

Required Changes in GAAP - Effective December 27, 1998, we adopted Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 identifies the characteristics of internal-use software and specifies that once the preliminary project stage is complete, direct external costs, certain direct internal payroll and payroll-related costs and interest costs incurred during the development of computer software for internal use should be capitalized and amortized. Previously, we expensed all software development and procurement costs as incurred. In 1999, we capitalized approximately \$13 million of internal software development costs and third party software costs that we would have previously expensed. The amortization of computer software assets that became ready for their intended use in 1999 was insignificant.

In addition, we adopted Emerging Issues Task Force Issue No. 97-11 ("EITF 97-11"), "Accounting for Internal Costs Relating to Real Estate Property Acquisitions," upon its issuance in March 1998. EITF 97-11 limits the capitalization of internal real estate acquisition costs to those site-specific costs incurred subsequent to the time that the real estate acquisition is probable. We consider acquisition of the property probable upon final site approval. In the first quarter of 1999, we also made a discretionary policy change limiting the types of costs eligible for capitalization to those direct cost types described as capitalizable under SOP 98-1. Prior to

the adoption of EITF 97-11, all pre-acquisition real estate activities were considered capitalizable. This change unfavorably impacted our 1999 operating profit by approximately \$3 million.

To conform to the Securities and Exchange Commission's April 23, 1998 interpretation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," our store closure accounting policy was changed in 1998. Effective for closure decisions made on or subsequent to April 23, 1998, we recognize store closure costs when we have closed the restaurant within the same quarter the closure decision is made. When we decide to close a restaurant beyond the quarter in which the closure decision is made, it is

reviewed for impairment. The impairment evaluation is based on the estimated cash flows from continuing use until the expected date of disposal plus the expected terminal value. If the restaurant is not fully impaired, we continue to depreciate the assets over their estimated remaining useful life. Prior to April 23, 1998, we recognized store closure costs and generally suspended depreciation and amortization when we decided to close a restaurant within the next twelve months. In fiscal year 1999, this change resulted in additional depreciation and amortization of approximately \$3 million through April 23, 1999.

Discretionary Methodology Changes - In 1999, the methodology used by our independent actuary was refined and enhanced to provide a more reliable estimate of the self-insured portion of our current and prior years' ultimate loss projections related to workers' compensation, general liability and automobile liability insurance programs (collectively "casualty loss(es)"). Our prior practice was to apply a fixed factor to increase our independent actuary's ultimate loss projections which was at the 51% confidence level for each year to approximate our targeted 75% confidence level. Confidence level means the likelihood that our actual casualty losses will be equal to or below those estimates. Based on our independent actuary's opinion, our prior practice produced a very conservative confidence factor at a level higher than our target of 75%. Our actuary now provides an actuarial estimate at our targeted 75% confidence level in the aggregate for all self-insured years. The change in methodology resulted in a one-time increase in our 1999 operating profit of over \$8 million.

At the end of 1998, we changed our method of determining the pension discount rate to better reflect the assumed investment strategies we would most likely use to invest any short-term cash surpluses. Accounting for pensions requires us to develop an assumed interest rate on securities with which the pension liabilities could be effectively settled. In estimating this discount rate, we look at rates of return on high-quality corporate fixed income securities currently available and expected to be available during the period to maturity of the pension benefits. As it is impractical to find an investment portfolio which exactly matches the estimated payment stream of the pension benefits, we often have projected short-term cash surpluses. Previously, we assumed that all short-term cash surpluses would be invested in U.S. government securities. Our new methodology assumes that our investment strategies would be equally divided between U.S. government securities and high-quality corporate fixed income securities. The pension discount methodology change resulted in a one-time increase in our 1999 operating profit of approximately \$6 million.

Human Resource and Accounting Standardization Programs - In 1999, our vacation policies were conformed to a calendar-year based, earn-as-you-go, use-or-lose policy. The change provided a one-time favorable increase in our 1999 operating profit of approximately \$7 million. Other accounting policy standardization changes by our three U.S. Concepts provided a one-time favorable increase in our 1999 operating profit of approximately \$1 million.

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Our 1999 operating results included the favorable impact of approximately \$29 million (\$18 million after-tax or \$0.11 per diluted share) from these accounting changes. The estimated impact is summarized below:

	1999		
	Restaurant Margin	G&A	Operating Profit
U.S.	\$ 11	\$ 4	\$ 15
Unallocated	-	14	14
Total	\$ 11	\$ 18	\$ 29

1997 Fourth Quarter Charge

In the fourth quarter of 1997, we recorded a \$530 million unusual charge (\$425 million after-tax). The charge included estimates for (a) costs of closing stores, primarily at Pizza Hut and Tricon Restaurants International; (b) reductions to fair market value, less costs to sell, of the carrying amounts of certain restaurants we intended to rebrand; (c) impairments of certain restaurants intended to be used in the business; (d) impairments of certain investments in unconsolidated affiliates to be retained; and (e) costs of related personnel reductions. Below is a summary of the 1999 and 1998 activity related to our asset valuation allowances and liabilities recognized as a result of the 1997 fourth quarter charge:

	Asset Valuation Allowances	Liabilities	Total
Balance at December 27, 1997	\$ 261	\$ 129	\$ 390
Amounts used	(131)	(54)	(185)

(Income) expense impacts:			
Completed transactions	(27)	(7)	(34)
Decision changes	(22)	(17)	(39)
Estimate changes	15	(7)	8
Other	1	-	1
	-----	-----	-----
Balance at December 26, 1998	97	44	141
Amounts used	(87)	(32)	(119)
(Income) expense impacts:			
Completed transactions	(5)	-	(5)
Decision changes	1	(3)	(2)
Estimate changes	(7)	(9)	(16)
Other	1	-	1
	-----	-----	-----
Balance at December 25, 1999	\$ -	\$ -	\$ -
	=====	=====	=====

During 1999 and 1998, we continued to re-evaluate our prior estimates of the fair market value of units to be franchised or closed and other liabilities arising from the charge. In 1999, we recorded favorable adjustments of \$13 million (\$10 million after-tax) and \$11 million (\$10 million after-tax) included in facility actions net gain and unusual items, respectively. In 1998, favorable adjustments of \$54 million (\$33 million after-tax) and \$11 million (\$7 million after-tax) were included in facility actions net gain and unusual items, respectively. The 1999 and 1998 adjustments primarily related to decisions to retain certain stores originally expected to be disposed of, lower-than-expected losses from stores disposed of, favorable lease settlements with certain lessors related to stores closed and changes in estimated costs.

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Our operating profit reflects the benefit from the suspension of depreciation and amortization of approximately \$12 million (\$7 million after-tax) and \$33 million (\$21 million after-tax) in 1999 and 1998, respectively, for stores held for disposal. The benefits from the suspension of depreciation and amortization related to stores that were operating at the end of the respective periods ceased when the stores were franchised or closed or a subsequent decision was made to retain the stores.

Facility Actions Net Gain

Facility actions net gain consists of three components as described in Note 2:

- Refranchising gains (losses),
- Store closure costs (credits), and
- Impairment of long-lived assets for restaurants we intend to continue to use in the business and, since April 23, 1998, restaurants we intend to close beyond the quarter in which the closure decision is made.

The components of facility actions net gain for 2000, 1999 and 1998 were as follows:

	2000	1999		1998	
	-----	-----	(Excluding 1997 4th Qtr. Charge Adjustments)	-----	(Excluding 1997 4th Qt Charge Adjustments)
	Total	Total	Total	Total	Total
	-----	-----	-----	-----	-----
U.S.					
Refranchising net gains(a)	\$ (202)	\$ (405)	\$ (396)	\$ (275)	\$ (24)
Store closure costs (credits)	6	5	15	(9)	2
Impairment charges for stores that will continue to be used in the business	3	6	6	23	2
Impairment charges for stores to be closed in the future	5	9	9	5	
	-----	-----	-----	-----	-----
Facility actions net gain	(188)	(385)	(366)	(256)	(19)
	-----	-----	-----	-----	-----

International

Refranchising net (gains) losses(a)	2	(17)	(22)	(4)	(3)
Store closure costs (credits)	4	8	7	(18)	
Impairment charges for stores that will continue to be used in the business	5	10	10	2	
Impairment charges for stores to be closed in the future	1	3	3	1	
	-----	-----	-----	-----	-----
Facility actions net (gain) loss	12	4	(2)	(19)	(2)
	-----	-----	-----	-----	-----

Worldwide

Refranchising net gains(a)	(200)	(422)	(418)	(279)	(28)
Store closure costs (credits)	10	13	22	(27)	2
Impairment charges for stores that will continue to be used in the business(b)	8	16	16	25	
Impairment charges for stores to be closed in the future(b)	6	12	12	6	
	-----	-----	-----	-----	-----
Facility actions net gain	\$ (176)	\$ (381)	\$ (368)	\$ (275)	\$ (22)
	=====	=====	=====	=====	=====
Facility actions net gain, after-tax	\$ (98)	\$ (226)	\$ (216)	\$ (162)	\$ (12)
	=====	=====	=====	=====	=====

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- A. Includes initial franchise fees in the U.S. of \$17 million in 2000, \$38 million in 1999 and \$39 million in 1998, and in International of \$3 million, \$7 million and \$5 million in 2000, 1999 and 1998, respectively. See Note 6.
- B. Impairment charges for 2000 and 1999 were recorded against the following asset categories:

	2000	1999
	-----	-----
Property, plant and equipment	\$ 12	\$ 25
Intangible assets:		
Goodwill	-	1
Reacquired franchise rights	2	2
	-----	-----
Total impairment	\$ 14	\$ 28
	=====	=====

The following table summarizes the 2000 and 1999 activity related to all stores disposed of or held for disposal including the stores that were covered by the fourth quarter 1997 charge. We believe that the remaining carrying amounts are adequate to complete our disposal actions.

	Asset Impairment Allowances	Liabilities
	-----	-----
Carrying amount at December 26, 1998	\$ 127	\$ 77
Amounts used	(100)	(36)
(Income) expense impact:		
New decisions	9	15
Estimate/decision changes	(20)	15
Other	4	-
	-----	-----
Carrying amount at December 25, 1999	\$ 20	\$ 71
Amounts used	(10)	(22)
(Income) expense impact:		

New decisions	14	5
Estimate/decision changes	(4)	(7)
Other	-	3
	-----	-----
Carrying amount at December 30, 2000	\$ 20	\$ 50
	=====	=====

The carrying values of assets held for disposal, which were all located in the U.S., were \$2 million and \$40 million at December 30, 2000 and December 25, 1999, respectively. These assets included restaurants and in 1999, our idle processing facility in Wichita, Kansas, which was sold in 2000 for its approximate net book value.

The following table summarizes Company sales and restaurant margin related to stores held for disposal at December 30, 2000 or disposed of through refranchising or closure during 2000, 1999 and 1998. Restaurant margin represents Company sales less the cost of food and paper, payroll and employee benefits and occupancy

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and other operating expenses. These amounts do not include the impact of Company stores that have been or are expected to be contributed to new unconsolidated affiliates.

	2000	1999	1998
	-----	-----	-----
Stores held for disposal or disposed of in 2000:			
Sales	\$ 408	\$ 750	\$ 690
Restaurant margin	55	97	92
Stores disposed of in 1999 and 1998:			
Sales	\$ 659	\$ 1,825	
Restaurant margin	66	192	

The margin reported above reflects a benefit from the suspension of depreciation and amortization of approximately \$2 million, \$9 million and \$32 million in 2000, 1999 and 1998, respectively. The loss of restaurant margin from the disposal of these stores was largely mitigated by (a) increased franchise fees from stores refranchised; (b) lower field general and administrative expenses; and (c) the estimated interest savings from the reduction of average debt with net after-tax refranchising proceeds.

Unusual Items

	2000	1999	1998
	-----	-----	-----
U.S.	\$ 29	\$ 13	\$ 12
International	8	3	4
Unallocated	167	35	(1)
	-----	-----	-----
Worldwide	\$ 204	\$ 51	\$ 15
	=====	=====	=====
After-tax	\$ 129	\$ 29	\$ 3
	=====	=====	=====

Unusual items in 2000 included: (a) \$170 million of charges and direct incremental costs related to the AmeriServe Food Distribution, Inc. ("AmeriServe") bankruptcy reorganization process; (b) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense costs incurred in 2000; (c) costs associated with the formation of an unconsolidated affiliate in Canada; and (d) the reversal of excess provisions arising from the resolution of a dispute associated with the disposition of our Non-core Businesses. See Note 21 for further discussion of the AmeriServe bankruptcy reorganization process and wage and hour litigation.

Unusual items in 1999 included: (a) the write-off of approximately \$41 million owed to us by AmeriServe at the AmeriServe bankruptcy petition date; (b) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense and other costs incurred in 1999; (c) favorable adjustments to our 1997 fourth quarter charge; (d) the write-down to estimated fair market value less cost to sell

of our idle Wichita processing facility; (e) costs associated with the formation of unconsolidated affiliates in Canada and Poland; (f) the impairment of enterprise-level goodwill in one of our international businesses; and (g) severance and other exit costs related to strategic decisions to streamline the infrastructure of our international business.

Unusual items in 1998 included: (a) an increase in the estimated costs of settlement of certain wage and hour litigation and associated defense and other costs incurred in 1998; (b) severance and other exit costs related to strategic decisions to streamline the infrastructure of our international businesses; (c) favorable adjustments to our 1997 fourth quarter charge related to anticipated actions that were not taken, primarily severance; (d) the writedown to estimated fair market value less costs to sell our minority interest in a privately held Non-core Business, previously carried at cost; and (e) reversals of certain impairment allowances and

lease liabilities relating to better-than-expected proceeds from the sale of properties and settlement of lease liabilities associated with properties retained upon the sale of a Non-core Business.

