Quaker Oats Limited

Annual Report

For the period ending 30 December 2006

Registered No: 64262

Directors' report

The Directors present their report and the audited financial statements for the period ending 30 December 2006

Principal activities

The principal activity is the processing and sale of grocery products

Business review

Turnover increased by 13%, primarily reflecting an increase in volume

Gross profit increased 44% to £66 766 000

Operating profit decreased by £12,899,000 to £10,558 000 The prior period benefited by £15,104,000 of non recurring income

Results and dividends

The profit for the period was £8,957,000 *(2005 £19 975 000)* The directors do not recommend the payment of a dividend (2005 Nil)

Market value of land and buildings

In the opinion of the directors the market value of land and buildings exceeds its book value

Directors

The directors who held office during the period were as follows

SW Fraser	
M McGowan	
A Ahmed	(appointed 1 November 2007)
M Williams	(resigned 1 November 2007)
L Prescott-Brann	(resigned 31 March 2006)
CE Stone	(appointed 20 March 2006)
ME Barnard	(appointed 20 March 2006)

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

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 people

The company promotes a positive attitude by ensuring that recruitment staff 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 and 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 and videos Group briefings and individual employee consultations are also held In addition, PepsiCo Group operates a share option scheme, which all full time employees of this company are eligible to participate in

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that so far as they are each aware there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

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

By order of the board

A Y. Ahmed

A Ahmed
Director

31 January 2008

1600 Arlington Business Park
Theale
Reading
RG7 4SA

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

The directors are responsible for preparing the Directors' 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 the financial statements in accordance with UK Accounting Standards

The financial statements 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 judgments 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 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

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 year ended 30 December 2006 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 2

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 judgments 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 30 December 2006 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31st January 2008

Profit and loss account
for the period ended 30 December 2006

	Note	2006 £'000	2005 £'000 (as restated)
Turnover	2	**144,940**	127 921
Cost of sales		**(78,174)**	(81,713)
Gross profit		**66,766**	46,208
Selling and distribution expenses		**(50,031)**	(27,425)
Administrative expenses		**(9,174)**	(8,219)
Other operating expenses	3	**(436)**	(2,151)
Other operating income	4	**3,433**	15,044
Operating profit		**10,558**	23,457
Interest payable and similar charges	5	**(4)**	(11)
Interest receivable and similar income	6	**483**	-
Profit on ordinary activities before taxation	7	**11,037**	23 446
Taxation on profit on ordinary activities	10	**(2,080)**	(3,471)
Profit on ordinary activities after taxation	19	**8,957**	19 975

There is no difference between the profits stated above, and their historical cost equivalents

All activities are derived from continuing operations

Statement of total recognised gains and losses
for the period ended 30 December 2006

	Note	2006 £'000	2005 £'000 (as restated)
Profit for the financial period		**8,957**	19 975
Exchange loss		**(22)**	-
		8,935	19,975
Prior period adjustment	19	**(436)**	
Total gains and losses recognised since the last annual report		**8,499**	

Balance sheet
at 30 December 2006

	Note	2006 £'000	2005 £'000 (as restated)
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	8,761	20 827
Investments	13	4,984	4,984
		13,745	25,811
Current assets			
Stocks	14	6,893	3,471
Debtors amounts falling due within one year	15	26,020	45,758
Cash at bank and in hand		56,996	1,450
Total current assets		89,909	50,679
Creditors amounts falling due within one year	16	(41,736)	(23,313)
Net current assets		48,173	27,366
Total assets less current liabilities		61,918	53,177
Provisions for liabilities and charges	17	(578)	(922)
Net assets		61,340	52 255
Capital and reserves			
Called up share capital	18	500	500
Share premium account	19	4,785	4 785
Profit and loss reserve	19	56,055	46 970
Total shareholders' funds	20	61,340	52 255

These financial statements were approved by the board of directors on 31 January 2008 and were signed on its behalf by

A Y Ahmed

A Ahmed
Director

Notes
(forming part of the financial statements)

