

**Quaker Oats Limited**

**Directors' report and financial  
statements**

**Registered number 64262**

**31 December 2003**



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## Directors' report

The directors have pleasure in presenting their annual report, together with the audited financial statements, for the year ended 31 December 2003.

### Principal activity

The principal activity of the company was the processing and sale of grocery products.

On 1 September 2003 Quaker Oats Limited acquired the investment of Quaker Oats BV and Quaker Trading Limited.

### Results and business review

Turnover for the year ended 31 December 2003 was £144,535,000 (2002: £134,331,000) and the profit before taxation for the year was £12,176,000 (2002: £14,111,000).

The directors declared a dividend of £12,000,000 (2002: £nil).

### Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company exceeds the book values of these assets at 31 December 2003.

### Payment of suppliers

The company's policy is to abide by the agreed terms of payment. The number of supplier's days outstanding at the year end was 11 days (2002: 27 days).

### Directors

The directors who served during the year and subsequently were:

G Sewell	(resigned 1 March 2004)
R Bouchier	
R Schellekens	(resigned 31 March 2003)
J Van Der Eems	(appointed 12 February 2004)
S Fraser	
G Legge	(resigned 12 February 2004)
M McGowan	(appointed 28 March 2003)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company. There were no other interests in group companies requiring disclosure under the Companies Act 1985.

## **Directors' report** *(continued)*

### **Disabled employees**

Applications for employment from registered disabled persons are dealt with on the basis of aptitude and ability for the job concerned. In the event of employees becoming disabled, continuity of employment and relevant training are arranged whenever possible. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be no different from those of any other employee.

### **Employee consultation**


The company places a high value on employee contribution to business success. Teamwork in the organisation is promoted through training workshops, the use of multifunctional groups, and the involvement of all levels of employees in contributing ideas and solutions to projects.

The communication of company goals and business performance is actively encouraged.

### **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**R Bouchier**  
*Director*

PO Box 24  
Bridge Road  
Southall  
Middlesex  
UB2 4HE

*28 October* 2004

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements: and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Arlington Business Park  
Theale  
Reading  
RG7 4SD  
United Kingdom

## **Report of the independent auditors to the members of Quaker Oats Limited**

We have audited the financial statements on pages 5 to 16.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*

**KPMG LLP**  
Chartered Accountants  
Registered Auditor

*29<sup>th</sup> October* 2004

**Profit and loss account**  
*for the year ended 31 December 2003*

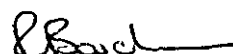
	<i>Notes</i>	<b>2003</b> <b>£000</b>	2002 £000 Restated
<b>Turnover</b>	2	144,535	134,331
Cost of sales		(60,038)	(57,799)
		<hr/>	<hr/>
<b>Gross profit</b>		84,499	75,532
Selling and Distribution Expenses		(58,146)	(48,587)
Administrative expenses		(13,669)	(13,369)
Other operating expenses	3	(507)	(464)
		<hr/>	<hr/>
<b>Operating profit</b>		12,175	14,112
Interest receivable/(payable) and similar income/(charges)	4	1	(1)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	5	12,176	14,111
Tax on profit on ordinary activities	8	(3,543)	(4,326)
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation</b>		8,633	9,785
Dividends paid		(12,000)	-
		<hr/>	<hr/>
<b>Retained (loss)/profit for the financial year</b>		(3,367)	9,785
		<hr/>	<hr/>

All activities are derived from continuing operations. There are no recognised gains or losses other than the profit for the year.

**Balance sheet**  
*as at 31 December 2003*

	<i>Notes</i>	<b>2003</b> <b>£000</b>	2002 £000 Restated
<b>Fixed assets</b>			
Intangible assets	9	-	-
Tangible assets	10	24,422	23,199
Investments	11	4,985	200
		<hr/> 29,407	<hr/> 23,399
<b>Current assets</b>			
Stocks	12	3,261	3,955
Debtors	13	17,273	16,257
Cash at bank and in hand		654	160
		<hr/> 21,188	<hr/> 20,372
<b>Creditors: amounts falling due within one year</b>	14	(21,458)	(16,121)
<b>Net current (liabilities)/assets</b>		<hr/> (270)	<hr/> 4,251
<b>Total assets less current liabilities</b>		<hr/> 29,137	<hr/> 27,650
<b>Provisions for liabilities and charges</b>	15	(2,910)	(2,841)
<b>Net assets</b>		<hr/> 26,227	<hr/> 24,809
<b>Capital and reserves</b>			
Called up share capital	16	500	500
Share premium	17	4,785	-
Profit and loss account	17	20,942	24,309
<b>Equity shareholders' funds</b>	17	<hr/> 26,227	<hr/> 24,809