Note 6 - Franchise and License Fees

	2000	1999	1998
	-----	-----	-----
Initial fees, including renewal fees	\$ 48	\$ 71	\$ 67
Initial franchise fees included in refranchising gains	(20)	(45)	(44)
	-----	-----	-----
	28	26	23
Continuing fees	760	697	604
	-----	-----	-----
	\$ 788	\$ 723	\$ 627
	=====	=====	=====

Note 7 - Other (Income) Expense

	2000	1999	1998
	-----	-----	-----
Equity income from investments in unconsolidated affiliates	\$ (25)	\$ (19)	\$ (18)
Foreign exchange net loss (gain)	-	3	(6)
	-----	-----	-----
	\$ (25)	\$ (16)	\$ (24)
	=====	=====	=====

Note 8 - Property, Plant and Equipment, net

	2000	1999
	-----	-----
Land	\$ 543	\$ 572
Buildings and improvements	2,469	2,553
Capital leases, primarily buildings	82	102
Machinery and equipment	1,522	1,598
	-----	-----
	4,616	4,825
Accumulated depreciation and amortization	(2,056)	(2,279)
Impairment allowances	(20)	(15)
	-----	-----
	\$ 2,540	\$ 2,531
	=====	=====

Note 9 - Intangible Assets, net

	2000	1999
	-----	-----

Reacquired franchise rights	\$ 264	\$ 326
Trademarks and other identifiable intangibles	102	124
Goodwill	53	77
	-----	-----
	\$ 419	\$ 527
	=====	=====

In determining the above amounts, we have subtracted accumulated amortization of \$415 million for 2000 and \$456 million for 1999.

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Note 10 - Accounts Payable and Other Current Liabilities

	2000	1999
	-----	-----
Accounts payable	\$ 326	\$ 375
Accrued compensation and benefits	209	281
Other current liabilities	443	429
	-----	-----
	\$ 978	\$ 1,085
	=====	=====

Note 11 -Short-term Borrowings and Long-term Debt

	2000	1999
	-----	-----
Short-term Borrowings		
Current maturities of long-term debt	\$ 10	\$ 47
International lines of credit	68	45
Other	12	25
	-----	-----
	\$ 90	\$ 117
	=====	=====
Long-term Debt		
Senior, unsecured Term Loan Facility, due October 2002	\$ 689	\$ 774
Senior, unsecured Revolving Credit Facility, expires October 2002	1,037	955
Senior, Unsecured Notes, due May 2005 (7.45%)	351	352
Senior, Unsecured Notes, due May 2008 (7.65%)	251	251
Capital lease obligations (see Note 12)	74	97
Other, due through 2010 (6% - 11%)	5	9
	-----	-----
	2,407	2,438
Less current maturities of long-term debt	(10)	(47)
	-----	-----
	\$ 2,397	\$ 2,391
	=====	=====

Our primary bank credit agreement, as amended in 2000 and 1999, is comprised of a senior, unsecured Term Loan Facility and a \$3 billion senior unsecured Revolving Credit Facility (collectively referred to as the "Credit Facilities") both of which mature on October 2, 2002. Amounts outstanding under our Revolving Credit Facility are expected to fluctuate, but Term Loan Facility reductions may not be reborrowed.

The Credit Facilities are subject to various covenants including financial covenants relating to maintenance of specific leverage and fixed charge coverage ratios. In addition, the Credit Facilities contain affirmative and negative covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, cash dividends, aggregate non-U.S. investment and certain other transactions, as defined in the agreement. The Credit Facilities require prepayment of a portion of the proceeds from certain capital market transactions and refranchising of restaurants.

Interest on amounts borrowed is payable at least quarterly at variable rates, based principally on the London Interbank Offered Rate

("LIBOR") plus a variable margin factor. At December 30, 2000 and December 25, 1999, the weighted average interest rate on our variable rate debt was 7.2% and 6.6%, respectively, which includes the effects of associated interest rate swaps. See Note 13 for a discussion of our use of derivative instruments, our management of credit risk inherent in derivative instruments and fair value information related to debt and interest rate swaps.

At December 30, 2000, we had unused borrowings available under the Revolving Credit Facility of approximately \$1.8 billion, net of outstanding letters of credit of \$190 million. Under the terms of the

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Revolving Credit Facility, we may borrow up to \$3.0 billion less outstanding letters of credit. We pay a facility fee on the Revolving Credit Facility. The facility fee rate and the aforementioned variable margin factor are determined based on the more favorable of our leverage ratio or third-party senior debt ratings as defined in the agreement.

In 1997, we filed a shelf registration statement with the Securities and Exchange Commission with respect to offerings of up to \$2 billion of senior unsecured debt. In May 1998, we issued \$350 million 7.45% Unsecured Notes due May 15, 2005 and \$250 million 7.65% Unsecured Notes due May 15, 2008 (collectively referred to as the "Notes"). Interest commenced on November 15, 1998 and is payable semi-annually thereafter. The effective interest rate on the 2005 Notes and the 2008 Notes is 7.6% and 7.8%, respectively.

Interest expense on the short-term borrowings and long-term debt was \$190 million, \$218 million and \$291 million in 2000, 1999 and 1998, respectively. As more fully discussed in Note 21, interest expense of \$9 million on incremental borrowings related to the AmeriServe bankruptcy reorganization process has been included in unusual items.

The annual maturities of long-term debt through 2005 and thereafter, excluding capital lease obligations, are 2001 - \$2.4 million; 2002 - \$1.7 billion; 2003 - \$1 million; 2004 - \$0.2 million; 2005 - \$352 million and \$251 million thereafter.

Note 12 -Leases

We have non-cancelable commitments under both capital and long-term operating leases, primarily for our 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 us to pay related executory costs, which include property taxes, maintenance and insurance.

Future minimum commitments and sublease receivables under non-cancelable leases are set forth below:

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
2001	\$ 12	\$ 194	\$ 2	\$ 10
2002	12	176	2	9
2003	11	154	1	8
2004	11	137	1	7
2005	10	127	1	6
Thereafter	94	630	9	37
	\$ 150	\$ 1,418	\$ 16	\$ 77

At year-end 2000, the present value of minimum payments under capital leases was \$74 million.

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

	2000	1999	1998
Rental expense			
Minimum	\$ 253	\$ 263	\$ 308

Contingent	28	28	25
	-----	-----	-----
	\$ 281	\$ 291	\$ 333
	=====	=====	=====
Minimum rental income	\$ 18	\$ 20	\$ 18
	=====	=====	=====

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

Note 13 - Financial Instruments

Derivative Instruments

Our policy prohibits the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use. Our use of derivative instruments has included interest rate swaps, collars and forward rate agreements. In addition, we utilize on a limited basis, foreign currency forward contracts and commodity futures and options contracts. Our interest rate and foreign currency derivative contracts are entered into with financial institutions while our commodity contracts are generally exchange traded.

We enter into interest rate swaps, collars, and forward rate agreements with the objective of reducing our exposure to interest rate risk for a portion of our debt and to lower our overall borrowing costs. Reset dates and the floating rate indices on the swaps and forward rate agreements match those of the underlying bank debt. Accordingly, any change in market value associated with the swaps and forward rate agreements is offset by the opposite market impact on the related debt. At December 30, 2000 and December 25, 1999, we had outstanding pay-fixed interest rate swaps with notional amounts of \$450 million and \$800 million, respectively. At December 30, 2000 we also had outstanding pay-variable interest rate swaps with notional amounts of \$350 million. Under the contracts, we agree with other parties to exchange, at specified intervals, the difference between variable rate and fixed rate amounts calculated on a notional principal amount. We had an aggregate receivable under the related swaps of \$0.9 million and \$0.4 million at December 30, 2000 and December 25, 1999, respectively. The swaps mature at various dates through 2005.

During 2000 and 1999, we entered into interest rate collars to reduce interest rate sensitivity on a portion of our variable rate bank debt. Interest rate collars effectively lock in a range of interest rates by establishing a cap and floor. Reset dates and the floating index on the collars match those of the underlying bank debt. If interest rates remain within the collared cap and floor, no payments are made. If rates rise above the cap level, we receive a payment. If rates fall below the floor level, we make a payment. At December 30, 2000 and December 25, 1999, we did not have any outstanding interest rate collars.

We enter into foreign currency exchange contracts with the objective of reducing our exposure to earnings and cash flow volatility associated with foreign currency fluctuations. In 2000 and 1999, we entered into forward contracts to hedge our exposure related to certain foreign currency receivables and payables. The notional amount and maturity dates of these contracts match those of the underlying receivables or payables. Accordingly, any change in market value associated with the forward contracts is offset by the opposite market impact on the related receivables or payables. At December 30, 2000 and December 25, 1999, we had outstanding forward contracts related to certain foreign currency receivables and payables with notional

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amounts of \$13 million and \$9 million, respectively. Our net receivable under the related forward agreements, all of which terminate in 2001, was insignificant at December 30, 2000 and December 25, 1999.

In 2000, we entered into forward contracts to reduce our exposure to cash flow volatility associated with certain forecasted foreign currency denominated royalties. These forward contracts are short-term in nature, with termination dates matching royalty payments forecasted to be received within the next twelve months. At December 30, 2000, we had outstanding forward contracts associated with forecasted royalty cash flows with notional amounts of \$3 million. Our net receivable for these contracts as of December 30, 2000 was insignificant.

Our credit risk from the interest rate swap, collar and forward rate agreements and foreign exchange contracts is dependent both on the movement in interest and currency rates and possibility of non-payment by counterparties. We mitigate credit risk by entering into these agreements with high-quality counterparties, netting swap and forward rate payments within contracts and limiting payments associated with the collars to differences outside the collared range.

Open commodity future and option contracts and deferred gains and losses at year-end 2000 and 1999, as well as gains and losses recognized as part of cost of sales in 2000, 1999 and 1998, were not significant.

Concentrations of Credit Risk

Accounts receivable consists primarily of amounts due from franchisees and licensees. Concentrations of credit risk with respect to accounts receivable generally are limited due to a large number of franchisees and licensees. At December 30, 2000, accounts receivable included

amounts due from franchisees related to the temporary direct purchase program, which is more fully described in Note 21.

Fair Value

Excluding the financial instruments included in the table below, the carrying amounts of our other financial instruments approximate fair value.

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

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt, excluding capital leases	\$ 2,413	\$ 2,393	\$ 2,411	\$ 2,377
Debt-related derivative instruments				
Open contracts in an asset position	-	(24)	-	(3)
Debt, excluding capital leases	\$ 2,413	\$ 2,369	\$ 2,411	\$ 2,374
Guarantees and letters of credit	\$ -	\$ 51	\$ -	\$ 27

We estimated the fair value of debt, debt-related derivative instruments, guarantees and letters of credit using market quotes and calculations based on market rates. See Note 2 for recently issued accounting pronouncements relating to derivative financial instruments.

Note 14 - Pension and Postretirement Medical Benefits

Pension Benefits

We sponsor noncontributory defined benefit pension plans covering substantially all full-time U.S. salaried employees, certain hourly employees and certain international employees. Benefits are based on years of service and earnings or stated amounts for each year of service.

Postretirement Medical Benefits

Our postretirement plans provide health care benefits, principally to U.S. retirees and their dependents. These plans include retiree cost sharing provisions. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits.

The components of net periodic benefit cost are set forth below:

	Pension Benefits		
	2000	1999	1998
Service cost	\$ 19	\$ 20	\$ 21
Interest cost	24	22	20
Expected return on plan assets	(25)	(24)	(21)
Amortization of prior service cost	1	1	-
Amortization of transition (asset) obligation	-	-	(2)
Recognized actuarial loss	-	-	2
Net periodic benefit cost	\$ 19	\$ 19	\$ 20
Additional (gain) loss recognized due to:			
Curtailment	\$ (4)	\$ (4)	\$ -
Special termination benefits	-	-	3

	2000	1999	1998
Service cost	\$ 2	\$ 2	\$ 2
Interest cost	3	3	3
Amortization of prior service cost	(1)	(2)	(2)
Net periodic benefit cost	\$ 4	\$ 3	\$ 3
Additional (gain) loss recognized due to:			
Curtailment	\$ (1)	\$ (1)	\$ (3)
Special termination benefits	-	-	1

Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits. Curtailment gains have generally been recognized in facility actions net gain.

