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Streamline

Background

In the fourth quarter of Fiscal 2001, the company announced a restructuring initiative named "Streamline," which includes:

- A worldwide organizational restructuring aimed at reducing overhead costs;
- The closure of the company's tuna operations in Puerto Rico;
- The consolidation of the company's North American canned pet food production to Bloomsburg, Pennsylvania (which results in ceasing canned pet food production at the company's Terminal Island, California facility); and
- The divestiture of the company's U.S. fleet of fishing boats and related equipment.

Streamline is expected to save an estimated $25 million pretax in Fiscal 2002 and an estimated $40 million a year beginning in Fiscal 2003. Non-cash savings is expected to be less than $6 million per year. The total cost of this initiative is expected to be approximately $315 million. Management estimates that these actions will impact approximately 2,700 employees.

Streamline Status

During Fiscal 2001, the company recognized restructuring charges and implementation costs totaling $298.8 million pretax ($0.66 per share). [Note: All earnings per share amounts included in Management's Discussion and Analysis are presented on an after-tax diluted basis]. Pretax charges of $192.5 million were classified as cost of products sold and $106.2 million as selling, general and administrative expenses ("SG&A"). Implementation costs were recognized as incurred in Fiscal 2001 ($22.6 million pretax) and consist of incremental costs directly related to the implementation of the Streamline initiative. These include idle facility costs, consulting fees and asset relocation costs.

In Fiscal 2001, the company completed the closure of its tuna operations in Puerto Rico, ceased production of canned pet food in the company's Terminal Island, California facility and sold its U.S. fleet of fishing boats and related equipment. In addition, the company initiated its global overhead reduction plan, primarily in North America. These actions resulted in a net reduction of the company's workforce of approximately 1,700 employees.

Operation Excel

Background

In Fiscal 1999, the company announced a growth and restructuring initiative named "Operation Excel." This initiative was a multi-year, multi-faceted program which established manufacturing centers of excellence, focused the product portfolio, realigned the company's management teams and invested in growth initiatives. The total cost of Operation Excel was $1.2 billion, an increase from the original estimate of $1.1 billion. This increase was attributable to additional projects and implementation costs which included exiting the company's domestic can making operations, exiting a tuna processing facility in Ecuador and additional initiatives throughout the globe. These additional projects are expected to deliver business simplifications and improvements in the company's capital structure.

The company established manufacturing centers of excellence which resulted in significant changes to its manufacturing footprint. The company completed the following initiatives:

- Closed the Harlesden factory in London, England and focused the Kitt Green factory in Wigan, England on canned beans, soups and pasta production and focused the Elst factory in the Netherlands on tomato ketchup and sauces;
- Downsized the Puerto Rico tuna processing facility and focused this facility on lower volume/higher margin products;
- Focused the Pittsburgh, Pennsylvania factory on soup and baby food production and shifted other production to existing facilities;
- Consolidated manufacturing capacity in the Asia/Pacific region;
- Closed the Zabreh, Czech Republic factory and disposed of the Czech dairy business and transferred the infant formula business to the Kendal, England factory;
- Downsized the Pocatello, Idaho factory by shifting *Bagel Bites* production to the Ft. Myers, Florida factory, and shifted certain *Smart Ones* entrée production to the Massillon, Ohio factory;
- Closed the Redditch, England factory and shifted production to the Telford, England factory and the Turnhout factory in Belgium;
- Closed the El Paso, Texas pet treat facility and transferred production to the Topeka, Kansas factory and to co-packers; and
- Disposed of the Bloomsburg, Pennsylvania frozen pasta factory.

As part of Operation Excel, the company focused its portfolio of product lines on six core food categories: ketchup, condiments and sauces; frozen foods; tuna; soup, beans and pasta meals; infant foods; and pet products. A consequence of this focus was the sale of the *Weight Watchers* classroom business in Fiscal 2000. Seven other smaller businesses, which had combined annual revenues of approximately $80 million, also have been disposed.

Realigning the company's management teams provided processing and product expertise across the regions of North America, Europe and Asia/Pacific. Specifically, Operation Excel:

- Established a single U.S. frozen food headquarters, resulting in the closure of the company's Ore-Ida head office in Boise, Idaho;
- Consolidated many European administrative support functions;
- Established a single North American Grocery & Foodservice headquarters in Pittsburgh, Pennsylvania, resulting in the relocation of the company's domestic seafood and pet food headquarters from Newport, Kentucky; and
- Established two Asia/Pacific management teams with headquarters in Melbourne and Singapore.

Growth initiatives included relaunching many of our core brands and additional investments in marketing and pricing programs for our core businesses, particularly in ketchup, condiments and sauces, frozen foods, infant foods and tuna.

The pretax savings generated from Operation Excel initiatives were approximately $70 million in Fiscal 2000 and $135 million in Fiscal 2001 and are projected to grow to approximately $185 million in Fiscal 2002 and $200 million in Fiscal 2003 and thereafter. The unfavorable trend in foreign exchange rates has caused these savings to be lower than originally planned by approximately $5 million in Fiscal 2001, $10 million in Fiscal 2002 and $15 million in Fiscal 2003 and thereafter. In addition, savings projected for the consolidation of factories in the Asia/Pacific region are not expected to meet original estimates. Also, the cancellation of some projects, primarily the decision not to transfer certain European baby food production, will result in lower savings than originally projected.

The company expects to achieve gross margins of 42% in Fiscal 2002, in line with its original target. Several other targets of Operation Excel will not be achieved primarily due to acquisitions, the impact of unfavorable foreign exchange rates and lower than expected cash flows from operations. Over the past four years, unfavorable foreign exchange translation rates have reduced sales by approximately $1.1 billion and operating income by approximately $195 million.

Operation Excel Status Update

During Fiscal 2001, the company recognized restructuring charges of $55.7 million pretax, or $0.10 per share. These charges were primarily associated with exiting the company's domestic can making operations, exiting a tuna processing facility in Ecuador, and higher than originally expected severance costs associated with creating the single North American Grocery & Foodservice headquarters in Pittsburgh, Pennsylvania. This charge was recorded in cost of products sold ($44.8 million) and SG&A ($10.8 million). This charge was offset by the reversals of unutilized Operation Excel accruals and asset write-downs of $78.8 million pretax, or $0.17 per share. These reversals were recorded in cost of products sold ($46.3 million) and SG&A ($32.5 million) and were primarily the result of lower than expected lease termination costs related to exiting the company's fitness business, revisions in estimates of fair values of assets which were disposed of as part of Operation Excel, the company's decision not to exit certain U.S. warehouses due to higher than expected volume growth, and the company's decision not to transfer certain European baby food production. Implementation costs of $311.6 million pretax ($0.59 per share) were also recognized in Fiscal 2001. These costs were classified as cost of products sold ($146.4 million) and SG&A ($165.1 million).

During Fiscal 2000, the company recognized restructuring charges of $194.5 million pretax, or $0.37 per share. Pretax charges of $107.7 million were classified as cost of products sold and $86.8 million as SG&A. Also during Fiscal 2000, the company recorded a reversal of $18.2 million pretax ($0.04 per share) of Fiscal 1999 restructuring accruals and asset write-downs, primarily for the closure of the West Chester, Pennsylvania facility, which remains in operation as a result of the sale of the Bloomsburg frozen pasta facility in Fiscal 2000. Implementation costs of $216.5 million pretax ($0.41 per share) were classified as cost of products sold ($79.2 million) and SG&A ($137.3 million).

During Fiscal 1999, the company recognized restructuring charges and implementation costs totaling $552.8 million pretax ($1.11 per share). Pretax charges of $396.4 million were classified as cost of products sold and $156.4 million as SG&A.

Implementation costs were recognized as incurred and consisted of incremental costs directly related to the implementation of Operation Excel, including consulting fees, employee training and relocation costs, unaccruable severance costs associated with terminated employees, equipment relocation costs and commissioning costs.

The company has closed or exited all of the 21 factories or businesses that were originally scheduled for closure or divestiture. In addition, the company also exited its domestic can making operations and a tuna processing facility in Ecuador. Management estimates that Operation Excel will impact approximately 8,500 employees with a net reduction in the workforce of approximately 7,100 after expansion of certain facilities. The exit of the company's domestic can making operations and its tuna processing facility in Ecuador resulted in a reduction of the company's workforce of approximately 2,500 employees. During Fiscal 2001, Fiscal 2000 and Fiscal 1999, the company's workforce had a net reduction of approximately 3,700 employees, 3,000 employees and 200 employees, respectively. The remaining employee reductions are expected to take place within six months.

Results of Operations

2001 versus 2000: Sales for Fiscal 2001 increased $22.5 million, or 0.2%, to $9.43 billion from $9.41 billion in Fiscal 2000. Volume increased sales by $215.1 million, or 2.3%, and acquisitions increased sales by $519.4 million, or 5.5%. Divestitures reduced sales by $284.5 million, or 3.0%, lower pricing reduced sales by $25.2 million, or 0.3%, and the unfavorable impact of foreign exchange translation rates reduced sales by $402.3 million, or 4.3%. Domestic operations contributed approximately 52% of consolidated sales in both fiscal years.

Sales of the North American Grocery & Foodservice segment increased $22.5 million, or 0.5%. Sales volume increased 1.0%, due to increases in ketchup, condiments and sauces, foodservice, gravy, canned soup and pet treats, partially offset by a decrease in tuna and canned pet food. Acquisitions, net of divestitures, increased sales 1.7%, and a weaker Canadian dollar decreased sales 0.3%. Lower pricing reduced sales by 1.9%, due mainly to decreases in tuna and pet food.

The North American Frozen segment's sales increased $101.5 million, or 9.9%. Sales volume increased 8.8%, driven by *Smart Ones* frozen entrées, *Boston Market* frozen meals, *Bagel Bites* snacks and frozen potatoes, partially offset by a decrease in *The Budget Gourmet* line of frozen entrées and frozen pasta. Higher pricing increased sales by 2.9% driven by *Smart Ones* frozen entrées and frozen potatoes. Divestitures reduced sales 1.8% mainly due to the sale of The All American Gourmet business and its *Budget Gourmet* and *Budget Gourmet Value Classics* brands of frozen entrées.

Sales in Europe increased $163.2 million, or 6.3%. Acquisitions, net of divestitures, increased sales 13.5%, due primarily to the current year acquisition of CSM Food Division of CSM Nederland NV ("CSM") and the full-year impact of the United Biscuit's European Frozen and Chilled Division ("UB"). Sales volume increased 1.6%, due to increases in tuna, other seafoods, and beans, partially offset by a decrease in infant foods and frozen pizza. Higher pricing increased sales 0.8%, driven by increases in beans, frozen foods and salad cream/salad dressing, partially offset by decreases in tuna and other seafood. The unfavorable impact of foreign exchange translation rates reduced sales by $247.6 million, or 9.6%.

Sales in Asia/Pacific decreased $108.7 million, or 9.1%. The unfavorable impact of foreign exchange translation rates reduced sales by $135.1 million, or 11.3%. Volume increased sales by 2.1% due to increases in poultry, tuna, and infant foods partially offset by decreases in nutritional drinks and pet foods. Other items, net, increased sales by 0.1%.

Sales of Other Operating Entities decreased $156.0 million, or 32.5%. Divestitures, net of acquisitions, reduced sales 36.0%, primarily due to the divestiture of the *Weight Watchers* classroom business in Fiscal 2000. Sales volume increased 3.5% and higher pricing increased sales 1.8%. Unfavorable foreign exchange translation rates reduced sales 1.8%.

The current year was impacted by a number of special items which are summarized in the tables below. Fiscal 2001 results include Operation Excel implementation costs of $311.6 million pretax ($0.59 per share), additional Operation Excel restructuring charges of $55.7 million pretax ($0.10 per share) and reversals of $78.8 million pretax ($0.17 per share) of restructuring accruals and assets write-downs. Fiscal 2001 results also include Streamline restructuring charges of $276.2 million pretax ($0.60 per share) and related implementation costs of $22.6 million pretax ($0.05 per share). During the fourth quarter of Fiscal 2001, the company completed the sale of The All American Gourmet business that resulted in a pretax loss of $94.6 million ($0.19 per share). The Fiscal 2001 results also include pretax costs of $18.5 million ($0.03 per share) related to attempted acquisitions, a tax benefit of $93.2 million ($0.27 per share) from tax planning and new tax legislation in Italy and a loss of $5.6 million pretax ($0.01 per share) which represents the company's equity loss associated with The Hain Celestial Group's fourth quarter results which include charges for its merger with Celestial Seasonings.

Last year's results include Operation Excel restructuring charges of $194.5 million pretax ($0.37 per share), Operation Excel implementation costs of $216.5 million pretax ($0.41 per share), reversals of $18.2 million pretax ($0.04 per share) of Fiscal 1999 restructuring accruals and assets write-downs, costs related to the company's Ecuador tuna processing facility of $20.0 million pretax ($0.05 per share), a gain of $18.2 million pretax ($0.03 per share) on the sale of an office building in the U.K., a pretax contribution of $30.0 million ($0.05 per share) to the H.J. Heinz Company Foundation, a gain of $464.6 million pretax ($0.72 per share) on the sale of the *Weight Watchers* classroom business and the impact of the *Weight Watchers* classroom business of $32.8 million pretax ($0.05 per share).

The following tables provide a comparison of the company's reported results and the results excluding special items for Fiscal 2001 and Fiscal 2000.

	Fiscal Year (52 Weeks) Ended May 2, 2001				
(Dollars in millions, except per share amounts)	*Net Sales*	*Gross Profit*	*Operating Income*	*Net Income*	*Per Share*
Reported results	$9,430.4	$3,546.8	$ 982.4	$494.9*	$ 1.41*
Operation Excel restructuring	–	44.8	55.7	35.0	0.10
Operation Excel implementation costs	–	146.4	311.6	208.7	0.59
Operation Excel reversal	–	(46.3)	(78.8)	(60.9)	(0.17)
Streamline restructuring	–	176.6	276.2	211.6	0.60
Streamline implementation costs	–	16.0	22.6	18.8	0.06
Loss on sale of The All American Gourmet	–	–	94.6	66.2	0.19
Equity loss on investment in The Hain Celestial Group	–	–	–	3.5	0.01
Acquisition costs	–	–	18.5	11.7	0.03
Italian tax benefit	–	–	–	(93.2)	(0.27)
Results excluding special items	$9,430.4	$3,884.3	$1,682.7	$896.4	$ 2.55

* Before cumulative effect of accounting changes

	Fiscal Year (53 Weeks) Ended May 3, 2000				
(Dollars in millions, except per share amounts)	*Net Sales*	*Gross Profit*	*Operating Income*	*Net Income*	*Per Share*
Reported results	$9,407.9	$3,619.4	$1,733.1	$ 890.6	$ 2.47
Operation Excel restructuring	–	107.7	194.5	134.4	0.37
Operation Excel implementation costs	–	79.2	216.5	145.9	0.41
Operation Excel reversal	–	(16.4)	(18.2)	(12.9)	(0.04)
Ecuador expenses	–	20.0	20.0	20.0	0.05
Gain on U.K. building sale	–	–	–	(11.8)	(0.03)
Foundation contribution	–	–	30.0	18.9	0.05
Impact of Weight Watchers classroom business	(175.3)	(93.0)	(44.7)	(19.6)	(0.05)
Gain on sale of Weight Watchers classroom business	–	–	(464.6)	(259.7)	(0.72)
Results excluding special items	$9,232.7	$3,716.9	$1,666.5	$ 905.7	$ 2.52

(Note: Totals may not add due to rounding.)

Gross profit decreased $72.6 million to $3.55 billion from $3.62 billion in Fiscal 2000. The gross profit margin decreased to 37.6% from 38.5%. Excluding the special items identified above, gross profit increased $167.4 million, or 4.5%, to $3.88 billion from $3.72 billion, and the gross profit margin increased to 41.2% from 40.3%. Gross profit, across all major segments, was favorably impacted by savings from Operation Excel. Gross profit for the North American Grocery & Foodservice segment increased $67.7 million, or 4.2%, due primarily to acquisitions, partially offset by lower pricing of tuna and pet food and higher energy costs. North American Frozen's gross profit increased $41.4 million, or 8.6%, due to increased sales volume mainly attributable to *Boston Market HomeStyle Meals* and

higher selling prices, partially offset by higher energy costs. Europe's gross profit increased $78.0 million, or 7.2%, due primarily to a favorable profit mix and the acquisitions of CSM, UB and Remedia Limited. The unfavorable impact of foreign exchange translation rates reduced Europe's gross profit by approximately $99 million. The Asia/Pacific segment's gross profit decreased $34.3 million, or 7.7%, driven by the unfavorable impact of foreign exchange translation rates of approximately $48 million, partially offset by higher selling prices in Indonesia. Other Operating Entities' gross profit increased $6.3 million, or 6.5%, due primarily to higher pricing.

