ARTHUR ANDERSEN

Quaker Oats Limited

Financial statements for the year ended 31 December 2000
together with directors' and auditors' reports

Registered number: 64262

Quaker Trading Limited

13 June 2001

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Dear Sirs

Quaker Trading Limited
Quaker Oats Limited

In connection with your audit of the financial statements of the companies shown above for the year ended 31 December 2000, we have submitted to your representative minutes covering meetings of Directors and Shareholders held on the dates stated below. These minutes constitute a full and complete record of all meetings of Directors and Shareholders held during the period from 1 January 2000 to 13 June 2001.

Date of Meeting	Meeting of	Regular or Special
15 March 2000	Board & Shareholders	Special
4 August 2000	Board & Shareholders	Regular
7 September 2000	Board & Shareholders	Special – Quaker Oats Limited only
18 October 2000	Board & Shareholders	AGM
13 December 2000	Board & Shareholders	Special
22 January 2001	Board & Shareholders	Special
13 June 2001	Board & Shareholders	AGM

Yours faithfully

(Company Secretary)

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7 June 2001

Quaker Trading Limited

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Dear Sirs

Quaker Trading Limited
Quaker Oats Limited

We are writing in connection with your audit of the above companies at 31 December 2000 and for the year ended on that date, for the purposes of expressing an opinion as to whether the accounts give a true and fair view of the state of affairs of the companies and of their profit, and have been properly prepared in accordance with the Companies Act 1985 and applicable Financial Reporting Standards, Statements of Standard Accounting Practice and abstracts from the Urgent Issues Task Force and any other relevant regulations (together "applicable reporting requirements"). We acknowledge and confirm, to the best of our knowledge and belief having made appropriate enquiries of other directors and officials of the companies, the following representations made to you during your audit:

1. We are responsible for the true and fair presentation of the companies' accounts and for their preparation in accordance with the applicable reporting requirements.

2. The accounts give a true and fair view of the state of affairs of the companies at 31 December 2000, and of the profit of the companies for the year ended on that date and have been properly prepared in accordance with the applicable reporting requirements.

3. All the transactions undertaken by the companies have been accurately and fairly recorded, in reasonable detail, in the accounting records and all the accounting records have been made available to you for the purpose of your audit. All other records and related information, including minutes of all management and shareholders' meetings and written resolutions whether proposed or adopted have been made available to you.

4. We have obtained the views of the companies' solicitors with respect to all matters on which the solicitors have been consulted. We agree with the views expressed by our solicitors with regard to the outcome and financial effect of all such matters. All material matters including unasserted claims, that may result in litigation against the companies, have been discussed with our solicitors and have been summarised in the request for legal representation sent to our solicitors in connection with your audit.

5. There are no:

   (a) material contingent losses including pending or potential litigation that should be accrued where (i) information presently available indicates that it is probable that an asset had been impaired or a liability had been incurred as of the balance sheet date and (ii) the amount of the loss can be reasonably estimated.

   (b) material contingent losses that should be disclosed where, although either or both the conditions specified in (a) above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

   (c) contingent gains that should be disclosed.

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Quaker Trading Ltd., P.O. Box No. 24, Bridge Road, Southall, Middlesex UB2 4AG Registered Office
Telephone: 020-8574 2388 Fax: 020-8574 6615 Registered In England No. 3068944 Vat No. 222 813 687

6. There have been no:

   (a) frauds or irregularities involving management or employees who have significant roles in the accounting system or internal control structure.

   (b) frauds or irregularities involving others that could have a material effect on the accounts.

   (c) violations or possible violations of directly relevant or other laws and regulations or contractual obligations the effects of which should be considered for disclosure in the accounts of the companies or as a basis for recording a contingent loss.

   (d) communications from regulatory authorities concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the accounts.

7. We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

8. The forecast of future taxable profits, capital expenditure, pensions and other post-retirement benefits and other timing differences arising because of differences in the timing of recognition of items in the accounts and by tax legislation, used as the basis of determining the provision for deferred taxation reflects the intentions and expectations of management and demonstrates with reasonable probability that:

   (a) deferred taxation provided for will become payable in the foreseeable future; and

   (b) deferred taxation not provided for will not become payable in the foreseeable future.

9. The companies at no time during the year entered into any arrangement, transaction or agreement to provide credit facilities including loans, quasi-loans, credit transactions, mutually beneficial arrangements, or guarantees or security for the foregoing, or assumed or assigned any such rights or liabilities for any directors, shadow directors, alternate directors, or their connected persons, or non-director officers except as permitted by the Companies Act 1985 and as disclosed in the accounts.

10. No director or his connected persons had a direct or indirect material interest in any other transaction or arrangement with the companies other than those disclosed in accordance with Schedule 6 of the Companies Act 1985 or exempted from disclosure by the Act.

11. All transactions and balances with related or associated parties, including sales, purchases, loans, transfers, leasing arrangements and guarantees have been properly recorded and have, where material and appropriate for the presentation of a true and fair view, been disclosed in the accounts.