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The change in benefit obligation and plan assets and reconciliation of funded status is as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2000	1999	2000	199
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 315	\$ 315	\$ 45	\$ 3
Service cost	19	20	2	
Interest cost	24	22	3	
Plan amendments	-	6	-	
Curtailment (gain)	(5)	(5)	(2)	(
Benefits and expenses paid	(19)	(24)	(3)	(
Actuarial loss (gain)	17	(19)	3	
Benefit obligation at end of year	\$ 351	\$ 315	\$ 48	\$ 4
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 290	\$ 259		
Actual return on plan assets	39	51		
Employer contributions	4	5		
Benefits paid	(19)	(23)		
Administrative expenses	(1)	(2)		
Fair value of plan assets at end of year	\$ 313	\$ 290		
Reconciliation of funded status				
Funded status	\$ (38)	\$ (25)	\$ (48)	\$ (4
Unrecognized actuarial (gain) loss	(30)	(35)	5	
Unrecognized prior service costs	5	7	(1)	(
Accrued benefit liability at year-end	\$ (63)	\$ (53)	\$ (44)	\$ (4
Other comprehensive income attributable to change in additional minimum liability recognition	\$ -	\$ (3)		
Additional year-end information for pension plans with benefit obligations in excess of plan assets				
Benefit obligation	\$ 42	\$ 31		
Fair value of plan assets	-	-		

Additional year-end information for pension plans with accumulated benefit obligations in excess of plan assets

Benefit obligation	\$	42	\$	31
Accumulated benefit obligation		21		12
Fair value of plan assets		-		-

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

	Pension Benefits			Postretirement Medical Bene		
	2000	1999	1998	2000	1999	199
Discount rate	8.0%	7.8%	6.8%	8.3%	7.6%	7.0
Long-term rate of return on plan assets	10.0%	10.0%	10.0%	-	-	-
Rate of compensation increase	5.0%	5.5%	4.5%	5.0%	5.5%	4.5

We have assumed the annual increase in cost of postretirement medical benefits was 8.0% in 2000 and will be 7.5% in 2001. We are assuming the rate will decrease to an ultimate rate of 5.5% by 2007 and remain at that level thereafter. There is a cap on our medical liability for certain retirees, which is expected to be reached between the years 2001-2004; at that point our cost for a retiree will not increase.

Assumed health care cost trend rates have a significant effect on the amounts reported for our post-retirement health care plans. A one percent increase in the assumed health care cost trend rates would have increased our accumulated postretirement benefit obligation at December 30, 2000 by \$2.7 million. The impact on our 2000 benefit expense would not have been significant.

Note 15 - Employee Stock-Based Compensation

At year-end 2000, we had four stock option plans in effect: the TRICON Global Restaurants, Inc. Long-Term Incentive Plan ("1999 LTIP"), the 1997 Long-Term Incentive Plan ("1997 LTIP"), the TRICON Global Restaurants, Inc. Restaurant General Manager Stock Option Plan ("YUMBUCKS") and the TRICON Global Restaurants, Inc. SharePower Plan ("SharePower").

We may grant options to purchase up to 7.6 million and 22.5 million shares of stock under the 1999 LTIP and 1997 LTIP, respectively, at a price equal to or greater than the average market price of the stock on the date of grant. New option grants can have varying vesting provisions and exercise periods. Previously granted options vest in periods ranging from immediate to 2006 and expire ten to fifteen years after grant. Potential awards to employees and non-employee directors under the 1999 LTIP include stock options, incentive stock options, stock appreciation rights, restricted stock, stock units, restricted stock units, performance shares and performance units. Potential awards to employees and non-employee directors under the 1997 LTIP include stock options, incentive stock options, stock appreciation rights, restricted stock and performance restricted stock units. We have issued only stock options and performance restricted stock units under the 1997 LTIP and have issued only stock options under the 1999 LTIP.

We may grant options to purchase up to 7.5 million shares of stock under YUMBUCKS at a price equal to or greater than the average market price of the stock on the date of grant. YUMBUCKS options granted have a four year vesting period and expire ten years after grant. We do not anticipate that any further SharePower grants will be made although options previously granted could be outstanding through 2006.

At the Spin-off Date, we converted certain of the unvested options to purchase PepsiCo stock that were held by our employees to TRICON stock options under either the 1997 LTIP or SharePower. We converted the options at amounts and exercise prices that maintained the amount of unrealized stock appreciation that existed immediately prior to the Spin-off. The vesting dates and exercise periods of the options were not affected by the conversion. Based on their original PepsiCo grant date, our converted options vest in periods ranging from one to ten years and expire ten to fifteen years after grant.

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The following table reflects pro forma net income and earnings per common share had we elected to adopt the fair value approach of SFAS 123.

	2000	1999	1998
Net Income			

As reported	\$	413	\$	627	\$	445
Pro forma		379		597		425
Basic Earnings per Common Share						
As reported	\$	2.81	\$	4.09	\$	2.92
Pro forma		2.58		3.90		2.79
Diluted Earnings per Common Share						
As reported	\$	2.77	\$	3.92	\$	2.84
Pro forma		2.55		3.73		2.72

The effects of applying SFAS 123 in the pro forma disclosures are not likely to be representative of the effects on pro forma net income for future years because variables such as the number of option grants, exercises and stock price volatility included in these disclosures may not be indicative of future activity.

We estimated the fair value of each option grant made during 2000, 1999 and 1998 as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2000	1999	1998
	-----	-----	-----
Risk-free interest rate	6.4%	4.9%	5.5%
Expected life (years)	6.0	6.0	6.0
Expected volatility	32.6%	29.7%	28.8%
Expected dividend yield	0.0%	0.0%	0.0%

A summary of the status of all options granted to employees and non-employee directors as of December 30, 2000, December 25, 1999 and December 26, 1998, and changes during the years then ended is presented below (tabular options in thousands):

	December 30, 2000		December 25, 1999		December 26, 1998	
	Options	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price
Outstanding at beginning of year	24,166	\$ 31.18	22,699	\$ 26.16	15,245	\$ 26.16
Granted at price equal to average market price	7,860	30.33	5,709	49.07	12,084	
Exercised	(1,829)	21.84	(1,273)	19.51	(962)	
Forfeited	(3,518)	33.99	(2,969)	31.94	(3,668)	
Outstanding at end of year	26,679	\$ 31.20	24,166	\$ 31.18	22,699	\$ 26.16
Exercisable at end of year	7,622	\$ 24.59	3,665	\$ 22.44	3,006	\$ 22.44
Weighted average fair value of options at date of grant	\$ 13.48		\$ 19.20		\$ 11.65	

The following table summarizes information about stock options outstanding and exercisable at December 30, 2000 (tabular options in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price
\$0.01 - 17.80	1,395	3.91	\$ 15.22	1,394	\$ 15.22
22.02 - 29.84	9,692	6.23	25.74	4,659	24.38
30.28 - 34.47	10,799	8.44	30.97	1,292	31.47
35.13 - 46.97	4,307	8.16	44.53	272	42.71
72.75	486	8.26	72.75	5	72.75
	26,679			7,622	

In November 1997, we granted two awards of performance restricted stock units of TRICON's Common Stock to our Chief Executive Officer ("CEO"). The awards were made under the 1997 LTIP and may be paid in Common Stock or cash at the discretion of the Compensation Committee of the Board of Directors. Payments of the awards of \$2.7 million and \$3.6 million are contingent upon the CEO's continued employment through January 25, 2001 and 2006, respectively, and our attainment of certain pre-established earnings thresholds, as defined. We expense these awards over the performance periods stipulated above. The annual amount included in earnings for 2000, 1999 and 1998 was \$1.3 million.

During 2000 and 1999, modifications were made to certain 1997 LTIP and Sharepower options held by terminated employees. These modifications resulted in additional compensation expense of an insignificant amount in 2000 and \$5.0 million in 1999 with a corresponding increase in our Common Stock account.

Note 16 -Other Compensation and Benefit Programs

We sponsor two deferred compensation benefit programs, the Executive Income Deferral Program and the Restaurant Deferred Compensation Plan (the "EID Plan" and the "RDC Plan," respectively) for eligible employees and non-employee directors. The EID Plan allows participants to defer receipt of all or a portion of their annual salary and incentive compensation. The RDC Plan allows participants to defer a portion of their annual salary. As defined by the benefit programs, we credit the amounts deferred with earnings based on certain investment options selected by the participants.

The EID Plan includes an investment option that allows participants to defer certain incentive compensation to purchase phantom shares of our Common Stock at a 25% discount from the average market price at the date of deferral (the "Discount Stock Account"). Participants bear the risk of forfeiture of both the discount and any amounts deferred if they voluntarily separate from employment during the two year vesting period. We expense the intrinsic value of the discount over the vesting period.

We phased in certain program changes to the EID Plan during 1999 and 2000. These changes included limiting investment options, primarily to phantom shares of our Common Stock, and requiring the distribution of investments in the TRICON Common Stock investment options to be paid in shares of our Common Stock. Due to these changes, in 1998 we agreed to credit a one time premium to participant accounts on January 1, 2000. The premium totaled approximately \$3 million and was equal to 10% of the participants' account balances as of December 31, 1999, excluding (a) investments in the Discount Stock Account and (b) deferrals made in 1999.

Prior to January 1, 1999, we recognized as compensation expense all investment appreciation or depreciation within the EID Plan. Subsequent to January 1, 1999, we no longer recognize as compensation expense the appreciation or depreciation, if any, attributable to investments in the Discount Stock Account since these investments can only be settled in shares of our Common Stock. For 1998, we expensed \$9 million related to appreciation attributable to investments in the Discount Stock Account. We also reduced our liabilities by \$21 million related to investments in the Discount Stock Account and increased the Common Stock Account by the same amount at January 1, 1999.

Subsequent to January 1, 2000, we no longer recognized as compensation expense the appreciation or depreciation, if any, attributable to investments in the phantom shares of our Common Stock, since these investments can only be settled in shares of our Common Stock. For 1999, we recorded a benefit of \$3 million related to depreciation of investments in phantom shares of our Common Stock impacted by the January 2000 plan amendment. We also reduced our liabilities by \$12 million related to investments in the phantom shares of our Common Stock and increased the Common Stock Account by the same amount at January 1, 2000.

Our obligations under the EID Plan as of the end of 2000 and 1999 were \$27 million and \$50 million, respectively. We recognized compensation expense of \$6 million in both 2000 and 1999 and \$20 million in 1998 for the EID Plan.

Investment options in the RDC Plan consist of phantom shares of various mutual funds and TRICON Common Stock. During 1998, RDC participants also became eligible to purchase phantom shares of our Common Stock under YUMSOP as defined below. We recognize compensation expense for the appreciation or depreciation, if any, attributable to all investments in the RDC Plan as well as for our matching contribution. Our obligations under the RDC program as of the end of 2000 and 1999 were \$10 million and \$6 million, respectively. We recognized annual compensation expense of \$1 million in 2000, 1999 and 1998 for the RDC Plan.

We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code ("401(k) Plan") for eligible full-time U.S. salaried and certain hourly employees. Participants may elect to contribute up to 15% of their eligible compensation on a pre-tax basis. We are not required to make contributions to the Plan. In 1998, a Stock Ownership Program ("YUMSOP") was added to the TRICON Common Stock investment option. Under YUMSOP, we make a partial discretionary matching contribution equal to a predetermined percentage of each participant's contribution to the TRICON Common Stock Fund. We determine our percentage match at the beginning of each year based on the immediate prior year performance of our Concepts. We recognized as compensation expense our total matching contribution of \$4 million in both 2000 and 1999 and \$1 million in 1998.

Note 17 - Shareholders' Rights Plan

On July 21, 1998, our Board of Directors declared a dividend distribution of one right for each share of Common Stock outstanding as of August 3, 1998 (the "Record Date"). Each right initially entitles the registered holder to purchase a unit consisting of one one-thousandth of a share (a "Unit") of Series A Junior Participating Preferred Stock, without par value, at a purchase price of \$130 per Unit, subject to adjustment. The rights, which do not have voting rights, will become exercisable for our Common Stock ten business days following a public announcement that a person or group has acquired, or has commenced or intends to commence a tender offer for, 15% or more, or 20% or more if such person or group owned 10% or more on the adoption date of this plan, of our Common Stock. In the event the rights become exercisable for Common Stock, each right will entitle its holder (other than the Acquiring Person as defined in the Agreement) to purchase, at the right's then-current exercise price, TRICON Common Stock having a value of twice the exercise price of the right. In the event the rights become exercisable for Common Stock and thereafter we are

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acquired in a merger or other business combination, each right will entitle its holder to purchase, at the right's then-current exercise price, common stock of the acquiring company having a value of twice the exercise price of the right.

We can redeem the rights in their entirety, prior to becoming exercisable, at \$0.01 per right under certain specified conditions. The rights expire on July 21, 2008, unless we extend that date or we have earlier redeemed or exchanged the rights as provided in the Agreement.

This description of the rights is qualified in its entirety by reference to the Rights Agreement between TRICON and BankBoston, N.A., as Rights Agent, dated as of July 21, 1998 (including the exhibits thereto).

Note 18 - Share Repurchase Program

In 1999, our Board of Directors authorized the repurchase of up to \$350 million of our outstanding Common Stock, excluding applicable transaction fees. This Share Repurchase Program was completed in 2000. During 2000, we repurchased over 6.4 million shares for approximately \$216 million at an average price per share of \$34. During 1999, we repurchased over 3.3 million shares for approximately \$134 million at an average price of \$40 per share. In total, we repurchased approximately 9.8 million shares at an average price of \$36.

On February 14, 2001, our Board of Directors authorized a new Share Repurchase Program. The new Share Repurchase Program authorizes us to repurchase, over a two-year period, up to \$300 million of our outstanding Common Stock, excluding applicable transaction fees. Based on market conditions and other factors, repurchases may be made from time to time in the open market or through privately negotiated transactions, at the discretion of the Company.

Note 19 - Income Taxes

The details of our income tax provision (benefit) are set forth below:

		2000	1999	1998
		-----	-----	-----
Current:	Federal	\$ 215	\$ 342	\$ 231
	Foreign	66	46	55
	State	41	39	22
		-----	-----	-----
		322	427	308
		-----	-----	-----
Deferred:	Federal	(11)	(18)	(2)
	Foreign	(9)	17	10
	State	(31)	(15)	(5)

----- (51) -----	----- (16) -----	----- 3 -----
\$ 271 =====	\$ 411 =====	\$ 311 =====

Taxes payable were reduced by \$5 million, \$14 million, and \$3 million in 2000, 1999 and 1998, respectively, as a result of stock option exercises. In addition, goodwill and other intangibles were reduced by \$2 million and \$22 million in 2000 and 1999, respectively, as a result of the settlement of a disputed claim with the Internal Revenue Service relating to the deductibility of reacquired franchise rights and other intangibles. These reductions were offset by reductions in deferred and accrued taxes payable.

