2000 Annual Report

TRICON GLOBAL RESTAURANTS, INC.

Financial Highlights

(in millions, except per share and unit amounts)

Number of stores:	**2000**	1999	% B(W)
Company	**6,123**	6,981	(12)
Affiliates	**1,844**	1,178	57
Franchisees	**19,287**	18,414	5
Licensees	**3,163**	3,409	(7)
Total stores	**30,417**	29,982	1
System sales	**$22,159**	$21,762	2
Company revenues	**$ 7,093**	$ 7,822	(9)
Ongoing operating profit	**$ 888**	$ 881	1
Accounting changes	**$ –**	$ 29	NM
Facility actions net gain	**$ 176**	$ 381	(54)
Unusual items	**$ (204)**	$ (51)	NM
Operating profit	**$ 860**	$ 1,240	(31)
Net income	**$ 413**	$ 627	(34)
Diluted earnings per common share	**$ 2.77**	$ 3.92	(29)
Diluted ongoing earnings per common share	**$ 2.98**	$ 2.58	16
Cash flows provided by:			
Operating activities	**$ 491**	$ 565	(13)
Refranchising proceeds	**$ 381**	$ 916	(58)

Contents

Average U.S. Sales Per System Unit

(in thousands)

	2000	1999	1998	1997	1996	5-year growth[a]
KFC	**$823**	$837	$817	$786	$775	2%
Pizza Hut	**712**	696	645	630	620	2%
Taco Bell	**896**	918	931	902	886	(1)%

[a] *Compounded annual growth rate*

Worldwide System Sales

(in billions)

	2000	1999	1998	1997	1996	5-year growth[a]
KFC	**$ 4.4**	$ 4.3	$ 4.2	$ 4.0	$ 3.9	4%
Pizza Hut	**5.0**	5.0	4.8	4.7	4.9	–
Taco Bell	**5.1**	5.2	5.0	4.8	4.6	3%
Total U.S.	**14.5**	14.5	14.0	13.5	13.4	2%
Total International	**7.7**	7.3	6.6	7.0	6.9	3%
Total	**$22.2**	$21.8	$20.6	$20.5	$20.3	2%

[a] *Compounded annual growth rate*

As you'll see on the front cover, we're a company on a global mission. From Mexico to Malaysia, and Boston to Bangkok, we've become obsessed – even maniacal – about satisfying customers better than any other restaurant company in the world.

Our PASSION is to put a YUM on people's faces around the world...we offer that special eating experience that makes you smile and creates lifelong customers. We'll do that with: food you crave...comeback value...and customer-focused teams.

Our jobs are the best in the world for people who are committed to quality food and satisfying customers better than anyone.

Dear Partners

It's been said the true test of any great company is how it responds to a difficult and challenging year. There's no question that 2000 was just that kind of year for Tricon, and we're confident the way we responded will make us stronger in 2001 and beyond.

For the full year 2000, we achieved 16% growth in ongoing operating earnings per share, driven by strong performance at our International business, continued same store sales growth at Pizza Hut and by significant reductions in overhead, interest expense and the ongoing operating tax rate. While 16% growth is nothing to sneeze at, it fell well below our expectations for the year because of a decline of 2% in U.S. blended same store sales, driven by a 5% decline at Taco Bell and 3% decline at KFC.

The year was further complicated by the bankruptcy of AmeriServe, our primary food distributor. Our team worked around the clock to arrange for interim financing and to set

David C. Novak
Chairman and Chief Executive Officer

Tricon's International business represents about one-third of our profits. We opened 929 new traditional restaurants internationally, driven by the significant growth of our Asia-Pacific businesses.

up a new system to pay our vendors on time. This allowed us to continue to satisfy our customers by keeping our restaurants open and having product available. That's behind us now as we achieved the best possible outcome when McLane Company, Inc. finalized its purchase of AmeriServe. McLane, a division of Wal-Mart, is a financially solid, world-class distributor with a proven track record of excellent service. While this situation cost us significant financial and human capital, it also showed that we can weather even the most difficult times because of our financial strength and the capability of our people.

Our focus now is to put 100% of our efforts toward achieving our superordinate business objective: **sustainable sales growth.** This means we have to become maniacal about doing a better job of satisfying customers, which will enable us to drive same store sales growth and add new units around the globe. In fact, we are striving to build a global restaurant system of over 725,000 **Customer Maniacs,** team members who are obsessed to go the extra mile to make sure we put a YUM on our customers' faces every time they eat our food. This is the key to sales and profitability.

In this report, the presidents of KFC, Pizza Hut, Taco Bell and Tricon Restaurants International will share with you what they are doing to drive sustainable sales growth and bring customer mania to life. Customer mania is taking hold!

Going forward, we will continue to report on five key areas of our business that we believe are important to measuring our growth and progress in becoming a unique restaurant company and a great investment. During 2000, we made substantial progress in all these areas except U.S. blended same store sales growth.

1. International Expansion

Our International business now represents about a third of our profits and we have only scratched the surface of our development opportunity. In 2000, we opened a record 929 new traditional units. We are confident we will be able to at least repeat this pace of development in 2001, and in years to come. To put the profit opportunity into perspective, McDonald's makes over a billion dollars a year in Europe alone. That's more than what all of Tricon makes today. And the only serious international restaurant brands are KFC, Pizza Hut and McDonald's. Our two global brands, KFC and Pizza Hut, are universally accepted by our customers around the world. Led by Pete Bassi, we have the people, infrastructure and processes in place to drive consistent mid-teens profit growth from here on out.

2. Blended U.S. Sales Growth

We have three category-leading brands, and we believe that over time, having a portfolio of brands reduces our exposure to temporary ups and downs of a single brand and will enable us to deliver consistent same store sales growth. That's why blended same store sales growth is a good way to measure our progress. This represents our number one challenge as blended same store sales declined 2% in 2000 after two years of 4% growth. To upgrade our concept leadership, we successfully recruited Emil Brolick from Wendy's and Cheryl Bachelder from Domino's to be Presidents of Taco Bell and KFC, respectively. Both of these executives have proven track records for driving sustainable same store sales growth and building customer-focused organizations. They will join Mike Rawlings of Pizza Hut to lead our efforts to increase our focus on running great restaurants and differentiating our brands in everything we do. Our average unit volumes are about half of McDonald's and we are not capacity constrained. There is no doubt that we have significant sales opportunity at each brand.

3. Multibranding

Multibranding is putting two or even three of our brands in one restaurant asset. We now are the world's multibranding leader with a business that accounts for $1 billion in annual system sales. We want you to know why we are so enthusiastic about multibranding. First and most important, it's a huge customer win. Customers tell us time and again that they prefer having more than one of our brands in the same asset because it gives them more choices for the entire family. Next, we generate higher cash flow per unit in multibranded units. And finally, we are able to add new restaurants in trade areas that we could not penetrate with a single brand. These are trade areas where the real estate is expensive, as in the Northeast, or in rural areas where there are not enough people to support just one brand. This gives us the ability to further expand our leading brands effectively with good returns. For example, of the 509 U.S. traditional units we opened in 2000,

Tricon leads the industry with multibranded restaurants, resulting in a business that represents $1 billion in annual system sales.