1 Accounting policies
The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the company s financial statements except as, noted below

Basis of preparation
These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Implementation of new financial reporting standards

In these financial statements the following new standards have been applied for the first time

FRS 20 "Share based payments"

FRS 25 "Financial Instruments Disclosure and presentation"

FRS 26 "Financial Instruments Measurement"

As a result of the implementation of FRS 20 'Share-based payments the comparative figures have been restated to include the requirements of the standard The accounting policy under this new standard is disclosed below

The impact of the implementation of FRS 25 and FRS 26 is £nil *(2005 £nil)*

Cash flow statement
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

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

Turnover
Turnover represents amounts receivable for goods and services provided in the normal course of business net of trade discounts VAT and other sales related taxes to third parties

Related party disclosure
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

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

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

Share based payments
The share option programme allows employees to acquire shares in PepsiCo Inc the ultimate parent company The fair value of options granted (after 7 November 2002 and those not yet vested as at 1 January 2006) is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using a Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted

Notes
(forming part of the financial statements)
1 Accounting policies *(continued)*

Classification of financial instruments issued by the company

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (i e forming part of shareholders funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company s exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the company s own shares the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders funds

Taxation

Corporation tax is charged on the profit on ordinary activities for the year as adjusted for taxation purposes

Financial Reporting Standard 19 requires that deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date at rates expected to apply when they crystallise, based on current tax rates and the law whilst taking account of the currently enacted regulation Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements

2 Segmental information

	2006	2005
By class of business	£'000	£'000
Cereals	144,940	127,921

	2006	2005
Geographical destination	£'000	£'000
UK	91,254	87 146
Europe	42,283	40 775
Rest of world	11,403	-
	144,940	127 921

3 Other operating expenses

	2006	2005
	£'000	£'000
		(as restated)
Royalty payments to associated company	436	533
Loss on disposal of tangible fixed assets (note 7)	-	1 560
Miscellaneous write offs	-	58
	436	2,151

4 Other operating income

	2006	2005
	£'000	£'000
Sale of intellectual property rights	351	13,470
Gain on disposal of tangible fixed assets (note 7)	2,548	-
Insurance proceeds received	-	1,550
Other miscellaneous income	534	24
	3,433	15,044

5 Interest payable and similar charges

	2006	2005
	£'000	£'000
Exchange loss	4	11

6 Interest receivable and similar income

	2006	2005
	£'000	£'000
Interest receivable from group companies	483	-

Notes

(forming part of the financial statements)

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2006 £'000	2005 £'000
Depreciation of tangible fixed assets	3,764	3,186
Operating lease rentals - plant and machinery	95	114
(Gain)/loss on disposal of fixed assets (note 3 and note 4)	(2,548)	1 560

Auditors' remuneration has been borne in both periods by a fellow group company The amount applicable to the company was £ 32,500 *(2005 £31 000)*

8 Staff costs

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

	2006 £'000	2005 £'000 (as restated)
Wages and salaries	12,018	12 843
Redundancy costs	2,946	-
Social security costs	976	2 068
Other pension costs	989	6,798
Share based payments	150	259
	17,079	21,968

The current period pension costs include £nil *(2005 £5 900 000)* in respect of a special contribution made to the pension scheme

Details of the prior period adjustment to staff costs are set out in note 19

The average monthly number of employees during the period, analysed by category, was as follows

	2006 Number	2005 Number (as restated)
Manufacturing	251	333
Administration	43	51
	294	384

The staff numbers in the prior period have been restated to eliminate temporary and contract staff

9 Directors' remuneration

	2006 £'000	2005 £ 000
Directors' emoluments	109	325
Contributions to defined contribution pension scheme	11	18
	120	343

Pensions

Retirement benefits are accruing to the following number of directors under the schemes noted