In 2000, valuation allowances that relate to deferred tax assets in certain states and foreign countries were reduced by \$35 million (\$23 million, net of federal tax) and \$6 million, respectively, as a result of making a

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determination that it is more likely than not that these assets will be utilized in the current and future years. In 1999, valuation allowances that related to deferred tax assets in certain foreign countries were reduced by \$13 million as a result of establishing a pattern of profitability.

U.S. and foreign income before income taxes are set forth below:

	2000	1999	1998
U.S.	\$ 518	\$ 876	\$ 617
Foreign	166	162	139
	\$ 684	\$ 1,038	\$ 756
	=====	=====	=====

The reconciliation of income taxes calculated at the U.S. federal tax statutory rate to our effective tax rate is set forth below:

	2000	1999	1998
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	3.7	3.0	2.8
Foreign and U.S. tax effects attributable to foreign operations	(0.4)	1.7	4.4
Effect of unusual items	(0.5)	(0.5)	(0.6)
Adjustments relating to prior years	1.6	0.4	(1.1)
Other, net	0.2	(0.1)	0.6
Effective income tax rate	39.6%	39.5%	41.1%
	=====	=====	=====

The details of 2000 and 1999 deferred tax liabilities (assets) are set forth below:

	2000	1999
Intangible assets and property, plant and equipment	\$ 184	\$ 170
Other	35	25
Gross deferred tax liabilities	\$ 219	\$ 195
Net operating loss and tax credit carryforwards	\$ (137)	\$ (140)
Employee benefits	(82)	(91)
Self-insured casualty claims	(55)	(38)
Stores held for disposal	-	(12)
Various liabilities and other	(219)	(178)
Gross deferred tax assets	(493)	(459)
Deferred tax assets valuation allowances	132	173

Net deferred tax assets	(361)	(286)
Net deferred tax (assets) liabilities	\$ (142)	\$ (91)
Reported in Consolidated Balance Sheets as:		
Deferred income tax assets	\$ (75)	\$ (59)
Other assets	(78)	(51)
Accounts payable and other current liabilities	1	12
Deferred income taxes	10	7
	\$ (142)	\$ (91)

Our valuation allowance related to deferred tax assets decreased by \$41 million in 2000 primarily due to the previously discussed change in circumstances related to deferred tax assets in certain states and foreign countries.

A determination of the unrecognized deferred tax liability for temporary differences related to our investments in foreign subsidiaries and investments in foreign unconsolidated affiliates that are essentially permanent in duration is not practicable.

We have available net operating loss and tax credit carryforwards totaling \$856 million at December 30, 2000 to reduce future tax of TRICON and certain subsidiaries. The carryforwards are related to a number of foreign and state jurisdictions. Of these carryforwards, \$13 million expire in 2001 and \$760 million expire at various times between 2002 and 2020. The remaining \$83 million of carryforwards do not expire.

Note 20 -Reportable Operating Segments

We are engaged principally in developing, operating, franchising and licensing the worldwide KFC, Pizza Hut and Taco Bell concepts. KFC, Pizza Hut and Taco Bell operate throughout the U.S. and in 84, 87 and 13 countries and territories outside the U.S., respectively. Our five largest international markets based on ongoing operating profit in 2000 are Australia, China, Japan, Korea and the United Kingdom. At December 30, 2000, we had 10 investments in unconsolidated affiliates outside the U.S. which operate KFC and/or Pizza Hut restaurants, the most significant of which are operating in Canada, Japan and the United Kingdom.

We identify our operating segments based on management responsibility within the U.S. and International. For purposes of applying SFAS No. 131 "Disclosure About Segments of An Enterprise and Related Information" we consider our three U.S. Concept operating segments to be similar and therefore have aggregated them into a single reportable operating segment. Other than the U.S., no individual country represented 10% or more of our total revenues, profits or assets.

	Revenues		
	2000	1999	1998
United States	\$ 5,062	\$ 5,748	\$ 6,439
International	2,031	2,074	2,040
	\$ 7,093	\$ 7,822	\$ 8,479
	Operating Profit; Interest Expense, Net; and Income Before Income Taxes		
	2000	1999	1998
United States	\$ 742	\$ 828	\$ 740
International(a)	309	265	191
Foreign exchange (loss) gain	-	(3)	6
Unallocated and corporate expenses	(163)	(180)	(169)
Facility actions net gain (b)	176	381	275
Unusual items(b)	(204)	(51)	(15)
Total Operating Profit	860	1,240	1,028
Interest expense, net	176	202	272

Income before income taxes	\$ 684	\$ 1,038	\$ 756
	=====	=====	=====

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Depreciation and Amortization

	2000	1999	1998
United States	\$ 231	\$ 266	\$ 300
International	110	110	104
Corporate	13	10	13
	-----	-----	-----
	\$ 354	\$ 386	\$ 417
	=====	=====	=====

Capital Spending

	2000	1999	1998
United States	\$ 370	\$ 315	\$ 305
International	192	139	150
Corporate	10	16	5
	-----	-----	-----
	\$ 572	\$ 470	\$ 460
	=====	=====	=====

Identifiable Assets

	2000	1999
United States	\$ 2,400	\$ 2,444
International(c)	1,501	1,367
Corporate(d)	248	150
	-----	-----
	\$ 4,149	\$ 3,961
	=====	=====

Long-Lived Assets(e)

	2000	1999
United States	\$ 2,101	\$ 2,143
International	828	874
Corporate	30	41
	-----	-----
	\$ 2,959	\$ 3,058
	=====	=====

- A. Includes equity income of unconsolidated affiliates of \$25 million, \$22 million and \$18 million in 2000, 1999 and 1998, respectively.
- B. See Note 5 for a discussion by reportable operating segment of facility actions net gain and unusual items.
- C. Includes investment in unconsolidated affiliates of \$257 million and \$170 million for 2000 and 1999, respectively.
- D. Primarily includes accounts receivable arising from the AmeriServe bankruptcy reorganization process as further discussed in Note 21, PP&E related to our office facilities and restricted cash.
- E. Includes PP&E, net and Intangible Assets, net.

See Note 5 for additional operating segment disclosures related to impairment and the carrying amount of assets held for disposal.

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Impact of AmeriServe Bankruptcy Reorganization Process

Overview

We and our franchisees and licensees are dependent on frequent replenishment of food ingredients and paper supplies required by our restaurants. We and a large number of our franchisees and licensees operated under multi-year contracts, which have now been assumed by McLane Company, Inc. ("McLane"), which required the use of AmeriServe to purchase and make deliveries of most of these supplies. AmeriServe filed for protection under Chapter 11 of the U.S. Bankruptcy Code on January 31, 2000. A plan of reorganization for AmeriServe (the "POR") was approved by the U.S. Bankruptcy Court on November 28, 2000.

During the AmeriServe bankruptcy reorganization process, we took a number of actions to ensure continued supply to our system. These actions, which are described below, have resulted in a total net expense of \$170 million in 2000, which has been recorded as unusual items. Based upon the actions contemplated by the POR which have been completed to date and other currently available information, we believe the ultimate cost of the AmeriServe bankruptcy reorganization process will not materially exceed the amounts already provided. A summary of the expense is as follows:

DIP Facility		\$	70
Gross Settlement Amount	246		
Less: Dismissed Payables	(101)		
Residual Assets	(86)		

Net Settlement Amount			59
TDPP and Other			41
Bankruptcy Causes of Action			-

		\$	170
			=====

Each of the amounts in this table is more fully described below.

DIP Facility

On February 2, 2000, AmeriServe was provided with a \$150 million interim debtor-in-possession ("DIP") revolving credit facility (the "DIP Facility"). Through a series of transactions, our effective net commitment under the DIP Facility was \$70 million. At November 30, 2000, the total DIP commitment had essentially been funded.

Replacement Lien

During the bankruptcy reorganization process, we consented to a cash collateral order by the U.S. Bankruptcy Court under which the pre-petition secured lenders of AmeriServe agreed to allow certain AmeriServe pre-petition collateral (principally inventory and receivables) to be used in the normal course of business. In exchange, we agreed to grant a lien ("Replacement Lien") to these lenders on inventory that we purchased and the receivables resulting from the sale of this inventory under the Temporary Direct Purchase Program described below.

AmeriServe POR

The POR provided for the sale of the AmeriServe U.S. distribution business to McLane effective on November 30, 2000. In connection with this sale, we have agreed to (a) an extension of the sales and distribution agreement for U.S. Company-owned stores (the "Distribution Agreement") through October 31, 2010; (b) a five-percent increase in distribution fees under the Distribution Agreement; and (c) a reduction in our payment terms for supplies from 30 to 15 days. Beginning on November 30, 2000 (the closing date of the sale), McLane assumed all supply and distribution responsibilities under our Distribution Agreement, as well as under the distribution agreements of most of our franchisees and licensees previously serviced by AmeriServe.

Under the terms of the POR, TRICON provided approximately \$246 million to AmeriServe (the "Gross Settlement Amount") to facilitate a global settlement with holders of allowed secured and administrative priority claims in the bankruptcy. In exchange, TRICON will receive the proceeds from the liquidation of AmeriServe's remaining inventory, accounts receivable and certain other assets (the "Residual Assets"). We have currently estimated these proceeds to be approximately \$86 million and have recorded a receivable from the AmeriServe bankruptcy estate in this amount. We expect that these proceeds will be primarily realized over the next twelve months. Through March 9, 2001, we have collected approximately \$29 million.

The POR also released us from any further obligations or claims under the Replacement Lien and provided for the dismissal of the legal

action filed by AmeriServe against TRICON seeking payment of the \$101 million in pre-petition trade accounts payable to AmeriServe (the "Dismissed Payables"). As previously disclosed, we had accrued for, but withheld payment of the Dismissed Payables.

In addition, the POR grants TRICON a priority right to proceeds (up to a maximum of \$220 million) from certain litigation claims and causes of action held by the AmeriServe bankruptcy estate, including certain avoidance and preference actions (collectively, the "Bankruptcy Causes of Action"). We expect that any such proceeds, the potential amounts of which are not yet reasonably estimable, will be primarily realized over the next twelve to twenty-four months. These recoveries, if any, will be recorded as unusual items as they are realized.

Temporary Direct Purchase Program

During the bankruptcy reorganization process, to help ensure that our supply chain remained open, we purchased supplies directly from suppliers for use in our restaurants, as well as for resale to our franchisees and licensees who previously purchased supplies from AmeriServe (the "Temporary Direct Purchase Program" or "TDPP"). AmeriServe agreed, for the same fee in effect prior to the bankruptcy filing, to continue to be responsible for distributing supplies to us and our participating franchisee and licensee restaurants. Operations under the TDPP ceased on November 30, 2000, the date on which McLane purchased AmeriServe's U.S. distribution business.

In connection with the TDPP, we incurred approximately \$41 million of costs, principally related to allowances for estimated uncollectible receivables from our franchisees and licensees and the incremental interest cost arising from the additional debt required to finance the inventory purchases and the receivables arising from supply sales to our franchisees and licensees. These costs also included inventory obsolescence and certain general and administrative expenses. Under SFAS No. 45, "Accounting for Franchise Fee Revenue," the results of these agency distribution activities are reported on a net basis in the Consolidated Statement of Income.

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At December 30, 2000, our remaining receivables from franchisees and licensees for sales of supplies under the TDPP were approximately \$52 million, net of related allowances for doubtful accounts. The Company intends to vigorously pursue collection of these receivables. Through March 9, 2001, we have collected approximately \$43 million. On November 30, 2000, we sold our remaining inventories to McLane at an amount approximating book value. We have no remaining payables to suppliers under the TDPP.

Other

We have incurred and will continue to incur other incremental costs (principally professional fees) as a result of the AmeriServe bankruptcy reorganization process which are being charged as incurred to unusual items. We expect that these costs, though substantially reduced from pre-POR levels, will continue until the affairs of the estate can be substantially concluded; however, we do not expect that these costs, net of any recoveries from the Bankruptcy Causes of Action, will be material to our annual results of operations, financial condition or cash flows.

Other Commitments and Contingencies

Contingent Liabilities

We were directly or indirectly contingently liable in the amounts of \$401 million and \$386 million at year-end 2000 and 1999, respectively, for certain lease assignments and guarantees. At December 30, 2000, \$333 million represented contingent liabilities to lessors as a result of assigning our interest in and obligations under real estate leases as a condition to the refranchising of Company restaurants and the contribution of certain Company restaurants to a new venture in Canada. The \$333 million represented the present value of the minimum payments of the assigned leases, excluding any renewal option periods, discounted at our pre-tax cost of debt. On a nominal basis, the contingent liability resulting from the assigned leases was \$513 million. The remaining amounts of the contingent liabilities primarily relates to our guarantees to support financial arrangements of certain unconsolidated affiliates and franchisees. The contingent liabilities related to financial arrangements of franchisees include partial guarantees of franchisee loan pools originated primarily in connection with the Company's refranchising programs. In support of these guarantees, we have posted \$22 million of letters of credit and \$10 million in cash collateral. The cash collateral balances are included in Other Assets. Also, TRICON provides a standby letter of credit under which TRICON could potentially be required to fund a portion (up to \$25 million) of one of the franchisee loan pools discussed above. Any such funding under the standby letter of credit would then be fully secured by franchisee loan collateral. We have provided for our estimated probable exposures under these contingent liabilities largely through charges to refranchising gains (losses).

