

# **Quaker Oats Limited**

## **Directors' report and financial statements**

Registered number 00064262

27 December 2008

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## Directors' report

The directors present their annual report and the audited financial statements for the period ended 27 December 2008.

### Principal activities

The principal activity of the company up until 29 June 2008 was the processing and sale of grocery products. After the 29 June 2008, the business was re-structured. After this date, the company ceased trading and now receives a royalty income.

### Business review

Turnover has declined by 40.6% to £60,747,000 due to the change in principal activities outlined above.

Operating profit declined proportionately less to £14,489,000 (2007: £15,450,000) principally arising from an improvement in the gross profit percentage arising from lower cost of sales from the distributor for the Scandinavian market and royalty income of £1,769,000 (2007: £Nil).

Following the business re-structuring outlined above, a gain of £1,938,000 was made on the sale of discontinued operations as detailed in note 6.

Income from shares in group undertakings has declined to £Nil (2007: £1,166,000), the 2007 income arising from a dividend paid by a subsidiary on being dissolved.

Interest receivable and similar income has increased to £4,631,000 (2007: £1,316,000), due to a full year's interest being received on a loan made to a fellow group company in November 2007 and a foreign exchange gain of £813,000 (2007: £162,000).

### Principal risks and uncertainties

The company anticipates and measures its exposure to risk through planning and management reporting. Further information on these risks, and their potential impact, can be found in the PepsiCo Inc Annual Report for 2008, which may be obtained from their registered office as detailed in note 24.

### Proposed dividend

The directors do not recommend the payment of a dividend for the period (2007: £nil).

### Directors

The directors who held office during the period were as follows:

S W Fraser (resigned 24 April 2009)  
M McGowan (resigned 30 April 2008)  
AY Ahmed  
C E Stone  
M E Barnard (resigned 30 April 2008)  
JK Averiss (appointed 30 April 2008)

### 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.

### Political and charitable contributions

The company made no political or charitable contributions during the period (2007: £nil).

### 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.

## Directors' report *(continued)*

### 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 Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

*A.Y. Ahmed*

**AY Ahmed**

*Director*

*7 September 2009*

1600 Arlington Business Park  
Theale  
Berkshire  
RG7 4SA

## **Statement of Directors' responsibilities in respect of the Directors' report and the 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 period. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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 27 December 2008 which comprise the Profit and loss account, the Balance sheet 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 3.

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 27 December 2008 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  
Chartered Accountants  
Registered Auditor

15 September 2009

## Profit and loss account

for the period ended 27 December 2008

	Note	2008 £000	2007 £000
<b>Turnover</b>	2	60,747	102,188
Cost of sales		(35,655)	(63,901)
<b>Gross profit</b>		25,092	38,287
Selling and distribution costs		(9,956)	(17,097)
Administrative expenses		(2,792)	(5,788)
Other operating income	4	2,207	118
Other operating expenses	5	(62)	(70)
<b>Operating profit</b>		14,489	15,450
Profit on sale of discontinued operation	6	1,938	-
Income from shares in group undertakings		-	1,166
Interest receivable and similar income	9	4,631	1,316
Interest payable and similar charges	10	(211)	(69)
<b>Profit on ordinary activities before taxation</b>	3	20,847	17,863
Tax on profit on ordinary activities	11	(3,317)	(4,343)
<b>Profit for the period</b>	19	17,530	13,520

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.

The turnover and operating profits were derived from operations that were discontinued on 29 June 2008 apart from royalty income of £1,769,000 which relates to continuing activities.

There were no recognised gains or losses in the period other than the profit for the period.

**Balance sheet**  
at 27 December 2008

	Note	2008 £000	2007 £000
<b>Fixed assets</b>			
Tangible assets	12	-	8,296
Investments	13	4,784	4,784
		<u>4,784</u>	<u>13,080</u>
<b>Current assets</b>			
Stocks	14	-	3,922
Debtors	15	74,768	81,923
Cash at bank and in hand		23,777	4,401
		<u>98,545</u>	<u>90,246</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(11,009)</u>	<u>(28,177)</u>
<b>Net current assets</b>		<u>87,536</u>	<u>62,069</u>
<b>Total assets less current liabilities</b>		<u>92,320</u>	<u>75,149</u>
<b>Provisions for liabilities and charges</b>	17	-	(315)
<b>Net assets</b>		<u>92,320</u>	<u>74,834</u>
<b>Capital and reserves</b>			
Called up share capital	18	500	500
Share premium account	19	4,785	4,785
Profit and loss account	19	87,035	69,549
<b>Equity shareholders' funds</b>	20	<u>92,320</u>	<u>74,834</u>

These financial statements were approved by the board of directors on 7 September 2009 and were signed on its behalf by:

*A.Y. Ahmed*

**AY 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***

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

The comparative figures cover the period to 29 December 2007 as permitted by the Companies Act 1985 Section 223 paragraph 3.