SG&A increased $213.5 million to $2.56 billion from $2.35 billion and increased as a percentage of sales to 27.2% from 25.0%. Excluding the special items identified above, SG&A increased $151.1 million to $2.20 billion from $2.05 billion and increased as a percentage of sales to 23.3% from 22.2%. Selling and distribution expenses increased $27.4 million to $768.2 million from $740.8 million, or 3.7%, primarily due to acquisitions and increased fuel costs in North America. Marketing increased $133.6 million, or 16.7%, primarily due to the UB acquisition and the national rollouts of *StarKist* Tuna in a pouch, *Boston Market* products, and the Stand Up Resealable Packaging for *Ore-Ida* frozen potatoes ("SURP").

Total marketing support (including trade and consumer promotions and media) decreased 5.0% to $2.22 billion from $2.34 billion on a sales increase of 2.1%. However, advertising costs to support our key brands increased 8.1%. (See Note 17 to the Consolidated Financial Statements.)

Operating income decreased $750.7 million, or 43.3%, to $0.98 billion from $1.73 billion last year. Excluding the special items identified above, operating income increased $16.3 million, or 1.0%, to $1.68 billion from $1.67 billion last year. Operating income, across all major segments, was favorably impacted by savings from Operation Excel. Domestic operations provided approximately 37% and 59% of operating income in Fiscal 2001 and Fiscal 2000, respectively. Excluding the special items in both years, domestic operations provided approximately 50% and 54% of operating income in Fiscal 2001 and Fiscal 2000, respectively.

The North American Grocery & Foodservice segment's operating income decreased $207.4 million, or 29.9%, to $487.0 million from $694.4 million last year. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $0.9 million, or 0.1%, to $876.2 million from $875.3 million last year, due primarily to the strong performance of ketchup, condiments and sauces and the acquisitions of Quality Chef, Yoshida and IDF Holdings, Inc. ("IDF") offset by lower seafood volumes, a significant decrease in the selling price of tuna and higher energy costs.

The North American Frozen segment's operating income decreased $68.1 million to $84.0 million from $152.0 million last year. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $20.5 million, or 11.3%, to $202.0 million from $181.5 million last year. This increase is mainly attributable to increased sales of *Smart Ones* frozen entrées, *Boston Market* frozen meals and *Bagel Bites* snacks, partially offset by marketing spending behind the national rollouts of *Boston Market* products, the SURP and higher energy costs.

Europe's operating income increased $24.4 million, or 6.7%, to $388.6 million from $364.2 million. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $15.7 million, or 3.1%, to $518.0 million from $502.3 million last year, due primarily to increased sales of seafood and beans and the UB acquisition, partially offset by competitive pricing and trade destocking in the company's European infant foods business. The unfavorable impact of foreign exchange translation rates reduced Europe's operating income by approximately $45 million.

Asia/Pacific's operating income decreased $28.0 million, or 22.6%, to $96.1 million from $124.1 million last year. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income decreased $29.9 million, or 16.8%, to $147.6 million from $177.5 million last year. Solid performances from Indonesia, Greater China and the poultry business were offset by reduced sales in New Zealand, Japan and India. The unfavorable impact of foreign exchange translation rates reduced Asia/Pacific's operating income by approximately $17 million.

Other Operating Entities reported a decrease in operating income of $490.9 million to $49.3 million from $540.2 million last year. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $5.7 million, or 17.7%, to $38.0 million from $32.3 million last year.

Other expense, net totaled $309.3 million compared to $269.4 million last year. The increase is primarily due to an increase in interest expense resulting from higher average borrowings and higher interest rates partially offset by gains from foreign currency contracts.

The effective tax rate for Fiscal 2001 was 26.5% compared to 39.2% last year. The current year's rate includes a benefit of $93.2 million, or $0.27 per share, from tax planning and new tax legislation in Italy, partially offset by restructuring expenses in lower rate jurisdictions. The Fiscal 2000 rate was negatively impacted by a higher rate on the sale of the *Weight Watchers* classroom business, resulting from an excess of basis in assets for financial reporting over the tax basis in assets, and by higher state taxes related to the sale and more restructuring expenses in lower rate jurisdictions. Excluding the special items identified in the tables above, the effective tax rate was 35.0% in both years.

Net income decreased $412.5 million to $478.0 million from $890.6 million last year, and earnings per share decreased to $1.36 from $2.47. In Fiscal 2001, the company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" (see Note 1 to the Consolidated Financial Statements). The cumulative effect of adopting SAB No. 101 was $16.5 million ($0.05 per share). Excluding the special items noted above and the prescribed accounting change, net income decreased 1.0% to $896.4 million from $905.7 million, and earnings per share increased 1.2% to $2.55 from $2.52 last year.

The impact of fluctuating exchange rates for Fiscal 2001 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

2000 versus 1999: Sales for Fiscal 2000 increased $108.3 million, or 1.2%, to $9.41 billion from $9.30 billion in Fiscal 1999. Volume increased sales by $349.7 million, or 3.8%, and acquisitions increased sales by $438.2 million, or 4.7%. Divestitures reduced sales by $407.4 million, or 4.4%, lower pricing reduced sales by $161.2 million, or 1.7%, and the unfavorable impact of foreign exchange translation rates reduced sales by $111.0 million, or 1.2%. Domestic operations contributed approximately 52% of consolidated sales in Fiscal 2000 and 53% in Fiscal 1999.

Sales of the North American Grocery & Foodservice segment increased $61.4 million, or 1.5%. Sales volume increased 3.1%, due to increases in ketchup, condiments and sauces, foodservice, tuna and canned soup, partially offset by a decrease in canned pet food. Acquisitions, net of divestitures, increased sales 0.4%, and a stronger Canadian dollar increased sales 0.3%. Lower pricing reduced sales by 2.3%, due mainly to decreases in tuna and retail ketchup.

The North American Frozen segment's sales increased $9.5 million, or 0.9%. Sales volume increased 5.9%, driven by *Smart Ones* frozen entrées, *Boston Market* frozen meals and *Bagel Bites* snacks, partially offset by a decrease in *The Budget Gourmet* line of frozen entrées. The divestiture of several non-core product lines, net of acquisitions, reduced sales 3.4%. Lower pricing reduced sales 1.6%, primarily due to frozen potatoes.

Sales in Europe increased $123.0 million, or 5.0%. Acquisitions, net of divestitures, increased sales 8.6%, due primarily to the acquisitions of United Biscuit's European Frozen and Chilled Division, Remedia Limited (infant feeding), Sonnen Bassermann (convenience meals) and Serv-A-Portion (foodservice). Sales volume increased 3.4%, due to increases in tuna, infant foods and ketchup, condiments and sauces. The unfavorable impact of foreign exchange translation rates reduced sales 5.8% and lower pricing, primarily in tuna, reduced sales 1.2%.

Sales in Asia/Pacific increased $184.3 million, or 18.2%. Acquisitions, primarily *ABC* Sauces in Indonesia, increased sales 11.8%. Sales volume increased 4.5%, due to increases in infant foods, poultry and convenience meals. The favorable impact of foreign exchange translation rates increased sales 2.4%, primarily due to sales in Japan. Lower pricing reduced sales 0.5%.

Sales of Other Operating Entities decreased $269.9 million, or 36.0%. Divestitures reduced sales 38.0%, primarily due to the second quarter divestiture of the *Weight Watchers* classroom business and the Fiscal 1999 divestiture of the bakery products unit. Lower pricing reduced sales 1.9%, and foreign exchange translation rates reduced sales 0.6%. Sales volume increased 4.5%.

The following tables provide a comparison of the company's reported results and the results excluding special items for Fiscal 2000 and Fiscal 1999 as reported in the company's annual report for the year ended May 3, 2000. The Fiscal 2000 results have not been adjusted for the impact of the *Weight Watchers* classroom business for comparative purposes.

	Fiscal Year (53 Weeks) Ended May 3, 2000				
(Dollars in millions, except per share amounts)	*Net Sales*	*Gross Profit*	*Operating Income*	*Net Income*	*Per Share*
Reported results	$9,407.9	$3,619.4	$1,733.1	$ 890.6	$ 2.47
Operation Excel restructuring	–	107.7	194.5	134.4	0.37
Operation Excel implementation costs	–	79.2	216.5	145.9	0.41
Operation Excel reversal	–	(16.4)	(18.2)	(12.9)	(0.04)
Ecuador expenses	–	20.0	20.0	20.0	0.05
Gain on U.K. building sale	–	–	–	(11.8)	(0.03)
Foundation contribution	–	–	30.0	18.9	0.05
Gain on sale of Weight Watchers classroom business	–	–	(464.6)	(259.7)	(0.72)
Results excluding special items	$9,407.9	$3,809.9	$1,711.2	$ 925.3	$ 2.57

	Fiscal Year (52 Weeks) Ended April 28, 1999				
(Dollars in millions, except per share amounts)	*Net Sales*	*Gross Profit*	*Operating Income*	*Net Income*	*Per Share*
Reported results	$9,299.6	$3,354.7	$1,109.3	$474.3	$ 1.29
Operation Excel restructuring and implementation costs	–	396.4	552.8	409.7	1.11
Project Millennia implementation costs	–	14.7	22.3	14.3	0.04
Project Millennia reversal	–	(20.7)	(25.7)	(16.4)	(0.04)
(Gain)/loss on sale of bakery products unit	–	–	(5.7)	0.6	–
Results excluding special items	$9,299.6	$3,745.1	$1,653.0	$882.4	$ 2.40

(Note: Totals may not add due to rounding.)

Gross profit increased $264.7 million to $3.62 billion from $3.35 billion in Fiscal 1999. The gross profit margin increased to 38.5% from 36.1%. Excluding the special items identified above, gross profit increased $64.7 million, or 1.7%, to $3.81 billion from $3.75 billion and the gross profit margin increased to 40.5% from 40.3%. Gross profit for the North American Grocery & Foodservice segment increased $52.5 million, or 3.4%, due to increases at Heinz U.S.A. and Heinz Canada, partially offset by a significant decrease in the selling price of tuna at Star-Kist. North American Frozen's gross profit decreased slightly by $2.0 million, or 0.4%, as increased sales volume was offset by lower pricing and the elimination of several non-core product lines. Europe's gross profit increased $62.0 million, or 6.1%, due primarily to a favorable profit mix, and the acquisitions of United Biscuit's European Frozen and Chilled Division, Remedia Limited, Sonnen Bassermann and Serv-A-Portion. The unfavorable impact of foreign exchange translation rates reduced Europe's gross profit by approximately $65 million. The Asia/Pacific segment's gross profit increased $84.4 million, or 23.4%, driven by the acquisition of *ABC* Sauces in Indonesia, improved performances throughout the segment, and the favorable impact of foreign exchange translation rates in Japan. Other Operating Entities' gross profit decreased $130.4 million, or 40.6%, due primarily to the second quarter divestiture of the *Weight Watchers* classroom business and the Fiscal 1999 divestiture of the bakery products unit.

SG&A increased $105.5 million to $2.35 billion from $2.25 billion and increased as a percentage of sales to 25.0% from 24.1%. Excluding the special items identified above, SG&A increased $6.5 million to $2.10 billion from $2.09 billion and decreased as a percentage of sales to 22.3% from 22.5%. Increased selling and distribution expenses, primarily in Asia/Pacific and Europe, resulting from acquisitions, were offset by decreases in marketing and general and administrative expenses. Marketing decreased $11.2 million, or 1.3%, primarily due to the second quarter divestiture of the *Weight Watchers* classroom business. Excluding the *Weight Watchers* classroom business, marketing expense increased 6.5%. Marketing increases were noted in all major segments.

Total marketing support (including trade and consumer promotions and media) increased 6.6% to $2.37 billion from $2.22 billion on a sales increase of 1.2%. Excluding the *Weight Watchers* classroom business, total marketing support increased 9.6%. Advertising costs in Fiscal 2000 were $374.0 million compared to $373.9 million in Fiscal 1999. Excluding the *Weight Watchers* classroom business in both periods, advertising costs increased 9.3%.

Operating income increased $623.8 million, or 56.2%, to $1.73 billion from $1.11 billion in Fiscal 1999. Excluding the special items identified above, operating income increased $58.2 million, or 3.5%, to $1.71 billion from $1.65 billion in Fiscal 1999. Removing the impact of the *Weight Watchers* classroom business in both periods, operating income increased 6.6%. Domestic operations provided approximately 59% and 57% of operating income in Fiscal 2000 and Fiscal 1999, respectively. Excluding the special items in both years, domestic operations provided approximately 54% and 55% of operating income in Fiscal 2000 and Fiscal 1999, respectively.

The North American Grocery & Foodservice segment's operating income decreased $22.5 million, or 3.1%, to $694.4 million from $717.0 million in Fiscal 1999. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $40.6 million, or 4.9%, to $875.3 million from $834.6 million in Fiscal 1999. The strong performance of Heinz U.S.A., improvements in Heinz Canada and the pet food business and savings from Operation Excel were partially offset by a significant decrease in the selling price of tuna at Star-Kist.

The North American Frozen segment's operating income increased $71.8 million to $152.0 million from $80.2 million in Fiscal 1999. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income decreased $1.9 million, or 1.0%, to $181.5 million from $183.4 million in Fiscal 1999. This decrease is attributable to higher marketing expenses as a result of the national campaign in support of *Boston Market* and lower pricing on *Ore-Ida* frozen potatoes, offset by a reduction in SG&A resulting from the domestic consolidation of the frozen business as part of Operation Excel.

Europe's operating income increased $118.0 million, or 47.9%, to $364.2 million from $246.2 million. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $35.1 million, or 7.5%, to $502.3 million from $467.2 million in Fiscal 1999, due primarily to a favorable profit mix, savings from Operation Excel and the acquisitions of United Biscuit's European Frozen and Chilled Division, Remedia Limited and Serv-A-Portion. The unfavorable impact of foreign exchange translation rates reduced Europe's operating income by approximately $26 million.

Asia/Pacific's operating income increased $34.3 million, or 38.2%, to $124.1 million from $89.8 million in Fiscal 1999. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income increased $31.8 million, or 21.8%, to $177.5 million from $145.7 million in Fiscal 1999. This increase is attributable to the acquisition of *ABC* Sauces in Indonesia and solid performances from Japan, India and the poultry business.

Other Operating Entities reported an increase in operating income of $444.4 million to $540.2 million from $95.7 million in Fiscal 1999. Excluding the special items noted above (see Note 14 to the Consolidated Financial Statements), operating income decreased $44.9 million, or 36.9%, to $77.0 million from $122.0 million in Fiscal 1999. This decrease is primarily attributable to the second quarter divestiture of the *Weight Watchers* classroom business.

Other expenses, net totaled $269.4 million compared to $274.2 million in Fiscal 1999. The decrease is primarily due to a gain on the sale of an office building in the U.K. of $18.2 million pretax ($0.03 per share) partially offset by an increase in interest expense resulting from higher average borrowings and interest rates.

The effective tax rate for Fiscal 2000 was 39.2% compared to 43.2% in Fiscal 1999. The Fiscal 2000 effective tax rate was unfavorably impacted by the excess of basis in assets for financial reporting over the tax basis of assets included in the *Weight Watchers* sale and by gains in higher taxed states related to the sale. The Fiscal 2000 and 1999 effective tax rates were unfavorably impacted by restructuring and implementation costs expected to be realized in lower tax rate jurisdictions and by nondeductible expenses related to the restructuring. Excluding the special items identified in the tables above, the effective tax rate for Fiscal 2000 was 35.0% compared to 36.0% in Fiscal 1999.

Net income increased $416.2 million to $890.6 million from $474.3 million in Fiscal 1999, and earnings per share increased to $2.47 from $1.29. Excluding the special items noted above, net income increased 4.9% to $925.3 million from $882.4 million, and earnings per share increased 7.1% to $2.57 from $2.40 in Fiscal 1999. Removing the impact of the *Weight Watchers* classroom business in both years, earnings per share increased 9.6% and net income increased 7.1%.

The impact of fluctuating exchange rates for Fiscal 2000 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

Liquidity and Financial Position

Return on average shareholders' equity ("ROE") was 32.2% in Fiscal 2001, 52.4% in Fiscal 2000 and 23.6% in Fiscal 1999. Excluding the special items identified above, ROE was 60.4% in Fiscal 2001, 54.4% in Fiscal 2000 and 43.9% in Fiscal 1999. Pretax return on average invested capital ("ROIC") was 16.4% in Fiscal 2001, 31.4% in Fiscal 2000 and 20.4% in Fiscal 1999. Excluding the special items identified above, ROIC was 28.2% in Fiscal 2001, 30.6% in Fiscal 2000 and 30.7% in Fiscal 1999.