Casualty Loss Programs and Estimates

We are currently self-insured for a portion of our current and prior years' casualty losses, property losses and certain other insurable risks. To mitigate the cost of our exposures for certain casualty losses, we make annual decisions to either retain the risks of loss up to certain maximum per occurrence or aggregate loss limits negotiated with our insurance carriers or to fully insure those risks. Since the Spin-off, we have elected to retain the risks subject to insured limitations. In addition, we also purchased insurance in 1998 to limit the cost for certain of our retained risks for the years 1994 to 1996.

Effective August 16, 1999, we made changes to our U.S. and portions of our International property and casualty loss programs. For fiscal

year 2000 and the period from August 16, 1999 through fiscal year end, 1999, we bundled our risks for casualty losses, property losses and various other insurable risks into one risk pool with a single maximum loss limit. Certain losses in excess of the single maximum loss limit are covered

under reinsurance agreements. Since all of these risks have been pooled and there are no per occurrence limits for individual claims, it is possible that we may experience increased volatility in property and casualty losses on a quarter to quarter basis. This would occur if an individual large loss is incurred either early in a program year or when the latest actuarial projection of losses for a program year is significantly below our aggregate loss retention. A large loss is defined as a loss in excess of \$2 million which was our predominant per occurrence casualty loss limit under our previous insurance program.

We have accounted for our retained liabilities for casualty losses, including reported and incurred but not reported claims, based on information provided by our independent actuary. Effective August 16, 1999, property losses are also included in our actuary's valuation. Prior to that date, property losses were based on our internal estimates.

Actuarial valuations are performed and resulting adjustments to current and prior years' self-insured casualty losses, property losses and other insurable risks, are made in the second and fourth quarters of each fiscal year. The adjustments recorded to our casualty loss reserves in 2000 were insignificant. We recorded favorable adjustments of \$30 million in 1999 and \$23 million in 1998. The 1999 and 1998 adjustments resulted primarily from improved loss trends related to 1998 casualty losses at all three of our U.S. Concepts. In addition, the favorable insurance adjustments in 1998 included the benefit of the insurance transaction to limit the cost for certain of our retained risk for the years 1994 to 1996.

We will continue to make adjustments both based on our actuary's periodic valuations as well as whenever there are significant changes in the expected costs of settling large claims that have occurred since the last actuarial valuation was performed. Due to the inherent volatility of our actuarially determined casualty loss estimates, it is reasonably possible that we could experience changes in estimated losses which could be material to our growth in net income in 2001. We believe that, since we record our reserves for casualty losses at a 75% confidence level, we have mitigated the potential negative impact of adverse development and/or volatility.

Change of Control Severance Agreements

In September 2000, the Compensation Committee of the Board of Directors approved renewing severance agreements with certain key executives (the "Agreements") that were set to expire on December 31, 2000. These Agreements are triggered by a termination, under certain conditions, of the executive's employment following a change in control of the Company, as defined in the Agreements. If triggered, the affected executives would generally receive twice the amount of both their annual base salary and their annual incentive in a lump sum, outplacement services and a tax gross-up for any excise taxes. These Agreements have a three-year term and automatically renew each January 1 for another three-year term unless the Company elects not to renew the Agreements. Since the timing of any payments under these Agreements cannot be anticipated, the amounts are not estimable. However, these payments, if made, could be substantial. In the event of a change of control, rabbi trusts would be established and used to provide payouts under existing deferred and incentive compensation plans.

Wage and Hour Litigation

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Like certain other large retail employers, Pizza Hut and Taco Bell have been faced in certain states with allegations of purported class-wide wage and hour violations.

On May 11, 1998, a purported class action lawsuit against Pizza Hut, Inc., and one of its franchisees, PacPizza, LLC, entitled Aguardo, et al. v. Pizza Hut, Inc., et al., ("Aguardo"), was filed in the Superior Court of the State of California of the County of San Francisco. The lawsuit was filed by three former Pizza Hut

restaurant general managers purporting to represent approximately 1,300 current and former California restaurant general managers of Pizza Hut and PacPizza, LLC. The lawsuit alleges violations of state wage and hour laws involving unpaid overtime wages and vacation pay and seeks an unspecified amount in damages. On January 12, 2000, the Court certified a class of approximately 1,300 current and former restaurant general managers. The Court amended the class on June 1, 2000 to include approximately 150 additional current and former restaurant general managers. This lawsuit is in the early discovery phase, and no trial date has been set.

On August 29, 1997, a class action lawsuit against Taco Bell Corp., entitled Bravo, et al. v. Taco Bell Corp. ("Bravo"), was filed in the Circuit Court of the State of Oregon of the County of Multnomah. The lawsuit was filed by two former Taco Bell shift managers purporting to represent approximately 17,000 current and former hourly employees statewide. The lawsuit alleges violations of state wage and hour laws, principally involving unpaid wages including overtime, and rest and meal period violations, and seeks an unspecified amount in damages. Under Oregon class action procedures, Taco Bell was allowed an opportunity to "cure" the unpaid wage and hour allegations by opening a claims process to all putative class members prior to certification of the class. In this cure process, Taco Bell has currently paid out less than \$1

million. On January 26, 1999, the Court certified a class of all current and former shift managers and crew members who claim one or more of the alleged violations. A trial date of November 2, 1999 was set. However, on November 1, 1999, the Court issued a proposed order postponing the trial and establishing a pre-trial claims process. The final order regarding the claims process was entered on January 14, 2000. Taco Bell moved for certification of an immediate appeal of the Court-ordered claims process and requested a stay of the proceedings. This motion was denied on February 8, 2000. Taco Bell appealed this decision to the Supreme Court of Oregon and the Court denied Taco Bell's Writ of Mandamus on March 21, 2000. A Court-approved notice and claim form was mailed to approximately 14,500 class members on January 31, 2000. A Court ordered pre-trial claims process went forward, and hearings were held for claimants employed or previously employed in selected Taco Bell restaurants. After the initial hearings, the damage claims hearings were discontinued. Trial began on January 4, 2001. On March 9, 2001, the jury reached verdicts on the substantive issues in this matter. A number of these verdicts were in favor of the Taco Bell position; however, certain issues were decided in favor of the plaintiffs. A number of procedural issues, including possible appeals, remain to determine the ultimate damages in this matter.

We have provided for the estimated costs of the Aguardo and Bravo litigations, based on a projection of eligible claims (including claims filed to date, where applicable), the cost of each eligible claim, the estimated legal fees incurred by plaintiffs and the results of settlement negotiations in these and other wage and hour litigation matters. Although the outcome of these lawsuits cannot be determined at this time, we believe the ultimate cost of these cases in excess of the amounts already provided will not be material to our annual results of operations, financial condition or cash flows. Any provisions have been recorded in unusual items.

On October 2, 1996, a class action lawsuit against Taco Bell Corp., entitled Mynaf, et al. v. Taco Bell Corp. ("Mynaf"), was filed in the Superior Court of the State of California of the County of Santa Clara. The lawsuit was filed by two former restaurant general managers and two former assistant restaurant general managers purporting to represent all current and former Taco Bell restaurant general managers and assistant restaurant general managers in California. The lawsuit alleged violations of California wage and hour laws involving unpaid overtime wages, and violations of the State Labor Code's record-keeping requirements. The complaint also included an unfair business practices claim. Plaintiffs claimed individual damages ranging from \$10,000 to \$100,000 each. On September 17, 1998, the court certified a class of approximately 3,000 current and former assistant restaurant general managers and restaurant general managers. Taco Bell petitioned the appellate court to review the trial court's certification order. The petition was denied on December 31, 1998. Taco Bell then filed a petition for review with the California Supreme Court, and the petition was subsequently denied. Class notices were mailed on August 31, 1999 to over 3,400 class members. Trial began on January 29, 2001. Before conclusion of the trial, the parties reached an agreement to settle this matter, and entered into

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a stipulation of discontinuance of the case. This settlement agreement is subject to approval by the court of the terms and conditions of the agreement and notice to the class with an opportunity to object and be heard. We have provided for the costs of this settlement in unusual items.

Other Litigation

C&F Packing Co., Inc. v. Pizza Hut, Inc. This action was originally filed in 1993 by C&F Packing Co., Inc., a Chicago meat packing company ("C&F"), in the United States District court for the Northern District of Illinois. This lawsuit alleges that Pizza Hut misappropriated various trade secrets relating to C&F's alleged process for manufacturing a precooked Italian sausage pizza topping. C&F's trade secret claims against Pizza Hut were originally dismissed by the trial court on statute of limitations grounds. That ruling was later overturned by the U.S. Court of Appeals for the Federal Circuit in August 2000 and the case was remanded to the trial court for further proceedings. On remand, Pizza Hut moved for summary judgment on its statute of limitations defense. That motion was denied in January 2001. This lawsuit is in the discovery phase and no trial date has been set. Similar trade secret claims against another defendant were tried by a jury in late 1998 and the jury returned a verdict for C&F. Judgment on that verdict was affirmed by the U.S. Court of Appeals for the Federal Circuit in August 2000.

TRICON believes that C&F's claims are without merit and is vigorously defending the case. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

Obligations to PepsiCo After Spin-off

In connection with the October 6, 1997 Spin-off from PepsiCo, we entered into separation and other related agreements (the "Separation Agreements"), governing the Spin-off transaction and our subsequent relationship with PepsiCo. These agreements provide certain indemnities to PepsiCo.

The Separation Agreements provided for, among other things, our assumption of all liabilities relating to the restaurant businesses, including the Non-core Businesses, and our indemnification of PepsiCo with respect to these liabilities. We have included our best estimates of these liabilities in the accompanying Consolidated Financial Statements. Subsequent to Spin-off, claims were made by certain Non-core Business franchisees and a purchaser of one of the businesses. To date, we have resolved these disputes within amounts previously recorded.

In addition, we have indemnified PepsiCo for any costs or losses it incurs with respect to all letters of credit, guarantees and contingent liabilities relating to our businesses under which PepsiCo remains liable. As of December 30, 2000, PepsiCo remains liable for approximately \$139 million related to these contingencies. This obligation ends at the time PepsiCo is released, terminated or replaced by a qualified letter of

credit. We have not been required to make any payments under this indemnity.

Under the Separation Agreements, PepsiCo maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods through October 6, 1997. PepsiCo also maintains full control and absolute discretion regarding any common tax audit issues. Although PepsiCo has contractually agreed to, in good faith, use its best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice, there can be no assurance that determinations made by PepsiCo would be the same as we would reach, acting on our own behalf. Through December 30, 2000, there have not been any determinations made by PepsiCo where we would have reached a different determination.

We also agreed to certain restrictions on our actions to help ensure that the Spin-off maintained its tax-free status. These restrictions, which were generally applicable to the two-year period following the Spin-off Date,

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included among other things, limitations on any liquidation, merger or consolidation with another company, certain issuances and redemptions of our Common Stock, our granting of stock options and our sale, refranchising, distribution or other disposition of assets. If we failed to abide by these restrictions or to obtain waivers from PepsiCo and, as a result, the Spin-off fails to qualify as a tax-free reorganization, we will be obligated to indemnify PepsiCo for any resulting tax liability, which could be substantial. No payments under these indemnities have been required or are expected to be required. Additionally, PepsiCo is entitled to the federal income tax benefits related to the exercise after the Spin-off of vested PepsiCo options held by our employees. We expense the payroll taxes related to the exercise of these options as incurred.

Note 22 - Selected Quarterly Financial Data (Unaudited)

	2000				Tot
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenues:					
Company sales	\$ 1,425	\$ 1,480	\$ 1,470	\$ 1,930	\$ 6,3
Franchise and license fees	172	176	188	252	7
Total revenues	1,597	1,656	1,658	2,182	7,0
Total costs and expenses, net	1,355	1,436	1,526	1,916	6,2
Operating profit	242	220	132	266	8
Net income	120	106	59	128	4
Diluted earnings per common share	0.80	0.71	0.40	0.86	2.
Operating profit attributable to:					
Facility actions net gain	47	66	3	60	1
Unusual items	(4)	(72)	(92)	(36)	(2)
Net income attributable to:					
Facility actions net gain	26	39	3	30	
Unusual items	(2)	(47)	(57)	(23)	(1)

	1999				Tot
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenues:					
Company sales	\$ 1,662	\$ 1,723	\$ 1,639	\$ 2,075	\$ 7,0
Franchise and license fees	151	163	173	236	7
Total revenues	1,813	1,886	1,812	2,311	7,8
Total costs and expenses, net	1,577	1,537	1,435	2,033	6,5
Operating profit	236	349	377	278	1,2
Net income	106	179	197	145	6
Diluted earnings per common share	0.66	1.10	1.23	0.93	3.
Operating profit attributable to:					
Accounting changes	10	6	5	8	
Facility actions net gain	34	133	144	70	3

Unusual items	-	(4)	(3)	(44)	(
Net income attributable to:					
Accounting changes	6	4	3	5	
Facility actions net gain	19	80	84	43	2
Unusual items	-	(2)	(3)	(24)	(

See Note 5 for details of facility actions net gain, unusual items and the 1999 accounting changes.