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.

#### ***Fixed assets and depreciation***

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	35 years
Long leasehold land and buildings	-	life of lease
Plant and machinery	-	3 to 25 years

No depreciation is provided on freehold land.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or, if appropriate a forward contract rate and the gains or losses on translation are included in the profit and loss account.

#### ***Leases***

All leases are operating leases and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

#### ***Pension costs***

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore the annual cost charged to the profit and loss account is equal to the employer contributions paid.

The contributions paid are allocated between each company in the scheme based on the method deemed most appropriate. Ordinary contributions and special contributions have been allocated to the company based on pensionable payroll costs.

#### ***Share based payment***

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 (continued)

### 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.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overhead 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.

#### *Taxation*

The charge or credit 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.

#### *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 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.

### 2 Segmental information

	2008 £000	2007 £000
By class of business:		
Cereals	60,747	102,188
Geographical destination:		
United Kingdom	30,260	53,082
Europe	19,892	37,751
Rest of world	10,595	11,355
	<u>60,747</u>	<u>102,188</u>

## Notes (continued)

### 3 Profit on ordinary activities before taxation

<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>	<b>2008</b> <b>£000</b>	2007 £000
Depreciation of tangible fixed assets	502	1,020
Hire of plant and machinery - operating leases	37	64
Gain on disposal of fixed assets	(1,809)	-
	<u>          </u>	<u>          </u>

The auditors' remuneration has been borne in both periods by a fellow group company. The amount of the audit fee attributable to the company was £11,800 (2007: £15,622).

### 4 Other operating income

	<b>2008</b> <b>£000</b>	2007 £000
Insurance proceeds	438	-
Royalty income	1,769	-
Other miscellaneous income	-	118
	<u>          </u>	<u>          </u>
	<b>2,207</b>	<b>118</b>
	<u>          </u>	<u>          </u>

### 5 Other operating expenses

	<b>2008</b> <b>£000</b>	2007 £000
Royalty payments to associated company	62	70
	<u>          </u>	<u>          </u>

### 6 Profit on sale of discontinued operation

	<b>Book value</b> <b>£000</b>	<b>Proceeds</b> <b>£000</b>	<b>Gain/(loss)</b> <b>£000</b>
Finished goods	2,001	2,141	140
Raw materials	2,656	2,656	-
Equipment spares	285	285	-
Land and buildings	2,456	4,254	1,798
Machinery and equipment	6,945	6,945	-
	<u>          </u>	<u>          </u>	<u>          </u>
	<b>14,343</b>	<b>16,281</b>	<b>1,938</b>
	<u>          </u>	<u>          </u>	<u>          </u>

The above assets were sold to fellow group companies on 29 June 2008.

## Notes (continued)

### 7 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	119	223
Pension contributions	14	22
	<u>133</u>	<u>245</u>

The emoluments of the highest paid director were £61,401 (2007: £123,964).

	2008 Number	2007 Number
Number of directors for whom retirement benefits are accruing under defined benefit pension schemes	<u>5</u>	<u>5</u>
Number of directors who exercised share options (including highest paid director)	<u>3</u>	<u>3</u>
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	<u>4</u>	<u>5</u>

### 8 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees 2008	2007
Production	71	131
Management and administration	20	47
	<u>91</u>	<u>178</u>

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	2,089	3,642
Redundancy costs	-	(687)
Social security costs	190	371
Other pension costs (note 22)	259	1,269
Share based payments (note 23)	20	108
	<u>2,558</u>	<u>4,703</u>

Other pension costs include special contributions of £15,383 (2007: £904,797).

## Notes (continued)

### 9 Interest receivable and similar income

	2008 £000	2007 £000
Interest receivable on bank deposits	89	-
Interest receivable on loans from group undertakings	3,729	1,154
Exchange gain	813	162
	<u>4,631</u>	<u>1,316</u>

The company is part of a group bank interest arrangement. Until April 2008 bank interest relating to the group was included in the financial statements of a fellow group company. From May 2008 additional information has become available from the bank that has enabled bank interest to be attributed to the company to which it relates.

