

Quaker Oats Limited

Directors' report and financial statements

Registered number 00064262

29 December 2007

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Directors' report

The directors present their annual report and the audited financial statements for the period ended 29 December 2007

Principal activities

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

Business review

Turnover has declined by 29% primarily due to the closure of the Southall manufacturing site and sale of the related brands in the prior year. Despite this, operating profit has increased by 46%, the prior year costs being increased due to the closure of the manufacturing site.

Interest receivable has increased to £1,154,000 (2006 £483,000) due to a loan made to a fellow group company.

During the period the company received dividends of £1,166,000 (2006 £nil) following two subsidiary undertakings being dissolved.

Principal risks and uncertainties

The principal risks to the company include operational risks relating to the manufacture of grocery products and market risks arising from adverse changes in operating costs, interest rates and foreign exchange rates.

The company anticipates, measures and manages its exposure to risk through strategic planning and management reporting. Further information on these risks, and their potential impact, can be found in the PepsiCo Inc Annual Report for 2007, 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 (2006 £nil).

Directors

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

S W Fraser
M McGowan (resigned 30 April 2008)
AY Ahmed (appointed 1 November 2007)
M Williams (resigned 1 November 2007)
C E Stone
M E Barnard (resigned 30 April 2008)
JK Averis (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 (2006 £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 persons.

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 for all employees of this company.

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

AY Ahmed

AY Ahmed
Director
29 October 2008

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 29 December 2007 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 29 December 2007 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

30 October 2008

Profit and Loss Account

for the period ended 29 December 2007

	Note	2007 £000	2006 £000 Restated
Turnover	2	102,188	144,940
Cost of sales		(63,901)	(93,206)
Gross profit		38,287	51,734
Selling and distribution costs		(17,097)	(34,999)
Administrative expenses		(5,788)	(9,174)
Other operating income	4	118	3,433
Other operating expenses	5	(70)	(436)
Operating profit		15,450	10,558
Income from shares in group undertakings		1,166	-
Interest receivable and similar income	6	1,316	483
Interest payable and similar charges	7	(69)	(4)
Profit on ordinary activities before taxation	3	17,863	11,037
Tax on profit on ordinary activities	10	(4,343)	(2,080)
Profit for the period	18	13,520	8,957

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 profits were all derived from continuing activities.

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

Balance sheet
at 29 December 2007

	<i>Note</i>	2007 £000	£000	2006 £000	£000
Fixed assets					
Tangible assets	11		8,296		8,761
Investments	12		4,784		4,984
			<u>13,080</u>		<u>13,745</u>
Current assets					
Stocks	13	3,922		6,893	
Debtors	14	81,923		26,020	
Cash at bank and in hand		4,401		56,996	
		<u>90,246</u>		<u>89,909</u>	
Creditors: amounts falling due within one year	15	<u>(28,177)</u>		<u>(41,736)</u>	
Net current assets			<u>62,069</u>		<u>48,173</u>
Total assets less current liabilities			<u>75,149</u>		<u>61,918</u>
Provisions for liabilities and charges	16		<u>(315)</u>		<u>(578)</u>
Net assets			<u>74,834</u>		<u>61,340</u>
Capital and reserves					
Called up share capital	17		500		500
Share premium account	18		4,785		4,785
Profit and loss account	18		69,549		56,055
Equity shareholders' funds	19		<u>74,834</u>		<u>61,340</u>

These financial statements were approved by the board of directors on 29/10/08 and were signed on its behalf by

AY 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 30 December 2006 as permitted by the Companies Act 1985 Section 223

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

A re-statement has been made in 2006 between cost of sales and selling and distribution to reflect a more appropriate cost classification

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 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

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

	2007 £000	2006 £000
By class of business		
Cereals	102,188	144,940
Geographical destination		
United Kingdom	53,082	91,254
Europe	37,751	42,283
Rest of world	11,355	11,403
	<hr/> 102,188 <hr/>	<hr/> 144,940 <hr/>

Notes (continued)

3 Profit on ordinary activities before taxation

<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>	2007 £000	2006 £000
Depreciation of tangible fixed assets	1,020	3,764
Hire of plant and machinery - operating leases	64	95
Loss/(gain) on disposal of fixed assets	-	(2,548)
	<u>1,084</u>	<u>1,311</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 £15,622 (2006: £32,500).

4 Other operating income

	2007 £000	2006 £000
Sale of intellectual property rights	-	351
Gain on disposal of tangible fixed assets	-	2,548
Other miscellaneous income	118	534
	<u>118</u>	<u>3,433</u>

5 Other operating expenses

	2007 £000	2006 £000
Royalty payments to associated company	70	436
	<u>70</u>	<u>436</u>

6 Interest receivable and similar income

	2007 £000	2006 £000
Interest receivable on loans to group undertakings	1,154	483
Exchange gain	162	-
	<u>1,316</u>	<u>483</u>

The company is part of a group bank interest arrangement. All bank interest relating to the group has been included in the financial statements of a fellow group company.