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Management's Responsibility for Financial Statements

To Our Shareholders:

We are responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements, related notes and other information included in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include certain amounts based upon our estimates and assumptions, as required. Other financial information presented in the annual report is derived from the financial statements.

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

The Consolidated Financial Statements have been audited and reported on by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

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

/s/David J. Deno
Chief Financial Officer

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Report of Independent Auditors

The Board of Directors
TRICON Global Restaurants, Inc.:

We have audited the accompanying consolidated balance sheets of TRICON Global Restaurants, Inc. and Subsidiaries ("TRICON") as of December 30, 2000 and December 25, 1999, and the related consolidated statements of income, cash flows and shareholders' deficit and comprehensive income for each of the years in the three-year period ended December 30, 2000. These consolidated financial statements are the responsibility of TRICON's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require

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

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

/s/ KPMG LLP

Louisville, Kentucky

February 13, 2001, except as to Note 18

which is as of February 14, 2001

and Note 21 which is as of March 9, 2001

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a) (1) Financial Statements: Consolidated financial statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.
 - (2) Financial Statement Schedules: No schedules are required because either 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 financial statements or the related notes thereto filed as a part of this Form 10-K.
 - (3) Exhibits: The exhibits listed in the accompanying Index to Exhibits are filed as part of this Form 10-K. The Index to Exhibits specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.
- (b) Reports on Form 8-K
- (1) We filed a Current Report on Form 8-K dated September 19, 2000 attaching a press release dated September 14, 2000 announcing the proposed plan of reorganization that AmeriServe Food Distribution, Inc. filed with the U.S. Bankruptcy Court.
 - (2) We filed a Current Report on Form 8-K dated October 12, 2000 attaching our third quarter earnings release dated October 11, 2000.
 - (3) We filed a Current Report on Form 8-K dated November 16, 2000 attaching a press release dated November 15, 2000 announcing our 2001 earnings expectations and strategies as well as reconfirming our ongoing operating EPS expectation for the full-year 2000.
 - (4) We filed a Current Report on Form 8-K dated December 4, 2000 attaching a press release dated December 1, 2000 announcing that McLane Company, Inc. a subsidiary of Wal-Mart Stores, Inc. has finalized its purchase of the U.S. distribution business of AmeriServe Food Distribution, Inc.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K

annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 28, 2001

TRICON GLOBAL RESTAURANTS, INC.

By: /s/ David C. Novak

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K annual report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David C. Novak</u> David C. Novak	Chairman of the Board, Chief Executive Officer and President (principal executive officer)	March 28, 2001
<u>/s/ Andrall E. Pearson</u> Andrall E. Pearson	Founding Chairman	March 28, 2001
<u>/s/ David J. Deno</u> David J. Deno	Chief Financial Officer (principal financial officer)	March 28, 2001
<u>/s/ Brent A. Woodford</u> Brent A. Woodford	Vice President and Controller (principal accounting officer)	March 28, 2001
<u>/s/ D. Ronald Daniel</u> D. Ronald Daniel	Director	March 28, 2001
<u>/s/ James Dimon</u> James Dimon	Director	March 28, 2001
<u>/s/ Massimo Ferragamo</u> Massimo Ferragamo	Director	March 28, 2001
<u>/s/ Robert Holland, Jr.</u> Robert Holland, Jr.	Director	March 28, 2001
<u>/s/ Sidney Kohl</u> Sidney Kohl	Director	March 28, 2001
<u>/s/ Kenneth G. Langone</u> Kenneth G. Langone	Director	March 28, 2001
<u>/s/ Jackie Trujillo</u> Jackie Trujillo	Director	March 28, 2001
<u>/s/ Robert J. Ulrich</u> Robert J. Ulrich	Director	March 28, 2001
<u>/s/ Jeanette S. Wagner</u> Jeanette S. Wagner	Director	March 28, 2001

TRICON Global Restaurants, Inc.
Exhibit Index
(Item 14)

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
3.1	Restated Articles of Incorporation of Tricon, which are incorporated herein by reference from Exhibit 3.1 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 26, 1998.
3.2	Amended and restated Bylaws of Tricon, which are incorporated herein by reference from Exhibit 3.2 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 26, 1998.
4.1*	Indenture, dated as of May 1, 1998, between Tricon and The First National Bank of Chicago, pertaining to 7.45% Senior Notes and 7.65% Senior Notes due May 15, 2005 and May 15, 2008, respectively, which is incorporated herein by reference from Exhibit 4.1 to Tricon's Report on Form 8-K filed with the Commission on May 13, 1998.
4.2	Rights Agreement, dated as of July 21, 1998, between Tricon and BankBoston, N.A., which is incorporated herein by reference from Exhibit 4.01 to Tricon's Quarterly Report on Form 10-Q for the quarter ended June 13, 1998.
10.1	Separation Agreement between PepsiCo, Inc. and Tricon. effective as of August 26, 1997, and the First Amendment thereto dated as of October 6, 1997, which is incorporated herein by reference from Exhibit 10.1 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.2	Tax Separation Agreement between PepsiCo, Inc. and Tricon effective as of August 26, 1997, which is incorporated herein by reference from Exhibit 10.2 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.3	Employee Programs Agreement between PepsiCo, Inc. and Tricon effective as of August 26, 1997, which is incorporated herein by reference from Exhibit 10.3 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.4	Telecommunications, Software and Computing Services Agreement between PepsiCo, Inc. and Tricon effective as of August 26, 1997, which is incorporated herein by reference from Exhibit 10.4 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.5	Amended and Restated Sales and Distribution Agreement between AmeriServe Food Distribution, Inc., Tricon, Pizza Hut, Taco Bell and KFC, effective as of November 1, 1998, which is incorporated herein by reference from Exhibit 10 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 26, 1998, as amended by the First Amendment thereto (as filed herewith).
10.6	Credit Agreement dated as of October 2, 1997 among Tricon, the lenders party thereto, The Chase Manhattan Bank, as Administrative Agent, and Chase Manhattan Bank as Issuing Bank, which is incorporated herein by reference from Exhibit 10 to Tricon's Quarterly Report on Form 10-Q for the quarter ended September 6, 1997, as amended by Amendment No. 1 hereto which is incorporated herein by reference from Exhibit 10.6 to TRICON's Quarterly Report on Form 10-Q for the quarter ended March 20, 1999, as amended by Amendment No. 2 hereto, which is

incorporated herein by reference from Tricon's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.

- 10.7† Tricon Director Deferred Compensation Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.7 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.8† Tricon 1997 Long Term Incentive Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.8 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.9† Tricon Executive Incentive Compensation Plan, as effective January 1, 1999, as amended, which is incorporated herein by reference from Tricon's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.
- 10.10† Tricon Executive Income Deferral Program, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.11 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.13† Tricon Pension Equalization Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.14 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.15† Terms of Employment Agreement between Tricon and Robert L. Carleton, which is incorporated herein by reference from Exhibit 10.16 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.16 Form of Directors' Indemnification Agreement, which is incorporated herein by reference from Exhibit 10.17 to Tricon's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.17† Amended and restated form of Severance Agreement (in the event of a change in control) (as filed herewith).
- 10.18† Tricon 1999 Long Term Incentive Plan, as effective May 20, 1999, which is incorporated herein by reference from Tricon's Annual Report on Form 10-K for the fiscal year ended December 25, 1999.
- 10.19† Employment Agreement between Tricon and Christian L. Campbell, dated as of September 3, 1997, which is incorporated herein by reference from Exhibit 10.19 to Tricon's Annual Report on Form 10-K for fiscal year ended December 26, 1998.

- 10.20 Tricon Purchasing Coop Agreement, dated as of March 1, 1999, between Tricon and the Unified FoodService Purchasing Coop, LLC, which is incorporated herein by reference from Exhibit 10.20 to Tricon's Annual Report on Form 10-K for fiscal year ended December 26, 1998.
 - 12.1 Computation of ratio of earnings to fixed charges.
 - 21.1 Active Subsidiaries of Tricon.
 - 23.1 Consent of KPMG LLP.
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* Neither Tricon nor any of its subsidiaries is party to any other long-term debt instrument under which securities authorized exceed 10 percent of the total assets of Tricon and its subsidiaries on a consolidated basis. Copies of instruments with respect to long-term debt of lesser amounts will be furnished to the Commission upon request.

† Indicates a management contract or compensatory plan.

FIRST AMENDMENT AGREEMENT

First Amendment Agreement effective as of the Closing Date (as defined below) by and between AmeriServe Food Distribution, Inc., a Delaware corporation ("AmeriServe"), TRICON Global Restaurants, Inc., a North Carolina corporation, Pizza Hut, Inc., a Delaware corporation, Taco Bell Corp., a California corporation, Kentucky Fried Chicken Corporation, a Delaware corporation, and Kentucky Fried Chicken of Southern California, Inc., a Delaware corporation (as successor to Kentucky Fried Chicken of California, Inc.) (collectively, the "Tricon Parties").

WHEREAS, the parties hereto are parties to the Amended and Restated Sales and Distribution Agreement dated as of November 1, 1998, a copy of which is attached hereto as Exhibit A (the "Distribution Agreement"), pursuant to which AmeriServe has been appointed as the exclusive distributor of certain restaurant products sold to company-owned Pizza Hut, Taco Bell and KFC restaurants in the continental United States; and

WHEREAS, on or about January 31, 2000, AmeriServe and its affiliates that are debtors and debtors-in-possession in the Bankruptcy Cases (defined below) filed voluntary petitions under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§101-1330 in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), styled In re AmeriServe Food Distribution, Inc., et al., Case No. 00-358 (PJW) (the "Bankruptcy Cases"); and

WHEREAS, solely to facilitate the sale of certain of the assets of AmeriServe comprising its U.S. distribution business to McLane Company, Inc. (the "Sale Transaction"), the Tricon Parties have agreed to certain modifications of the Distribution Agreement as set forth herein, which modifications the Tricon Parties are not obligated to make and would not have agreed to in the absence of the Sale Transaction; and

WHEREAS, the Tricon Parties acknowledge that they will have received good and valuable consideration in exchange for the modifications set forth herein.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Section 4(a) of the Distribution Agreement is hereby amended by substituting the phrase "15 calendar days" for the phrase "30 calendar days" where such phrase appears in the first sentence thereof, effective as of the Closing Date.
2. Section 5(b) of the Distribution Agreement is hereby amended by adding the following at the end thereof, effective as of the Closing Date:

"Notwithstanding the foregoing, Buyer will use its reasonable best efforts to provide flexibility to Seller with respect to 24 hour/day and 7 day/week delivery options, subject to the black out periods described in Exhibit H attached hereto or such other black out periods which are previously agreed to in writing by Seller and the regional managers of the Exclusive Restaurants and the minimum service levels set forth in Section 6 of this Agreement."

3. Section 9 of the Distribution Agreement is hereby deleted in its entirety and is replaced by the following, effective as of the Closing Date:

"9. Term.

This Agreement is for a term beginning on the Effective Date and ending on January 11, 2005 (the 'Initial Term'), and shall automatically be extended thereafter, subject to the terms and conditions set forth herein, through October 10, 2010 (the 'Extension Term')."

4. Section 17 of the Distribution Agreement is hereby deleted in its entirety and is replaced by the following, effective as of the Closing Date:

"Seller acknowledges that the KFC National Purchasing Cooperative, Inc., organizations representing KFC, Taco Bell and Pizza Hut franchisees, and Buyer have established the Unified Foodservice Purchasing Co-op, LLC (the 'Unified Coop') to purchase goods and equipment, including Restaurant Products and Exclusive Restaurant Products, for Buyer-owned and operated and franchisee-owned and operated restaurants, including Exclusive Restaurants. Seller also acknowledges that Buyer has designated the Unified Coop as an SCM Party and Buyer has appointed and designated the Unified Coop, on an exclusive basis, to administer purchasing programs on behalf of restaurant operators for all restaurants located in the United States, including Exclusive Restaurants.

Seller has entered into a Distributor Participation Agreement with the Unified Coop in form and substance satisfactory to the Unified Coop. Consistent with the provisions of Paragraph 13(b) of this Agreement, Buyer and Seller each consent to the disclosure of the terms of this Agreement and any information provided for in this Agreement to the Unified Coop. Buyer and Seller each agree that the designation of the Unified Coop as an SCM Party is not in violation of the assignment provisions contained in Paragraph 16(d) of this Agreement. "The Service Fee," as defined in Paragraph 4 of the Distributor Participation Agreement will replace "the costs of SCM allocated to the Exclusive Restaurant Products" referred to in clause (y) in Section 3 (a) of this Agreement."

5. Section A of Exhibit D to the Distribution Agreement is hereby deleted in its entirety and is replaced by the following, effective as of January 1, 2001:

"A. The prices for the Exclusive Restaurant Products (including fresh produce but excluding softdrinks and Promotional Items (as defined below)) shall be the Landed Cost plus the SCM costs or service fee, as applicable, described in Sections 3(a) and 17 plus the per case charge indicated below:

Pizza Hut \$1.66/case
Taco Bell \$1.99/case
KFC \$1.74/case

6. Section B of Exhibit D to the Distribution Agreement is hereby deleted in its entirety and is replaced by the following, effective as of January 1, 2001:

"B. [Deleted]"

7. Section IV of Exhibit E to the Distribution Agreement is hereby amended by substituting the phrase "benchmark" for the phrase "bid" where it appears therein, and by substituting the phrase "benchmarking" for the phrase "bidding" where it appears therein, each effective as of the Closing Date.