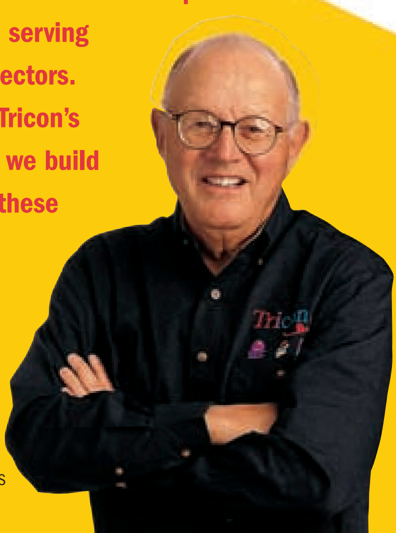
120 were multibranded. Without multibranding, in many cases we would not have been able to open these units and generate good returns.

"We plan to add 280 Personal Pan Pizza Expresses to new and existing units this year that allow us to provide our customers individual size pizzas through Taco Bell and KFC drive-thrus."

The biggest news for us in 2000 was the development of Personal Pan Pizza Express, which allows us to provide our customers individual size pizzas through Taco Bell and KFC drive-thrus. Drive-thru pizza on demand is a breakthrough in the category. We plan to add 280 Personal Pan Pizza Expresses to new or existing restaurants this year and will continue to add units as our operating capability allows. What's more, we have had good success testing Taco Bells in rural Pizza Huts and have a test agreement with KFC and A&W that is generating strong results. We are now the world's leader in multibranding, and we know leading the way in multibranding will pay huge dividends for our shareholders down the road.

"Over the last three years, it has been my privilege to serve as Tricon's first Chairman and CEO. Last year, the Board of Directors named David Novak CEO. On January 1, 2001, David assumed the additional responsibility of Chairman. I can think of no finer person to lead Tricon into the future than my partner, David Novak. I will remain active in the operation of the business as well as serving on Tricon's Board of Directors. I'm enthusiastic about Tricon's opportunities ahead as we build on the progress begun these last few years."

Andrall E. Pearson
Founding Chairman



4. Franchise Fees

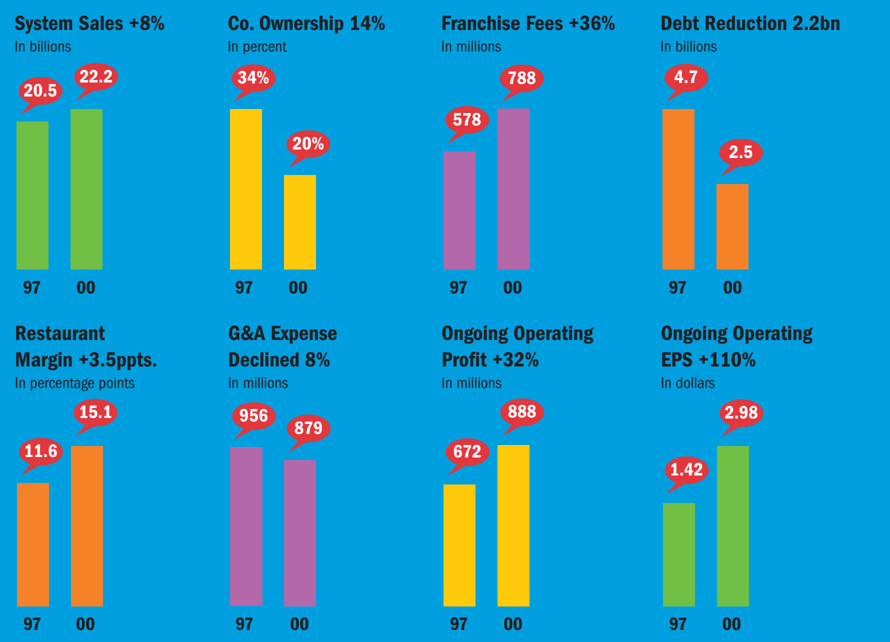
We now generate about $800 million per year in franchise fees, up almost 40% in three years. What's more, our franchise partners are expanding around the world. Franchisees and affiliates opened over 1,000 restaurants and acquired over 700 restaurants from Tricon in 2000. All in all, we have refranchised over 3,000 U.S. restaurants in the last three years, including more than 500 KFCs, 1,500 Pizza Huts and nearly 1,000 Taco Bells – generating about $1.4 billion in net proceeds after tax. The refranchising program has been a major success and has dramatically improved our returns. We will wind down our refranchising program by the end of 2001. There continues to be significant demand to buy and build new restaurants because of the power of our leading brand names. It should be noted, however, that certain of our Taco Bell franchisees are experiencing financial difficulty because of soft sales. We are proactively working with these franchisees to restructure debt and ensure operational viability. We believe these issues will be resolved in 2001.

5. Cash Flow

Tricon generated $850 million of cash prior to investment this year. Our objective is to turn this strong cash flow into high returns. Here we have made huge progress with our

Tricon has made solid financial progress since spin-off

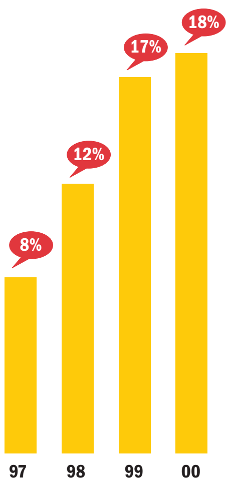
Better (worse)



return on invested capital improving to 18%, which we believe leads the industry and is up 10 percentage points from 1997. In 2000, we invested in 370 new company restaurants, upgraded and remodeled 289 company restaurants, handled the AmeriServe problem and purchased over $200 million of our shares. We are confident we will continue to drive high returns going forward.

Stepping back, we are a significantly stronger company now than we were when we were spun off by PepsiCo three years ago. We've more than doubled ongoing operating earnings per share, reduced debt by $2.2 billion, improved restaurant margins over 3 full points, reduced our general and administrative expenses over $50 million, improved ongoing operating profit 32% and grown system sales 8%, while closing almost 3,000 stores systemwide that did not generate adequate returns and reflect the proper image for our brands.

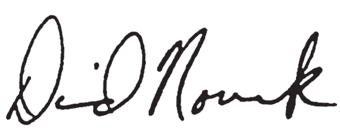
Return on Invested Capital



As a result of Tricon's strong cash flow and financial condition, our Board of Directors has authorized a share repurchase program of up to an additional $300 million to be executed over the next two years. This is obviously a reflection of the confidence the Board has in our outlook for 2001 and beyond.