Cash provided by operating activities decreased to $506.3 million in Fiscal 2001, compared to $543.1 million in Fiscal 2000 and $910.1 million in Fiscal 1999. The decrease in Fiscal 2001 versus Fiscal 2000 is primarily due to increased expenditures on Streamline, Operation Excel and foreign income taxes. During Fiscal 2001, the company paid approximately $221 million in foreign income taxes related to the Fiscal 2000 reorganization of its foreign operations. Because the company realized an increase in tax basis of amortizable assets at the same time, the company expects the reorganization will result in aggregate net positive cash flow. These decreases were partially offset by a reduction of inventory levels at certain locations that increased during Fiscal 2000 in order to facilitate the plant shutdowns and reconfigurations related to Operation Excel.

Cash used for investing activities was $774.2 million in Fiscal 2001 compared to $268.7 million in Fiscal 2000. Acquisitions in the current year required $673.0 million versus $394.4 million last year. Current year acquisitions included CSM, IDF, Alden Merrell and other smaller acquisitions. Fiscal 2000 acquisitions included UB, Yoshida, Thermo-Pac, Inc., Remedia Limited in Israel and other smaller acquisitions. (See Note 2 to the Consolidated Financial Statements.) Also during the current year, the company exercised its preemptive right to purchase additional equity in The Hain Celestial Group, Inc., formerly The Hain Food Group, Inc., to restore Heinz's investment level to approximately 19.5% of the outstanding stock of Hain, for $79.7 million. Last year, the company invested $99.8 million in The Hain Celestial Group, Inc. Divestitures provided $151.1 million, primarily from the sale of The All American Gourmet business and can making assets. In Fiscal 2000, divestitures provided $726.5 million, primarily from the sale of the *Weight Watchers* classroom business.

Capital expenditures totaled $411.3 million compared to $452.4 million last year. The decrease is attributable to a reduction in Operation Excel related capital expenditures. This year's capital expenditures were concentrated in North American Grocery & Foodservice and Europe. Last year's capital expenditures were concentrated across all major segments. Proceeds from disposals of property, plant and equipment increased to $257.0 million in Fiscal 2001 compared to $45.5 million in Fiscal 2000. The current year increase was primarily due to the sale of equipment which was then utilized under operating lease arrangements.

Purchases and sales/maturities of short-term investments increased in Fiscal 2001. The company periodically sells a portion of its short-term investment portfolio in order to reduce its borrowings.

In Fiscal 2001, financing activities provided $283.1 million. Financing activities required $259.2 million and $515.5 million in Fiscals 2000 and 1999, respectively. Cash used for dividends to shareholders increased $23.5 million to $537.3 million from $513.8 million last year. Purchases of treasury stock totaled $90.1 million (2.3 million shares) in Fiscal 2001, compared to $511.5 million (12.8 million shares) in Fiscal 2000. Net funds borrowed were $807.6 million in Fiscal 2001 compared to $739.1 million in Fiscal 2000. Cash provided from stock options exercised totaled $93.9 million in Fiscal 2001 versus $20.0 million in Fiscal 2000.

The average amount of short-term debt outstanding (excluding domestic commercial paper) during Fiscal 2001, Fiscal 2000 and Fiscal 1999 was $202.6 million, $315.5 million, and $453.9 million, respectively. Total short-term debt had a weighted-average interest rate during Fiscal 2001 of 8.03% and at year-end of 7.00%. The weighted-average interest rate on short-term debt during Fiscal 2000 was 6.2% and at year-end was 6.5%.

Aggregate domestic commercial paper had a weighted-average interest rate during Fiscal 2001 of 6.3% and at year-end of 4.9%. In Fiscal 2000, the weighted-average interest rate was 5.5% and the rate at year-end was 6.2%. Based upon the amount of commercial paper outstanding at May 3, 2001, a variance of ⅛% in the related interest rate would cause annual interest expense to change by approximately $1.7 million.

The company's $2.30 billion credit agreement, which expires in September 2001, supports its commercial paper program. As of May 2, 2001, $1.34 billion of domestic commercial paper is classified as short-term debt due to the short-term nature of the supporting credit agreement. The company is currently negotiating the renewal of the credit agreement and expects that it will be renewed by August 2001. As of May 3, 2000, the company had $2.08 billion of domestic commercial paper outstanding and classified as long-term debt.

On November 6, 2000, the company issued $1.0 billion of remarketable securities due November 2020. The proceeds were used to repay domestic commercial paper. The securities have a coupon rate of 6.82% until November 15, 2001. The securities are subject to mandatory tender by all holders to the remarketing dealer on November 15, 2001 and each November 15 thereafter, and the interest rate will be reset on such dates. The company received a premium from the remarketing dealer for the right to require the mandatory tender of the securities. The amortization of the premium results in an effective interest rate of 5.82%. If the remarketing dealer does not elect to exercise its right to a mandatory tender of the securities or otherwise does not purchase all of the securities on the remarketing date, then the company is required to repurchase all of the securities on the remarketing date at 100% of the principal amount plus accrued interest. On June 11, 2001, the remarketing dealer gave the company notice that the remarketing dealer will exercise its right to a mandatory tender of the securities and will purchase all of the securities on November 15, 2001. Accordingly, the remarketable securities will remain outstanding until at least November 15, 2002 and are classified as long-term debt.

On April 10, 2001, the company issued €450 million of 5.125% Guaranteed Notes due 2006. The proceeds were used for general corporate purposes, including repaying borrowings that were incurred in connection with the acquisition of CSM.

On September 12, 2000, the company's Board of Directors raised the quarterly dividend on the company's common stock to $0.3925 per share from $0.3675 per share, for an indicated annual rate of $1.57 per share. The company paid $537.3 million in dividends to both common and preferred shareholders, an increase of $23.5 million, or 4.6%, over Fiscal 2000. The dividend rate in effect at the end of each year resulted in a payout ratio of 115.4% in Fiscal 2001, 59.5% in Fiscal 2000 and 106.2% in Fiscal 1999. Excluding the impact of special items in all years, the payout ratio was 61.6% in Fiscal 2001, 57.2% in Fiscal 2000 and 57.1% in Fiscal 1999.

In Fiscal 2001, the company repurchased 2.3 million shares of common stock, or 0.7% of the amount outstanding at the beginning of Fiscal 2001, at a cost of $90.1 million, compared to the repurchase of 12.8 million shares at a cost of $511.5 million in Fiscal 2000. On June 9, 1999, the Board of Directors authorized the repurchase of up to 20.0 million shares. As of May 2, 2001, the company had repurchased 14.4 million shares of this current 20.0 million share program. The company may reissue repurchased shares upon the exercise of stock options, conversions of preferred stock and for general corporate purposes.

In Fiscal 2001, the cash requirements of Streamline were $31.7 million, consisting of spending for severance and exit costs ($8.9 million), capital expenditures ($0.3 million) and implementation costs ($22.6 million). The cash requirements of Operation Excel were $537.4 million, consisting of spending for severance and exit costs ($76.8 million), capital expenditures ($149.0 million) and implementation costs ($311.6 million). In Fiscal 2000, the cash requirements of Operation Excel were $479.4 million, consisting of spending for severance and exit costs ($89.3 million), capital expenditures ($173.6 million) and implementation costs ($216.5 million). In Fiscal 1999, the cash requirements of Operation Excel were $75.6 million, consisting of spending for severance and exit costs ($16.6 million), capital expenditures ($5.8 million) and implementation costs ($53.2 million).

In Fiscal 2002, the company expects the cash requirements of Streamline to be approximately $130 million, consisting of severance and exit costs ($120 million of the $121.5 million accrued as of May 2, 2001), capital expenditures ($5 million) and implementation costs ($5 million). In Fiscal 2002, the company expects the cash requirements of Operation Excel to be approximately $19 million, consisting of spending for severance and exit costs ($10 million of the $13.1 million accrued as of May 2, 2001) and capital expenditures ($9 million). The company is financing the cash requirements of these programs through operations, proceeds from the sale of non-strategic assets and with short-term and long-term borrowings. The cash requirements of these programs have not had and are not expected to have a material adverse impact on the company's liquidity or financial position.

During 1995, the company participated in the formation of a business ("the entity") which purchases a portion of the trade receivables generated by the company. The company sells receivables to Jameson, Inc., a wholly owned subsidiary, which then sells undivided interests in the receivables to the entity. Outside investors contributed $95.4 million in capital to the entity. The company consolidates the entity, and the capital contributed by outside investors is classified as minority interest ("other long-term liabilities") on the Consolidated Balance Sheets.

In September 2000, the FASB Emerging Issues Task Force (the "EITF") issued new guidelines entitled "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products," which address the income statement classification of consideration from a vendor to a retailer. These guidelines will be effective for the company beginning in the fourth quarter of Fiscal 2002. The implementation of these guidelines will require the company to make reclassifications between SG&A and sales, the amounts of which have not yet been determined.

In May 2000, the EITF issued new guidelines entitled "Accounting for Certain Sales Incentives" which addresses the recognition, measurement and income statement classification for certain sales incentives (e.g., coupons). These guidelines will be effective for the company beginning in the fourth quarter of Fiscal 2002. The implementation of these guidelines will require the company to make reclassifications between SG&A and sales, the amounts of which have not yet been determined.

The impact of inflation on both the company's financial position and results of operations is not expected to adversely affect Fiscal 2002 results. The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders. The company's goal is to achieve earnings per share of $2.70 to $2.80 for Fiscal 2002, at recent foreign exchange rates. Stronger performance is expected in the second half of the year resulting from the contribution of new brands and Streamline and Operation Excel savings.

Market Risk Factors

The following discussion about the company's risk-management activities includes "forward-looking" statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The company is exposed to market risks from adverse changes in foreign exchange rates, interest rates, commodity prices and production costs (including energy). As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

Foreign Exchange Rate Sensitivity: The company's cash flow and earnings are subject to fluctuations due to exchange rate variation. Foreign currency risk exists by nature of the company's global operations. The company manufactures and sells its products in a number of locations around the world, and hence foreign currency risk is diversified.

When appropriate, the company may attempt to limit its exposure to changing foreign exchange rates through both operational and financial market actions. These actions may include entering into forward, option and swap contracts to hedge existing exposures, firm commitments and anticipated transactions. The instruments are used to reduce risk by essentially creating offsetting currency exposures. As of May 2, 2001, the company held contracts for the purpose of hedging certain intercompany cash flows with an aggregate notional amount of approximately $440 million. In addition, the company held separate contracts in order to hedge purchases of certain raw materials and finished goods and for payments arising from certain foreign currency denominated obligations totaling approximately $305 million. The company also held contracts to hedge anticipated sales denominated in foreign currencies of $120 million. The company's contracts mature within one year of the fiscal year-end. Contracts that meet certain qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which do not qualify for hedge accounting are recorded in other income and expense. At May 2, 2001, unrealized gains and losses on outstanding foreign currency contracts are not material. As of May 2, 2001, the potential gain or loss in the fair value of the company's outstanding foreign currency contracts, assuming a hypothetical 10% fluctuation in the currencies of such contracts, would be approximately $10 million. However, it should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. In addition, this hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Substantially all of the company's foreign affiliates' financial instruments are denominated in their respective functional currencies. Accordingly, exposure to exchange risk on foreign currency financial instruments is not material. (See Note 12 to the Consolidated Financial Statements.)

Interest Rate Sensitivity: The company is exposed to changes in interest rates primarily as a result of its borrowing and investing activities used to maintain liquidity and fund business operations. The company continues to utilize commercial paper to fund working capital requirements. The company also borrows in different currencies from other sources to meet the borrowing needs of its foreign affiliates. The nature and amount of the company's long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The company may utilize interest rate swap agreements to manage interest rate exposure.

The following table summarizes the company's debt obligations at May 2, 2001. The interest rates represent weighted-average rates, with the period end rate used for the variable rate debt obligations. The fair value of the debt obligations approximated the recorded value as of May 2, 2001. (See Notes 6 and 12 to the Consolidated Financial Statements.)

	Expected Fiscal Year of Maturity						
(Dollars in thousands)	*2002*	*2003*	*2004*	*2005*	*2006*	*Thereafter*	*Total*
Fixed rate	$ 306,984	$458,168	$1,541	$308,934	$400,199	$1,742,660	$3,218,486
Average interest rate	7.00%	6.20%	8.06%	5.25%	5.13%	6.00%	
Variable rate	$1,563,850	$ 72,288	$5,420	$ 5,934	$ 6,047	$ 13,662	$1,667,201
Average interest rate	6.42%	6.42%	8.77%	8.77%	8.79%	6.23%	

Commodity Price Sensitivity: The company is the purchaser of certain commodities such as corn, wheat and soybean meal and oil. The company generally purchases these commodities based upon market prices that are established with the vendor as part of the purchase process. The company enters into commodity future or option contracts, as deemed appropriate, to reduce the effect of price fluctuations on anticipated purchases. Such contracts are accounted for as hedges, if they meet certain qualifying criteria, with the effective portion of gains and losses recognized as part of cost of products sold, and generally have a term of less than one year. As of May 2, 2001, unrealized gains and losses related to commodity contracts held by the company were not material nor would they be given a hypothetical 10% fluctuation in market prices. It should be noted that any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. (See Note 12 to the Consolidated Financial Statements.)

Stock Market Information

H.J. Heinz Company common stock is traded principally on The New York Stock Exchange and the Pacific Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 30, 2001 approximated 55,400. The closing price of the common stock on the New York Stock Exchange composite listing on May 2, 2001 was $39.28.

Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	*Low*
2001		
First	$45.50	$36.94
Second	43.13	35.44
Third	47.63	41.75
Fourth	45.09	37.72
2000		
First	$54.00	$45.75
Second	48.31	41.88
Third	48.25	36.63
Fourth	39.94	30.81

CONSOLIDATED STATEMENTS OF INCOME

H.J. Heinz Company and Subsidiaries

Fiscal year ended *(Dollars in thousands, except per share amounts)*	*May 2, 2001* *(52 Weeks)*	*May 3, 2000* *(53 Weeks)*	*April 28, 1999* *(52 Weeks)*
Sales	$9,430,422	$9,407,949	$9,299,610
Cost of products sold	5,883,618	5,788,525	5,944,867
Gross profit	3,546,804	3,619,424	3,354,743
Selling, general and administrative expenses	2,564,450	2,350,942	2,245,431
Gain on sale of Weight Watchers	–	464,617	–
Operating income	982,354	1,733,099	1,109,312
Interest income	22,692	25,330	25,082
Interest expense	332,957	269,748	258,813
Other (income)/expense, net	(969)	25,005	40,450
Income before income taxes and cumulative effect of accounting changes	673,058	1,463,676	835,131
Provision for income taxes	178,140	573,123	360,790
Income before cumulative effect of accounting changes	494,918	890,553	474,341
Cumulative effect of accounting changes	(16,906)	–	–
Net income	$ 478,012	$ 890,553	$ 474,341
PER COMMON SHARE AMOUNTS:			
Income before cumulative effect of accounting changes – diluted	$ 1.41	$ 2.47	$ 1.29
Income before cumulative effect of accounting changes – basic	$ 1.42	$ 2.51	$ 1.31
Net income – diluted	$ 1.36	$ 2.47	$ 1.29
Net income – basic	$ 1.37	$ 2.51	$ 1.31
Cash dividends	$ 1.545	$ 1.445	$ 1.3425
Average common shares outstanding – diluted	351,041,321	360,095,455	367,830,419
Average common shares outstanding – basic	347,758,281	355,272,696	361,203,539

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

H.J. Heinz Company and Subsidiaries

Assets (Dollars in thousands)	*May 2, 2001*	*May 3, 2000*
CURRENT ASSETS:		
Cash and cash equivalents	$ 138,849	$ 137,617
Short-term investments, at cost which approximates market	5,371	16,512
Receivables (net of allowances: 2001 – $15,075 and 2000 – $18,697)	1,383,550	1,237,804
Inventories:		
Finished goods and work-in-process	1,095,954	1,270,329
Packaging material and ingredients	312,007	329,577
	1,407,961	1,599,906
Prepaid expenses	157,801	171,599
Other current assets	23,282	6,511
Total current assets	3,116,814	3,169,949
PROPERTY, PLANT AND EQUIPMENT:		
Land	54,774	45,959
Buildings and leasehold improvements	878,028	860,873
Equipment, furniture and other	2,947,978	3,440,915
	3,880,780	4,347,747
Less accumulated depreciation	1,712,400	1,988,994
Total property, plant and equipment, net	2,168,380	2,358,753
OTHER NON-CURRENT ASSETS:		
Goodwill (net of amortization: 2001 – $334,907 and 2000 – $312,433)	2,077,451	1,609,672
Trademarks (net of amortization: 2001 – $118,254 and 2000 – $104,125)	567,692	674,279
Other intangibles (net of amortization: 2001 – $157,678 and 2000 – $147,343)	120,749	127,779
Other non-current assets	984,064	910,225
Total other non-current assets	3,749,956	3,321,955
Total assets	$9,035,150	$8,850,657