	2006 Number	2005 Number
Defined benefit scheme	3	-
Defined contribution scheme	-	-
	3	-

Highest paid director

	2006 £'000	2005 £'000
Directors' emoluments	54	284
Amounts receivable under long term incentive scheme	-	41
Company contribution to pension scheme	5	18
	59	343

The accrued entitlement under the pension scheme of the highest paid director was £nil *(2005 - £nil)* The accrued lump sum entitlement was £nil *(2005 - £nil)*

Notes
(forming part of the financial statements)

10 Taxation

	2006		2005	
	£'000	£'000	£'000	£'000
(a) Analysis of charge in period			(as restated)	(as restated)
UK corporation tax				
Current tax on income for the period		2,252		4,809
Adjustment in respect of prior periods		172		696
		2,424		5,505
Deferred Tax (note 17)				
Origination/reversal of timing differences	(313)		(1 941)	
Adjustment in respect of prior periods	(31)		(93)	
		(344)		(2,034)
Tax charge on ordinary activities		2,080		3,471

(b) Factors affecting current tax charge for the period

The current tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK 30% (2005 30%) The differences are explained below

	2006	2005
	£'000	£'000
		(as restated)
Current tax reconciliation		
Profit on ordinary activities before tax	11,037	23,446
Current tax at 30%	3,311	7 034
Capital allowances in excess of depreciation	(16)	60
Loss on disposal of fixed assets	832	467
Gain on disposal of fixed asset reduced by indexation allowance	(1,597)	-
Timing difference on tax relief for special pension contribution	(443)	1 328
Sale of intellectual property not taxable	(9)	(4 041)
Utilisation of losses	(96)	-
Corporate share scheme deduction	45	77
Movements in general provisions	(105)	-
Expenses not deductible for tax purposes	330	6
Relief for research and development costs	-	(122)
Prior period adjustments	172	696
Total current tax charge	2,424	5 505

The directors' are not aware of any other factors which may affect the future tax charge

11 Intangible fixed assets

	£'000
Goodwill	
Cost at beginning and end of period	1,172
Amounts written off at the beginning and end of period	(1,172)
Net book value at the beginning and end of the period	-

Notes

(forming part of the financial statements)

12 Tangible fixed assets

	Freehold land and buildings	Plant and equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At beginning of period	7,950	41 097	773	49,820
Additions	-	-	1,948	1 948
Transfers	51	1,634	(1,685)	-
Intercompany transfers	-	(8,419)		(8 419)
Disposals	(3,874)	(19,191)	-	(23,065)
At end of period	4,127	15,121	1 036	20 284
Depreciation				
At beginning of period	3 105	25,888	-	28,993
Charge in period	233	3,531	-	3,764
Intercompany transfers	-	(3,267)	-	(3 267)
Disposals	(1 589)	(16,378)	-	(17 967)
At end of period	1 749	9,774	-	11,523
Net book value				
At 30 December 2006	**2,378**	**5,347**	**1,036**	**8,761**
At 31 December 2005	4 845	15,209	773	20 827

Freehold land of £103,273 *(2005 £172 727)* has not been depreciated

13 Fixed asset investments

	£'000
Cost and net book value at beginning and end of period	4,984

Shares in group undertakings

Name	Ownership	Principal activity
Quaker Trading Limited	100%	Distribution
Quaker Oats BV	100%	Manufacturing
Walkers Intermediate Holding Company Limited	100%	Dormant
A&R Scott Limited	100%	Dormant

All of the above companies are incorporated in the UK (which is their principal country of operation) other than Quaker Oats BV whose country of incorporation and principal country of operation is the Netherlands

14 Stocks

	2006	2005
	£'000	£'000
Raw materials	889	1,719
Finished goods	6,004	1 752
	6,893	3,471

15 Debtors amounts falling due within one year

	2006	2005
	£'000	£'000
Trade debtors	21,017	11 789
Amounts due from group undertakings	4,313	33,845
Prepayments and accrued income	690	124
	26,020	45,758