Just as important, we're confident we have put the building blocks in place to drive consistent performance. There is no doubt in our minds that Tricon has all the characteristics to become one of the world's great companies over time: leading brands, a proven international business, tremendous cash flow for reinvestment and the leaders around the world to make it happen. We are targeting to consistently deliver 2% to 3% U.S. blended same store sales growth, open more than 1,300 new worldwide restaurants each year, continue to improve our industry competitive margins and deliver mid-teens ongoing operating earnings per share growth.

As you read further, you'll learn more about the exciting plans at each of our companies from their presidents and you'll see how passionate our people are to become **Customer Maniacs**. We know that by building the capability of our people, customer mania will result and the profitability that will make Tricon a great investment will follow. I'd like to thank the over 725,000 people across the Tricon system, our investors, franchise partners and outstanding Board of Directors for their dedication and inspired ideas.



David C. Novak
Chairman and Chief Executive Officer

"**On behalf of** all the restaurant operators around the world, we want all of our shareholders to know we're committed to one thing – building an operating culture where everything is centered on our customers. Together, we're creating a force of over 725,000 **CUSTOMER MANIACS** in KFC, Pizza Hut and Taco Bell restaurants around the world – focused on satisfying our customers better than any other restaurant company.

We are custo

"Going forward, we'll be absolutely committed to becoming true Customer Maniacs. We want to be so maniacal about satisfying our customers that we think about it all the time. We wake up every morning so **PUMPED UP** and **PASSIONATE** about pleasing them that we're **OBSESSED** with how we can better serve them.

"As Customer Maniacs, we do whatever it takes to make sure that every time customers enjoy our food, they've had the best possible experience – every customer, every restaurant, every time.

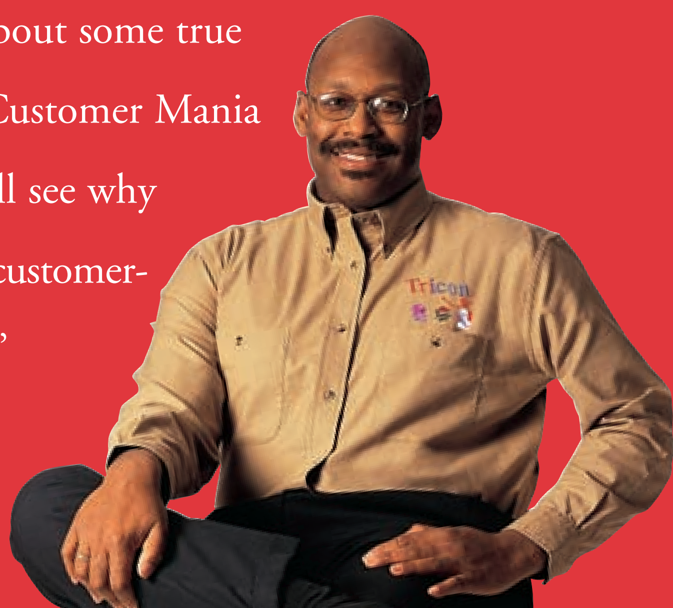
"And we're driving this message home by executing the basics – focusing on **CHAMPS,** our core program for training, measuring and rewarding employee performance against key customer metrics. CHAMPS aligns all of our systems and processes around one set of standards and encourages everyone, at every level, to take accountability for not only meeting but exceeding customer expectations. And when we execute the basics well, we're making our customers happy – that's **JOB #1** for us.

"Over the next few pages, you'll read about some true Customer Maniacs who walk the talk of Customer Mania in their restaurants every day. I think you'll see why Tricon is on its way to becoming the most customer-focused restaurant company in the world!"

CHAMPS =
Cleanliness
Hospitality
Accuracy
Maintenance
Product Quality
Speed of Service

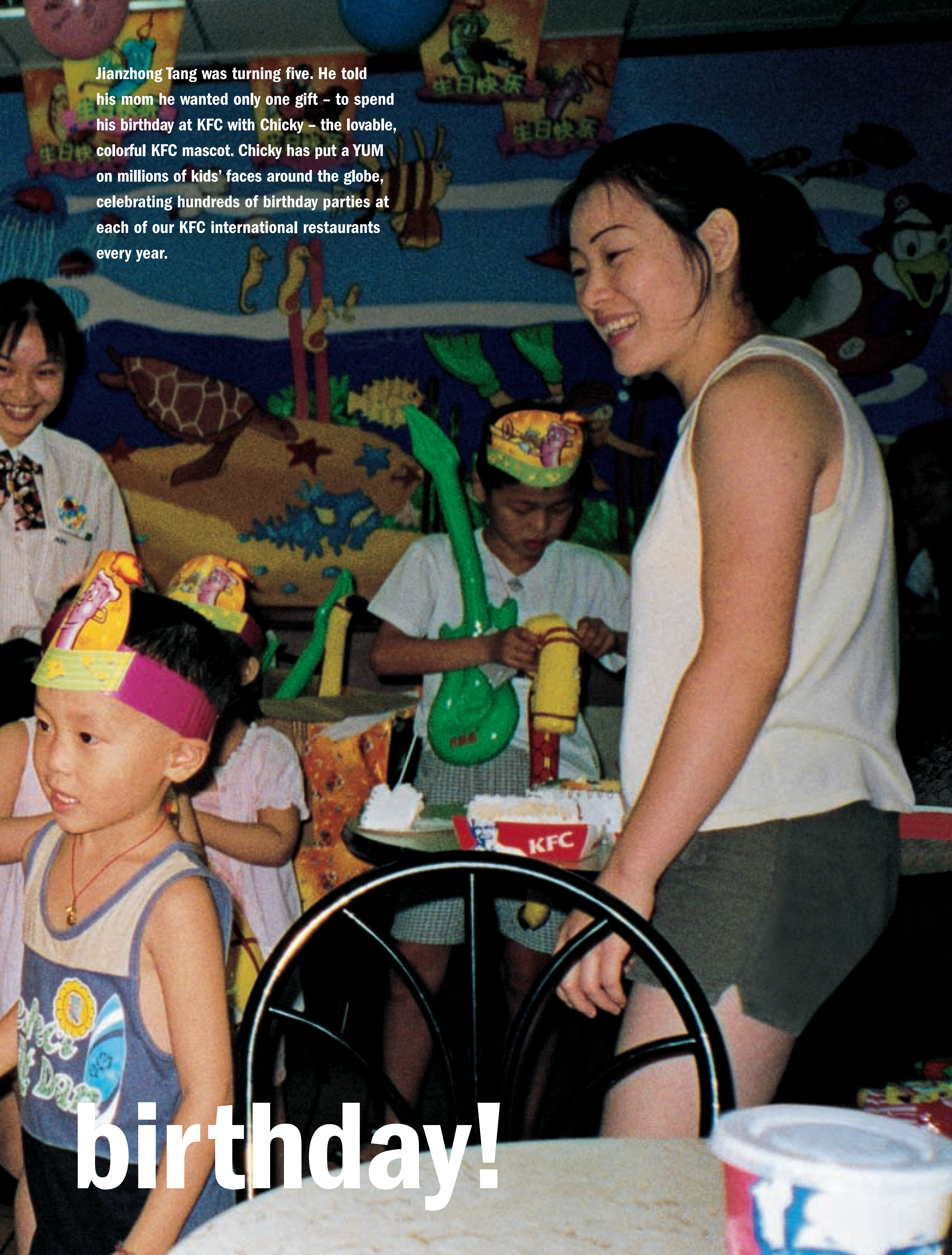
mer maniacs!