### 10 Interest payable and similar charges

	2008 £000	2007 £000
Interest payable on loans to group undertakings	211	69
	<u>211</u>	<u>69</u>

## Notes (continued)

### 11 Taxation

#### Analysis of charge in period

	2008		2007	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	5,009		4,621	
Adjustments in respect of prior periods	(1,176)		(15)	
	<hr/>		<hr/>	
Total current tax charge		3,833		4,606
<i>Deferred tax (see note 17)</i>				
Origination/reversal of timing differences	(546)		(218)	
Adjustments in respect of prior periods	30		(15)	
Effect of decreased tax rate	-		(30)	
	<hr/>	(516)	<hr/>	(263)
		<hr/>		<hr/>
Tax on profit on ordinary activities		3,317		4,343
		<hr/>		<hr/>

#### Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2007: lower) than the aggregated standard rate of corporation tax in the UK for the 12 months ended December 2008: 28.5% (2007: 30%). The differences are explained below:

	2008	2007
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	20,847	17,863
	<hr/>	<hr/>
Current tax at 28.5% (2007: 30%)	5,941	5,359
<i>Effects of:</i>		
Capital allowances in excess of depreciation	12	62
Profit on disposal of fixed assets	(516)	-
Dividends not subject to tax	-	(350)
Timing difference on special pension contribution tax deduction	(420)	(443)
Employee share scheme deduction	(8)	(7)
Adjustment in respect of prior periods	(1,176)	(15)
	<hr/>	<hr/>
Total current tax charge (see above)	3,833	4,606
	<hr/>	<hr/>

#### Factors that may affect future tax charges

As of 1 April 2008, the UK Corporation Tax rate changed from 30% to 28%. This is not expected to have a significant impact on the future tax charges of the company.

## Notes (continued)

### 12 Tangible fixed assets

	Freehold land and buildings	Plant and equipment	Assets in course of construction	Total
	£000	£000	£000	£000
<b>Cost</b>				
At beginning of period	4,326	15,819	538	20,683
Additions	108	-	1,557	1,665
Disposals	(102)	(43)	-	(145)
Assets transferred to group companies	(4,332)	(15,776)	(2,095)	(22,203)
<b>At end of period</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Depreciation</b>				
At beginning of period	1,885	10,502	-	12,387
Charge for period	73	429	-	502
Disposals	(63)	(24)	-	(87)
Assets transferred to group companies	(1,895)	(10,907)	-	(12,802)
<b>At end of period</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value</b>				
At 27 December 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 29 December 2007	<u>2,441</u>	<u>5,317</u>	<u>538</u>	<u>8,296</u>

The cost of freehold land and buildings includes £Nil (2007: £103,273) of freehold land, which is not depreciated.

### 13 Fixed asset investments

	£000
<b>Cost and net book value</b>	
At beginning of period and end of period	<u>4,784</u>

#### Shares in group undertakings

	Ownership	Principal activity
Quaker Trading Limited	100%	Distribution
Quaker Oats BV	100%	Manufacturing
Quaker Cereals 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.

## Notes (continued)

### 14 Stocks

	2008 £000	2007 £000
Raw materials	-	1,518
Finished goods	-	2,404
	<u>-</u>	<u>3,922</u>

### 15 Debtors

	2008 £000	2007 £000
Trade debtors	-	15,466
Amounts owed by fellow group undertakings	74,535	66,398
Other debtors	32	36
Prepayments and accrued income	-	23
Deferred tax asset (note 17)	201	-
	<u>74,768</u>	<u>81,923</u>

Included within amounts owed to fellow group undertakings are loans with a total principal value of £66,235,412 and interest rates that vary between 3.14% and 6.2125%. The loans are repayable on demand at the option of the lender or borrower.

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

	2008 £000	2007 £000
Amounts owed to fellow group undertakings	966	13,223
Other taxation and social security	-	424
Corporation tax	9,731	3,091
Accruals and deferred income	312	11,439
	<u>11,009</u>	<u>28,177</u>



## Notes (continued)

### 17 Deferred tax asset/(liability)

	2008 £000	2007 £000
<b>Deferred tax (asset)/liability</b>		
At beginning of period	315	578
Credit for the period (note 11)	(516)	(263)
	<u>(201)</u>	<u>315</u>
	<u>(201)</u>	<u>315</u>
	2008 £000	2007 £000
The elements of deferred taxation are as follows:		
Difference between accumulated depreciation and capital allowances	-	945
Other timing differences	(201)	(630)
	<u>(201)</u>	<u>315</u>
<b>At end of period</b>	<u>(201)</u>	<u>315</u>

The company's deferred tax asset is included in debtors as disclosed in note 15.

### 18 Called up share capital

	2008 £000	2007 £000
<i>Authorised, allotted, called up and fully paid</i>		
500,002 ordinary shares of £1 each	<u>500</u>	<u>500</u>

### 19 Share premium and reserves

	Share Premium £000	Profit and loss reserve £000
At beginning of period	4,785	69,549
Retained profit for the period	-	17,530
Reversal of charge in relation to share based payments	-	20
Payment to parent company in relation to share options	-	(64)
	<u>4,785</u>	<u>87,035</u>
<b>At end of period</b>	<u>4,785</u>	<u>87,035</u>

## Notes (continued)

### 20 Reconciliation of movements in equity shareholders' funds

	2008 £000	2007 £000
Opening equity shareholders' funds	74,834	61,340
Profit in financial period	17,530	13,520
Credit in relation to share based payments	20	108
Payment to parent company in relation to share options	(64)	(134)
	<hr/>	<hr/>
Closing equity shareholders' funds	92,320	74,834
	<hr/>	<hr/>

### 21 Commitments

There were no capital commitments at the end of the financial period.