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (Dollars in thousands)	*May 2, 2001*	*May 3, 2000*
CURRENT LIABILITIES:		
Short-term debt	$1,555,869	$ 151,168
Portion of long-term debt due within one year	314,965	25,407
Accounts payable	962,497	1,026,960
Salaries and wages	54,036	48,646
Accrued marketing	146,138	200,775
Accrued restructuring costs	134,550	125,704
Other accrued liabilities	388,582	358,738
Income taxes	98,460	188,672
Total current liabilities	3,655,097	2,126,070
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	3,014,853	3,935,826
Deferred income taxes	253,690	271,831
Non-pension postretirement benefits	207,104	208,958
Other	530,679	712,116
Total long-term debt and other liabilities	4,006,326	5,128,731
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	126	139
Common stock, 431,096,485 shares issued, $0.25 par value	107,774	107,774
	107,900	107,913
Additional capital	331,633	304,318
Retained earnings	4,697,213	4,756,513
	5,136,746	5,168,744
Less:		
Treasury shares, at cost (82,147,565 shares at May 2, 2001 and 83,653,233 shares at May 3, 2000)	2,922,630	2,920,471
Unearned compensation relating to the ESOP	3,101	7,652
Accumulated other comprehensive loss	837,288	644,765
Total shareholders' equity	1,373,727	1,595,856
Total liabilities and shareholders' equity	$9,035,150	$8,850,657

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

H.J. Heinz Company and Subsidiaries

(Amounts in thousands, except per share amounts)	*Comprehensive Income*	*Preferred Stock*		*Common Stock*	
		Shares	*Dollars*	*Shares*	*Dollars*
Balance at April 29, 1998		20	$199	431,096	$107,774
Comprehensive income – 1999:					
Net income – 1999	$ 474,341				
Other comprehensive income (loss), net of tax:					
Minimum pension liability, net of $6,975 tax benefit	(11,880)				
Unrealized translation adjustments	(88,040)				
Comprehensive income	$ 374,421				
Cash dividends: Preferred @ $1.70 per share					
Common @ $1.3425 per share					
Shares reacquired					
Conversion of preferred into common stock		(3)	(26)		
Stock options exercised, net of shares tendered for payment					
Unearned compensation relating to the ESOP					
Other, net					
Balance at April 28, 1999		17	173	431,096	107,774
Comprehensive income – 2000:					
Net income – 2000	$ 890,553				
Other comprehensive income (loss), net of tax:					
Minimum pension liability, net of $10,894 tax expense	18,548				
Unrealized translation adjustments	(154,962)				
Realized translation reclassification adjustment	7,246				
Comprehensive income	$ 761,385				
Cash dividends: Preferred @ $1.70 per share					
Common @ $1.445 per share					
Shares reacquired					
Conversion of preferred into common stock		(3)	(34)		
Stock options exercised, net of shares tendered for payment					
Unearned compensation relating to the ESOP					
Other, net*					
Balance at May 3, 2000		14	139	431,096	107,774
Comprehensive income – 2001:					
Net income – 2001	$ 478,012				
Other comprehensive income (loss), net of tax:					
Minimum pension liability, net of $6,995 tax benefit	(11,909)				
Unrealized translation adjustments	(179,476)				
Cumulative effect of change in accounting for derivatives	(64)				
Net change in fair value of cash flow hedges	(1,669)				
Net hedging losses reclassified into earnings	595				
Comprehensive income	$ 285,489				
Cash dividends: Preferred @ $1.70 per share					
Common @ $1.545 per share					
Shares reacquired					
Conversion of preferred into common stock		(1)	(13)		
Stock options exercised, net of shares tendered for payment					
Unearned compensation relating to the ESOP					
Other, net*					
Balance at May 2, 2001		13	$126	431,096	$107,774
Authorized Shares – May 2, 2001		13		600,000	

See Notes to Consolidated Financial Statements.

* Includes activity of the Global Stock Purchase Plan.

Additional Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Dollars	Unearned Compensation Relating to the ESOP	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
$252,773	$4,390,248	(67,679)	$(2,103,979)	$(14,822)	$(415,677)	$2,216,516
	474,341					474,341
					(99,920)	(99,920)
	(30)					(30)
	(484,817)					(484,817)
		(7,464)	(410,103)			(410,103)
(846)		34	872			–
25,658†		3,138	78,150			103,808
				3,094		3,094
67		2	48			115
277,652	4,379,742	(71,969)	(2,435,012)	(11,728)	(515,597)	1,803,004
	890,553					890,553
					(129,168)	(129,168)
	(26)					(26)
	(513,756)					(513,756)
		(12,766)	(511,480)			(511,480)
(1,136)		46	1,170			–
26,830†		833	19,681			46,511
				4,076		4,076
972		203	5,170			6,142
304,318	4,756,513	(83,653)	(2,920,471)	(7,652)	(644,765)	1,595,856
	478,012					478,012
					(192,523)	(192,523)
	(22)					(22)
	(537,290)					(537,290)
		(2,325)	(90,134)			(90,134)
(446)		18	459			–
25,787†		3,389	76,737			102,524
				4,551		4,551
1,974		423	10,779			12,753
$331,633	$4,697,213	(82,148)	$(2,922,630)	$ (3,101)	$(837,288)‡	$1,373,727

† Includes income tax benefit resulting from exercised stock options.

‡ Comprised of unrealized translation adjustment of $(806,380), minimum pension liability of $(29,770) and deferred net losses on derivative financial instruments $(1,138).

CONSOLIDATED STATEMENTS OF CASH FLOWS

H.J. Heinz Company and Subsidiaries

Fiscal year ended	*May 2, 2001*	*May 3, 2000*	*April 28, 1999*
(Dollars in thousands)	*(52 Weeks)*	*(53 Weeks)*	*(52 Weeks)*
OPERATING ACTIVITIES:			
Net income	$ 478,012	$ 890,553	$ 474,341
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	213,968	219,255	207,852
Amortization	85,198	87,228	94,360
Deferred tax provision	67,468	28,331	23,564
Loss on sale of The All American Gourmet business	94,600	–	–
Gain on sale of Weight Watchers	–	(464,617)	–
Gain on sale of bakery products unit	–	–	(5,717)
Cumulative effect of changes in accounting principle	16,906	–	–
Benefit from tax planning and new tax legislation in Italy	(93,150)	–	–
Provision for restructuring	587,234	392,720	527,107
Other items, net	(79,415)	48,905	(43,147)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	(119,433)	(123,994)	(88,742)
Inventories	209,428	(217,127)	(115,743)
Prepaid expenses and other current assets	(11,017)	(23,296)	2,604
Accounts payable	(69,754)	111,976	3,410
Accrued liabilities	(553,268)	(372,999)	(150,533)
Income taxes	(320,432)	(33,860)	(19,220)
Cash provided by operating activities	506,345	543,075	910,136
INVESTING ACTIVITIES:			
Capital expenditures	(411,299)	(452,444)	(316,723)
Proceeds from disposals of property, plant and equipment	257,049	45,472	33,229
Acquisitions, net of cash acquired	(672,958)	(394,418)	(268,951)
Proceeds from divestitures	151,112	726,493	180,400
Purchases of short-term investments	(1,484,201)	(1,175,538)	(915,596)
Sales and maturities of short-term investments	1,493,091	1,119,809	883,945
Investment in The Hain Celestial Group, Inc.	(79,743)	(99,764)	–
Other items, net	(27,210)	(38,284)	13,167
Cash used for investing activities	(774,159)	(268,674)	(390,529)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	1,536,744	834,328	259,593
Payments on long-term debt	(48,321)	(627,498)	(65,744)
(Payments on) proceeds from commercial paper and short-term borrowings, net	(680,858)	532,305	74,464
Dividends	(537,312)	(513,782)	(484,847)
Purchase of treasury stock	(90,134)	(511,480)	(410,103)
Exercise of stock options	93,901	20,027	77,158
Other items, net	9,077	6,937	33,989
Cash provided by (used for) financing activities	283,097	(259,163)	(515,490)
Effect of exchange rate changes on cash and cash equivalents	(14,051)	6,397	15,565
Net increase in cash and cash equivalents	1,232	21,635	19,682
Cash and cash equivalents at beginning of year	137,617	115,982	96,300
Cash and cash equivalents at end of year	$ 138,849	$ 137,617	$ 115,982

See Notes to Consolidated Financial Statements.

1. Significant Accounting Policies

Fiscal Year: H.J. Heinz Company (the "company") operates on a 52- or 53-week fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended May 2, 2001, May 3, 2000 and April 28, 1999.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions were eliminated. Investments owned less than 50%, where significant influence exists, are accounted for on an equity basis. Certain prior-year amounts have been reclassified in order to conform with the Fiscal 2001 presentation.

Use of Estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 these estimates.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Intangibles: Goodwill, trademarks and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods ranging from three to 40 years. The company regularly reviews the individual components of the balances by evaluating the future cash flows of the businesses to determine the recoverability of the assets and recognizes, on a current basis, any diminution in value.

Revenue Recognition: The company recognizes revenue when title, ownership and risk of loss pass to the customer. See *Recently Adopted Accounting Standards* for additional information.

Advertising Expenses: Advertising costs are generally expensed in the year in which the advertising first takes place.

Income Taxes: Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practicable. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes. In cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

Stock-Based Employee Compensation Plans: Stock-based compensation is accounted for by using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Financial Instruments: The company uses derivative financial instruments for the purpose of hedging currency, price and interest rate exposures which exist as part of ongoing business operations. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes. See *Recently Adopted Accounting Standards* for additional information.

The cash flows related to financial instruments are classified in the Statements of Cash Flows in a manner consistent with those of the transactions being hedged.

Recently Adopted Accounting Standards: On February 1, 2001, the company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Financial Instruments and Hedging Activities," and its related amendment, Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("SFAS No. 133").

SFAS No. 133 requires that all derivative financial instruments be recorded on the consolidated balance sheet at their fair value as either assets or liabilities. Changes in the fair value of derivatives are recorded each period in earnings or accumulated other comprehensive loss, depending on whether the derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses reported in accumulated other comprehensive loss are included in earnings in the periods in which earnings are affected by the hedged item. Such gains and losses are reported by the company on the same line as the underlying hedged item. Gains and losses which represent hedge ineffectiveness are reported by the company as other income and expense in the period of change.

Prior to the adoption of SFAS No. 133, the company accounted for derivative financial instruments that qualified as hedges by recording deferred gains or losses from such instruments as assets or liabilities and recognizing them as part of the cost basis of the underlying hedged transaction. Realized and unrealized gains and losses from financial instruments that did not qualify as hedges were recognized immediately in earnings as other income and expense.

On February 1, 2001, the adoption of SFAS No. 133 resulted in a cumulative effect of an accounting change that reduced net income by $0.4 million and increased accumulated other comprehensive loss by $0.1 million.

See Footnote 12 for additional information on the company's hedging activities.

In Fiscal 2001, the company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." Under the new accounting method, adopted retroactive to May 4, 2000, Heinz recognizes revenue upon the passage of title, ownership and risk of loss to the customer. The cumulative effect of the change on prior years resulted in a charge to income of $16.5 million (net of income taxes of $10.2 million), which has been included in net income for the year ended May 3, 2000. The change did not have a significant effect on revenues or results of operations for the year ended May 2, 2001. The pro forma amounts, assuming that the new revenue recognition method had been applied retroactively to prior periods, were not materially different from the amounts shown in the Consolidated Statements of Income for the years ended May 3, 2000 and April 28, 1999. Therefore, these amounts have not been presented.

Recently Issued Accounting Standards: In May 2000, the FASB Emerging Issues Task Force (the "EITF") issued new guidelines entitled "Accounting for Certain Sales Incentives" which address the recognition, measurement and income statement classification for certain sales incentives (e.g., coupons). These guidelines will be effective for the company beginning in the fourth quarter of Fiscal 2002. The implementation of these guidelines will require the company to make reclassifications between selling, general and administrative expenses ("SG&A") and sales, the amounts of which have not yet been determined.

In September 2000, the EITF issued new guidelines entitled "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products," which address the income statement classification of consideration from a vendor to a retailer. These guidelines will be effective for the company beginning in the fourth quarter of Fiscal 2002. The implementation of these guidelines will require the company to make reclassifications between SG&A and sales, the amounts of which have not yet been determined.

2. Acquisitions

All of the following acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward. Pro forma results of the company, assuming all of the following acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

Fiscal 2001: The company acquired businesses for a total of $678.4 million, including obligations to sellers of $5.5 million. The preliminary allocations of the purchase price resulted in goodwill of $571.3 million and trademarks and other intangible assets of $14.3 million, which are being amortized on a straight-line basis over periods not exceeding 40 years. The final allocation is subject to valuation and other studies that have not been completed.

On February 28, 2001, the company completed the acquisition of the CSM Food Division of CSM Nederland NV, one of the leading food companies in the Benelux (Belgium, the Netherlands, Luxembourg) region which includes the following brands: *Honig* brand of soups, sauces and pasta meals; *HAK* brand vegetables packed in glass; *KDR (Koninklijke de Ruijter)* brand sport drinks and fortified juices; and *KDR* brand spreads and sprinkles, which are traditional toppings for breakfast breads and toasts.

On March 1, 2001, the company acquired two privately held U.S. foodservice companies: Cornucopia, Inc. of Irvine, California, and Central Commissary, Inc. of Phoenix, Arizona. Both companies make and market refrigerated and frozen reciped food products. Also during Fiscal 2001, the company completed the acquisitions of IDF Holdings, Inc., the parent of International DiverseFoods Inc., a leading manufacturer of customized dressings, sauces, mixes and condiments for restaurant chains and foodservice distributors, and Alden Merrell Corporation, a manufacturer of high-quality, premium-priced frozen desserts for casual dining restaurants and foodservice distributors. The company also made other smaller acquisitions.

Fiscal 2000: The company acquired businesses for a total of $404.9 million, including obligations to sellers of $10.4 million. The allocations of the purchase price resulted in goodwill of $255.2 million and trademarks and other intangible assets of $39.7 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

On December 7, 1999, the company completed the acquisition of United Biscuit's European Frozen and Chilled Division, one of the leading frozen food businesses in the U.K. and Ireland, which produces frozen desserts and vegetarian/meat-free products, frozen pizzas, frozen value-added potato products and fresh sandwiches. Also during Fiscal 2000, the company completed the acquisition of Quality Chef Foods, a leading manufacturer of frozen heat-and-serve soups, entrées and sauces; *Yoshida*, a line of Asian sauces marketed in the U.S.; Thermo Pac, Inc., a U.S. leader in single-serve condiments; and obtained a 51% share of Remedia Limited, Israel's leading company in infant nutrition. The company also made other smaller acquisitions during the year.

Fiscal 1999: The company acquired businesses for a total of $317.3 million, including obligations to sellers of $48.4 million. The allocations of the purchase price resulted in goodwill of $99.7 million and trademarks and other intangible assets of $215.0 million, which are being amortized on a straight-line basis over periods not exceeding 40 years.

Acquisitions made during Fiscal 1999 include: the *College Inn* brand of canned broths and *ABC* Sauces in Indonesia, a leading provider of ketchup, sauces and condiments. The company also made other smaller acquisitions during the year.

3. Divestitures

On February 9, 2001, the company announced it had sold The All American Gourmet business and its *Budget Gourmet* and *Budget Gourmet Value Classics* brands of frozen entrées for $55.0 million. The transaction resulted in a pretax loss of $94.6 million ($0.19 per share). The All American Gourmet business contributed approximately $141.4 million in sales for Fiscal 2000. During Fiscal 2001, the company also made other smaller divestitures.

On September 29, 1999, the company completed the sale of the *Weight Watchers* classroom business for $735 million, which included $25 million of preferred stock. The transaction resulted in a pretax gain of $464.6 million ($0.72 per share). The company used a portion of the proceeds to retain a 6% equity interest in Weight Watchers International, Inc. The sale did not include *Weight Watchers Smart Ones* frozen meals, desserts and breakfast items, *Weight Watchers from Heinz* in the U.K. and a broad range of other *Weight Watchers* branded foods in Heinz's global core product categories. The *Weight Watchers* classroom business contributed approximately $400 million in sales for Fiscal 1999. During Fiscal 2000, the company also made other smaller divestitures.

On October 2, 1998, the company completed the sale of its bakery products unit for $178.0 million. The transaction resulted in a pretax gain of $5.7 million, which was recorded in SG&A.

Pro forma results of the company, assuming all of the above divestitures had been made at the beginning of each period presented, would not be materially different from the results reported.

4. Restructuring Charges

Streamline

In the fourth quarter of Fiscal 2001, the company announced a restructuring initiative named "Streamline" which includes:

- A worldwide organizational restructuring aimed at reducing overhead costs;
- The closure of the company's tuna operations in Puerto Rico;
- The consolidation of the company's North American canned pet food production to Bloomsburg, Pennsylvania (which results in ceasing canned pet food production at the company's Terminal Island, California facility); and
- The divestiture of the company's U.S. fleet of fishing boats and related equipment.

Management estimates that these actions will impact approximately 2,700 employees.