Yum!



Aylwin Lewis
Chief Operating Officer

Having a YUMMY



Jianzhong Tang was turning five. He told his mom he wanted only one gift – to spend his birthday at KFC with Chicky – the lovable, colorful KFC mascot. Chicky has put a YUM on millions of kids' faces around the globe, celebrating hundreds of birthday parties at each of our KFC international restaurants every year.

birthday!

International

“2000 was a year of growth, growth, growth for our international business! We opened 929 traditional restaurants around the world, grew operating profit to $309 million, up 16% from 1999, and improved international system sales by 6%. And we did it while achieving solid G&A reduction and margin improvement.

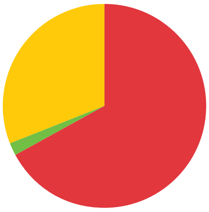
“Our big international winners were Greater China, which increased profits a whopping 47%, and our KFC United Kingdom and Pizza Hut Korea businesses, which each increased profits by 25%.

“We also boosted the global popularity of our food, scoring big wins with the debut of Pizza Hut’s Stuffed Crust pizza in Malaysia and the Philippines, and the continuing success of KFC’s Twister in Australia and Korea. In Asia, we launched two delicious new product variants, Honey Mustard Twister and Spicy Twister, which are helping to drive strong sales growth in the region.

Last year, Tricon International opened a record 929 new traditional restaurants around the world, and we plan to open about the same number of stores in 2001.

Pizza Hut and KFC are world leaders in the pizza and chicken categories, and we believe we’ll drive consistent profit growth from here on out, as seen by a 47% increase in Greater China and 25% profit growth in the United Kingdom.

International System Sales by Brand



- KFC 67%
- Taco Bell 2%
- Pizza Hut 31%

Pete Bassi
President

Peter Hearl
Executive Vice President

"We've been focused on growing our business globally, developing the KFC brand in Germany and in other European markets, and exploiting the power of our Pizza Hut brand through home delivery service to strengthen our category leadership.

"What's ahead? We'll continue to boost profits by growing system sales, attacking margin improvement, leveraging the benefits of CHAMPS to strengthen operations and delivering on our strategic growth opportunities.

"All in all – our international outlook looks terrific. Fueled by a maniacal customer focus and a great track record of success – our global growth will continue for years to come!"

First launched in Korea three years ago, Twister has created more day-part opportunities and has a broader appeal to a younger consumer segment.

Going the extra

mile!

Just about all 10,000 people who live in La Porte, Ind., know and love Pizza Hut RGM LuAnne DeVall. That's because she truly cares about the customers of her delivery-only restaurant. LuAnne is a Customer Maniac who goes the extra mile to please her customers. That occasionally means making a few pizza home delivery trips of her own – taking along a bag of candy as a surprise or even picking up a prescription along the way for an elderly customer in need!

Pizza Hut

"To those who said Pizza Hut could never top 1999's extraordinary growth, we say: We can. We did. After our record-setting 9% same store sales growth in 1999, this year Pizza Hut added an additional 1% same store sales growth. And we did it without sacrificing profitability. In fact, restaurant margins increased more than a full percentage point.

"How did we drive our third straight year of sales growth and bolster our category-leading market share? By focusing on three things: Great people, processes and products.

"Success in our business begins by putting people capability first. That's why we train, recognize and reward our people at every opportunity. In 2000, that led to the lowest turnover rate in Pizza Hut's history in one of the toughest labor markets ever.

The Insider pizza, with its six-cheese blend, was one of the speciality pizzas that drove Pizza Hut's same store sales growth – up 1% during 2000 – on top of record-setting 9% growth.

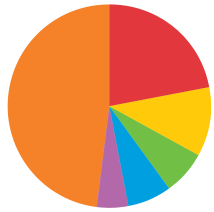
Pizza Hut was named the #1 national pizza chain in America according to the "Restaurants & Institutions" annual survey.

"Processes and people provide the kind of service that keeps customers coming back. In 2000, we focused on the "S" in CHAMPS, Speed of service, by training managers throughout the Pizza Hut system in delivery fundamentals. Customers noticed: Pizza Hut regained its rightful place as the #1 national pizza chain in America, according to the *Restaurants & Institutions* annual survey.

"Product innovation, variety and quality continued to fuel consumer growth at Pizza Hut, particularly with The Insider – a pizza inside a pizza, with Pizza Hut's delicious six-cheese blend. The Insider increased market share among Echo Boomers (ages 5-22), especially high school students.

"As we enter a new century, we have new strategies in place to drive sales, develop new units, build out our delivery segment and satisfy our customers better than anyone. But we have the same old-fashioned formula for success: Great people, processes and products."

Pizza QSR Sales



- **Pizza Hut 22%**
- Domino's 11%
- Papa John's 7%
- Regionals 7%
- Little Caesar's 5%
- Independents 48%*

*Highly fragmented

Pizza Hut introduced a new logo and new look that will be showing up in our restaurants around the world.

Mike Rawlings
President and Chief Concept Officer

Mike Miles
Chief Operating Officer

Mother's Day is traditionally the busiest day of the year for KFC restaurants. That day last year, KFC RGM Olimpia Rosas knew almost half the entire town of Berwyn, Ill. would be showing up at her KFC restaurant for a chicken dinner. So Olimpia arrived extra early to fire up the cookers and get a jump on the day. That's typical Olimpia, pictured here with some of her biggest fans, her customers! She's maniacal about making sure they aren't disappointed. For Olimpia, taking care of customers and her team is an uplifting experience.

Carried away by

customers

KFC

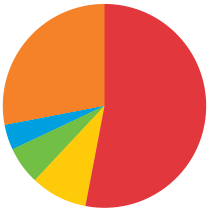
“Since building a foundation for our chicken sandwiches in the fourth quarter of 1999 – when we grew the category more than any other chain – we’ve since doubled our 1999 sandwich share and are now aggressively competing for more.

