Quaker Oats Limited

Directors' report and financial statements

31 December 2005

Registered number 64262

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Contents

Directors' report

The directors present their report and the audited financial statements, for the period ended 31 December 2005

Principal activity

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

Results and business review

The results for the period are shown in the profit and loss account on page 4

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 2005

Directors

The directors who served during the year and subsequently were

L Prescott-Brann	(appointed 30 November 2005, resigned 31 March 2006)
M Williams	(appointed 21 March 2005)
R Bouchier	(resigned 30 November 2005)
C Stone	(appointed 20 March 2006)
S Fraser	
M E Barnard	(appointed 20 March 2006)
J Van Der Eems	(resigned 21 March 2005)
M McGowan	

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

Employee communication and policy

The company follows an employment policy of non-discrimination on the grounds of sex race or age and gives full and fair consideration to the employment of disabled persons

The company promotes a positive attitude by ensuring that recruitment personnel are fully conversant with the statutory provisions on discrimination and by giving full and fair consideration to applications for employment by disabled people, having regard to their particular aptitudes and abilities Wherever possible, arrangements are made to retain and assist employees who become disabled during service Disabled people have equal opportunities with other employees for training, career progression and promotion

The company provides all employees with information on its progress in regular internal newspapers, videos, group briefings and individual employee consultations are also held In addition, the PepsiCo Group operates a share option scheme, which all full time employees of this company are entitled to participate in

Creditor payment policy

The company values its relationship with its many suppliers As part of meeting its obligations under each purchase transaction the company's policy is to pay amounts due for settlement in accordance with the negotiated terms of trade

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office

Clare Stone

C Stone
Director
4 April 2007

1600 Arlington Business Park
Theale
Reading
Berkshire
RG7 4SA

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Director's report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare financial statements in accordance with UK accounting standards

The financial statement are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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

KPMG LLP

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent auditors' report to the members of Quaker Oats Limited

We have audited the financial statements of Quaker Oats Limited for the period ended 31 December 2005, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes These financial statements have been prepared under the accounting policies set out therein

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 auditors' 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

As described in the statement of directors' responsibilities on page 2, the company's directors are responsible for preparing the financial statements in accordance with applicable law and UK accounting standards (UK generally accepted accounting practice)

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the period then ended, and
- have been properly prepared in accordance with the Companies Act 1985

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

4 April *2007*

Profit and loss account
for the year ended 31 December 2005

	Notes	2005 £000	2004 £000 (as restated)
Turnover	*2*	**127,921**	139,317
Cost of sales		**(81,457)**	(52,774)
Gross profit		**46,464**	86,543
Selling and distribution expenses		**(27,425)**	(62,076)
Administrative expenses		**(8,219)**	(12,925)
Other operating expenses	*3*	**(2,151)**	(476)
Other operating income	*4*	**15,044**	-
Operating profit		**23,713**	11,066
Interest payable and similar expense	*5*	**(11)**	-
Profit on ordinary activities before taxation	*6*	**23,702**	11,066
Tax on profit on ordinary activities	*9*	**(3,548)**	(3,358)
Profit on ordinary activities after taxation		**20,154**	7,708
Dividends paid		-	(855)
Retained profit for the financial period	*18*	**20,154**	6,853

There is no difference between the company's results as reported and on an historical cost basis Accordingly, no note of historical cost profit and loss has been prepared

All activities are derived from continuing operations

Statement of total recognised gains and losses

	2005 £000	2004 £000
Profit for the financial period	**20,154**	6,853
Total recognised gains and losses relating to the period	**20,154**	6,853
Prior period adjustments (note 18)	**(309)**	-
Total gains and losses recognised since the last annual report	**19,845**	6,853

Balance sheet
as at 31 December 2005

	Notes	2005	2004
		£000	£000 (as restated)
Fixed assets			
Intangible assets	*10*	-	-
Tangible assets	*11*	20,827	23,964
Investments	*12*	4,984	4,984
		25,811	28,948
Current assets			
Stocks	*13*	3,471	7,454
Debtors	*14*	45,758	27,110
Cash at bank and in hand		1,450	829
		50,679	35,393
Creditors amounts falling due within one year	*15*	(23,313)	(29,361)
Net current assets		27,366	6,032
Total assets less current liabilities		53,177	34,980
Provisions for liabilities and charges	*16*	(1,109)	(3,066)
Net assets		52,068	31,914
Capital and reserves			
Called up share capital	*17*	500	500
Share premium	*18*	4,785	4,785
Profit and loss account	*18*	46,783	26,629
Equity shareholders' funds	*19*	52,068	31,914

The financial statements were approved by the board of directors on 4 April 2007 and signed on its behalf by

C Stone
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 period 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

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts These financial statements present information about the company as an individual undertaking and not about its group

In these financial statements the following new standard has been adopted for the first time

FRS 17 'Retirement Benefits'

As a result of the full implementation of FRS 17 'Retirement Benefits' the comparative figures did not require restatement as the SSAP 24 charge had also been equal to the contributions paid and therefore at the end of 2004 there had been no SSAP 24 asset or liability The accounting policy under the new standard is disclosed below in the accounting policy on pension costs