The financial statements were approved by the board of directors on 28 October 2004 and signed on its behalf by:



**R Bouchier**  
*Director*



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, with the exception of the turnover policy as described below, is set out below:

#### *Basis of accounting*

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Under FRS 1 (Revised) the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the cashflows of the company in its own consolidated financial statements.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost, net of depreciation and any provision for permanent impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Buildings	2%
Plant and machinery	6% to 10%
Office furniture	10%
Computer equipment	33.3%

Where there has been an impairment in the book value of any tangible fixed assets, the impairment is charged to the profit and loss account in the period in which it is identified.

#### *Purchased goodwill*

Purchased goodwill is stated at cost and is amortised over the shorter of 20 years and its estimated useful economic life.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### *Turnover*

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT, returns and trade discounts.

The prior year turnover has been restated upon adoption of FRS 5 Appendix Application Note G to show the full value of sales to external customers as UK principal in the agreement with Quaker Trading Limited and Quaker Oats BV. As a result trade debtors have also been restated to show the full trade debtors from external customers as at 31 December 2002.

The adjustment has increased 2002 turnover by £76,297,000, cost of sales by £27,710,000 and selling and distribution costs by £48,587,000. There is no impact on operating profit. Trade debtors have increased by £15,455,000, amounts due from group undertakings have decreased by £10,084,000 and amounts due to group undertakings have increased by £5,371,000.

## Notes (continued)

### 1 Accounting policies (continued)

#### Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

#### Pension costs

The company participates in the Quaker Pension Scheme which is a defined benefit scheme run by Quaker Trading Limited. The company also contributes to a group defined contribution scheme formerly run by Quaker Old Trading Limited but now run by Quaker Trading Limited.

The amount charged to the profit and loss account for both schemes represents the amounts recharged by Quaker Trading Limited.

#### Foreign currency

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the current year end are translated at the year end exchange rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the profit and loss account.

#### Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

### 2 Segmental information

	2003 £000	2002 £000
<b>Turnover</b>		
Cereals	144,535	134,331
	<hr/>	<hr/>
	2003 £000	2002 £000
<b>Turnover</b>		
UK	84,067	80,566
Europe	43,706	39,231
Rest of world	16,762	14,534
	<hr/>	<hr/>
	144,535	134,331
	<hr/>	<hr/>

## Notes (continued)

### 3 Other operating expenses

The expenditure of £507,000 (2002: £464,000) represents royalty payments to other associated companies.

### 4 Interest receivable/(payable) and similar income/(charges)

	2003 £000	2002 £000
To other group companies	1	(1)

### 5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2003 £000	2002 £000
Depreciation of tangible fixed assets	2,830	2,198
Operating lease rental - plant and machinery	76	109
Loss on disposal of fixed assets	312	112

Auditors' remuneration in the current and previous year has been borne by a fellow subsidiary company. No amounts were payable for non-audit services in either year.

### 6 Staff costs

Employee costs during the year (including executive directors) are as follows:

	2003 £000	2002 £000
Wages and salaries	11,349	9,353
Social security costs	1,025	707
Other pension costs (see note 18c)	1,046	851
	13,420	10,911

The average monthly number of persons employed by the company during the year was as follows:

	Number of employees 2003	2002
Manufacturing	341	307
Administration	63	59
	404	366

## Notes (continued)

### 7 Directors' remuneration

	2003 £000	2002 £000
Directors' emoluments	1,633	429
Amounts receivable under long term incentive schemes	1,382	889
Company contributions to defined contribution pension scheme	66	42
	<u>3,081</u>	<u>1,360</u>

### Pensions

Retirement benefits are accruing to the following number of directors under:

	Number of directors	
	2003	2002
Defined benefit scheme	2	2
Defined contribution scheme	1	1
	<u>3</u>	<u>3</u>

### Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2003 £000	2002 £000
Directors' emoluments	1,443	302
Amounts receivable under long term incentive schemes	1,382	889
Company contributions to defined contribution pension scheme	51	28
	<u>2,876</u>	<u>1,219</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2003 was £237,992 (2002: £213,960) and there was no accrued lump sum entitlement at 31 December 2003 (2002: *£nil*).