“We’ve positioned ourselves with a delicious line of freshly made sandwiches, including Original Recipe, Tender Roast, Triple Crunch, Triple Crunch Zinger and Honey BBQ. And last fall, we extended this sandwich line with the Twister – a unique, zesty, hot-wrap sensation that’s proving it can keep customers coming back.

“We are optimistic about KFC because we have a much stronger and balanced calendar featuring sandwiches, chicken-on-the-bone, strips and wings news throughout the year. We also have an incremental half percent of national advertising, or 11 extra weeks on-air, to promote the variety of our menu.

“With a new leadership team in place, we’ve set our sights on two primary goals: operational excellence and brand differentiation. We’ve intensified our focus on superior CHAMPS performance; a targeted new advertising campaign to draw in a whole new

Chicken QSR Sales



- **KFC 53%**
- Popeye’s 9%
- Church’s 6%
- Regional’s 4%
- Independents 28%

KFC has strategically invested in consumer learning and product development to ensure we have top-quality, consumer-preferred products across our menu.

20% of KFC system restaurants had a brighter, slicker look in 2000, and more upgraded units are on the way in 2001.

Cheryl Bachelder
President and Chief Concept Officer

Mark Cosby
Chief Operating Officer

generation of chicken lovers; accelerated unit development; and other initiatives, such as multibranding, designed to fuel sales and increase shareholder value in our brand.

"By the end of 2000, 13% of all U.S. KFC restaurants were multibrand units, either partnered with Pizza Hut or Taco Bell, or both. And under an exciting new arrangement with A&W Restaurants, Inc., we opened several KFC/A&W units and plan to build 300 more by 2005.

"New leadership, new strategies, a renewed commitment to driving sales – we're doing whatever it takes to ensure that KFC remains the world's #1 choice for chicken for many years to come!"

With 53% of the chicken QSR market, KFC has a more balanced marketing approach for 2001. Our franchise partners voted with us to add a half percent contribution to national media spending in 2001.

You can hear the

Team member Jeff Shine brightens the day of each customer who comes by his drive-thru window with his large smile, great attitude and outstanding service. This Customer Maniac often gives his customers an experience to remember – whether rhyming their orders or asking them to "Have an exhilarating afternoon, now." His enthusiasm and creativity keep them coming back for more. Jeff can be found practicing his own special brand of customer mania at a Taco Bell in Huntsville, Ala.

smile in his voice

Taco Bell

"We've had a challenging year at Taco Bell – no doubt about it. Same store sales declined 5% for the year – and that is completely unacceptable. But we're moving quickly to regain strength. We have a new management team in place, and we're taking a disciplined approach to turn Taco Bell around, once and for all.

"Our Taco Bell team is focused on a 'one-two' punch of improved operations and improved marketing. On the operations front, our goal is to improve cleanliness and speed of service. We have launched a Clean Sweep program to drive home the importance of executing our clean checklist every day.

"To improve our speed of service, we're simplifying the ordering process at the

Taco Bell is aggressively developing a pipeline of products that will broaden our appeal and improve our ingredient quality. We've already scored key customer wins with our new mouthwatering gooey Cheesy Gordita Crunch.

The Cheesy Gordita Crunch is a crunchy taco wrapped in gordita flatbread and a melted blend of three cheeses – all spiked with zesty Pepper Jack Sauce.

Taco Bell continues to drive customer mania deep by giving our people the training programs and tools they need to differentiate the brand and keep our customers coming back for more.

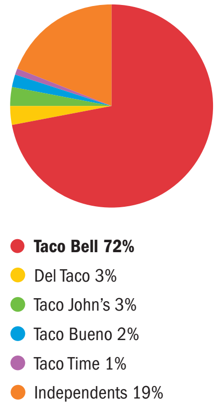
drive-thru. We've also provided additional coaching and support to our Restaurant General Managers so they will have the tools, resources and enhanced capabilities to improve restaurant operations. These initiatives are taking hold, and we should see positive results in 2001.

"On the marketing front, we have taken steps to immediately strengthen our calendar, enhance our product quality and drive value. We are looking for ways to evolve and dimensionalize our industry-leading value proposition.

"Longer term, the big strategic push is for Taco Bell to broaden our reach, maintaining our stronghold with core heavy users and attracting new customers as the leading variety option. As the market leader with 72% share, we need to expand our user base. Our Taco Bell team is working on a new positioning and advertising approach that will be launched in the latter part of 2001.

"So while it's been a difficult year, we're making progress. We now have the strategies, the focus and the people in place to deliver the kind of performance results you'd expect from Taco Bell. We're confident we'll soon be back on track."

Mexican QSR Sales



Taco Bell's L-Series incorporates the very latest in engineering technology and design – reducing labor, improving food quality and ensuring customer satisfaction!

Emil J. Brolick
President and Chief Concept Officer

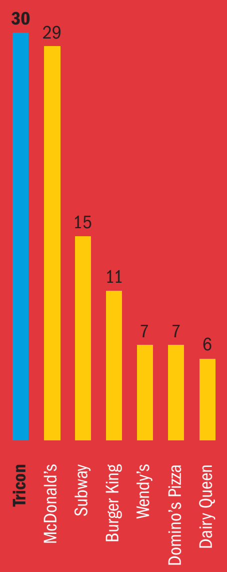
Bob Nilsen
Chief Operating Officer

Tricon Facts

Worldwide System Units

Worldwide Units

In thousands, year-end 2000



Year-end 1996-2000	**2000**	1999	1998	1997	1996	5-year growth[(a)]
KFC	**5,364**	5,231	5,105	5,092	5,078	1%
Pizza Hut	**7,927**	8,084	8,412	8,640	8,696	(2)%
Taco Bell	**6,746**	6,879	6,852	6,741	6,642	2%
Total U.S.	**20,037**	20,194	20,369	20,473	20,416	–
KFC	**5,974**	5,595	5,318	5,145	4,783	6%
Pizza Hut	**4,157**	3,961	3,873	3,894	3,694	4%
Taco Bell	**249**	232	203	200	203	5%
Total International	**10,380**	9,788	9,394	9,239	8,680	5%
Total	**30,417**	29,982	29,763	29,712	29,096	2%

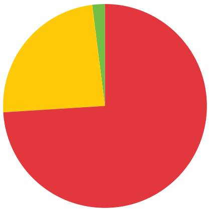
(a) Compound annual growth rate

Breakdown of Worldwide System Units

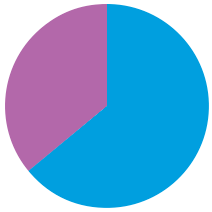
Year-end 2000	Company	Uncon-solidated Affiliates	Franchised	Licensed	Total
United States					
KFC	1,339	–	3,978	47	5,364
Pizza Hut	1,801	–	4,888	1,238	7,927
Taco Bell	1,162	–	3,996	1,588	6,746
Total U.S.	4,302	–	12,862	2,873	20,037
International					
KFC	1,109	1,022	3,790	53	5,974
Pizza Hut	668	819	2,466	204	4,157
Taco Bell	44	3	169	33	249
Total International	1,821	1,844	6,425	290	10,380
Total	6,123	1,844	19,287	3,163	30,417