8. Subsection IV.A.1. of Exhibit E to the Distribution Agreement is hereby amended by adding the following after the last sentence thereof, effective as of the Closing Date:

"In developing the standard freight rates, the SCM Party will continue to use similar practices as demonstrated in 1999 and 2000. After receiving freight rates from the vendors, the SCM Party will contract, at its discretion, with one or two nationally recognized third party logistics firms to provide benchmark freight rates by lane. The SCM Party will use its reasonable best efforts to ensure the process is performed independently and objectively to preclude any financial gain by the third party logistics firms for providing understated benchmark freight rates."

9. Section V of Exhibit E to the Distribution Agreement is hereby deleted in its entirety, effective as of the Closing Date.

10. In connection with and as part of the Sale Transaction, The Tricon Parties consent to AmeriServe's assumption and assignment to McLane, of the Distribution Agreement as modified by this First Amendment, and agree that: (i) at the Closing Date, the Distribution Agreement as amended by this First Amendment shall be deemed assumed by AmeriServe and assigned to McLane, and (ii) other than McLane's promise to perform in accordance with the terms of the Distribution Agreement as amended by the First Amendment, no adequate assurance as to future performance under the United States Bankruptcy Code shall be required in connection with the Sale Transaction. The Tricon Parties consent to the assumption and assignment of the Distribution Agreement, as amended by this First Amendment, shall not constitute a waiver of any claims and/or legal or equitable remedies as against AmeriServe (including, without limitation, rights of recoupment or setoff) arising out of or related to any prior breach of the Distribution Agreement by AmeriServe, it being understood that such claims and/or remedies are expressly retained by and for the benefit of the Tricon Parties and that, notwithstanding the assumption and assignment of the Distribution Agreement, as modified by this First Amendment, there has been no cure of any pre-existing defaults under the Distribution Agreement, provided, that the assumption and assignment shall not diminish or elevate in any way the status or priority of the Tricon Parties' claims or remedies against AmeriServe that arose prior to AmeriServe's bankruptcy.

11. This First Amendment to the Distribution Agreement shall become effective upon both its execution by the parties hereto and the final closing of the Sale Transaction (the "Closing Date"), provided that such Sale Transaction has received all requisite approvals of the Bankruptcy Court.

IN WITNESS WHEREOF, the parties hereto have duly executed this First Amendment Agreement to the Distribution Agreement as of _____, 2000.

AMERISERVE FOOD DISTRIBUTION, INC.

MCLANE COMPANY, INC.

By: /s/ Kevin J. Rogan

By: /s/ James L. Kent

Name: Kevin J. Rogan

Name: James L. Kent

Title: Senior Vice President

Title: Senior Vice President

TRICON GLOBAL RESTAURANTS, INC.
KENTUCKY FRIED CHICKEN OF SOUTHERN CALIFORNIA, INC.
KENTUCKY FRIED CHICKEN CORPORATION
PIZZA HUT, INC.
TACO BELL CORP.

By: /s/ Aylwin B. Lewis
In his Capacity as Executive Officer
Pursuant to Section 16(a) of
The Distribution Agreement

Name: Aylwin B. Lewis

Title: Executive Vice President

Exhibit 10.17

SEVERANCE AGREEMENT

THIS AGREEMENT, dated December 20, 2000, is made by and between Tricon Global Restaurants, Inc., a North Carolina corporation (the Company"), and _____ (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its shareholders to foster the continued employment of key management personnel; and

WHEREAS, the Board recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders; and

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Defined Terms. The definitions of capitalized terms used in this Agreement are provided in the last Section hereof.
2. Term of Agreement. The Term of this Agreement shall commence on January 1, 2001 and continue for three years; however, on January 1, 2002 and each January 1 thereafter, the Term shall automatically be extended for an additional three years unless, not later than September 30 of the preceding year, the Company or the Executive shall have given notice not to extend the Term; and further provided, however, that if a Change in Control shall have occurred during the Term, the Term shall expire no earlier than the third anniversary of the date of such Change in Control.

3. Company's Covenants Summarized. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's covenants set forth in Section 4 hereof, the Company agrees, under the conditions described herein, to pay the Executive the Severance Payments and the other payments and benefits described herein. Except as provided in Section 9.1 hereof, no Severance Payments shall be payable under this Agreement unless there shall have been (or, under the terms of the second sentence of Section 6.1 hereof, there shall be deemed to have been) a termination of the Executive's employment with the Company following a Change in Control and during the Term. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.
4. The Executive's Covenants. The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control during the Term, the Executive will remain in the employ of the Company until the earliest of (i) a date which is six (6) months from the date of such Potential Change in Control, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason or by reason of death or Disability, or (iv) the termination by the Company of the Executive's employment for any reason.
5. Compensation Other Than Severance Payments.

5.1 Following a Change in Control and during the Term, and during any period that the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay the Executive's full salary to the Executive at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period, until the Executive's employment is terminated by the Company for Disability.

5.2 If the Executive's employment shall be terminated for any reason following a Change in Control and during the Term, the Company shall pay the Executive's full salary to the Executive through the Date of Termination at the rate in effect immediately prior to the Date of Termination or, if higher, the rate in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of the Company's compensation and benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason.

5.3 If the Executive's employment shall be terminated for any reason following a Change in Control and during the Term, the Company shall pay to the Executive the Executive's normal post-termination compensation and benefits as such payments become due. Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the occurrence of the first event or circumstance constituting Good Reason.

6. Severance Payments.

6.1 Subject to Section 6.2 hereof, if (i) the Executive's employment is terminated following a Change in Control and during the Term, other than (A) by the Company for Cause, (B) by reason of death or Disability, or (C) by the Executive without Good Reason, the Company shall pay the Executive the amounts, and provide the Executive the benefits, described in this Section 6.1 ("Severance Payments") and Section 6.2, in addition to any payments and benefits to which the Executive is entitled under Section 5 hereof. For purposes of this Agreement, the Executive's employment shall be deemed to have been terminated following a Change in Control by the Company without Cause or by the Executive with Good Reason, if (i) the Executive's employment is terminated by the Company without Cause after the occurrence of a Potential Change in Control and prior to a Change in Control (whether or not a Change in Control ever occurs) and such termination was at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control, (ii) the Executive terminates his employment for Good Reason after the occurrence of a Potential Change in Control and prior to a Change in Control (whether or not a Change in Control ever occurs) and the circumstance or event which constitutes Good Reason occurs at the request or direction of such Person, or (iii) the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason after the occurrence of a Potential Change in Control and such termination or the circumstance or event which constitutes Good Reason is otherwise in connection with or in anticipation of a Change in Control (whether or not a Change in Control ever occurs). For purposes of any determination regarding the applicability of the immediately preceding sentence, any position taken by the Executive shall be presumed to be correct unless the Company establishes by clear and convincing evidence that such position is not correct.

(A) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefit otherwise payable to the Executive, the Company shall pay to the Executive a lump sum severance payment, in cash, equal to two times the sum of (i) the Executive's base salary as in effect immediately prior to the Date of Termination or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason and (ii) the target annual incentive compensation for the Executive in respect of the fiscal year in which the Change in Control occurred, or, if higher, the actual incentive compensation the Executive earned for the fiscal year preceding the year in which the Executive's employment is terminated.

(B) Notwithstanding any provision of any annual or long-term incentive plan to the contrary, the Company shall pay to the Executive a lump sum amount, in cash, equal to the sum of (i) any unpaid incentive compensation which has been allocated or awarded to the

Executive for a completed fiscal year or other measuring period preceding the Date of Termination under any such plan and which has not yet been paid or deferred pursuant to a deferral plan maintained by the Company, and (ii) and, notwithstanding any provision of the Company's annual incentive plan to the contrary, a cash lump sum amount equal to a pro rata portion to the Date of Termination of the aggregate value of the annual incentive compensation award to the Executive for the then uncompleted fiscal year under such plan, assuming achievement of performance goals at the target level, or, if higher, assuming continued achievement of such performance goals at the level achieved through the Date of Termination.

(C) The Company shall provide the Executive with outplacement services suitable to the Executive's position for a period of one year or, if earlier, until the first acceptance by the Executive of an offer of employment.

6.2 (A) Whether or not the Executive becomes entitled to the Severance Payments, if any payment or benefit received or to be received by the Executive in connection with a Change in Control or the termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any Person whose actions result in a Change in Control or any Person affiliated with the Company or such Person) (all such payments and benefits, excluding the Gross-Up Payment, being hereinafter called "Total Payments") will be subject (in whole or part) to the Excise Tax, then, subject to the provisions of subsection (B) of this Section 6.2, the Company shall pay to the Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Total Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, shall be equal to the Total Payments. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the Date of Termination (or if there is no Date of Termination, then the date on which the Gross-up Payment is calculated for purposes of this Section 6.2), net of the maximum reduction in federal income tax which could be obtained from deduction of such state and local taxes.

(B) In the event that, after giving effect to any redeterminations described in subsection (D) of this Section 6.2, the Total Payments do not exceed by more than ten percent (10%) the largest amount that would result in no portion of the Total Payments being subject to the Excise Tax, then subsection (A) of this Section 6.2 shall not apply and Severance Payments shall first be reduced (if necessary, to zero) in the manner elected by the Executive to the extent necessary so that no portion of the Total Payments will be subject to the Excise Tax.

(C) For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all of the Total Payments shall be treated as "parachute payments" within the meaning of section 280G(b)(2) of the Code, unless in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Executive and selected by the accounting firm which was, immediately prior to the Change in Control, the Company's independent auditor (the "Auditor"), such other payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of section 280G(b)(4)(A) of the Code, (ii) all "excess parachute payments" within the meaning of section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of Tax Counsel, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the Base Amount allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax, and (iii) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code. Prior to the payment date set forth in Section 6.3 hereof, the Company shall provide the Executive with its calculation of the amounts referred to in this Section 6.2(C) and such supporting materials as are reasonably necessary for the Executive to evaluate the Company's calculations. If the Executive disputes the Company's calculations (in whole or in part), the reasonable opinion of Tax Counsel with respect to the matter in dispute shall prevail.

(D) In the event that (i) amounts are paid to the Executive pursuant to subsection (A) of this Section 6.2, (ii) the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, and (iii) after giving effect to such redetermination, the Total Payments are to be reduced pursuant to subsection (B) of this Section 6.2, the Executive shall repay to the Company, within ten (10) business days following the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment being repaid by the Executive), to the extent that such repayment results in (i) no portion of the Total Payments being subject to the Excise Tax and (ii) a dollar-for-dollar reduction in the Executive's taxable income and wages for purposes of federal, state and local income and employment taxes) plus interest on the amount of such repayment at 120% of the rate provided in section 1274(b)(2)(B) of the Code. In the event that (x) the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of the Executive's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment) and (y) after giving effect to such redetermination, the Total Payments should not have been reduced pursuant to subsection (B) of this Section 6.2, the Company shall make an additional Gross-Up Payment in respect of such excess and in respect of any portion of the Excise Tax with respect to which the Company had not previously made a Gross-Up Payment (plus any interest, penalties or additions payable by the Executive with respect to such excess and such portion) within ten (10) business days following the time that the amount of such excess is finally determined.

6.3 The payments provided in subsections (A), (C) and (D) of Section 6.1 hereof and in Section 6.2 hereof shall be made not later than the tenth day following the Date of Termination; provided, however, that if the amounts of such payments, and the limitation on such payments set forth in Section 6.2 hereof, cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Executive or, in the case of payments under Section 6.2 hereof, in accordance

with Section 6.2 hereof, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest on the unpaid remainder (or on all such payments to the extent the Company fails to make such payments when due) at 120% of the rate provided in section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the tenth (10th) business day after demand by the Company (together with interest at 120% of the rate provided in section 1274(b)(2)(B) of the Code). At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement). The Company shall bear the entire cost of any opinions, advice or similar expenses associated with Sections 6.2 or 6.3 hereof.

6.4 The Company also shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue hereunder relating to the termination of the Executive's employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within ten (10) business days after delivery of the Executive's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

7. Termination Procedures and Compensation During Dispute.

7.1 Notice of Termination. After a Change in Control and during the Term (or under the circumstances described in the second sentence of section 6.1 hereof), any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 10 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

7.2 Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment after a Change in Control and during the Term, shall mean (i) if the Executive's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such thirty (30) day period), and (ii) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of a termination by the Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

7.3 Dispute Concerning Termination. If within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this Section 7.3), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be extended until the earlier of (i) the date on which the Term ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Date of Termination shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence.

7.4 Compensation During Dispute. If a purported termination occurs following a Change in Control and during the Term and the Date of Termination is extended in accordance with Section 7.3 hereof, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the Date of Termination, as determined in accordance with Section 7.3 hereof. Amounts paid under this Section 7.4 are in addition to all other amounts due under this Agreement (other than those due under Section 5.2 hereof) and shall not be offset against or reduce any other amounts due under this Agreement.