During Fiscal 2001, the company recognized restructuring charges and implementation costs totaling $298.8 million pretax ($0.66 per share). Pretax charges of $192.5 million were classified as cost of products sold and $106.2 million as SG&A. The major components of the restructuring charge and implementation costs and the remaining accrual balance as of May 2, 2001 were as follows:

(Dollars in millions)	*Non-Cash Asset Write-Downs*	*Employee Termination and Severance Costs*	*Accrued Exit Costs*	*Implementation Costs*	*Total*
Restructuring and implementation costs – 2001	$ 110.5	$110.3	$55.4	$ 22.6	$ 298.8
Amounts utilized – 2001	(110.5)	(39.5)	(4.7)	(22.6)	(177.3)
Accrued restructuring costs – May 2, 2001	$ –	$ 70.8	$50.7	$ –	$ 121.5

Non-cash asset write-downs consisted primarily of long-term asset impairments that were recorded as a direct result of the company's decision to exit its tuna facility in Puerto Rico, consolidate its canned pet food operations and divest its U.S. fleet of fishing boats. Non-cash asset write-downs totaled $110.5 million and related to property, plant and equipment ($93.0 million) and current assets ($17.5 million). Long-term asset write-downs were based on third-party appraisals, contracted sales prices or management's estimate of salvage value. The carrying value of these long-term assets was approximately $5 million as of May 2, 2001. Current asset write-downs included inventory and packaging material, prepaids and other current assets and were determined based on management's estimate of net realizable value.

Employee termination and severance costs are primarily related to involuntary terminations and represent cash termination payments to be paid to affected employees as a direct result of the restructuring program. Non-cash pension and postretirement benefit charges related to the approved projects are also included as a component of total severance costs ($35.3 million).

Exit costs are primarily contractual obligations incurred as a result of the company's decision to exit these facilities.

Implementation costs were recognized as incurred in Fiscal 2001 ($22.6 million pretax) and consist of incremental costs directly related to the implementation of the Streamline initiative. These include idle facility costs, consulting fees and asset relocation costs.

In Fiscal 2001, the company completed the closure of its tuna operations in Puerto Rico, ceased production of canned pet food in the company's Terminal Island, California facility and sold its U.S. fleet of fishing boats and related equipment. In addition, the company initiated its global overhead reduction plan, primarily in North America. These actions resulted in a net reduction of the company's workforce of approximately 1,700 employees.

Operation Excel

In Fiscal 1999, the company announced a growth and restructuring initiative named "Operation Excel." This initiative was a multi-year, multi-faceted program which established manufacturing centers of excellence, focused the product portfolio, realigned the company's management teams and invested in growth initiatives.

The company established manufacturing centers of excellence which resulted in significant changes to its manufacturing footprint. The company completed the following initiatives: closed the Harlesden factory in London, England and focused the Kitt Green factory in Wigan, England on canned beans, soups and pasta production and focused the Elst factory in the Netherlands on tomato ketchup and sauces; downsized the Puerto Rico tuna processing facility and focused this facility on lower volume/higher margin products; focused the Pittsburgh, Pennsylvania factory on soup and baby food production and shifted other production to existing facilities; consolidated manufacturing capacity in the Asia/Pacific region; closed the Zabreh, Czech Republic factory and disposed of the Czech dairy business and transferred the infant formula business to the Kendal, England factory; downsized the Pocatello, Idaho factory by shifting *Bagel Bites* production to the Ft. Myers, Florida factory, and shifted certain *Smart Ones* entrée production to the Massillon, Ohio factory; closed the Redditch, England factory and shifted production to the Telford, England factory and the Turnhout factory in Belgium; closed the El Paso, Texas pet treat facility and transferred production to the Topeka, Kansas factory and to co-packers; and disposed of the Bloomsburg, Pennsylvania frozen pasta factory.

As part of Operation Excel, the company focused its portfolio of product lines on six core food categories: ketchup, condiments and sauces; frozen foods; tuna; soup, beans and pasta meals; infant foods; and pet products. A consequence of this focus was the sale of the *Weight Watchers* classroom business in Fiscal 2000. Seven other smaller businesses, which had combined annual revenues of approximately $80 million, also have been disposed.

Realigning the company's management teams provided processing and product expertise across the regions of North America, Europe and Asia/Pacific. Specifically, Operation Excel: established a single U.S. frozen food headquarters, resulting in the closure of the company's Ore-Ida head office in Boise, Idaho; consolidated many European administrative support functions; established a single North American Grocery & Foodservice headquarters in Pittsburgh, Pennsylvania, resulting in the relocation of the company's domestic seafood and pet food headquarters from Newport, Kentucky; and established two Asia/Pacific management teams with headquarters in Melbourne and Singapore.

During Fiscal 2001, the company recognized restructuring charges of $55.7 million pretax, or $0.10 per share. These charges were primarily associated with exiting the company's domestic can making operations, exiting a tuna processing facility in Ecuador, and higher than originally expected severance costs associated with creating the single North American Grocery & Foodservice headquarters in Pittsburgh, Pennsylvania. This charge was recorded in cost of products sold ($44.8 million) and SG&A ($10.8 million). This charge was offset by the reversals of unutilized Operation Excel accruals and asset write-downs of $78.8 million pretax, or $0.17 per share. These reversals were recorded in cost of products sold ($46.3 million) and SG&A ($32.5 million) and were primarily the result of lower than expected lease termination costs related to exiting the company's fitness business, revisions in estimates of fair values of assets which were disposed of as part of Operation Excel, the company's decision not to exit certain U.S. warehouses due to higher than expected volume growth, and the company's decision not to transfer certain European baby food production. Implementation costs of $311.6 million pretax, or $0.59 per share, were also recognized in Fiscal 2001. These costs were classified as costs of products sold ($146.4 million) and SG&A ($165.1 million).

During Fiscal 2000, the company recognized restructuring charges of $194.5 million pretax, or $0.37 per share. Pretax charges of $107.7 million were classified as cost of products sold and $86.8 million as SG&A. Also during Fiscal 2000, the company recorded a reversal of $18.2 million pretax ($0.04 per share) of Fiscal 1999 restructuring accruals and asset write-downs, primarily for the closure of the West Chester, Pennsylvania facility, which remains in operation as a result of the sale of the Bloomsburg frozen pasta facility in Fiscal 2000. Implementation costs of $216.5 million pretax ($0.41 per share) were classified as costs of products sold ($79.2 million) and SG&A ($137.3 million).

During Fiscal 1999, the company recognized restructuring charges and implementation costs totaling $552.8 million pretax ($1.11 per share). Pretax charges of $396.4 million were classified as cost of products sold and $156.4 million as SG&A.

Implementation costs were recognized as incurred and consisted of incremental costs directly related to the implementation of Operation Excel, including consulting fees, employee training and relocation costs, unaccruable severance costs associated with terminated employees, equipment relocation costs and commissioning costs.

The major components of the restructuring charges and implementation costs and the remaining accrual balances as of May 2, 2001, May 3, 2000 and April 28, 1999 were as follows:

(Dollars in millions)	*Non-Cash Asset Write-Downs*	*Employee Termination and Severance Costs*	*Accrued Exit Costs*	*Implementation Costs*	*Total*
Restructuring and implementation costs – 1999	$ 294.9	$159.4	$ 45.3	$ 53.2	$ 552.8
Amounts utilized – 1999	(294.9)	(67.3)	(9.8)	(53.2)	(425.2)
Accrued restructuring costs – April 28, 1999	–	92.1	35.5	–	127.6
Restructuring and implementation costs – 2000	78.1	85.8	30.5	216.5	410.9
Accrual reversal – 2000	(16.5)	(1.3)	(0.4)	–	(18.2)
Amounts utilized – 2000	(61.6)	(86.3)	(30.7)	(216.5)	(395.1)
Accrued restructuring costs – May 3, 2000	–	90.3	34.9	–	125.2
Restructuring and implementation costs – 2001	44.4	3.0	8.3	311.6	367.3
Accrual reversal – 2001	(32.2)	(28.3)	(18.3)	–	(78.8)
Amounts utilized – 2001	(12.2)	(60.1)	(16.7)	(311.6)	(400.6)
Accrued restructuring costs – May 2, 2001	$ –	$ 4.9	$ 8.2	$ –	$ 13.1

Non-cash asset write-downs consisted primarily of long-term asset impairments that were recorded as a direct result of the company's decision to exit businesses or facilities. Net non-cash asset write-downs totaled $12.2 million in Fiscal 2001 and related to property, plant and equipment ($5.6 million net reversal of previous asset write-downs), goodwill and other intangibles ($11.6 million net restructuring charge) and other current assets ($6.3 million net restructuring charge). In Fiscal 2000, net non-cash asset write-downs totaled $61.6 million and related to property, plant and equipment ($48.7 million) and current assets ($12.9 million). In Fiscal 1999, non-cash asset write-downs totaled $294.9 million and consisted of property, plant and equipment ($210.9 million), goodwill and other intangibles ($49.6 million) and current assets ($34.5 million). Long-term asset write-downs were based on third-party appraisals, contracted sales prices or management's estimate of salvage value. The carrying value of these long-term assets was approximately $5 million at May 2, 2001, $30 million

at May 3, 2000 and $50 million at April 28, 1999. These assets were sold or removed from service by the end of Fiscal 2001. The results of operations, related to these assets, including the effect of reduced depreciation were not material. Current asset write-downs included inventory and packaging material, prepaids and other current assets and were determined based on management's estimate of net realizable value.

Severance charges are primarily related to involuntary terminations and represent cash termination payments to be paid to affected employees as a direct result of the restructuring program. Non-cash pension and postretirement benefit charges related to the projects are also included as a component of total severance costs ($27.8 million and $60.5 million in Fiscal 2000 and Fiscal 1999, respectively).

Exit costs are primarily related to contract and lease termination costs ($42.7 million of the total $65.5 million net exit costs).

The company has closed or exited all of the 21 factories or businesses that were originally scheduled for closure or divestiture. In addition, the company also exited its can making operations and a tuna processing facility in Ecuador. Management estimates that Operation Excel will impact approximately 8,500 employees with a net reduction in the workforce of approximately 7,100 after expansion of certain facilities. The exit of the company's domestic can making operations and its tuna processing facility in Ecuador resulted in a reduction of the company's workforce of approximately 2,500 employees. During Fiscal 2001, Fiscal 2000 and Fiscal 1999, the company's workforce had a net reduction of approximately 3,700 employees, 3,000 employees and 200 employees, respectively. The remaining employee reductions are expected to take place within six months.

5. Income Taxes

The following table summarizes the provision/(benefit) for U.S. federal and U.S. possessions, state and foreign taxes on income.

(Dollars in thousands)	*2001*	*2000*	*1999*
Current:			
U.S. federal and U.S. possessions	$ 79,430	$318,873	$110,490
State	(15,699)	45,935	15,389
Foreign	46,941	179,984	211,347
	110,672	544,792	337,226
Deferred:			
U.S. federal and U.S. possessions	28,591	71,602	66,944
State	3,279	(1,871)	2,441
Foreign	35,598	(41,400)	(45,821)
	67,468	28,331	23,564
Total tax provision	$178,140	$573,123	$360,790

The Fiscal 2001 effective tax rate was favorably impacted by the recognition of a tax benefit of $93.2 million related to new tax legislation enacted in Italy. The Fiscal 2000 effective tax rate was unfavorably impacted by the excess of basis in assets for financial reporting over tax basis of assets included in the *Weight Watchers* sale and by gains in higher tax rate states related to the sale. Tax expense related to the pretax gain of $464.6 million was $204.9 million. The Fiscal 2001, 2000 and 1999 effective tax rates were unfavorably impacted by restructuring and related costs expected to be realized in lower tax rate jurisdictions and by nondeductible expenses related to the restructurings. Tax benefit related to the $587.2 million of Streamline and Operation Excel restructuring and related costs for Fiscal 2001 was $174.0 million. Tax benefit related to the $392.7 million of Operation Excel restructuring and related costs for Fiscal 2000 was $125.3 million, and tax benefit related to the $552.8 million of Operation Excel restructuring and related costs for Fiscal 1999 was

$143.1 million. Tax expense resulting from allocating certain tax benefits directly to additional capital was $12.5 million in Fiscal 2001, immaterial in Fiscal 2000 and $26.6 million in Fiscal 1999.

The components of income before income taxes consist of the following:

(Dollars in thousands)	*2001*	*2000*	*1999*
Domestic	$116,126	$ 805,464	$427,089
Foreign	556,932	658,212	408,042
	$673,058	$1,463,676	$835,131

The differences between the U.S. federal statutory tax rate and the company's consolidated effective tax rate are as follows:

	2001	*2000*	*1999*
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Tax on income of foreign subsidiaries	(4.0)	(1.0)	1.9
State income taxes (net of federal benefit)	(1.0)	1.9	1.5
Earnings repatriation	6.4	1.7	(0.3)
Foreign losses	2.0	1.4	3.8
Tax on income of U.S. possessions subsidiaries	1.9	(1.4)	0.6
Tax law changes	(13.7)	(0.1)	(0.6)
Other	(0.1)	1.7	1.3
Effective tax rate	26.5%	39.2%	43.2%

The deferred tax (assets) and deferred tax liabilities recorded on the balance sheets as of May 2, 2001 and May 3, 2000 are as follows:

(Dollars in thousands)	*2001*	*2000*
Depreciation/amortization	$ 411,681	$ 416,453
Benefit plans	52,002	48,180
Other	54,232	63,626
	517,915	528,259
Provision for estimated expenses	(69,873)	(105,375)
Operating loss carryforwards	(39,547)	(37,813)
Benefit plans	(129,722)	(115,007)
Tax credit carryforwards	(33,889)	(44,911)
Other	(139,467)	(131,086)
	(412,498)	(434,192)
Valuation allowance	60,298	75,109
Net deferred tax liabilities	$ 165,715	$ 169,176

At the end of Fiscal 2001, net operating loss carryforwards totaled $99.1 million. Of that amount, $32.7 million expire through 2021; the other $66.4 million do not expire. Foreign tax credit carryforwards total $33.9 million and expire through 2006.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1994.

Undistributed earnings of foreign subsidiaries considered to be reinvested permanently amounted to $2.26 billion at May 2, 2001.

The Fiscal 2001 net change in valuation allowance for deferred tax assets was a decrease of $14.8 million, due principally to reduction in deferred tax asset related to foreign tax credit carryforward.

6. Debt

Short-term debt, excluding domestic commercial paper, consisted of bank and other borrowings of $211.0 million and $151.2 million as of May 2, 2001 and May 3, 2000, respectively. Total short-term debt, excluding domestic commercial paper, had a weighted-average interest rate during Fiscal 2001 of 8.03% and at year-end of 7.0%. The weighted-average interest rate on short-term debt during Fiscal 2000 was 6.2% and at year-end was 6.5%.

The company maintains a $2.30 billion credit agreement that supports its commercial paper program. The credit agreement expires in September 2001. In addition, the company had $779.0 million of foreign lines of credit available at year-end.

As of May 2, 2001 and May 3, 2000, the company had $1.34 billion and $2.08 billion, respectively, of domestic commercial paper outstanding. Due to the short-term nature of the supporting credit agreement, all of the outstanding domestic commercial paper has been classified as short-term debt as of May 2, 2001. The company is currently negotiating the renewal of the credit agreement and expects that it will be renewed by August 2001. As of May 3, 2000, all of the outstanding domestic commercial paper was classified as long-term debt. Aggregate domestic commercial paper had a weighted-average interest rate during Fiscal 2001 of 6.3% and at year-end of 4.9%. In Fiscal 2000, the weighted-average rate was 5.5% and at year-end was 6.2%.

Long-Term (Dollars in thousands)	*Range of Interest*	*Maturity (Fiscal Year)*	*2001*	*2000*
United States Dollars:				
Commercial paper	Variable	2002	$ –	$2,084,175
Senior unsecured notes and debentures	6.00–6.88%	2003–2029	741,061	740,537
Eurodollar notes	5.75–7.00	2002–2003	549,185	548,463
Revenue bonds	3.39–7.70	2002–2027	12,392	14,892
Promissory notes	3.00–7.00	2002–2005	7,005	20,967
Remarketable securities	5.82	2021	1,005,970	–
Other	6.50–7.925	2002–2034	9,890	12,287
			2,325,503	3,421,321
Foreign Currencies				
(*U.S. Dollar Equivalents*):				
Promissory notes:				
Pound sterling	6.25–8.86%	2002–2030	211,087	235,388
Euro	5.00–5.13	2005–2006	667,678	268,674
Italian lire	3.90–6.53	2002–2008	1,136	1,422
Australian dollar	6.10	2001	–	6,152
New Zealand dollar	6.26–6.85	2002–2005	101,640	–
Other	4.00–17.15	2002–2022	22,774	28,276
			1,004,315	539,912
Total long-term debt			3,329,818	3,961,233
Less portion due within one year			314,965	25,407
			$3,014,853	$3,935,826

The amount of long-term debt that matures in each of the four years following 2002 is: $1,536.4 million in 2003, $7.0 million in 2004, $314.9 million in 2005 and $406.2 million in 2006.