12. All financial instruments, including those with off balance sheet risk such as swaps, forward contracts and futures have been disclosed to you and properly recorded and disclosed in the financial statements.

13. We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

14. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the accounts.

15. In preparing the accounts, the period to which we have paid particular attention in assessing the appropriateness of adopting the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours faithfully

Richard Bouchier
Finance Director

Directors' report
For the year ended 31 December 2000

The directors have pleasure in presenting their annual report, together with the audited financial statements, for the year ended 31 December 2000.

Principal activity

The principal activity of the company was the processing and sale of grocery products. Substantially all products have been sold to the parent company, Quaker Trading Limited.

Results and business review

Turnover for the year ended 31 December 2000, was £32,533,000 (1999 - £34,658,000) and the profit before taxation for the year was £1,882,000 (1999 - £2,082,000).

The Directors proposed a dividend of £2,800,000 (1999 - £nil).

Payment of suppliers

The company's policy is to pay suppliers at the end of the month following that in which the supplier's invoice is received, and this policy is made known to all suppliers on request. The number of suppliers' days outstanding at the year end was 30 days (1999 – 34 days).

Directors

The directors who served during the year and subsequently were:

M. Welch (USA)	
G. Sewell	(Chairman)
K. O'Byrne	(resigned on 1 February 2000)
R. Bouchier	(appointed on 1 February 2000)

None of the directors had any beneficial shareholdings in the company at any time during the year and an exemption from the requirement to disclose interests in the shares of Quaker Oats Company Inc. has been taken.

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.

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 of the company 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Arthur Andersen have indicated that they are willing to continue as auditors and, accordingly, a resolution will be proposed to reappoint them at the annual general meeting.

P.O. Box 24
Bridge Road
Southall
Middlesex
UB2 4AG

By order of the Board,

George Sewell

G. Sewell

Director

13 June 2001

ARTHUR ANDERSEN

To the Shareholders of Quaker Oats Limited:

We have audited the financial statements on pages 5 to 16 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of 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.

Basis of 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 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

13 June 2001

Profit and loss account
For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
Turnover	2	32,533	34,658
Cost of sales		(22,261)	(24,470)
Gross profit		10,272	10,188
Administrative expenses		(8,390)	(8,189)
Operating profit		1,882	1,999
Interest receivable and similar income	3	-	83
Profit on ordinary activities before taxation	4	1,882	2,082
Tax on profit on ordinary activities	6	(526)	(464)
Profit for the financial year		1,356	1,618
Dividends proposed		(2,800)	-
Retained (loss)/profit for the financial year	14	(1,444)	1,618

Statement of total recognised gains and losses
For the year ended 31 December 2000

All activities are derived from continuing operations. There are no recognised gains or losses other than the retained loss for the year of £1,444,000 (1999 – profit of £1,618,000)

Note of historical cost profits and losses
For the year ended 31 December 2000

The retained loss for the year of £1,444,000 (1999 – profit of £1,618,000) has been calculated on an historical cost basis.

The accompanying notes are an integral part of these statements.

Balance sheet

31 December 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Intangible assets	7	72	132
Tangible assets	8	14,807	15,373
		14,879	15,505
Current assets			
Stocks	9	2,269	3,065
Debtors	10	4,483	1,530
Cash at bank and in hand		270	1,337
		7,022	5,932
Creditors: amounts falling due within one year	11	(8,555)	(6,740)
Net current assets/(liabilities)		1,533	(808)
Total assets less current liabilities		13,346	14,697
Provisions for liabilities and charges	12	(2,395)	(2,302)
Net assets		10,951	12,395
Capital and reserves			
Called up share capital	13	500	500
Profit and loss account	14	10,451	11,895
Equity shareholders' funds	14	10,951	12,395

The financial statements on pages 5 to 17 were approved by the board of directors and signed on its behalf by:

George Sewell

G.Sewell Director

13 June 2001

The accompanying notes are an integral part of this balance sheet.

1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, 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.

In accordance with FRS 1 (revised) no cashflow statement has been presented on the basis that the ultimate parent company is The Quaker Oats Company Inc. whose consolidated financial statements contain a cashflow statement which include those of the company and are available to the public, as detailed in note 16.

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	2.0%
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.

1 Statement of accounting policies (continued)

Taxation

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

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method. Deferred tax is provided at the rates of tax likely to be in force at the time that they will probably reverse on all timing differences, only to the extent that they are expected to reverse in the future.

Pension costs

The company is a member of the Quaker Trading Ltd defined benefit and defined contribution group pension schemes.

The amount charged to the profit and loss account for the defined contribution scheme represents the amount recharged from the company's immediate parent company, 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 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 Segment information

Turnover of the company is generated from the manufacture and sale of breakfast cereal and related products.

Substantially all products were sold to the parent company in the current and prior year.