The company has adopted Format 1 for the presentation of the profit and loss account so as to be consistent with its fellow group members The comparative figures have been restated accordingly

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published 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 (representing the excess of fair value of the consideration gives over the fair value of the separable net assets acquired) arising on consolidation 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

Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

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, except as otherwise required by Financial Reporting Standard 19

Notes *(continued)*

1 Accounting policies *(continued)*

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

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 in respect of the accounting period

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

Related party transactions

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose related party transactions with members of the same group on the grounds that 90% or more of the voting rights are controlled within the group

Notes *(continued)*

2 Segmental information

	2005	2004
	£000	£000
Turnover		
Cereals	**127,921**	139,317

	2005	2004
	£000	£000
Turnover		
UK	**87,146**	82,405
Europe	**40,775**	42,820
Rest of world	**-**	14,092
	127,921	139,317

3 Other operating expenses

Other operating expenses comprises the following

	2005	2004
	£000	£000
Royalty payments to associated company	**899**	476
Loss on disposal of fixed assets	**1,203**	-
Other write offs	**49**	
	2,151	476

4 Other operating income

Other operating income comprises the following

	2005	2004
	£000	£000
Sale of Intellectual Property	**13,470**	
Insurance proceeds received	**1,550**	-
Other miscellaneous income	**24**	-
	15,044	-

5 Interest payable and similar expense

	2005	2004
	£000	£000
Exchange loss	**11**	-

Notes *(continued)*

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2005 £000	2004 £000
Depreciation of tangible fixed assets	**3,186**	3,060
Operating lease rental - plant and machinery	**114**	92
Loss on disposal of fixed assets (note 3)	**1,203**	27

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

7 Staff costs

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

	2005 £000	2004 £000
Wages and salaries	**13,047**	11,841
Social security costs	**2,068**	1,022
Other pension costs	**6,798**	1,133
	21,913	13,996

Included in other pension costs is £5,900,000 *(2004 £nil)* in respect of a special contribution to the pension scheme

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

	Number of employees 2005	2004
Manufacturing	**343**	347
Administration	**51**	57
	394	404

Notes *(continued)*

8 Directors' remuneration

	2005	2004
	£000	£000
Directors' emoluments	**325**	611
Company contributions to defined contribution pension scheme	**18**	55
	343	666

Pensions

Retirement benefits are accruing to the following number of directors under

	Number of directors	
	2005	2004
Defined benefit scheme	-	2
Defined contribution scheme	-	1

Highest paid director

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

	2005	2004
	£000	£000
Directors' emoluments	**284**	409
Amounts receivable under long term incentive schemes	**41**	-
Company contributions to defined contribution pension scheme	**18**	40
	343	449

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2005 was £nil (*2004 £202,069)* and there was no accrued lump sum entitlement at 31 December 2005 (*2004 £nil*)

Notes *(continued)*

9 Tax on profit on ordinary activities

The tax charge is based on the profit for the period and comprises

	2005	2004
	£000	£000
		(as restated)
Corporation tax at 30% *(2004 30%)*	**4,809**	3,202
Adjustment of UK corporation tax in respect of prior periods	**696**	-
Total current tax	**5,505**	3,202
Current deferred taxation (note 16)	**(1,864)**	100
Adjustment to prior periods (note 16)	**(93)**	56
Tax on profit on ordinary activities	**3,548**	3,358

The current tax charge for the period of £5,505,000 *(2004 £3,202,000)* is lower (*2004 lower*) than the standard rate of corporation tax in the UK of 30% (*2004 30%*) The differences are explained below

	2005	2004
	£000	£000
Current tax reconciliation		(as restated)
Profit on ordinary activities before tax	**23,702**	11,066
Current tax at 30% *(2004 30%)*	**7,111**	3,320
Effects of		
Expenses not deductible for tax purposes	**6**	6
Sale of Intellectual Property transferred to a fellow subsidiary not subject to tax	**(4,041)**	-
Capital allowances for period in excess of depreciation	**60**	(100)
Loss on disposal of fixed assets	**467**	-
Research and development provision	**(122)**	(24)
Pension payment eligible for relief in future periods	**1,328**	-
Prior period adjustment	**696**	-
Total current tax charge (see above)	**5,505**	3,202

Details of the prior period restatement are set out in note 18

10 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 cost at the beginning and end of the period was£1,172,000 and the amounts written off at the beginning and end of the period were £1,172,000 Consequently, the net book value at the beginning and end of the period was £nil

Notes *(continued)*

11 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Assets in course of construction £000	Total £000
Cost				
At 31 December 2004	7,479	41,852	1,810	51,141
Additions	471	2,045	-	2,516
Transfers	-	699	(699)	-
Disposals	-	(187)	(338)	(525)
Transfer to other group company	-	(3,312)	-	(3,312)
At 31 December 2005	7,950	41,097	773	49,820
Depreciation				
At 31 December 2004	2,851	24,326	-	27,177
Charge in period	254	2,932	-	3,186
Disposals	-	(168)	-	(168)
Transfer to other group company	-	(1,202)	-	(1,202)
At 31 December 2005	3,105	25,888	-	28,993
Net book value				
At 31 December 2005	**4,845**	**15,209**	**773**	**20,827**
At 31 December 2004	4,628	17,526	1,810	23,964