On April 10, 2001, the company issued €450 million of 5.125% Guaranteed Notes due 2006. The proceeds were used for general corporate purposes, including repaying borrowings that were incurred in connection with the acquisition of the CSM Food Division of CSM Nederland NV in February.

On November 6, 2000, the company issued $1.0 billion of remarketable securities due November 2020. The proceeds were used to repay domestic commercial paper. The securities have a coupon rate of 6.82% until November 15, 2001. The securities are subject to mandatory tender by all holders to the remarketing dealer on November 15, 2001 and each November 15 thereafter, and the interest rate will be reset on such dates. The company received a premium from the remarketing dealer for the right to require the mandatory tender of the securities. The amortization of the premium results in an effective interest rate of 5.82%. If the remarketing dealer does not elect to exercise its right to a mandatory tender of the securities or otherwise does not purchase all of the securities on a remarketing date, then the company is required to repurchase all of the securities on the remarketing date at 100% of the principal amount plus accrued interest. On June 11, 2001, the remarketing dealer gave the company notice that the remarketing dealer will exercise its right to a mandatory tender of the securities and will purchase all of the securities on November 15, 2001. Accordingly, the remarketable securities will remain outstanding until at least November 15, 2002 and are classified as long-term debt.

On January 5, 2000, the company issued €300 million of 5% Notes due 2005. The proceeds were used to repay domestic commercial paper. On February 15, 2000, the company issued $300 million of 7.0% Notes due 2002. The proceeds were used to repay domestic commercial paper. On February 18, 2000, the company issued £125 million of 6.25% Notes due 2030. The proceeds were used for general corporate purposes, including repaying commercial paper borrowings that were incurred in connection with the acquisition of United Biscuit's European Frozen and Chilled Division in December 1999.

7. Shareholders' Equity

Capital Stock: The preferred stock outstanding is convertible at a rate of one share of preferred stock into 13.5 shares of common stock. The company can redeem the stock at $28.50 per share.

As of May 2, 2001, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Employee Stock Ownership Plan ("ESOP"): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participants' contributions, subject to certain limitations.

Global Stock Purchase Plan ("GSPP"): On September 8, 1999, the stockholders authorized the GSPP which provides for the purchase by employees of up to 3,000,000 shares of the company's stock through payroll deductions. Employees who choose to participate in the plan will receive an option to acquire common stock at a discount. The purchase price per share will be the lower of 85% of the fair market value of the company's stock on the first or last day of a purchase period. During Fiscal 2001, employees purchased 389,642 shares under this plan.

Unfunded Pension Obligation: An adjustment for unfunded foreign pension obligations in excess of unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity.

8. Supplemental Cash Flows Information

(Dollars in thousands)	*2001*	*2000*	*1999*
Cash Paid During the Year For:			
Interest	$298,761	$273,506	$266,395
Income taxes	456,279	485,267	287,544
Details of Acquisitions:			
Fair value of assets	$819,163	$563,376	$350,575
Liabilities*	136,358	166,699	80,055
Cash paid	682,805	396,677	270,520
Less cash acquired	9,847	2,259	1,569
Net cash paid for acquisitions	$672,958	$394,418	$268,951

* Includes obligations to sellers of $5.5 million and $10.4 million in 2001 and 2000, respectively.

9. Employees' Stock Option Plans and Management Incentive Plans

Under the company's stock option plans, officers and other key employees may be granted options to purchase shares of the company's common stock. Generally, the option price on outstanding options is equal to the fair market value of the stock at the date of grant. Options are generally exercisable beginning from one to three years after date of grant and have a maximum term of 10 years. Beginning in Fiscal 1998, in order to place greater emphasis on creation of shareholder value, performance-accelerated stock options were granted to certain key executives. These options vest eight years after the grant date, subject to acceleration if predetermined share price goals are achieved.

The company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the company's stock option plans. If the company had elected to recognize compensation cost

based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Fiscal year ended	*May 2, 2001*	*May 3, 2000*	*April 28, 1999*
(Dollars in thousands, except per share amounts)	*(52 Weeks)*	*(53 Weeks)*	*(52 Weeks)*
Pro forma net income	$440,600	$862,698	$440,080
Pro forma diluted net income per common share	$ 1.26	$ 2.40	$ 1.20
Pro forma basic net income per common share	$ 1.27	$ 2.43	$ 1.22

The pro forma effect on net income for Fiscal 2001, Fiscal 2000 and Fiscal 1999 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The weighted-average fair value of options granted was $8.46 per share in Fiscal 2001, $8.98 per share in Fiscal 2000 and $11.34 per share in Fiscal 1999.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2001	*2000*	*1999*
Dividend yield	3.8%	3.5%	2.5%
Volatility	23.5%	24.0%	22.0%
Risk-free interest rate	6.0%	6.1%	5.3%
Expected term (years)	6.5	5.0	4.9

Data regarding the company's stock option plans follows:

	Shares	*Weighted-Average Exercise Price Per Share*
Shares under option April 29, 1998	25,600,775	$31.07
Options granted	8,979,200	53.07
Options exercised	(3,138,445)	24.59
Options surrendered	(924,300)	40.11
Shares under option April 28, 1999	30,517,230	$37.94
Options granted	347,000	41.40
Options exercised	(858,283)	24.81
Options surrendered	(287,665)	44.70
Shares under option May 3, 2000	29,718,282	$38.29
Options granted	4,806,600	37.19
Options exercised	(3,395,874)	26.69
Options surrendered	(887,663)	51.27
Shares under option May 2, 2001	30,241,345	$39.04
Options exercisable at:		
April 28, 1999	13,507,295	$27.60
May 3, 2000	16,430,099	31.43
May 2, 2001	15,350,907	33.00

The following summarizes information about shares under option in the respective exercise price ranges at May 2, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Price Per Share	Number Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
$21.75–33.88	12,157,269	3.77	$27.15	11,066,279	$26.68
36.75–48.38	8,128,676	8.05	38.79	1,873,564	40.33
49.31–59.94	9,955,400	7.43	53.75	2,411,064	56.31
	30,241,345	6.13	39.04	15,350,907	33.00

The shares authorized but not granted under the company's stock option plans were 11,469,563 at May 2, 2001 and 393,000 at May 3, 2000. Common stock reserved for options totaled 41,710,908 at May 2, 2001 and 30,111,282 at May 3, 2000.

The company's management incentive plan covers officers and other key employees. Participants may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Compensation under the management incentive plans was approximately $20 million in Fiscal 2001, $44 million in Fiscal 2000 and $47 million in Fiscal 1999.

10. Retirement Plans

The company maintains retirement plans for the majority of its employees. Current defined benefit plans are provided primarily for domestic union and foreign employees. Defined contribution plans are provided for the majority of its domestic non-union hourly and salaried employees.

Total pension cost consisted of the following:

(Dollars in thousands)	2001	2000	1999
Components of defined benefit net periodic benefit cost:			
Service cost	$ 25,769	$ 27,352	$ 23,617
Interest cost	89,889	84,096	82,958
Expected return on assets	(135,990)	(121,735)	(109,490)
Amortization of:			
Net initial asset	(2,637)	(3,629)	(3,632)
Prior service cost	9,616	8,067	8,026
Net actuarial loss/(gain)	(729)	1,931	(3,752)
Loss due to curtailment, settlement and special termination benefits	29,146	27,908	60,485
Net periodic benefit cost	15,064	23,990	58,212
Defined contribution plans (excluding the ESOP)	21,846	20,558	23,980
Total pension cost	$ 36,910	$ 44,548	$ 82,192

The following table sets forth the funded status of the company's principal defined benefit plans at May 2, 2001 and May 3, 2000.

(Dollars in thousands)	*2001*	*2000*
Change in Benefit Obligation:		
Benefit obligation at the beginning of the year	$1,457,410	$1,387,043
Service cost	25,769	27,352
Interest cost	89,889	84,096
Participants' contributions	8,010	6,895
Amendments	5,877	20,505
Actuarial gain	(6,303)	(34,023)
Curtailment gain	(793)	(939)
Settlement	(7,548)	(15,976)
Special termination benefits	21,651	19,234
Benefits paid	(96,090)	(86,013)
Acquisition	120,090	78,729
Exchange	(68,549)	(29,493)
Benefit obligation at the end of the year	1,549,413	1,457,410
Change in Plan Assets:		
Fair value of plan assets at the beginning of the year	1,657,424	1,440,357
Actual return on plan assets	(88,655)	207,616
Settlement	(7,548)	(15,976)
Employer contribution	33,448	38,632
Participants' contributions	8,010	6,895
Benefits paid	(96,090)	(86,013)
Acquisition	67,127	102,396
Exchange	(77,545)	(36,483)
Fair value of plan assets at the end of the year	1,496,171	1,657,424
Funded status	(53,242)	200,014
Unamortized prior service cost	68,935	85,795
Unamortized net actuarial loss/(gain)	177,813	(35,529)
Unamortized net initial asset	(4,396)	(7,434)
Net amount recognized	189,110	242,846
Amount recognized in the consolidated balance sheet consists of:		
Prepaid benefit cost	257,019	257,633
Accrued benefit liability	(115,161)	(46,537)
Intangible asset	–	3,402
Accumulated other comprehensive loss	47,252	28,348
Net amount recognized	$ 189,110	$ 242,846

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were $358.6 million, $305.3 million and $214.8 million, respectively, as of May 2, 2001 and $263.4 million, $231.3 million and $184.8 million, respectively, as of May 3, 2000.

The weighted-average rates used for the years ended May 2, 2001, May 3, 2000 and April 28, 1999 in determining the net pension costs and projected benefit obligations for defined benefit plans were as follows:

	2001	*2000*	*1999*
Expected rate of return	9.3%	9.5%	9.5%
Discount rate	6.7%	6.8%	6.3%
Compensation increase rate	4.3%	4.6%	4.7%

11. Postretirement Benefits Other Than Pensions and Other Postemployment Benefits

The company and certain of its subsidiaries provide health care and life insurance benefits for retired employees and their eligible dependents. Certain of the company's U.S. and Canadian employees may become eligible for such benefits. The company currently does not fund these benefit arrangements and may modify plan provisions or terminate plans at its discretion.

Net postretirement costs consisted of the following:

(Dollars in thousands)	*2001*	*2000*	*1999*
Components of defined benefit net periodic benefit cost:			
Service cost	$ 4,350	$ 3,903	$ 3,603
Interest cost	12,519	10,475	10,483
Amortization of:			
Prior service cost	(728)	(655)	(649)
Net actuarial gain	(3,560)	(3,144)	(3,430)
Loss due to curtailment and special termination benefits	951	1,536	3,732
Net periodic benefit cost	$13,532	$12,115	$13,739

The following table sets forth the combined status of the company's postretirement benefit plans at May 2, 2001 and May 3, 2000.

(Dollars in thousands)	*2001*	*2000*
Change in benefit obligation:		
Benefit obligation at the beginning of the year	$ 169,550	$ 158,488
Service cost	4,350	3,903
Interest cost	12,519	10,475
Participants' contributions	1,390	889
Actuarial loss	13,127	6,644
Curtailment	–	(154)
Special termination benefits	951	1,389
Benefits paid	(15,077)	(11,864)
Exchange	(554)	(220)
Benefit obligation at the end of the year	186,256	169,550
Funded status	(186,256)	(169,550)
Unamortized prior service cost	(5,855)	(6,583)
Unamortized net actuarial gain	(25,989)	(42,825)
Net accrued benefit liability	$(218,100)	$(218,958)

The weighted-average discount rate used in the calculation of the accumulated post-retirement benefit obligation and the net postretirement benefit cost was 7.5% in 2001, 7.7% in 2000 and 6.9% in 1999. The assumed annual composite rate of increase in the per capita cost of company-provided health care benefits begins at 7.5% for 2002, gradually decreases to 5.0% by 2007, and remains at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	*1% Decrease*
Effect on total service and interest cost components	$ 1,944	$ (1,710)
Effect on postretirement benefit obligation	17,771	(15,669)

12. Financial Instruments

The company operates internationally, with manufacturing and sales facilities in various locations around the world, and utilizes certain financial instruments to manage its foreign currency, commodity price and interest rate exposures.

Foreign Currency Hedging: The company uses forward contracts and currency swaps to mitigate its foreign currency exchange rate exposure due to anticipated purchases of raw materials and sales of finished goods, and future settlement of foreign currency denominated assets and liabilities. Hedges of anticipated transactions are designated as cash flow hedges, and consequently, the effective portion of unrealized gains and losses is deferred as a component of accumulated other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings.

The company uses certain foreign currency debt instruments as net investment hedges of foreign operations. As of May 2, 2001, losses of $0.2 million, net of income taxes of $0.1 million, which represented effective hedges of net investments, were reported as a component of accumulated other comprehensive loss within unrealized translation adjustment.

Commodity Price Hedging: The company uses commodity futures and options in order to reduce price risk associated with anticipated purchases of raw materials such as corn, soybean oil and soybean meal. Commodity price risk arises due to factors such as weather conditions, government regulations, economic climate and other unforeseen circumstances. Hedges of anticipated commodity purchases which meet the criteria for hedge accounting are designated as cash flow hedges. When using a commodity option as a hedging instrument, the company excludes the time value of the option from the assessment of hedge effectiveness.

Interest Rate Hedging: The company uses interest rate swaps to manage interest rate exposure. These derivatives are designated as cash flow hedges or fair value hedges depending on the nature of the particular risk being hedged.

Hedge Ineffectiveness: During Fiscal 2001, hedge ineffectiveness related to cash flow hedges was a net loss of $0.6 million, which is reported in the consolidated statements of income as other expense.

Deferred Hedging Gains and Losses: As of May 2, 2001, the company is hedging forecasted transactions for periods not exceeding 12 months, and expects $0.3 million of net deferred loss reported in accumulated other comprehensive loss to be reclassified to earnings within that time frame. During Fiscal 2001, the net deferred losses reclassified to earnings because the hedged transaction was no longer expected to occur were not significant.

Concentrations of Credit Risk: Counterparties to currency exchange and interest rate derivatives consist of large major international financial institutions. The company continually monitors its positions and the credit ratings of the counterparties involved and, by policy, limits the amount of credit exposure to any one party. While the company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers, generally short payment terms, and their dispersion across geographic areas.

13. Net Income Per Common Share

The following table sets forth the computation of basic and diluted earnings per share in accordance with the provisions of SFAS No. 128.

Fiscal year ended *(Dollars in thousands, except per share amounts)*	*May 2, 2001* *(52 Weeks)*	*May 3, 2000* *(53 Weeks)*	*April 28, 1999* *(52 Weeks)*
Income before cumulative effect of accounting changes	$494,918	$890,553	$474,341
Preferred dividends	22	26	30
Income applicable to common stock before effect of accounting changes	$494,896	$890,527	$474,311
Cumulative effect of accounting changes	(16,906)	–	–
Net income applicable to common stock	$477,990	$890,527	$474,311
Average common shares outstanding – basic	347,758	355,273	361,204
Effect of dilutive securities:			
Convertible preferred stock	176	218	243
Stock options	3,107	4,604	6,383
Average common shares outstanding – diluted	351,041	360,095	367,830
Income per share before cumulative effect of accounting changes – basic	$ 1.42	$ 2.51	$ 1.31
Net income per share – basic	1.37	2.51	1.31
Income per share before cumulative effect of accounting changes – diluted	1.41	2.47	1.29
Net income per share – diluted	1.36	2.47	1.29

Stock options outstanding of 11.5 million, 11.7 million and 6.0 million as of May 2, 2001, May 3, 2000 and April 28, 1999, respectively, were not included in the above net income per diluted share calculations because to do so would have been antidilutive for the periods presented.

14. Segment Information

The company's segments are primarily organized by geographical area. The composition of segments and measure of segment profitability is consistent with that used by the company's management. Descriptions of the company's reportable segments are as follows:

- *North American Grocery & Foodservice* – This segment consists of Heinz U.S.A., Heinz Pet Products, Star-Kist Seafood and Heinz Canada. This segment's operations include products in all of the company's core categories.
- *North American Frozen* – This segment consists of Heinz Frozen Food Company, which markets frozen potatoes, entrées and appetizers.
- *Europe* – This segment includes the company's operations in Europe and sells products in all of the company's core categories.
- *Asia/Pacific* – This segment includes the company's operations in New Zealand, Australia, Japan, China, South Korea, Indonesia, Thailand and India. This segment's operations include products in all of the company's core categories.
- *Other Operating Entities* – This segment includes the company's *Weight Watchers* classroom business through September 29, 1999, the date of divestiture, as well as the company's operations in Africa, Venezuela and other areas which sell products in all of the company's core categories.

The company's management evaluates performance based on several factors; however, the primary measurement focus is operating income excluding unusual costs and gains. The accounting policies used are the same as those described in Note 1, "Significant Accounting Policies." Intersegment sales are accounted for at current market values. Items below the operating income line of the Consolidated Statements of Income are not presented by segment, since they are excluded from the measure of segment profitability reviewed by the company's management.