3 Interest receivable and similar income

	2000 £'000	1999 £'000
Other interest receivable	-	83

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2000 £'000	1999 £'000
Amortisation of goodwill	60	60
Depreciation of tangible fixed assets	1,779	1,829
Operating lease rental - plant and machinery	175	177

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

5 Staff costs

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

	2000 £'000	1999 £'000
Wages and salaries	6,522	6,337
Social security costs	510	496
Other pension costs (see note 15c)	289	276
	7,321	7,109

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

	2000 Number	1999 Number
Manufacturing	210	212
Administration	48	47
	258	259

Directors' remuneration:

The information below excludes G. Sewell, K. O'Byrne and R. Bouchier who were also directors of Quaker Trading Limited, the immediate parent company. No part of their remuneration was specifically attributable to their services to Quaker Oats Limited. Amounts shown below are in respect of D. Singer.

	2000 £'000	1999 £'000
Emoluments	-	38

Pensions

D. Singer was not a member of either pension scheme in either year.

6 Tax on profit on ordinary activities

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

	2000 £'000	1999 £'000
Corporation tax at 30% (1999 – 30.25%)	595	630
Deferred taxation (see note 12)	93	(63)
	688	567
Adjustment of UK corporation tax in respect of prior years	(162)	(103)
	526	464

7 Intangible fixed assets

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

The movement in the year was as follows:

	£'000
Cost	
At 31 December 1999 and at 31 December 2000	1,172
Amortisation	
At 31 December 1999	1,040
Charge during year	60
At 31 December 2000	1,100
Net book value	
At 31 December 1999	132
At 31 December 2000	72

8 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £'000	Plant and equipment £'000	Assets in course of construction £'000	Total £'000
Cost				
At 31 December 1999	5,472	26,610	1,540	33,622
Additions			1,238	1,238
Transfers	349	1,384	(1,733)	-
Disposals	(9)	(244)	-	(253)
At 31 December 2000	5,812	27,750	1,045	34,607
Depreciation				
At 31 December 1999	1,850	16,399	-	18,249
Charge in year	260	1,518	1	1,779
Disposals	(3)	(225)	-	(228)
At 31 December 2000	2,107	17,692	1	19,800
Net book value				
At 31 December 1999	3,623	10,211	1,540	15,373
At 31 December 2000	3,705	10,058	1,044	14,807

Freehold land and buildings of £69,454 (1999 - £69,454) has not been depreciated.

9 Stocks

	2000 £'000	1999 £'000
Raw materials	2,259	3,056
Work-in-progress	10	9
	2,269	3,065

10 Debtors: amounts falling due within one year

	2000 £'000	1999 £'000
Trade debtors	163	110
Amounts due from group undertakings and other related undertakings	3,831	1,154
VAT receivable	232	227
Other debtors	182	-
Prepayments and accrued income	75	39
	4,483	1,530

The amounts due from group undertakings are interest free and repayable on demand.

11 Creditors: Amounts falling due within one year

	2000 £'000	1999 £'000
Trade creditors	2,486	3,078
Dividend proposed	2,800	-
UK corporation tax payable	404	585
Social security and PAYE	159	166
Accruals and deferred income	2,706	2911
	8,555	6,740

12 Provisions for liabilities and charges

	Deferred Taxation £'000
At 31 December 1999	2,302
Provided in year	93
At 31 December 2000	2,395

There is no unprovided deferred tax since in the view of the directors all timing differences are expected to reverse. Deferred tax provided comprises the excess of tax allowances over book depreciation of fixed assets.

13 Called-up equity share capital

	2000 £'000	1999 £'000
Authorised, allotted, called-up and fully-paid		
500,000 ordinary shares of £1 each	500	500

14 Reconciliation of movement in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Beginning of year	500	11,895	12,395
Retained loss for the financial year	-	(1,444)	(1,444)
End of year	500	10,451	10,951

15 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, there were contracted capital commitments of £21,799 (1999 - £89,793).

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:

	2000 £'000	1999 £'000
Operating leases which expire		
- within 1 year	101	17
- within 2-5 years	74	160
	175	177

c) Pension arrangements

The company is a member of the Quaker Trading Ltd defined benefit and defined contribution group pension schemes. Any pension costs charged are based on pension costs 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 the immediate parent company in the year. Full disclosure of the group pension scheme is included in the financial statements of Quaker Trading Limited.

i. Defined contribution scheme

The pension cost charge relating to this scheme for the period was £168,000 (1999 - £160,000).

ii. Defined benefit scheme

The combined pension cost charge relating to this scheme for the period was £121,000 (1999 - £116,000).

16 Ultimate parent company

The largest group in which the results of the company are consolidated is that headed by The Quaker Oats Company Inc which is incorporated in the State of New Jersey, USA. The consolidated financial statements of this group are available to the public and may be obtained from The Quaker Oats Company Inc., P.O. Box 9001, Chicago, Illinois, 60604-9001, USA.

The Quaker Oats Company Inc has agreed to merge with PepsiCo Inc. This transactions is subject to regulatory clearance.

The smallest group in which the results of the company are consolidated is that headed by Quaker Trading Limited. The consolidated financial statements of the group are available to the public and may be obtained from PO Box 24, Bridge Road, Southall, Middlesex UB2 4AG.

17 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 The Quaker Oats Company Inc, a company whose consolidated accounts are available to the public, as detailed in note 16.