16 Creditors amounts falling due within one year

	2006	2005
	£'000	£'000
		(as restated)
Trade creditors	3,851	11 207
Amounts due to group undertakings	9,360	3 403
Corporation tax payable	9 107	6 051
Other taxation and social security	3,148	-
Accruals and deferred income	16,270	2,652
	41 736	23,313

The comparative figure for trade creditors has been increased by £5,382 000 and accruals and deferred income has been reduced by an equal amount to more accurately reflect the underlying nature of the liabilities

Notes
(forming part of the financial statements)

17 Provisions for liabilities and charges

Deferred taxation

	£'000 (as restated)
At beginning of period	922
Profit and loss account (note 10)	(344)
At end of period	578

The elements of the deferred taxation balance are as follows

	2006 £'000	2005 £'000
Excess of capital allowances over book depreciation of tangible fixed assets	1,695	2,482
Other timing differences	(1,117)	(1,560)
	578	922

Details of the prior period adjustment are disclosed in note 19

18 Called up share capital

	2006 £'000	2005 £'000
Authorised allotted called up and fully paid		
500,002 Ordinary shares of £1 each	500	500

19 Reserves

	Share premium £'000	Profit and loss account (as restated) £'000	Total (as restated) £'000
At beginning of period as previously reported	4,785	46,783	51 568
Prior period adjustment	-	187	187
	4,785	46,970	51 755
Exchange adjustment	-	(22)	(22)
	4 785	46,948	51,733
Credit in relation to share based payments	-	150	150
Profit for period	-	8,957	8,957
At end of period	4,785	56,055	60,840

The company has adopted FRS 20 in the period and have therefore restated the financial statements for the period ended 31 December 2005 The restated balance sheet with the adjustments made is set out below,

	2005 £'000	FRS 20 £'000	2005 £'000 (as restated)
Intangible assets	-	-	-
Tangible assets	20,827	-	20,827
Investments	4,984	-	4,984
Stocks	3,471		3,471
Debtors amounts falling due within one year	45 758		45,758
Cash at bank and in hand	1,450	-	1,450
Creditors amounts falling due within one year	(23,313)	-	(23,313)
Provisions for liabilities and charges	(1 109)	187	(922)
Called up share capital	(500)	-	(500)
Share premium	(4 785)	-	(4,785)
Profit and loss reserve	(46,783)	(187)	(46,970)
	-	-	-

20 Reconciliation of movement in shareholders' funds

	2006 £'000	2005 £'000 (as restated)
At beginning of period as originally stated	52,255	31,914
Prior period adjustment	-	366
Exchange adjustment	(22)	-
Credit in relation to share based payments	150	-
Profit for period	8,957	19 975
At end of period	61,340	52,255

Notes
(forming part of the financial statements)

21 Financial commitments

Capital commitments

At the end of the period, there were capital commitments of £nil *(2005 £nil)*

Operating lease commitments

Leases which expire	2006 £'000	2005 £'000
Within one year	-	-
Within two to five years	74	127
	74	127

21 Pension scheme

The company is a member of a pension scheme providing benefits based on final pension able 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 2005 and was updated for FRS 17 purposes to 30 December 2006 by a qualified independent actuary The pension charge for the period was £978,429 *(2005 £6 798 000)*

22 Share based compensation benefits

The company is a member of an employee share scheme through it being a subsidiary of PepsiCo Inc This share scheme is equity based and is in respect of shares in PepsiCo, Inc and not in the company

Full details of the scheme are set out in the financial statements of Walkers Snack Foods Limited a fellow subsidiary company Copies of their financial statements may be obtained from their registered office at 1600 Arlington Business Park, Theale Reading Berkshire, RG7 4SA

23 Ultimate holding company and parent undertaking of a larger group of which the company is a member

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

The results of the company are consolidated in the group financial statements of PepsiCo Inc whose registered office is at 700 Anderson Hill Road Purchase New York 10577, United States of America

The consolidated financial statements of PepsiCo,Inc are available to the public and may be obtained from their registered office as noted above