The following table presents information about the company's reportable segments.

Fiscal year ended	*May 2, 2001*	*May 3, 2000*	*April 28, 1999*	*May 2, 2001*	*May 3, 2000*	*April 28, 1999*
(Dollars in thousands)	*(52 Weeks)*	*(53 Weeks)*	*(52 Weeks)*	*(52 Weeks)*	*(53 Weeks)*	*(52 Weeks)*
	Net External Sales			*Intersegment Sales*		
North American Grocery & Foodservice	$4,146,538	$4,124,060	$4,062,683	$ 38,198	$ 37,987	$ 32,144
North American Frozen	1,125,396	1,023,915	1,014,370	12,660	12,782	21,131
Europe	2,746,870	2,583,684	2,460,698	3,657	2,687	6,661
Asia/Pacific	1,087,330	1,196,049	1,011,764	3,376	2,853	13
Other Operating Entities	324,288	480,241	750,095	–	2,526	6,971
Non-Operating (a)	–	–	–	(57,891)	(58,835)	(66,920)
Consolidated Totals	$9,430,422	$9,407,949	$9,299,610	$ –	$ –	$ –
	Operating Income (Loss)			*Operating Income (Loss) Excluding Special Items (b)*		
North American Grocery & Foodservice	$ 487,013	$ 694,449	$ 716,979	$ 876,205	$ 875,268	$ 834,629
North American Frozen	83,964	152,018	80,231	202,012	181,511	183,409
Europe	388,647	364,207	246,187	518,009	502,302	467,159
Asia/Pacific	96,123	124,125	89,830	147,599	177,454	145,654
Other Operating Entities	49,284	540,155	95,715	37,958	32,255	121,950
Non-Operating (a)	(122,677)	(141,855)	(119,630)	(99,060)	(102,337)	(99,792)
Consolidated Totals	$ 982,354	$1,733,099	$1,109,312	$1,682,723	$1,666,453	$1,653,009
	Depreciation and Amortization Expense			*Capital Expenditures (c)*		
North American Grocery & Foodservice	$127,123	$133,471	$121,363	$190,254	$171,295	$138,081
North American Frozen	37,589	36,480	39,773	20,768	79,575	35,293
Europe	90,106	81,802	85,408	140,780	127,595	100,569
Asia/Pacific	26,288	28,871	20,549	46,166	60,795	25,209
Other Operating Entities	8,117	13,066	23,278	4,716	8,495	12,757
Non-Operating (a)	9,943	12,793	11,841	8,615	4,689	4,814
Consolidated Totals	$299,166	$306,483	$302,212	$411,299	$452,444	$316,723
	Identifiable Assets					
North American Grocery & Foodservice	$3,775,052	$3,711,691	$3,418,096			
North American Frozen	797,943	882,225	832,226			
Europe	3,130,680	2,781,238	2,208,208			
Asia/Pacific	912,515	1,085,491	998,685			
Other Operating Entities	208,267	187,684	374,852			
Non-Operating (d)	210,693	202,328	221,567			
Consolidated Totals	$9,035,150	$8,850,657	$8,053,634			

(a) Includes corporate overhead, intercompany eliminations and charges not directly attributable to operating segments.

(b) ***Fiscal year ended May 2, 2001:*** Excludes net restructuring and implementation costs of Operation Excel as follows: North American Grocery & Foodservice $157.0 million, North American Frozen $23.4 million, Europe $63.7 million, Asia/Pacific $46.3 million, Other Operating Entities $(11.3) million and Non-Operating $9.4 million. Excludes restructuring and implementation costs of the Streamline initiative as follows: North American Grocery & Foodservice $213.7 million, Europe $65.7 million, Asia/Pacific $5.2 million and Non-Operating $14.2 million. Excludes the loss on the sale of The All American Gourmet in North American Frozen of $94.6 million. Excludes acquisition costs in North American Grocery & Foodservice $18.5 million.

Fiscal year ended May 3, 2000: Excludes net restructuring and implementation costs of Operation Excel as follows: North American Grocery & Foodservice $160.8 million, North American Frozen $29.5 million, Europe $138.1 million, Asia/Pacific $53.3 million, Other Operating Entities $1.5 million and Non-Operating $9.5 million. Excludes costs related to Ecuador in North American Grocery & Foodservice $20.0 million. Excludes the impact of the Weight Watchers classroom business $44.7 million and the $464.6 million gain on the sale of this business in Other Operating Entities. Excludes the Foundation contribution in Non-Operating $30.0 million.

Fiscal year ended April 28, 1999: Excludes restructuring and implementation costs of Operation Excel as follows: North American Grocery & Foodservice $110.4 million, North American Frozen $116.9 million, Europe $225.1 million, Asia/Pacific $52.9 million, Other Operating Entities $29.2 million and Non-Operating $18.3 million. Excludes costs related to the implementation of Project Millennia as follows: North American Grocery & Foodservice $7.2 million, North American Frozen $2.9 million, Europe $4.9 million, Asia/Pacific $3.0 million, Other Operating Entities $2.8 million and Non-Operating $1.5 million. Excludes the gain on the sale of the bakery division in Other Operating Entities of $5.7 million. Excludes the reversal of unutilized Project Millennia accruals for severance and exit costs in North American Frozen and Europe of $16.6 million and $9.1 million, respectively.

(c) Excludes property, plant and equipment obtained through acquisitions.

(d) Includes identifiable assets not directly attributable to operating segments.

The company's revenues are generated via the sale of products in the following categories:

(Unaudited) Fiscal year ended (Dollars in thousands)	May 2, 2001 (52 Weeks)	May 3, 2000 (53 Weeks)	April 28, 1999 (52 Weeks)
Ketchup, condiments and sauces	$2,537,294	$2,439,109	$2,230,403
Frozen foods	1,961,267	1,561,488	1,399,111
Tuna	1,035,302	1,059,317	1,084,847
Soups, beans and pasta meals	1,220,348	1,197,466	1,117,328
Infant/nutritional foods	973,004	1,041,401	1,039,781
Pet products	1,151,011	1,237,671	1,287,356
Other	552,196	871,497	1,140,784
Total	$9,430,422	$9,407,949	$9,299,610

The company has significant sales and long-lived assets in the following geographic areas. Sales are based on the location in which the sale originated. Long-lived assets include property, plant and equipment, goodwill, trademarks and other intangibles, net of related depreciation and amortization.

	Net External Sales			Long-Lived Assets		
Fiscal year ended (Dollars in thousands)	May 2, 2001 (52 Weeks)	May 3, 2000 (53 Weeks)	April 28, 1999 (52 Weeks)	May 2, 2001	May 3, 2000	April 28, 1999
United States	$4,911,689	$4,848,125	$4,917,967	$2,508,105	$2,705,735	$2,856,315
United Kingdom	1,459,492	1,314,550	1,182,690	524,390	549,213	399,669
Other	3,059,241	3,245,274	3,198,953	1,901,777	1,515,535	1,385,404
Total	$9,430,422	$9,407,949	$9,299,610	$4,934,272	$4,770,483	$4,641,388

15. Quarterly Results (Unaudited)

(Dollars in thousands, except per share amounts)	2001 First (13 Weeks)*	Second (13 Weeks)	Third (13 Weeks)	Fourth (13 Weeks)	Total (52 Weeks)
Sales	$2,171,511	$2,296,478	$2,269,642	$2,692,791	$9,430,422
Gross profit	898,935	913,352	884,136	850,381	3,546,804
Net income	187,980	190,033	270,520	(170,521)	478,012
Per Share Amounts:					
Net income/(loss) – diluted	$ 0.54	$ 0.54	$ 0.77	$ (0.49)	$ 1.36
Net income/(loss) – basic	0.54	0.55	0.78	(0.49)	1.37
Cash dividends	0.3675	0.3925	0.3925	0.3925	1.545

(Dollars in thousands, except per share amounts)	2000 First (13 Weeks)	Second (13 Weeks)	Third (13 Weeks)	Fourth (14 Weeks)	Total (53 Weeks)
Sales	$2,181,007	$2,344,084	$2,294,637	$2,588,221	$9,407,949
Gross profit	856,750	912,440	902,750	947,484	3,619,424
Net income	206,668	415,498	171,112	97,275	890,553
Per Share Amounts:					
Net income – diluted	$ 0.57	$ 1.14	$ 0.47	$ 0.27	$ 2.47
Net income – basic	0.58	1.16	0.48	0.27	2.51
Cash dividends	0.3425	0.3675	0.3675	0.3675	1.445

* The first quarter amounts have been restated for the effect of the change in accounting for revenue recognition (see Note 1). Amounts originally reported were as follows: Sales, $2.15 billion; Gross profit, $892.2 million; Net income, $200.6 million; Net income per share – diluted, $0.57; Net income per share – basic, $0.58. The amounts for the quarters ended November 1, 2000 and January 31, 2001 were not significantly different from those originally reported; therefore, these amounts have not been restated.

The first quarter of Fiscal 2001 includes restructuring and implementation costs related to Operation Excel of $0.11 per share. The first quarter of Fiscal 2000 includes restructuring and implementation costs related to Operation Excel of $0.07 per share, costs related to Ecuador of $0.05 per share, the gain on the sale of an office building in the U.K. of $0.03 per share and the impact of the *Weight Watchers* classroom business of $0.03 per share.

The second quarter of Fiscal 2001 includes net restructuring and implementation costs related to Operation Excel of $0.14 per share and the loss of $0.01 per share which represents the company's equity loss associated with The Hain Celestial Group's fourth quarter results which included charges for its merger with Celestial Seasonings. The second quarter of Fiscal 2000 includes restructuring and implementation costs related to Operation Excel of $0.17 per share, the impact of the *Weight Watchers* classroom business of $0.02 per share and the gain on the sale of the *Weight Watchers* classroom business of $0.72 per share and a contribution to the H.J. Heinz Company Foundation of $0.05 per share.

The third quarter of Fiscal 2001 includes restructuring and implementation costs related to Operation Excel of $0.14 per share and a benefit from tax planning and new tax legislation in Italy of $0.27 per share. The third quarter of Fiscal 2000 includes restructuring and implementation costs related to Operation Excel of $0.15 per share.

The fourth quarter of Fiscal 2001 includes net restructuring and implementation costs related to Operation Excel of $0.14 per share, restructuring and implementation costs related to the Streamline initiative of $0.66 per share, acquisition costs of $0.03 per share and the loss on the sale of The All American Gourmet business of $0.19 per share. The fourth quarter of Fiscal 2000 includes net Operation Excel restructuring and implementation costs of $0.36 per share.

16. Commitments and Contingencies

Legal Matters: Certain suits and claims have been filed against the company and have not been finally adjudicated. These suits and claims when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the company's consolidated financial position, results of operations or liquidity.

Lease Commitments: Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $91.1 million in 2001, $111.1 million in 2000 and $99.5 million in 1999. Future lease payments for non-cancellable operating leases as of May 2, 2001 totaled $142.9 million, (2002–$30.6 million, 2003–$29.0 million, 2004–$24.9 million, 2005–$21.5 million, 2006–$17.5 million and thereafter–$19.4 million).

17. Advertising Costs

Advertising costs for fiscal years 2001, 2000 and 1999 were $404.4 million, $374.0 million and $373.9 million, respectively.

18. Subsequent Events

On May 3, 2001, the company took steps to simplify its U.S. corporate structure and establish centers of excellence for the management of U.S. trademarks and for U.S. treasury functions. As a result of the realignment, all of the U.S. business operations of the company will now be conducted by H.J. Heinz Finance Company ("HFC"), a Delaware corporation, and H.J. Heinz Company, L.P., a newly formed Delaware limited partnership (Heinz LP). Heinz LP will own and operate factories involved in manufacturing for the U.S. group.

On June 6, 2001, the company announced that it had signed an agreement to acquire Borden Food Corporation's pasta sauce and dry bouillon and soup businesses for $308 million. Under this transaction, the company acquired such brands as *Classico* pasta sauces, *Aunt Millie's* pasta sauce, *Mrs. Grass* Recipe soups and *Wyler's* bouillons and soups plus Canadian favorites such as *Catelli*, *Gattuso* and *Bravo* pasta sauce brands.

On July 6, 2001, HFC raised $325 million via the issuance of Voting Cumulative Preferred Stock, Series A with a liquidation preference of $100,000 per share. In addition, HFC issued $750 million of 6.625% Guaranteed Notes due July 15, 2011. The proceeds were used for general corporate purposes, including retiring commercial paper borrowings and financing acquisitions and ongoing operations.

Responsibility for Financial Statements

Management of H.J. Heinz Company is responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safe-guarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

Report of Independent Accountants

To the Shareholders of
H.J. Heinz Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of H.J. Heinz Company and its subsidiaries (the "Company") at May 2, 2001 and May 3, 2000, and the results of its operations and its cash flows for each of the three years in the period ended May 2, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Pittsburgh, Pennsylvania
June 14, 2001, except for footnote 18,
for which the date is July 6, 2001

ELEVEN-YEAR SUMMARY OF OPERATIONS AND OTHER RELATED DATA

H.J. Heinz Company and Subsidiaries

(Dollars in thousands, except per share amounts)	*2001*	*2000**	*1999*	*1998*
SUMMARY OF OPERATIONS:				
Sales	$9,430,422	$9,407,949	$9,299,610	$9,209,284
Cost of products sold	5,883,618	5,788,525	5,944,867	5,711,213
Interest expense	332,957	269,748	258,813	258,616
Provision for income taxes	178,140	573,123	360,790	453,415
Income before cumulative effect of accounting change	494,918	890,553	474,341	801,566
Cumulative effect of SAB No. 101 and FAS No. 133 adoptions	(16,906)	–	–	–
Cumulative effect of SFAS No. 106 adoption	–	–	–	–
Net income	478,012	890,553	474,341	801,566
Income per share before cumulative effect of accounting change – diluted	1.41	2.47	1.29	2.15
Cumulative effect of SAB No. 101 and FAS No. 133 adoptions	(0.05)	–	–	–
Cumulative effect of SFAS No. 106 adoption	–	–	–	–
Net income per share – diluted	1.36	2.47	1.29	2.15
Net income per share – basic	1.37	2.51	1.31	2.19
OTHER RELATED DATA:				
Dividends paid:				
Common	537,290	513,756	484,817	452,566
per share	1.545	1.445	1.3425	1.235
Preferred	22	26	30	37
Average common shares outstanding – diluted	351,041,321	360,095,455	367,830,419	372,952,851
Average common shares outstanding – basic	347,758,281	355,272,696	361,203,539	365,982,290
Number of employees	45,800	46,900	38,600	40,500
Capital expenditures	411,299	452,444	316,723	373,754
Depreciation and amortization expense	299,166	306,483	302,212	313,622
Total assets	9,035,150	8,850,657	8,053,634	8,023,421
Total debt	4,885,687	4,112,401	3,376,413	3,107,903
Shareholders' equity	1,373,727	1,595,856	1,803,004	2,216,516
Pretax return on average invested capital	16.4%	31.4%	20.4%	26.4%
Return on average shareholders' equity before cumulative effect of accounting change	32.2%	52.4%	23.6%	34.4%
Book value per common share	3.94	4.59	5.02	6.10
Price range of common stock:				
High	47.63	54.00	61.75	59.94
Low	35.44	30.81	44.56	41.13

The 2001 results include, on a pretax basis, restructuring and implementation costs of $298.8 million for the Streamline initiative, net restructuring and implementation costs of $288.5 million for Operation Excel, a benefit of $93.2 million from tax planning and new tax legislation in Italy, a loss of $94.6 million on the sale of The All American Gourmet business, company acquisition costs of $18.5 million, a loss of $5.6 million which represents the company's equity loss associated with The Hain Celestial Group's fourth quarter results which included charges for its merger with Celestial Seasonings and the after-tax impact of adopting SAB No. 101 and SFAS No. 133 of $16.9 million.

The 2000 results include, on a pretax basis, net restructuring and implementation costs of $392.7 million for Operation Excel, a contribution of $30.0 million to the H.J. Heinz Company Foundation, costs related to Ecuador of $20.0 million, a gain of $464.6 million on the sale of the Weight Watchers classroom business and a gain of $18.2 million on the sale of an office building in the U.K.

* Fiscal year consisted of 53 weeks.