Notes (continued)

7 Interest payable and similar charges

	2007 £000	2006 £000
Interest payable on loans to group undertakings	69	-
Exchange loss	-	4
	<u>69</u>	<u>4</u>

8 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	223	109
Pension contributions	22	11
	<u>245</u>	<u>120</u>

The emoluments of the highest paid director were £123,964 (2006 £54,189). The highest paid director is a member of a defined benefit scheme under which the accrued pension at the period end was £26,618 (2006 £24,795).

	2007 Number	2006 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>5</u>
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	<u>5</u>	<u>5</u>

9 Staff numbers and costs

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

	2007	2006 Restated
Production	131	334
Management and administration	47	57
	<u>178</u>	<u>391</u>

Notes (continued)

9 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	3,642	12,018
Redundancy costs	(687)	2,946
Social security costs	371	976
Other pension costs (note 21)	1,269	989
Share based payments (note 22)	108	150
	<u>4,703</u>	<u>17,079</u>

Other pension costs include special contributions of £904,797 (2006 £nil)

10 Taxation

Analysis of charge in period

	2007 £000	2006 £000	2006 £000
<i>UK corporation tax</i>			
Current tax on income for the period	4,621	2,252	
Adjustments in respect of prior periods	(15)	172	
	<u></u>	<u></u>	
Total current tax charge		4,606	2,424
<i>Deferred tax (see note 16)</i>			
Origination/reversal of timing differences	(218)	(313)	
Adjustments in respect of prior periods	(15)	(31)	
Effect of decreased tax rate	(30)	-	
	<u>(263)</u>	<u></u>	<u>(344)</u>
		<u>4,343</u>	<u>2,080</u>
Tax on profit on ordinary activities			

Notes (continued)

10 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2006 lower) than the standard rate of corporation tax in the UK 30% (2006 30%) The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	17,863	11,037
Current tax at 30% (2006 30%)	5,359	3,311
<i>Effects of</i>		
Capital allowances in excess of depreciation	62	(16)
Loss on disposal of fixed assets	-	832
Dividends not subject to tax	(350)	-
Gain on disposal of fixed asset reduced by indexation allowance	-	(1,597)
Timing difference on special pension contribution tax deduction	(443)	(443)
Sale of intellectual property not taxable	-	(9)
Utilisation of losses	-	(96)
Employee share scheme deduction	(7)	45
Movements in general provisions	-	(105)
Expenses not deductible for tax	-	330
Adjustment in respect of prior periods	(15)	172
Total current tax charge (see above)	4,606	2,424

Factors that may affect future tax charges

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date. The rate of corporation tax in the UK is to be reduced from 30% to 28% with effect from 1 April 2008. The change in tax rate was substantially enacted by the House of Commons on 26 June 2007 by the passing of a bill to approve the Finance Act 2007. UK deferred tax assets and liabilities have therefore been calculated at either 30% or 28% depending on whether the timing differences will reverse before or after 31 March 2008. The impact of the reduced tax rate on closing deferred tax assets is shown as a separate component of the deferred tax charge for the period.

Notes (continued)

11 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	4,127	15,121	1,036	20,284
Additions	-	-	555	555
Reclassifications	207	846	(1,053)	-
Disposals	(8)	(148)	-	(156)
Assets transferred from other group companies	-	-	-	-
At end of period	4,326	15,819	538	20,683
Depreciation				
At beginning of period	1,749	9,774	-	11,523
Charge for period	143	877	-	1,020
Disposals	(7)	(149)	-	(156)
At end of period	1,885	10,502	-	12,387
Net book value				
At 29 December 2007	2,441	5,317	538	8,296
At 30 December 2006	2,378	5,347	1,036	8,761

The cost of freehold land and buildings includes £103,273 (2006 £103,273) of freehold land, which is not depreciated

12 Fixed asset investments

	£000
Cost and net book value	
At beginning of period	4,984
Dissolved during the year	(200)
At end of period	4,784

Shares in group undertakings

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

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)

13 Stocks

	2007 £000	2006 £000
Raw materials	1,518	889
Finished goods	2,404	6,004
	<u>3,922</u>	<u>6,893</u>

14 Debtors

	2007 £000	2006 £000
Trade debtors	15,466	21,017
Amounts owed by fellow group undertakings	66,398	4,313
Other debtors	36	-
Prepayments and accrued income	23	690
	<u>81,923</u>	<u>26,020</u>

15 Creditors: amounts falling due within one year

	2007 £000	2006 £000 Restated
Trade creditors	-	807
Amounts owed to fellow group undertakings	13,223	9,360
Other taxation and social security	424	3,148
Corporation tax	3,091	9,107
Accruals and deferred income	11,439	19,314
	<u>28,177</u>	<u>41,736</u>

The accruals and deferred income balance for 2006 has been re-stated to £19,314,000 from £16,270,000 and trade creditors restated from £3,851,000 to £807,000 to reflect a more appropriate balance sheet classification

Notes (continued)