Annual commitments under non-cancellable operating leases are as follows:

	2008		2007	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
In the second to fifth years inclusive	-	-	-	74
	<hr/>	<hr/>	<hr/>	<hr/>

### 22 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 2006 by a qualified independent actuary. The overall pension deficit at that date was £65,500,000. To eliminate this shortfall the company has agreed that additional contributions will be paid to the Plan by the participating employers. A valuation as at 30<sup>th</sup> September 2008 is currently being prepared by the scheme actuaries and the funding level will be reviewed following the completion of the actuarial valuation.

The pension charge for the period was £259,000 (2007: £1,269,000). It has been agreed that an employer contribution rate of 14.45% of pensionable pay will apply in future years.

## Notes (continued)

### 23 Share based compensation

The share based payment charge for the period was £20,000 (2007: £108,000).

The company's equity-settled share-based payments comprise the Sharepower programme, Chairman's awards and the Long-term incentive plan (LTIP). The amount of shares held in the Employee Share Option Plans and details of shares and share options subject to equity-settled share based payments are set out below.

All share option programmes allow employees to acquire shares in PepsiCo Inc. Stock option grants are made at the current stock price, meaning that the exercise price is equivalent to the stock price on the date of grant. Employees must generally provide three additional years of service to earn the grant, referred to as the vesting period. The options generally have a 10-year term, which gives the employees seven years after the vesting period to elect to pay the exercise price to purchase one share for each option exercised.

Stock options granted under the LTIP program generally have a 10-year term and vest over three years.

Under the Sharepower programme, stock options are granted annually to all eligible employees, based on job level or classification. SharePower awards generally have a 10-year term and vest over three years.

Details of outstanding share options and restricted stock units are set out below. As the share options are for PepsiCo Inc. shares, they are denominated in US Dollars, but the disclosures below are in GBP:

## Notes (continued)

### 23 Share based compensation (continued)

	2008 Weighted average exercise price £	2008 Number of options	2007 Weighted average exercise price £	2007 Number of options
<b>LTIPS</b>				
Outstanding at the beginning of the period	21.15	71,644	21.15	71,644
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	21.15	71,644	21.15	71,644
Exercisable at the end of the period	21.15	71,644	21.15	71,644
<b>SharePower</b>				
Outstanding at the beginning of the period	27.59	48,791	26.05	65,369
Granted during the period	46.75	10,079	32.62	10,530
Forfeited during the period	-	-	27.59	(15,751)
Exercised during the period	33.75	(6,524)	22.70	(11,357)
Lapsed during the period	-	-	-	-
Transfer (to)/from group companies during the period	30.17	(50,695)	-	-
Outstanding at the end of the period	41.10	1,651	27.59	48,791
Exercisable at the end of the period	35.40	509	22.53	14,574
<b>Chairman's Awards</b>				
Outstanding at the beginning of the period	26.03	638	26.03	638
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	32.47	(838)	-	-
Lapsed during the period	-	-	-	-
Transfer (to)/from group companies during the period	53.01	200	-	-
Outstanding at the end of the period	-	-	26.03	638
Exercisable at the end of the period	-	-	-	-

## Notes (continued)

### 23 Share based compensation (continued)

The weighted average share price at the date of exercise of share options exercised during the period was £33.60 (2007: £22.70).

The options outstanding at the period end have an exercise price in the range of £21.15 to £35.40 and a weighted average contractual life of approximately 10 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. This model estimates the expected value our employees will receive from the options based on a number of assumptions, such as interest rates, employee exercises, the share price and dividend yield.

	2008	2007
Weighted average share price at grant date	46.75	32.62
Exercise price	46.75	32.62
Expected volatility	16%	15%
Option life in years	6	6
Expected dividend yield	1.9%	1.9%
Risk free interest rate (based on U.S Treasury rate)	3.0%	4.8%

The expected volatility reflects movements in the share price over the most recent historical period equivalent to the expected life. The expected option life is based on historical experience with similar grants. Dividend yield is estimated over the expected life based on dividend policy and forecasts of net income, share repurchases and share price. The risk free interest rate is based on the expected U.S. Treasury rate over the expected life.

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

The company's ultimate parent company is 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 this group are available to the public and may be obtained from their registered office as noted above.

No other group financial statements include the results of the Company.