1997	1996	1995*	1994	1993	1992	1991
$9,357,007	$9,112,265	$8,086,794	$7,046,738	$7,103,374	$6,581,867	$6,647,118
6,385,091	5,775,357	5,119,597	4,381,745	4,530,563	4,102,816	4,063,423
274,746	277,411	210,585	149,243	146,491	134,948	137,592
177,193	364,342	346,982	319,442	185,838	346,050	335,014
301,871	659,319	591,025	602,944	529,943	638,295	567,999
–	–	–	–	–	–	–
–	–	–	–	(133,630)	–	–
301,871	659,319	591,025	602,944	396,313	638,295	567,999
0.81	1.75	1.58	1.56	1.36	1.59	1.42
–	–	–	–	–	–	–
–	–	–	–	(0.34)	–	–
0.81	1.75	1.58	1.56	1.02	1.59	1.42
0.82	1.79	1.61	1.59	1.04	1.65	1.48
416,923	381,871	345,358	325,887	297,009	270,512	239,212
1.135	1.035	0.94	0.86	0.78	0.70	0.62
43	56	64	71	78	86	91
374,043,705	377,606,606	373,317,480	385,778,757	390,374,298	400,267,734	400,696,424
367,470,850	368,799,645	367,685,810	378,483,701	380,728,905	386,331,811	384,983,564
44,700	43,300	42,200	35,700	37,700	35,500	34,100
377,457	334,787	341,788	275,052	430,713	331,143	345,334
340,490	343,809	315,267	259,809	234,935	211,786	196,138
8,437,787	8,623,691	8,247,188	6,381,146	6,821,321	5,931,901	4,935,382
3,447,435	3,363,828	3,401,076	2,166,703	2,613,736	1,902,483	1,226,694
2,440,421	2,706,757	2,472,869	2,338,551	2,320,996	2,367,398	2,274,863
11.9%	21.0%	21.4%	21.9%	18.1%	27.6%	30.3%
11.7%	25.5%	24.6%	25.9%	22.0%	27.5%	27.3%
6.64	7.34	6.76	6.26	6.08	6.21	5.84
44.88	36.63	28.63	26.63	30.38	32.38	27.38
29.75	27.63	21.13	20.50	23.50	23.38	19.63

The 1999 results include, on a pretax basis, restructuring and implementation costs of $552.8 million for Operation Excel and costs of $22.3 million related to the implementation of Project Millennia, offset by the reversal of unutilized Project Millennia accruals for severance and exit costs of $25.7 million and a gain of $5.7 million on the sale of the bakery products unit.

The 1998 results include costs of $84.1 million pretax related to the implementation of Project Millennia, offset by the gain on the sale of the Ore-Ida frozen foodservice business, $96.6 million pretax.

The 1997 results include a pretax charge for Project Millennia restructuring and implementation costs of $647.2 million, offset by capital gains of $85.3 million from the sale of non-strategic assets in New Zealand and the U.K. The 1994 results include a pretax gain of $127.0 million relating to the divestiture of the confectionery and specialty rice businesses. The 1993 results include a pretax restructuring charge of $192.3 million. The 1992 results include a pretax gain of $221.5 million for the sale of The Hubinger Company, a pretax restructuring charge of $88.3 million and a pretax pension curtailment gain of $38.8 million.

DIRECTORS AND OFFICERS*

H.J. Heinz Company

Directors

William R. Johnson
Chairman, President and Chief Executive Officer.
Director since 1993. (1,5)

Nicholas F. Brady
Chairman, Darby Advisors, Inc. and Chairman, Darby Overseas Investments, Ltd., Easton, Maryland.
Director from 1987 through September 1988.
Reelected 1993. (3,4)

Mary C. Choksi
Managing Director, Strategic Investment Partners, Inc. and Emerging Markets Investors Corporation, Arlington, Virginia.
Director since 1998. (4,6)

Leonard S. Coleman, Jr.
Senior Advisor–Major League Baseball, New York, New York.
Director since 1998. (4,6)

Edith E. Holiday
Attorney and Director, Various Corporations.
Director since 1994. (3,4,6)

Samuel C. Johnson
Chairman Emeritus, S. C. Johnson & Son, Inc., Racine, Wisconsin.
Director since 1988. (2,4)

Candace Kendle
Chairman and Chief Executive Officer, Kendle International Inc., Cincinnati, Ohio.
Director since 1998. (2,3)

Donald R. Keough
Chairman of the Board, Allen & Co. Incorporated, New York, New York.
Director since 1990. (2,3)

Dean R. O'Hare
Chairman and Chief Executive Officer, The Chubb Corporation, Warren, New Jersey.
Director since 2000. (6)

Paul F. Renne
Executive Vice President and Chief Financial Officer.
Director since 1997. (1,5)

Thomas J. Usher
Chairman and Chief Executive Officer, USX Corporation, Pittsburgh, Pennsylvania.
Director since 2000. (2,6)

David R. Williams
Executive Vice President.
Director since 1992. (1,5)

James M. Zimmerman
Chairman and Chief Executive Officer, Federated Department Stores, Inc., Cincinnati, Ohio.
Director since 1998. (2,3)

Committees of the Board

(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

Officers

William R. Johnson
Chairman, President and Chief Executive Officer

Paul F. Renne
Executive Vice President and Chief Financial Officer

Richard H. Wamhoff
Executive Vice President–Asia & Pacific

David R. Williams
Executive Vice President–Europe, Middle East, Africa & India

Michael J. Bertasso
Senior Vice President–Strategy, Process and Business Development

William C. Goode III
Senior Vice President and Chief Administrative Officer

Michael D. Milone
Senior Vice President–Global Category Development

D. Edward I. Smyth
Senior Vice President–Corporate and Government Affairs

Laura Stein
Senior Vice President and General Counsel

R. Scott Allen
Vice President–Chief Procurement Officer

Theodore N. Bobby
Vice President–Legal Affairs

John C. Crowe
Vice President–Taxes

Leonard A. Cullo
Treasurer

Karyll A. Davis
Corporate Secretary

F. Kerr Dow
Vice President–Nutrition & Technical Affairs and Chief Scientist

Edward J. McMenamin
Vice President–Finance

Diane B. Owen
Vice President–Corporate Audit

Mitchell A. Ring
Vice President–Business Development

John Runkel
Vice President–Investor Relations

William J. Showalter
Vice President and Corporate Controller

* As of June 2001.

WORLD LOCATIONS*

H.J. Heinz Company and Subsidiaries

World Headquarters

600 Grant Street, Pittsburgh, Pennsylvania.

The Americas

- H.J. Heinz Company, L.P. Established 2000. Pittsburgh, Pennsylvania.
  Divisions:
  - Heinz North America
  - Heinz Frozen Food
  - Star-Kist Seafood
  - Heinz Pet Products
  - Portion Pac
  - International DiverseFoods
  - Escalon Premier Brands
  - Quality Chef Foods
  - Alden Merrell
  - Todds
- Heinz Management Company. Established 1985. Pittsburgh, Pennsylvania.
- Star-Kist Foods, Inc. Acquired 1963. Pittsburgh, Pennsylvania.
- Star-Kist International, S.A. Established 1958. City of Panama, Republic of Panama.
- Star-Kist Samoa, Inc. Acquired 1963. Pago Pago, American Samoa.
- Panapesca Fishing, Inc. Established 2000. City of Panama, Republic of Panama.
- Galapesca S.A. Established 1999. Guayaquil, Ecuador.

Heinz Mexico, S.A. de CV Inc. Established 1999. Mexico City, Mexico.

H.J. Heinz Company of Canada Ltd. Established 1909. North York, Ontario, Canada.

- Omstead Foods Limited. Acquired 1991. Wheatley, Ontario, Canada.
- Martin Pet Foods. Acquired 1996. Elmira, Ontario, Canada.

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela.

Alimentos Heinz de Costa Rica. Established 2000. San José, Costa Rica.

- Distribuidora Banquete, S.A. Acquired 2001. San José, Costa Rica.

Europe, Middle East and Africa

U.K. and Ireland

- H.J. Heinz Company Limited. Established 1917. Hayes Park, Middlesex, England.
- John West Foods Limited. Acquired 1997. Liverpool, England.
- H.J. Heinz Frozen & Chilled Foods Limited. Acquired 1999. Hayes Park, Middlesex, England.
- H.J. Heinz Company (Ireland) Limited. Established 1996. Dublin, Ireland.
- H.J. Heinz Frozen & Chilled Foods Limited. Established 1993. Dublin, Ireland.

Western Europe

- Ets. Paul Paulet S.A. Acquired 1981. Douarnenez, France.
- H.J. Heinz S.A.R.L. Established 1979. Paris, France.
- Heinz Iberica S.A. Established 1987. Madrid, Spain.
- IDAL (Industrias de Alimentação, Lda). Acquired 1965. Lisbon, Portugal.

Southern and Eastern Europe

- Heinz Italia S.r.l. Acquired 1963. Milan, Italy.
- Fattoria Scaldasole, S.p.A. Acquired 1996. Monguzzo, Italy.
- COPAIS Food and Beverage Company, S.A. Acquired 1990. Athens, Greece.
- Heinz Polska Sp. Z.o.o. Established 1994. Warsaw, Poland.
- Pudliszki S.A. Acquired 1997. Pudliszki, Poland.
- Wodzislaw S.A. Acquired 2000. Wodzislaw, Poland.
- Miedzychod S.A. Acquired 2000. Miedzychod, Poland.
- Heinz C.I.S. Established 1994. Moscow, Russia.
- Heinz Georgievsk. Established 1994. Georgievsk, Russia.

* As of June 2001.

Northern Europe

- ☐ H.J. Heinz B.V. Acquired 1958. Elst, Gelderland, The Netherlands. (Includes the former CSM Food Division. Acquired 2001. The Netherlands.)
- ☐ H.J. Heinz Belgium S.A. Established 1984. Brussels, Belgium.
- ☐ H.J. Heinz GmbH. Established 1970. Düsseldorf, Germany.
- ☐ Sonnen Bassermann. Acquired 1998. Seesen, Germany.

European Foodservice

- ☐ Heinz Single Service Limited. Acquired 1995. Hayes Park, Middlesex, England.
- ☐ Serv-A-Portion. Acquired 1999. Turnhout, Belgium.
- ☐ AIAL (Arimpex Industrie Alimentari S.r.l.). Acquired 1992. Rovereto, Italy.
- ☐ Comexo S.A. Acquired April 2001. Chateaurenard, France.

Middle East

- ☐ Cairo Food Industries SAE. Established 1992. Cairo, Egypt.
- ☐ Heinz Remedia Limited. Established 1999. Tel Aviv, Israel.
- ☐ Star-Kist Food D'Or Limited. Acquired 2000. Haifa, Israel.

North and Central Africa

- ☐ Heinz Africa Trading Company. Established 2000. Lisbon, Portugal.
- ☐ Indian Ocean Tuna Limited. Acquired 1995. Victoria, Republic of Seychelles.
- ☐ Pioneer Food Cannery Limited. Acquired 1995. Tema, Ghana.

Southern Africa

- ☐ H.J. Heinz Southern Africa (Proprietary) Limited. Established 1995. Johannesburg, South Africa.
- ☐ H.J. Heinz (Botswana) (Proprietary) Ltd. Formed 1988. Gaborone, Botswana.
- ☐ Kgalagadi Soap Industries (Pty) Ltd. Acquired 1988. Gaborone, Botswana.
- ☐ Refined Oil Products (Pty) Ltd. Formed 1987. Gaborone, Botswana.
- ☐ Olivine Industries (Private) Limited. Acquired 1982. Harare, Zimbabwe.
- ☐ Chegutu Canners (Pvt) Ltd. Established 1992. Chegutu, Zimbabwe.
- ☐ Heinz South Africa (Pty) Ltd. Established 1995. Johannesburg, South Africa.
- ☐ Pets Products (Pty) Limited. Acquired 1997. Cape Town, South Africa.
- ☐ Heinz Frozen Foods (Pty) Ltd. Established 1995. Klerksdorp, South Africa.
- ☐ Heinz Wellington's (Pty) Ltd. Acquired 1997. Wellington, South Africa.

Pacific Rim and Southwest Asia

Heinz Wattie's Limited. Established 1998.

- ☐ H.J. Heinz Company Australia Ltd. Established 1935. Doveton, Victoria, Australia.
- ☐ Heinz-Wattie's Limited. Acquired 1992. Auckland, New Zealand.
- ☐ Tegel Foods Ltd. Acquired 1992. Newmarket, Auckland, New Zealand.

Heinz Japan Ltd. Established 1961. Tokyo, Japan.
Heinz-UFE Ltd. Established 1984. Guangzhou, People's Republic of China.
Heinz Cosco. Established 1999. Qingdao, People's Republic of China.
Seoul-Heinz Ltd. Established 1986. Inchon, South Korea.
Heinz Win Chance Ltd. Established 1987. Bangkok, Thailand.
Heinz India (Private) Limited. Acquired 1994. Mumbai, India.
PT Heinz ABC Indonesia. Established 1999. Jakarta, Indonesia.
PT Heinz Suprama. Acquired 1997. Surabaya, Indonesia.
Heinz UFC Philippines. Established 2000. Manila, The Philippines.
Heinz Hong Kong Limited. Established 2000. Wanchai, Hong Kong.
Heinz Singapore Pte, Ltd. Established 2000. Republic of Singapore.
Heinz Sinsin Pte, Ltd. Acquired 2001. Republic of Singapore.

Heinz: A Definition H.J. Heinz Company is one of the world's leading marketers of branded foods to retail and foodservice channels. Heinz has number-one or number-two branded businesses in more than 50 world markets.

Among the company's famous brands are *Heinz* (a global mega-brand approaching $3 billion in annual sales), *Ore-Ida, Smart Ones, Bagel Bites, Wattie's, San Marco, 9-Lives, Kibbles 'n Bits, Pounce, Farley's, Plasmon, BioDieterba, StarKist, John West, Petit Navire, Greenseas, UFC, Orlando, ABC, Honig, Hak, De Ruijter, Olivine* and *Pudliszki*. Heinz also uses the famous brands *Weight Watchers, Boston Market* and *Linda McCartney* under license.

Heinz provides employment for approximately 45,800 people full-time, plus thousands of others on a part-time basis and during seasonal peaks.

Annual Meeting The annual meeting of the company's shareholders will be held at 2:00 p.m. on Tuesday, September 11, 2001 in Pittsburgh at Heinz Hall for the Performing Arts. The meeting will be Webcast live at www.heinz.com.

Copies of This Publication and Others Mentioned in This Report are available from the Corporate Affairs Department at the Heinz World Headquarters address or by calling (412) 456-6000.

Form 10-K The company submits an annual report to the Securities and Exchange Commission on Form 10-K.

Copies of this Form 10-K are available from the Corporate Affairs Department.

Investor Information Securities analysts and investors seeking additional information about the company should contact Jack Runkel, Vice President–Investor Relations, at (412) 456-6034.

Equal Employment Opportunity H.J. Heinz Company hires, trains, promotes, compensates and makes all other employment decisions without regard to race, color, sex, age, religion, national origin, disability or other protected conditions or characteristics. It has affirmative action programs in place at all domestic locations to ensure equal opportunity for every employee.

The H.J. Heinz Company Equal Opportunity Review is available from the Corporate Affairs Department.

Environmental Policy H.J. Heinz Company is committed to protecting the environment. Each affiliate has established programs to review its environmental impact, to safeguard the environment and to train employees.

The H.J. Heinz Company Environmental Report is available from the Corporate Affairs Department and is accessible on www.heinz.com.

Corporate Data *Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts or to arrange for the direct deposit of dividends):*
Mellon Investor Services LLC, 85 Challenger Road, Overpeck Centre, Ridgefield Park, New Jersey 07660. (800) 253-3399 (within U.S.A.) or (201) 329-8660 or www.melloninvestor.com.

Auditors: PricewaterhouseCoopers LLP,
600 Grant Street, Pittsburgh, Pennsylvania 15219

Stock Listings:
New York Stock Exchange, Inc.
Ticker Symbols: Common–HNZ; Third Cumulative Preferred–HNZ PR

Pacific Exchange, Inc.
Ticker Symbol: Common–HNZ

TDD Services Mellon Investor Services can be accessed through telecommunications devices for the hearing impaired by dialing (800) 231-5469 (within U.S.A.) or (201) 329-8354.

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This entire report is printed on recycled paper.

Design: RKC! (Robinson Kurtin Communications! Inc)
Editorial: Matt Doherty
Major Photography: Bob Day
Produced by H.J. Heinz Company Corporate Affairs Department

This annual report contains forward-looking statements regarding the company's future performance. These forward-looking statements are based on management's views and assumptions, and involve risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. These include, but are not limited to, sales, earnings and volume growth, competitive conditions, production costs (including energy), currency valuations, interest rates, global economic and industry conditions, tuna prices, commodity prices, achieving cost savings and working capital and debt reduction programs, success of acquisitions, divestitures, innovations and supply chain and overhead initiatives, and other factors described in "Cautionary Statement Relevant to Forward-Looking Information" in the company's Form 10-K for the fiscal year ended May 2, 2001, as updated from time to time by the company in its subsequent filings with the Securities and Exchange Commission. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Boston Market, Jif, Jack Daniel's, Weight Watchers and *SHREK* are trademarks of Boston Chicken Corporation; Procter & Gamble Co.; Jack Daniel's Properties, Inc.; Weight Watchers International; and Dream Works L.L.C., respectively.