U.S. Sales by Daypart (% of Sales)

U.S. Sales by Distribution Channel (% of Sales)

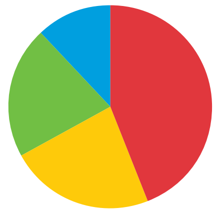


- **Dinner 74%**
- Lunch 24%
- Snacks/Breakfast 2%

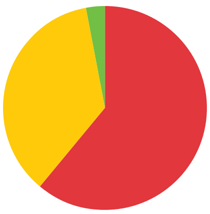


- **Dine Out 64%**
- Dine In 36%

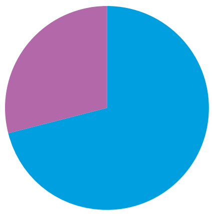
Sources of System Sales in International Restaurants



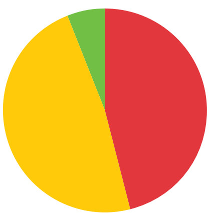
- **Asia-Pacific 44%**
- Europe, South Africa 23%
- Americas 21%
- Greater China 12%



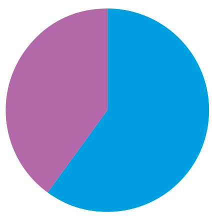
- **Dinner 61%**
- Lunch 36%
- Snacks/Breakfast 3%



- **Dine Out 71%**
- Dine In 29%



- Dinner 46%
- **Lunch 48%**
- Snacks/Breakfast 6%



- **Dine Out 60%**
- Dine In 40%

Sales across our brands are driven by dinner and lunch. Marketing innovations such as new dayparts can help grow sales.

Most of our sales come from off-premises dining, which reflects customers' desire for convenient food.

Contents

Management's Discussion and Analysis

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 40–65 and the Cautionary Statements on page 39. All Note references herein refer to the Notes to the Consolidated Financial Statements on pages 44–65. 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.

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
Revenues				
Company sales	$ 58	$18	$ –	$ 76
Franchise fees	9	2	–	11
Total Revenues	$ 67	$20	$ –	$ 87
Ongoing operating profit				
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 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	1998
Number of units closed	**208**	301	572
Store closure costs (credits) [(a)]	**$ 10**	$ 13	$ (27)
Impairment charges for stores to be closed in the future	**$ 6**	$ 12	$ 6

[(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**	$21,762	6
Revenues				
Company sales	**$ 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	Licensees	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 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 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.

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 refranchising 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**	**–**	$14,516	4
Revenues				
Company sales	**$ 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

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.

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 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
Revenues				
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.*

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 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 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 prepayment events as defined in the credit agreement. Interest on the Credit 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.

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.

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.

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.

Consolidated Statements of Income

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

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

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

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

(in millions)	Issued Common Stock Shares	Issued Common Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 27, 1997	152	$1,271	$(2,763)	$(128)	$(1,620)
Net income			445		445
Foreign currency translation adjustment				(20)	(20)
Minimum pension liability adjustment (includes tax of $1 million)				(2)	(2)
Comprehensive Income					423
Adjustment to opening equity related to net advances from PepsiCo		12			12
Stock option exercises (includes tax benefits of $3 million)	1	22			22
Balance at December 26, 1998	153	$1,305	$(2,318)	$(150)	$(1,163)
Net income			627		627
Foreign currency translation adjustment				15	15
Minimum pension liability adjustment (includes tax of $1 million)				2	2
Comprehensive Income					644
Adjustment to opening equity related to net advances from PepsiCo		7			7
Repurchase of shares of common stock	(3)	(134)			(134)
Stock option exercises (includes tax benefits of $14 million)	1	39			39
Compensation-related events		47			47
Balance at December 25, 1999	151	$1,264	$(1,691)	$(133)	$ (560)
Net income			**413**		**413**
Foreign currency translation adjustment				**(44)**	**(44)**
Comprehensive Income					**369**
Repurchase of shares of common stock	**(6)**	**(216)**			**(216)**
Stock option exercises (includes tax benefits of $5 million)	**2**	**46**			**46**
Compensation-related events		**39**			**39**
Balance at December 30, 2000	**147**	**$1,133**	**$(1,278)**	**$(177)**	**$ (322)**

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, carry-out 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 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

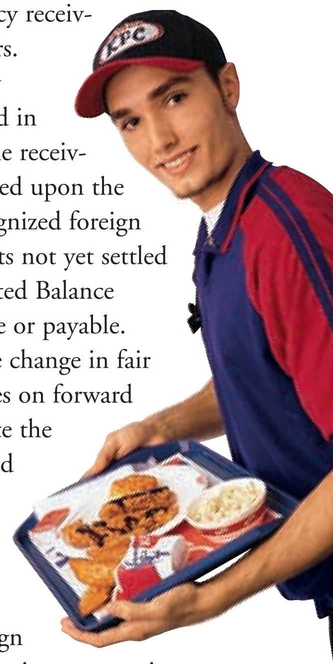
We measure stock-based employee compensation cost for financial statement purposes in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. We include pro forma information in Note 15 as required by Statement of Financial 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 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 ("PP&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.

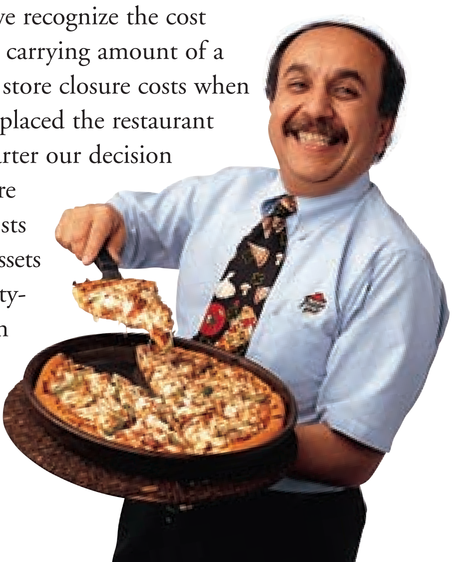
Intangible Assets
Intangible assets include both identifiable intangibles and goodwill arising from the allocation of purchase prices of businesses acquired. Where appropriate, intangible assets are allocated to individual restaurants at the time of acquisition. We base amounts assigned to identifiable 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
Basic EPS:			
Weighted-average common shares outstanding	**147**	153	153
Basic EPS	**$2.81**	$4.09	$2.92
Diluted EPS:			
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 Income

Accounting 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.

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 refranchise; (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 refranchised 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.