## Notes (continued)

### 8 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2003 £000	2002 £000
Corporation tax at 30 % (2002: 30%)	3,490	3,814
Adjustment of UK Corporation tax in respect of prior years	(16)	55
	<hr/>	<hr/>
Total current tax	3,474	3,869
Current Deferred taxation (see note 15)	172	457
Adjustment to Prior Year (see note 15)	(103)	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	<u>3,543</u>	<u>4,326</u>

The current tax charge for the year of £3,490,000 is lower (2002: lower) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	12,176	14,111
	<hr/>	<hr/>
Current tax at 30 % (2002: 30%)	3,653	4,233
<i>Effects of:</i>		
Expenses not deductible for tax purposes	9	60
Capital allowances for period in excess of depreciation	(172)	(479)
	<hr/>	<hr/>
Total current tax charge (see above)	<u>3,490</u>	<u>3,814</u>

## Notes (continued)

### 9 Intangible fixed assets

The net book value of intangible fixed assets comprises purchased goodwill relating to the purchase of the assets and trade of AR Scott Limited in 1982.

The movement in the year was as follows;

	£000
<b>Cost</b>	
At 31 December 2002 and at 31 December 2003	1,172
<b>Amortisation</b>	
At 31 December 2002 and at 31 December 2003	1,172
<b>Net book value</b>	
At 31 December 2002 and at 31 December 2003	-

### 10 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Assets in course of construction £000	Total £000
<b>Cost</b>				
At 31 December 2002	6,471	36,271	2,864	45,606
Additions	-	-	4,368	4,368
Transfers	876	4,918	(5,794)	-
Disposals	(8)	(1,297)	-	(1,305)
At 31 December 2003	7,339	39,892	1,438	48,669
<b>Depreciation</b>				
At 31 December 2002	2,406	20,001	-	22,407
Charge in year	207	2,623	-	2,830
Disposals	-	(990)	-	(990)
At 31 December 2003	2,613	21,634	-	24,247
<b>Net book value</b>				
At 31 December 2003	4,726	18,258	1,438	24,422
At 31 December 2002	4,065	16,270	2,864	23,199

Freehold land of £172,727 (2002: £172,727) has not been depreciated.

## Notes (continued)

### 11 Fixed Asset Investment

	Shares in group undertakings £000
Brought forward as restated	200
Additions	4,785
	<hr/>
<b>Cost and net book value at 31 December 2003</b>	<b>4,985</b>
	<hr/>

Name	Equity owned by the company	Country of principal operation	Principal activity
Quaker Trading Ltd	100%	UK	Distribution
Quaker Oats BV	100%	The Netherlands	Manufacturing
Gatorade Ltd	100%	UK	Dormant
A&R Scott Ltd	50%	UK	Dormant

On 1 September 2003 100% of the ordinary share capital of Quaker Oats BV was acquired in exchange for 1 ordinary share in Quaker Oats Ltd.

On 1 September 2003 100% of the share capital of Quaker Trading Ltd was acquired in exchange for 1 ordinary share in Quaker Oats Ltd.

The prior year cost of investment has been restated to reflect the investment in Gatorade Ltd, details of which are given above.

### 12 Stocks

	2003 £000	2002 £000
Raw materials	3,220	3,942
Work-in-progress	41	13
	<hr/>	<hr/>
	<b>3,261</b>	<b>3,955</b>
	<hr/>	<hr/>

The value of consignment stock included in raw materials held by the company at the end of the year was £1,413,000 (2002: £1,731,000). Although the stock remains the property of the consigner until Quaker decides to transfer the stock into its ownership (based on usage in production) Quaker bears the key risks and rewards of ownership.