16 Provisions for liabilities and charges

	2007	2006
	£000	£000
Deferred taxation	315	578
	<hr/>	<hr/>
The elements of deferred taxation are as follows	2007	2006
	£000	£000
Difference between accumulated depreciation and capital allowances	3,375	5,650
Other timing differences	(2,224)	(3,723)
	<hr/>	<hr/>
	1,151	1,927
	<hr/>	<hr/>
Deferred tax liability	315	578
	<hr/>	<hr/>
At beginning of period	578	922
Credit for the period (<i>note 10</i>)	(263)	(344)
	<hr/>	<hr/>
At end of period	315	578
	<hr/>	<hr/>

17 Called up share capital

	2007	2006
	£000	£000
<i>Authorised, allotted, called up and fully paid</i> 500,002 ordinary shares of £1 each	500	500
	<hr/>	<hr/>

18 Share Premium and Reserves

	Share Premium £000	Profit and loss reserve £000
At beginning of period	4,785	56,055
Retained profit for the period	-	13,520
Reversal of charge in relation to share based payments	-	108
Payment to parent company in relation to share options	-	(134)
	<hr/>	<hr/>
At end of period	4,785	69,549
	<hr/>	<hr/>

Notes (continued)

19 Reconciliation of movements in equity shareholders' funds

	2007 £000	2006 £000
Opening equity shareholders' funds	61,340	52,255
Exchange adjustment	-	(22)
Profit in financial period	13,520	8,957
Credit in relation to share based payments	108	150
Payment to parent company in relation to share options	(134)	-
	<hr/>	<hr/>
Closing equity shareholders' funds	74,834	61,340
	<hr/>	<hr/>

20 Commitments

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

Annual commitments under non-cancellable operating leases are as follows

	2007	Other	2006	Other
	Land and Buildings £000	£000	Land and Buildings £000	£000
Operating leases which expire				
In the second to fifth years inclusive	-	74	-	74
	<hr/>	<hr/>	<hr/>	<hr/>

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 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. The funding shortfall is expected to be eliminated within five years of the valuation date.

The pension charge for the period was £1,269,000 (2006 £989,000). It has been agreed that an employer contribution rate of 14.45% of pensionable pay will apply in future years.

Notes (continued)

22 Share based compensation

The share based payment charge for the period was £108,000 (2006 £150,000)

The company's equity-settled share-based payments comprise the Sharepower programme, Chairman's awards, the Restricted stock unit plan (RSUs) 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.

Executives who are awarded long-term incentives are offered the choice of stock options (LTIP) or restricted stock units (RSUs). Stock options granted under the LTIP program generally have a 10-year term and vest over three years. Executives who elect RSUs receive one RSU for every four stock options that would have otherwise been granted. Senior officers do not have a choice and are granted 50% stock options and 50% RSUs. The RSU expense is based on the fair value of PepsiCo shares on the date of grant and is amortized over the vesting period, generally three years. Each RSU is settled in a share of our stock after the vesting period.

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)

22 Share based compensation (continued)

	2007 Weighted average exercise price £	2007 Number of options	2006 Weighted average exercise price £	2006 Number of options
LTIPS				
Outstanding at the beginning of the period	21.15	71,644	21.80	93,968
Granted during the period	-	-	29.64	696
Forfeited during the period	-	-	24.67	(19,692)
Exercised during the period	-	-	20.49	(3,328)
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	20.70	81,056
SharePower				
Outstanding at the beginning of the period	26.05	65,369	24.79	51,092
Granted during the period	32.62	10,530	29.64	18,322
Forfeited during the period	27.59	(15,751)	26.45	(4,045)
Exercised during the period	22.70	(11,357)	-	-
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	27.59	48,791	26.05	65,369
Exercisable at the end of the period	22.53	14,574	20.49	11,121
RSUs				
Outstanding at the beginning of the period	-	-	-	-
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	-	-	-	-
Exercisable at the end of the period	-	-	-	-
Chairman's Awards				
Outstanding at the beginning of the period	26.03	638	25.98	663
Granted during the period	-	-	-	-
Forfeited during the period	-	-	24.61	(25)
Exercised during the period	-	-	-	-
Lapsed during the period	-	-	-	-
Outstanding at the end of the period	26.03	638	26.03	638
Exercisable at the end of the period	-	-	-	-

Notes (continued)

22 Share based compensation (continued)

The weighted average share price at the date of exercise of share options exercised during the period was £22.70 (2006 £20.49)

The options outstanding at the period end have an exercise price in the range of £21.15 to £27.59 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

	2007	2006
Weighted average share price at grant date	32.62	29.64
Exercise price	32.62	29.64
Expected volatility	15%	18%
Option life in years	6	6
Expected dividend yield	1.9%	1.9%
Risk free interest rate (based on U.S. Treasury rate)	4.8%	4.5%

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.

23 Post balance sheet event

On 29 June 2008 the business was re-structured with all fixed assets being sold to a group company. From this date Quaker Oats Limited will no longer act as principal for the business but will receive a royalty based on net revenue. Management do not consider that there is any impact on the carrying value of assets and liabilities at 29 December 2007.

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.