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 refranchised 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	
	Total	Total	(Excluding 1997 4th Qtr. Charge Adjustments)	Total	(Excluding 1997 4th Qtr. Charge Adjustments)
U.S.					
Refranchising net gains[(a)]	**$(202)**	$(405)	$(396)	$(275)	$(249)
Store closure costs (credits)	**6**	5	15	(9)	27
Impairment charges for stores that will continue to be used in the business	**3**	6	6	23	23
Impairment charges for stores to be closed in the future	**5**	9	9	5	5
Facility actions net gain	**(188)**	(385)	(366)	(256)	(194)
International					
Refranchising net (gains) losses[(a)]	**2**	(17)	(22)	(4)	(32)
Store closure costs (credits)	**4**	8	7	(18)	2
Impairment charges for stores that will continue to be used in the business	**5**	10	10	2	2
Impairment charges for stores to be closed in the future	**1**	3	3	1	1
Facility actions net (gain) loss	**12**	4	(2)	(19)	(27)
Worldwide					
Refranchising net gains[(a)]	**(200)**	(422)	(418)	(279)	(281)
Store closure costs (credits)	**10**	13	22	(27)	29
Impairment charges for stores that will continue to be used in the business[(b)]	**8**	16	16	25	25
Impairment charges for stores to be closed in the future[(b)]	**6**	12	12	6	6
Facility actions net gain	**$(176)**	$(381)	$(368)	$(275)	$(221)
Facility actions net gain, after-tax	**$ (98)**	$(226)	$(216)	$(162)	$(129)

(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 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.

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 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.

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

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

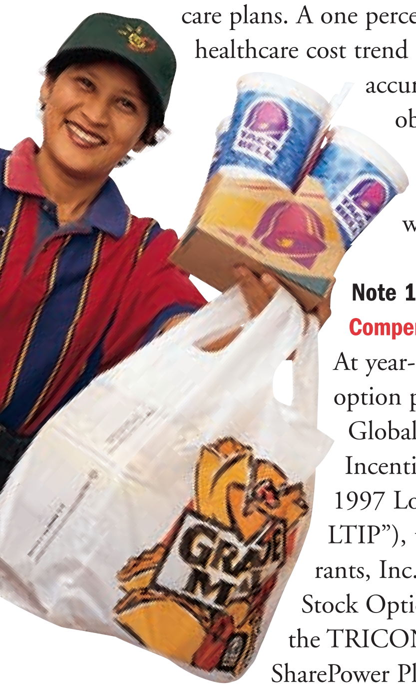
	Pension Benefits		Postretirement Medical Benefits	
	2000	1999	**2000**	1999
Change in benefit obligation				
Benefit obligation at beginning of year	**$315**	$315	**$ 45**	$ 38
Service cost	**19**	20	**2**	2
Interest cost	**24**	22	**3**	3
Plan amendments	**–**	6	**–**	–
Curtailment (gain)	**(5)**	(5)	**(2)**	(1)
Benefits and expenses paid	**(19)**	(24)	**(3)**	(2)
Actuarial loss (gain)	**17**	(19)	**3**	5
Benefit obligation at end of year	**$351**	$315	**$ 48**	$ 45
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)**	$(45)
Unrecognized actuarial (gain) loss	**(30)**	(35)	**5**	3
Unrecognized prior service costs	**5**	7	**(1)**	(2)
Accrued benefit liability at year-end	**$ (63)**	$ (53)	**$(44)**	$(44)
Other comprehensive income attributable to change in additional minimum liability recognition	**$ –**	$ (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	**–**	–		

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

	Pension Benefits			Postretirement Medical Benefits		
	2000	1999	1998	**2000**	1999	1998
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 postretirement health care plans. A one percent increase in the assumed healthcare 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.

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	$23.03
Granted at price equal to average market price	**7,860**	**30.33**	5,709	49.07	12,084	29.37
Exercised	**(1,829)**	**21.84**	(1,273)	19.51	(962)	18.93
Forfeited	**(3,518)**	**33.99**	(2,969)	31.94	(3,668)	25.60
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	$21.16
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):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	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.

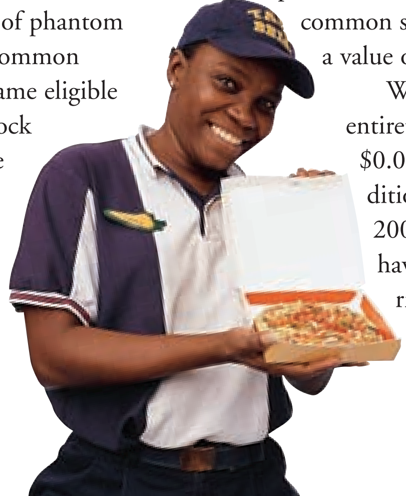
Investment options in the RDC Plan consist of phantom shares of various mutual funds and TRICON Common Stock. During 1998, RDC participants also became eligible to purchase phantom shares of our Common Stock under YUMSOP as defined below. We recognize compensation expense for the appreciation or depreciation, 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 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 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 allowances 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

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.

Note 21 Commitments and Contingencies

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.

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 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, 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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	**$1,425**	**$1,480**	**$1,470**	**$1,930**	**$6,305**
Franchise and license fees	**172**	**176**	**188**	**252**	**788**
Total revenues	**1,597**	**1,656**	**1,658**	**2,182**	**7,093**
Total costs and expenses, net	**1,355**	**1,436**	**1,526**	**1,916**	**6,233**
Operating profit	**242**	**220**	**132**	**266**	**860**
Net income	**120**	**106**	**59**	**128**	**413**
Diluted earnings per common share	**0.80**	**0.71**	**0.40**	**0.86**	**2.77**
Operating profit attributable to:					
Facility actions net gain	**47**	**66**	**3**	**60**	**176**
Unusual items	**(4)**	**(72)**	**(92)**	**(36)**	**(204)**
Net income attributable to:					
Facility actions net gain	**26**	**39**	**3**	**30**	**98**
Unusual items	**(2)**	**(47)**	**(57)**	**(23)**	**(129)**

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$1,662	$1,723	$1,639	$2,075	$7,099
Franchise and license fees	151	163	173	236	723
Total revenues	1,813	1,886	1,812	2,311	7,822
Total costs and expenses, net	1,577	1,537	1,435	2,033	6,582
Operating profit	236	349	377	278	1,240
Net income	106	179	197	145	627
Diluted earnings per common share	0.66	1.10	1.23	0.93	3.92
Operating profit attributable to:					
Accounting changes	10	6	5	8	29
Facility actions net gain	34	133	144	70	381
Unusual items	–	(4)	(3)	(44)	(51)
Net income attributable to:					
Accounting changes	6	4	3	5	18
Facility actions net gain	19	80	84	43	226
Unusual items	–	(2)	(3)	(24)	(29)

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

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.

David J. Deno
Chief Financial Officer

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.