## Notes (continued)

### 13 Debtors: amounts falling due within one year

	2003 £000	2002 £000 Restated
Trade debtors	16,493	15,641
Amounts due from group undertakings	146	-
VAT receivable	380	358
Other debtors	194	197
Prepayments and accrued income	60	61
	<u>17,273</u>	<u>16,257</u>

The amounts due from group undertakings are interest free and repayable on demand. Trade debtors have been restated to show the gross external receivable as principal in agreement with Quaker Trading Ltd and Quaker Oats BV.

### 14 Creditors: amounts falling due within one year

	2003 £000	2002 £000 Restated
Trade creditors	1,548	4,019
Amounts due to group undertakings	13,211	6,885
UK corporation tax payable	1,576	1,980
Social security and PAYE	355	270
Accruals and deferred income	4,768	2,967
	<u>21,458</u>	<u>16,121</u>

### 15 Provisions for liabilities and charges

	Deferred taxation £000
At 31 December 2002	2,841
Adjustment to estimated recoverable amount	(103)
Provided in the year	172
	<u>2,910</u>
At 31 December 2003	<u>2,910</u>

There is no unprovided deferred tax since in the view of the directors all timing differences are expected to reverse.

The elements of deferred taxation are as follows:

	2003 £000	2002 £000
Excess of tax allowances over book depreciation of fixed assets	2,910	2,841
Deferred tax liability	<u>2,910</u>	<u>2,841</u>



## Notes (continued)

### 16 Called up share capital

	2003 £000	2002 £000
<i>Authorised, allotted, called up and fully paid</i>		
500,002 (2002: 500,000) ordinary shares of £1 each	500	500

The company issued two £1 ordinary shares during the year as consideration for the investments in Quaker Trading Limited and Quaker Oats BV (see note 11).

### 17 Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium £000	Profit and loss account £000	Total shareholders' funds £000
Beginning of year	500	-	24,309	24,809
Retained loss for the financial year	-	-	(3,367)	(3,367)
Shares Issued	-	4,785	-	4,785
<b>End of year</b>	<b>500</b>	<b>4,785</b>	<b>20,942</b>	<b>26,227</b>

### 18 Guarantees and other financial commitments

#### a) Capital commitments

At the end of the year, there were contracted capital commitments of £297,471 (2002: £733,615).

#### b) Lease commitments

The company has entered into a number of leases in respect of plant and machinery, for which the minimum future annual rentals are as follows:

	2003 £000	2002 £000
<i>Operating leases which expire:</i>		
Within one year	16	15
Within two to five years	45	94
	<b>61</b>	<b>109</b>

#### c) Pension arrangements

The company is a member of the Quaker Pension Scheme – a defined benefits scheme and Quaker Oats Money Purchase scheme. Any pension costs charged are based on contribution rates across the group as a whole, assessed by a qualified actuary. The costs recognised in the company are based upon contributions made and pension costs recharged by Quaker Trading Limited in the year. Full disclosure of the group pension scheme is included in the financial statements of Quaker Holdings (UK) Limited.

i) *Defined contribution scheme*

The pension cost charge relating to this scheme for the period was £256,000 (2002: £218,000).

ii) *Defined benefit scheme*

The combined pension cost charge relating to this scheme for the period was £790,000 (2002: £633,000).

**FRS 17 transitional disclosures**

The company is a member of a pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme. Full disclosure of the group pension scheme under the transitional requirements of FRS 17 is included in the financial statements of Quaker Holdings (UK) Limited.

**19 Ultimate parent company**

The company is a subsidiary undertaking of PepsiCo Inc. a company registered and incorporated in the United States of America.

The largest group in which the results of the Company are consolidated is that headed by PepsiCo Inc. The smallest group in which they are consolidated is that headed by Quaker Holdings (UK) Limited, a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from their respective registered offices as follows:

Quaker Holdings (UK) Limited  
PO Box 24  
Bridge Road  
Southall  
Middlesex  
UB2 4HE

PepsiCo Inc  
700 Andersen Hill Road  
Purchase  
New York 10577  
USA

**20 Related party transactions**

The company has taken advantage of the exemption conferred by FRS 8 not to disclose details of transactions with companies in the same group on the grounds that it is a wholly owned subsidiary undertaking of PepsiCo Inc, a company whose consolidated accounts are available to the public, as detailed in note 19.