8. No Mitigation. The Company agrees that, if the Executive's employment with the Company terminates during the Term, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to Section 6 hereof or Section 7.4 hereof. Further, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

9. Successors; Binding Agreement.

9.1 In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason after a Change in Control, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

9.2 This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

10. Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, if to the Executive, to the address inserted below the Executive's signature on the final page hereof and, if to the Company, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

Tricon Global Restaurants, Inc.
1441 Gardiner Lane
Louisville, KY 40213
Attention: General Counsel

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or of any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party; provided, however, that this Agreement shall supersede any agreement setting forth the terms and conditions of the Executive's employment with the Company only in the event that the Executive's employment with the Company is terminated on or following a Change in Control, by the Company other than for Cause or by the Executive for Good Reason. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Kentucky, without reference to its principles of conflicts of law. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Company and the Executive under this Agreement which by their nature may require either partial or total performance after the expiration of the Term (including, without limitation, those under Sections 6 and 7 hereof) shall survive such expiration.
12. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.
13. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.
14. Settlement of Disputes; Arbitration. 14.1 All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board and shall be in writing. Any denial by the Board of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Board a decision of the Board within sixty (60) days after notification by the Board that the Executive's claim has been denied.
- 14.2 Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Louisville, Kentucky in accordance with the rules of the American Arbitration Association then in effect; provided, however, that the evidentiary standards set forth in this Agreement shall apply. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding any provision of this Agreement to the contrary, the Executive shall be entitled to seek specific performance of the Executive's right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.
15. Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

(B) "Auditor" shall have the meaning set forth in Section 6.2 hereof.

(C) "Base Amount" shall have the meaning set forth in section 280G(b)(3) of the Code.

(D) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(E) "Board" shall mean the Board of Directors of the Company.

(F) "Cause" for termination by the Company of the Executive's employment shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 7.1 hereof) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or its subsidiaries, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (x) no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company and (y) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.

(G) A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

- I. any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or
- II. the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or
- III. there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (i) a merger or consolidation immediately following which those individuals who, immediately prior to the consummation of such merger or consolidation, constituted the Board, constitute a majority of the board of directors of the Company or the surviving or resulting entity or any parent thereof, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities,

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(H) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(I) "Company" shall mean Tricon Global Restaurants, Inc. and, except in determining under Section 15(G) hereof whether or not any Change in Control of the Company has occurred, shall include any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(J) "Date of Termination" shall have the meaning set forth in Section 7.2 hereof.

(K) "Disability" shall be deemed the reason for the termination by the Company of the Executive's employment, if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties with the Company for a period of six (6) consecutive months, the Company shall have given the Executive a Notice of Termination for Disability, and, within thirty (30) days after such Notice of Termination is given, the Executive shall not have

returned to the full-time performance of the Executive's duties.

(L) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(M) "Excise Tax" shall mean any excise tax imposed under section 4999 of the Code.

(N) "Executive" shall mean the individual named in the first paragraph of this Agreement.

(O) "Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence (without the Executive's express written consent) after any Change in Control, or prior to a Change in Control under the circumstances described in clauses (ii) and (iii) of the second sentence of Section 6.1 hereof (treating all references in paragraphs (I) through (VII) below to a "Change in Control" as references to a "Potential Change in Control"), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in paragraph (I), (V), (VI) or (VII) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

- I. the assignment to the Executive of any duties inconsistent with the Executive's status as an executive officer of the Company or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to the Change in Control;
- II. a reduction by the Company in the Executive's annual base salary or target incentive award or incentive award opportunity as in effect on the date hereof or as the same may be increased from time to time;
- III. the relocation of the Executive's principal place of employment to a location more than 50 miles from the Executive's principal place of employment immediately prior to the Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;
- IV. the failure by the Company to pay to the Executive any portion of the Executive's current compensation, or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;
- V. the failure by the Company to continue in effect any compensation plan in which the Executive participates immediately prior to the Change in Control which is material to the Executive's total compensation, including but not limited to the Company's or any substitute plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants, as existed immediately prior to the Change in Control;
- VI. the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to the Change in Control (except for across the board changes similarly affecting all executives of the Company and all executives of any Person in control of the Company), the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control; or
- VII. any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 7.1 hereof; for purposes of this Agreement, no such purported termination shall be effective.

The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Board by clear and convincing evidence that Good Reason does not exist.

(P) "Gross-Up Payment" shall have the meaning set forth in Section 6.2 hereof.

(Q) "Notice of Termination" shall have the meaning set forth in Section 7.1 hereof.

(R) "Pension Plan" shall mean any tax-qualified, supplemental or excess benefit pension plan maintained by the Company and any other plan or agreement entered into between the Executive and the Company which is designed to provide the Executive with supplemental

retirement benefits.

(S) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(T) "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

- I. the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;
- II. the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;
- III. any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 15% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates), excluding, however, any entity or group which, as of July 21, 1998, has on file with the Securities and Exchange Commission a Form 13D or 13G indicating ownership aggregating 10% or more of the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities; or
- IV. the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(U) "Severance Payments" shall have the meaning set forth in Section 6.1 hereof.

(V) "Tax Counsel" shall have the meaning set forth in Section 6.2 hereof.

(W) "Term" shall mean the period of time described in Section 2 hereof (including any extension, continuation or termination described therein).

(X) "Total Payments" shall mean those payments so described in Section 6.2 hereof.

TRICON GLOBAL RESTAURANTS, INC.

By: _____

Name:

Title:

Address:

(Please print carefully)

EXHIBIT 12

TRICON Global Restaurants, Inc.
Ratio of Earnings to Fixed Charges Years Ended 2000-1996
(in millions except ratio amounts)

	Weeks	-----	52 Weeks	----
	2000	1999	1998	1997
<i>Earnings:</i>				
Pretax income from continuing operations before cumulative effect of accounting changes(a)	684	1,038	756	(35)
Minority interests in consolidated subsidiaries	-	-	-	-
Unconsolidated affiliates' interests, net(a)	(13)	(12)	(10)	(3)
Interest expense(a)	190	218	291	290
Interest portion of net rent expense(a)	87	90	105	118
Earnings available for fixed charges	948	1,334	1,142	370
<i>Fixed Charges:</i>				
Interest Expense(a)	190	218	291	290
Interest portion of net rent expense(a)	87	90	105	118
Total Fixed Charges	277	308	396	408
Ratio of Earnings to Fixed Charges(b)(c)	3.42x	4.33x	2.88x	0.91x

- A. Included in earnings for the years 1996 through 1997 are certain allocations related to overhead costs and interest expense from PepsiCo. For purposes of these ratios, earnings are calculated by adding to (subtracting from) pretax income from continuing operations before income taxes and cumulative effect of accounting changes the following: fixed charges, excluding capitalized interest; (minority interests in consolidated subsidiaries); (equity income (loss) from unconsolidated affiliates); and distributed income from unconsolidated affiliates. Fixed charges consist of interest on borrowings, the allocation of PepsiCo's interest expense for years 1996-1997 and that portion of rental expense that approximates interest.
- B. Included the impact of unusual items of \$204 million (\$129 million after-tax) in 2000, \$51 million (\$29 million after-tax) in 1999, \$15 million (\$3 million after-tax) in 1998, \$184 million (\$165 million after-tax) in 1997, and \$246 million (\$189 million after-tax) in 1996. Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 4.16x, 4.49x, 2.92x, 1.36x, and 1.73x for the fiscal years ended 2000, 1999, 1998, 1997, and 1996, respectively.
- C. For the fiscal year December 27, 1997, earnings were insufficient to cover fixed charges by approximately \$38 million. Earnings in 1997 includes a charge of \$530 million (\$425 million after-tax) taken in the fourth quarter to refocus our business.

Exhibit 21.1

SUBSIDIARIES OF TRICON
AS OF DECEMBER 31, 2000 (1)

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
---------------------------	--------------------------------------------------

A & M Food Services, Inc.	Nevada
Calny, Inc.	Delaware
Changsha KFC Co., Ltd.	China
Chengdu KFC	China
Chongqing KFC Co., Ltd.	China
Dalian Kentucky Fried Chicken Co., Ltd.	China
El KrAm, Inc	Iowa
Glenharney Insurance Company	Vermont
Guangdong KFC Co., Ltd.	China
Hangzhou KFC	China
Kentucky Fried Chicken (Great Britain) Limited	United Kingdom
Kentucky Fried Chicken Beijing Co., Ltd.	China
Kentucky Fried Chicken Corporate Holdings Ltd.	Delaware
Kentucky Fried Chicken Corporation	Delaware
Kentucky Fried Chicken de Mexico, S.A. de C.V.	Mexico
Kentucky Fried Chicken Espana, S.L.	Spain
Kentucky Fried Chicken Global B.V.	Netherlands
Kentucky Fried Chicken International Holdings, Inc.	Delaware
Kentucky Fried Chicken Japan Ltd.	Japan
Kentucky Fried Chicken of California, Inc.	Delaware
Kentucky Fried Chicken Worldwide B.V.	Netherlands
KFC Corporation	Delaware
KFC Enterprises, Inc.	Delaware
KFC France SAS	France
KFC International (Thailand) Ltd.	Thailand
KFC Management Pte. Ltd.	Singapore
KFC National Management Company	Delaware
KFC of America, Inc.	California
KFC Pty. Ltd.	Australia
KFCC/TRICON Holdings Ltd.	Canada
Nanjing KFC Co. Ltd.	China
PCNZ Investments Ltd.	Mauritius
PCNZ Ltd.	Mauritius
PepsiCo Eurasia Limited	Delaware
PHM de Mexico S.A. de C.V.	Mexico
Pizza Belgium B.V.B.A.	Belgium
Pizza France S.N.C.	France
Pizza Hut (U.K.) Ltd.	United Kingdom
Pizza Hut International (UK) Ltd.	United Kingdom
Pizza Hut International, LLC	Delaware
Pizza Hut Korea Co., Ltd.	Korea
Pizza Hut Mexicana S.A. de C.V.	Mexico
Pizza Hut of America, Inc.	Delaware
Pizza Hut Singapore Pte. Ltd.	Singapore
Pizza Hut West, Inc.	California
Pizza Hut, Inc.	California
Pizza Huts of the Northwest, Inc.	Minnesota
Pizza Management, Inc.	Texas
Priszm Brandz LP	Canada
Qingdao Kentucky Fried Chicken Co. Ltd.	China
Red Raider Pizza Company	Delaware
Restaurant Holdings Ltd.	United Kingdom
SEPSA S.N.C.	France
Shanghai Kentucky Fried Chicken	China
Shanghai Pizza Hut Co. Ltd.	China
Shenyang KFC Co., Ltd.	China

Shenzhen KFC Co., Ltd.	China
Spizza 30 S.A.S.	France
Suzhou KFC	China
Taco Bell Corp.	California
Taco Bell of America, Inc.	Delaware
Taco Bell of California, Inc.	California
Taco Caliente, Inc.	Arizona
Taco Del Sur, Inc.	Georgia
Taco Enterprises, Inc.	Michigan
TB Holdings	California
TBLD Corp.	California
Tenga Taco, Inc.	Florida
Tianjin KFC Co.	China
Tricon Aviation Services, Inc.	Delaware
Tricon (China) Investment Company, Ltd.	China
Tricon (Shanghai) Consulting Co., Ltd.	China
Tricon Franchise (Canada) LP	Canada
Tricon Global Restaurants (Canada), Inc.	Canada
Tricon Global Restaurants S.A. de C.V.	Mexico
Tricon International Participations S.a.r.l.	Luxembourg
Tricon Restaurant Services Group, Inc.	Delaware
TRICON Restaurants (Taiwan) Co., Ltd.	Taiwan
TRICON Restaurants Australia Pty Ltd.	Australia
Tricon Restaurants International (India) Pvt. Ltd.	India
Tricon Restaurants International Ltd. & Co. K.G.	Germany
Tricon Restaurants International, Inc.	Delaware
Tricon Restaurants International, Ltd.	Cayman Islands
Tricon Restaurants International (PR), Inc.	Cayman Islands
Tricon Restaurants Poland Sp.Zo.o.	Poland
Tricon Restaurants South Africa Pty. Ltd.	South Africa
Tricon Singapore Holdings Pte. Ltd.	Singapore
Upper Midwest Pizza Hut, Inc.	Delaware
Wuhan KFC Co. Ltd.	China
Wuxi KFC Co., Ltd.	China
Xiamen - KFC Co., Ltd.	China

Note:

(1) This Schedule lists the entities that were active subsidiaries of Tricon as of December 31, 2000. Omitted from the above list are the insignificant or inactive subsidiaries, owned directly or indirectly by the registrant, which, if considered in the aggregate as a single subsidiary would not constitute a significant subsidiary.

Exhibit 23.1

Consent of Independent Auditors

The Board of Directors
TRICON Global Restaurants, Inc.:

We consent to incorporation by reference in the registration statements listed below of our report dated February 13, 2001, except as to Note 18 which is as of February 14, 2001 and Note 21 which is as of March 9, 2001, relating to the consolidated balance sheets of TRICON Global Restaurants, Inc. and Subsidiaries as of December 30, 2000 and December 25, 1999, and the related consolidated statements of income, cash flows and shareholders' deficit and comprehensive income for each of the years in the three-year period ended December 30, 2000, which report appears in the December 30, 2000 annual report on Form 10-K of TRICON Global Restaurants, Inc.:

Description**Registration Statement Number**

Form S-3

TRICON Global Restaurants, Inc. YUM Direct 333-46242

Form S-3/A

\$2,000,000,000 Debt Securities 333-42969

Form S-8

Restaurant Deferred Compensation Plan 333-36877, 333-32050
TRICON Long Term Savings Program 333-36893, 333-32048
TRICON Long Term Incentive Plan 333-36895, 333-85073, 333-32046
Executive Income Deferral Program 333-36955
Sharepower Stock Option Plan 333-36961
Tricon Restaurants Puerto Rico, Inc. Save-up Plan 333-85069
Tricon Global Restaurants, Inc. Restaurant General
Manager Stock Option Plan 333-64547
Tricon Global Restaurants, Inc. Long Term Incentive Plan 333-32052

/s/ KPMG LLP
Louisville, Kentucky
March 28, 2001

End of Filing

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