Freehold land of £172,727 *(2004 £172,727)* has not been depreciated

12 Fixed asset investment

Shares in group undertakings	£000
Cost and net book value at beginning and end of period	**4,984**

Name	Ordinary shares owned by the company	Country of principal operation and incorporation	Principal activity
Quaker Trading Ltd	100%	UK	Distribution
Quaker Oats BV	100%	The Netherlands	Manufacturing
Walkers Intermediate Holding Company Limited (formerly Gatorade Ltd)	100%	UK	Dormant
A&R Scott Ltd	100%	UK	Dormant

The company acquired the remaining 50% of A&R Scott in 2004 at a cost of £1 This was not reflected in the 2004 financial statements and has been corrected in 2005

13 Stocks

	2005 £000	2004 £000
Raw materials	**1,719**	2,971
Finished goods	**1,752**	4,483
	3,471	7,454

Notes *(continued)*

14 Debtors: amounts falling due within one year

	2005	2004
	£000	£000 (as restated)
Trade debtors	11,789	20,281
Amounts due from group undertakings	33,845	4,926
UK corporation tax receivable	-	1,178
Other debtors	-	625
Prepayments and accrued income	124	100
	45,758	27,110

Details of the prior period restatement are set out in note 18

15 Creditors: amounts falling due within one year

	2005	2004
	£000	£000 (as restated)
Trade creditors	5,825	5,304
Amounts due to group undertakings	3,403	16,333
UK corporation tax payable	6,051	-
Social security and PAYE	-	322
Accruals and deferred income	8,034	7,402
	23,313	29,361

Details of the prior period restatement are set out in note 18

16 Provisions for liabilities and charges

Deferred taxation	£000
At 31 December 2004	3,066
Provided in the period	(1,957)
At 31 December 2005	**1,109**

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

	2005 £000	2004 £000
Excess of tax allowances over book depreciation of fixed assets	2,482	3,066
Other timing differences	(1,373)	-
Deferred tax liability	1,109	3,066

Notes *(continued)*

17 Called up share capital

	2005	2004
	£000	£000
Authorised, allotted, called up and fully paid		
500,002 (*2004 500,002*) ordinary shares of £1 each	**500**	500

18 Reserves

	Share premium	**Profit and loss account**
	£000	£000
At beginning of period as previously reported	4,785	26,938
Prior period adjustment	-	(309)
	4,785	26,629
Retained profit for the financial period	-	20,154
At end of period	**4,785**	**46,783**

The directors have identified an error in the calculation of the fees paid to its distributor in the UK (a fellow group company) included within distribution costs, for the period ended 31 December 2004 Accordingly, distribution costs for that period have been reduced by £1,224,000 and corporation tax has increased by £367,000, with a net increase in profit for that period and on the net assets at the end of the period of £857,000

The directors identified during the period that a subsidiary had a receivable balance due from the company The company had no corresponding payables balance As a result amounts due to group undertakings has been increased by £1,166,000 and the profit and loss balance brought forward has been reduced by £1,166,000

During the period the directors of have considered the substance of a distribution agreement with a fellow group company In the financial statements for the period ended 31 December 2004 the distributor held certain liabilities of the company as if it were the principal to the agreement The directors now consider that this treatment was incorrect and that the company should recognise these liabilities as principal Accordingly, they have increased trade creditors by £3,059,000 and accruals by £2,659,000 and increased amounts due from group undertakings by £5,718,000 as at 31December 2004 to reflect this In addition, an amount of £983,000 had incorrectly been set against amounts due from group undertakings as opposed to taxation recoverable The amounts due from group undertakings has therefore been reduced by £983,000 and the tax recoverable has been increased by an equal amount There is no impact of these adjustments on net assets as at 31 December 2004 or on the profit for the period then ended

19 Reconciliation of movements in equity shareholders' funds

	2005	2004
	£000	£000
At beginning of period as previously reported	32,223	26,227
Prior period adjustment (note 18)	(309)	(1,166)
	31,914	25,061
Retained profit for the financial period as previously reported	20,154	5,996
Prior period adjustment (note 18)	-	857
Closing equity shareholders' funds	**52,068**	31,914

Notes *(continued)*

20 Guarantees and other financial commitments

a) Capital commitments

At the end of the period, there were contracted capital commitments of £nil *(2004 £32,000)*

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

	2005	2004
	£000	£000
Operating leases which expire.		
Within one year	-	20
Within two to five years	127	127
	127	147

21 Pension scheme

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 charge for the period is determined as the contributions paid into the scheme

The latest full actuarial valuation was carried out at 30 September 2004 and was updated for FRS 17 purposes to 31 December 2005 by a qualified independent actuary The pension charge for the period was £6,798,000 *(2004 £1,133,000)*

22 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 whose registered office is at 700 Anderson Hill Road, Purchase, New York 10577, United States of America

The consolidated financial statements of this company are available to the public and may be obtained from the registered offices as noted above