KPMG LLP

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

Selected Financial Data

(in millions, except per share and unit amounts)	Fiscal Year Ended 2000	1999	1998	1997	1996
Summary of Operations					
System sales[a]					
U.S.	**$14,514**	$14,516	$14,013	$13,502	$13,388
International	**7,645**	7,246	6,607	6,963	6,892
Total	**22,159**	21,762	20,620	20,465	20,280
Revenues					
Company sales[b]	**6,305**	7,099	7,852	9,112	9,738
Franchise and license fees	**788**	723	627	578	494
Total	**7,093**	7,822	8,479	9,690	10,232
Facility actions net gain (loss)[c]	**176**	381	275	(247)	37
Unusual items[d]	**(204)**	(51)	(15)	(184)	(246)
Operating profit	**860**	1,240	1,028	241	372
Interest expense, net	**176**	202	272	276	300
Income (loss) before income taxes	**684**	1,038	756	(35)	72
Net income (loss)	**413**	627	445	(111)	(53)
Basic earnings per common share[e]	**2.81**	4.09	2.92	N/A	N/A
Diluted earnings per common share[e]	**2.77**	3.92	2.84	N/A	N/A
Cash Flow Data					
Provided by operating activities	**$ 491**	$ 565	$ 674	$ 810	$ 713
Capital spending	**572**	470	460	541	620
Proceeds from refranchising of restaurants	**381**	916	784	770	355
Balance Sheet					
Total assets	**$ 4,149**	$ 3,961	$ 4,531	$ 5,114	$ 6,520
Operating working capital deficit	**(634)**	(832)	(960)	(1,073)	(915)
Long-term debt	**2,397**	2,391	3,436	4,551	231
Total debt	**2,487**	2,508	3,532	4,675	290
Investments by and advances from PepsiCo	**–**	–	–	–	4,266
Other Data					
Number of stores at year end[a]					
Company	**6,123**	6,981	8,397	10,117	11,876
Unconsolidated Affiliates	**1,844**	1,178	1,120	1,090	1,007
Franchisees	**19,287**	18,414	16,650	15,097	13,066
Licensees	**3,163**	3,409	3,596	3,408	3,147
System	**30,417**	29,982	29,763	29,712	29,096
U.S. Company same store sales growth[a]					
KFC	**(3)%**	2%	3%	2 %	6 %
Pizza Hut	**1 %**	9%	6%	(1)%	(4)%
Taco Bell	**(5)%**	–	3%	2 %	(2)%
Blended	**(2)%**	4%	4%	1 %	N/A
Shares outstanding at year end (in millions)	**147**	151	153	152	N/A
Market price per share at year end	**$ 33.00**	$ 37.94	$ 47.63	$ 28.31	N/A

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.*

Shareholder Information

Annual Meeting The Annual Meeting of Shareholders will be at Tricon's headquarters, Louisville, KY at 9:00 a.m. (EDT), Thursday, May 17, 2001. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

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

Tricon Global Restaurants, Inc.
c/o EquiServe, L.P.
P.O. Box 43016
Providence, RI 02940-3016
Telephone: (888) 439-4986
www.equiserve.com
or
Shareholder Analyst
Tricon Global Restaurants, Inc.
1441 Gardiner Lane, Louisville, KY 40213
Telephone: (888) 2yumyum
email: tricon.investor@tricon-yum.com
Internet: www.triconglobal.com

In all correspondence or telephone inquires, please mention Tricon, your name as printed on your statement or stock certificate, your social security number, your address and telephone number.

Beneficial Shareholders (shares held in the name of your bank or broker) should direct communications on all administrative matters to your stockbroker.

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

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30446
New Brunswick, NJ 08989-0446
Telephone: (800) 637-2432 (U.S., Puerto Rico and Canada)
(732) 560-9444 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention either Tricon YUMBUCKS or SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants

Direct Stock Purchase Program	(888) 439-4986
Tricon 401(k) Plan	(888) 875-4015
Tricon Savings Center	(617) 847-1013
P.O. Box 1389	(outside U.S.)
Boston, MA 02104-1389	

Please have a copy of your most recent statement available when calling. Press *0 for a customer service representative and give the representative the name of the Plan.

Shareholder Services

Direct Stock Purchase Plan A brochure explaining this convenient plan is available from our transfer agent:

EquiServe, L.P.
P.O. Box 43016
Providence, RI 02940-3016
(888) 439-4986
www.equiserve.com

Low-Cost Investment Plan Investors may purchase their initial share of stock through NAIC's Low-Cost Investment Plan. For details contact:

National Association of Investors Corporation (NAIC)
711 West Thirteen Mile Road
Madison Heights, MI 48071
(877) ASK-NAIC (275-6242)
www.better-investing.org

Financial and Other Information Earnings and other financial results, corporate news and company information are now available on Tricon's Web site: www.triconglobal.com

Copies of Tricon's SEC Form 8-K, 10-K and 10-Q reports and quarterly earnings releases are available free of charge. Contact Tricon's Shareholder Relations at (888) 2YUMYUM or email tricon.investor@tricon-yum.com

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

Tim Jerzyk
Vice President, Investor Relations
Tricon Global Restaurants, Inc.
1441 Gardiner Lane
Louisville, KY 40213
Telephone: (502) 874-2543

Independent Auditors
KPMG LLP
400 West Market Street, Suite 2600
Louisville, KY 40202
Telephone: (502) 587-0535

Capital Stock Information

Stock Trading Symbol – YUM
The New York Stock Exchange is the principal market for Tricon Common Stock.

Shareholders At year-end 2000, there were approximately 157,000 shareholders of record.

Dividend Policy Tricon does not currently pay dividends, nor does it anticipate doing so in the near future.

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Board of Directors

A **David C. Novak** *48*
Chairman and Chief Executive Officer, Tricon

B **Andrall E. Pearson** *75*
Founding Chairman, Tricon

C **D. Ronald Daniel** *71*
Treasurer, Harvard University, Former Managing Partner, McKinsey and Company

D **James Dimon** *45*
Chairman and Chief Executive Officer, Bank One Corporation

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F **Robert Holland, Jr.** *59*
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G **Sidney Kohl** *70*
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L **John L. Weinberg** *76*
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Founding Chairman, Tricon

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President and Chief Concept Officer, Taco Bell U.S.A.

Christian Campbell *50*
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Chief Financial Officer, Tricon

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Chief Operating Officer, Pizza Hut, U.S.A.

Robert T. Nilsen *41*
Chief Operating Officer, Taco Bell, U.S.A.

Denise L. Ramos *44*
Senior Vice President, Treasurer, Tricon

Charles E. Rawley *50*
Chief Development Officer, Tricon

Michael S. Rawlings *46*
President and Chief Concept Officer, Pizza Hut, U.S.A.

Brent A. Woodford *38*
Vice President and Controller, Tricon

Tricon Yum!

Hungry for more information? *Contact: www.triconglobal.com*

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