

Quaker Oats Limited

Directors' report and financial statements

Registered number 00064262

Period ended 31 December 2011

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Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 2011

Principal activities

The company is non-trading and receives a royalty income

Business review

The profit before tax for the period was £13,697,000 (2010 £7,944,000) This profit principally represents a dividend received from a fellow group company, and royalty income

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 2011, which may be obtained from their registered office as detailed in note 18

Dividends

During the year, the company paid an interim dividend of £90,900,000 to its parent company Quaker Holdings (UK) Limited The directors do not recommend the payment of a final dividend for the period (2010 £nil)

Directors

The directors who held office during the period were as follows

S L Hughes	(appointed 18 October 2011, resigned 23 July 2012)
J K Averiss	
C E Stone	(resigned 18 October 2011)
S J Dean	
J E Rosall	(appointed 23 July 2012)
V E Evans	(appointed 23 July 2012)

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 (2010 £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 of staff is 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 historically, all full time employees of this company were eligible to participate in The PepsiCo Inc SharePower program has been closed to new grants since the beginning of 2011 All outstanding options will continue to vest and be exercisable according to the terms of the program

Auditor

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

By order of the Board


S J Dean
Director
15 August 2012

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 year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.



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Theale
Reading
RG7 4SD
United Kingdom

Independent auditor's report to the members of Quaker Oats Limited

We have audited the financial statements of Quaker Oats Limited for the period ended 31 December 2011 set out on pages 5 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of the company's profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Quaker Oats Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



P Pateman (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park,
Theale,
Reading
RG7 4SD

DATE

17/8/12

Profit and loss account
for the period ended 31 December 2011

	<i>Note</i>	2011 £000	2010 £000
Administrative expenses		-	7
Other operating income	3	4,081	3,437
Other operating expenses	4	-	(3)
Operating profit		4,081	3,441
Interest receivable and similar income	7	1,374	3,643
Interest payable and similar charges		(8)	-
Income from shares in group undertakings		8,250	860
Profit on ordinary activities before taxation		13,697	7,944
Tax on profit on ordinary activities	8	(1,444)	(1,414)
Profit for the period	15	12,253	6,530

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 current year 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 31 December 2011

	<i>Note</i>	£000	2011	£000	£000	2010	£000
Fixed assets							
Investments	9			4,784			4,784
Current assets							
Debtors	10	24,300			68,050		
Cash at bank and in hand		218			31,705		
		<u>24,518</u>			<u>99,755</u>		
Creditors amounts falling due within one year	11	(3,427)			(4,525)		
Net current assets				<u>21,091</u>			<u>95,230</u>
Total assets less current liabilities				<u>25,875</u>			<u>100,014</u>
Creditors amounts falling due after more than one year	12			(4,508)			-
Net assets				<u>21,367</u>			<u>100,014</u>
Capital and reserves							
Called up share capital	13			500			500
Share premium account	14			4,785			4,785
Profit and loss account	14			16,082			94,729
Equity shareholder's funds	15			<u>21,367</u>			<u>100,014</u>

The financial statements of Quaker Oats Limited, company number 00064262, were approved by the board of directors on 15 August 2012 and were signed on its behalf by



S J Dean
Director

The notes on pages 7 to 14 form part of these financial statements

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 25 December 2010 as permitted by the Companies Act 2006 Section 390

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

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review in the Directors' Report. The financial position of the company, its cash flows, liquidity position and borrowing facilities are directly related to the consolidated position of PepsiCo, Inc. As such, details of this Group wide position are described in the consolidated financial statements of PepsiCo, Inc., available to the public from the address in note 18

In addition, the notes to the consolidated financial statements of PepsiCo, Inc. include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of PepsiCo, Inc. the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

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

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

Group financial statements

In accordance with section 401 of the Companies Act 2006 the company, being a wholly owned subsidiary undertaking, is exempt from the requirement to prepare and deliver group financial statements. Copies of the consolidated financial statements are available from the registered office of the ultimate parent company as set out in Note 18

Notes (continued)

1 Accounting policies (continued)

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

Dividends on shares presented within shareholder's funds

Dividends are only recognised as a liability at that date to the extent that they are declared prior to the year end Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

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 the company is a wholly-owned subsidiary

Royalty income

Royalty income from trademarks is based on a percentage of relevant net revenue and is accrued as earned

2 Auditor's remuneration

The auditor's remuneration has been borne in both periods by a fellow group company The amount of the audit fee attributable to the company was £6,000 (2010 £7,800), and no additional non-audit services were received during the period

3 Other operating income

	2011 £000	2010 £000
Release of provisions	13	-
Royalty income	4,068	3,437
	<u>4,081</u>	<u>3,437</u>

4 Other operating expenses

	2011 £000	2010 £000
Write off of receivable balance	-	3
	<u>-</u>	<u>3</u>

5 Remuneration of directors

The directors principally work for other group companies Their emoluments, in both periods, have been borne by the group company where the majority of the directors' time is expended

Notes (continued)

6 Staff numbers and costs

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

	Number of employees	
	2011	2010
Management and administration	5	5
	<u>5</u>	<u>5</u>

In 2011 the cost of staff employed by Quaker Oats Limited was borne by a fellow group company where the majority of the employees' time was expended, without recharge

7 Interest receivable and similar income

	2011 £000	2010 £000
Interest receivable on bank deposits	46	134
Interest receivable on loans to group undertakings	1,324	3,509
Interest on tax refunds	3	-
Exchange gain	1	-
	<u>1,374</u>	<u>3,643</u>

8 Taxation

Analysis of charge in period

	2011	2010
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	1,444	1,983
Adjustments in respect of prior periods	-	(569)
Total current tax charge	<u>1,444</u>	<u>1,414</u>
Tax on profit on ordinary activities	<u>1,444</u>	<u>1,414</u>

Notes (continued)

8 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2010 lower) than the standard rate of corporation tax in the UK of 26.51% (2010 28%). The differences are explained below

	2011 £000	2010 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	13,697	7,944
Current tax at 26.51% (2010 28%)	3,631	2,224
<i>Effects of</i>		
Dividend exemption	(2,187)	(241)
Adjustment in respect of prior periods	-	(569)
Total current tax charge (see previous page)	1,444	1,414

Factors that may affect future tax charges

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK Corporation tax from 28% to 26% with effect from April 2011. These changes were enacted in July 2011.

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 30 March 2012, and another reduction to 23% (effective from 1 April 2013) was substantively enacted on 2 July 2012.

These changes will reduce the company's future current tax charge accordingly.

9 Fixed asset investments

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

Name	Ordinary share capital owned by the company	Country of incorporation and principal operation	Principal activity
Held directly			
Quaker Trading Limited	100%	Great Britain	Non-trading
Quaker Oats BV	100%	The Netherlands	Manufacturing
Simba (Lesotho) Pty Ltd	1%	South Africa	Dormant

Notes (continued)

10 Debtors

	2011 £000	2010 £000
Amounts owed by fellow group undertakings	24,300	68,050
	<u>24,300</u>	<u>68,050</u>

Included within amounts owed by fellow group undertakings is an intercompany loan of £23,715,000 which is anticipated to be repaid after more than one year

11 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Amounts owed to fellow group undertakings	1,983	2,529
Corporation tax	1,444	1,984
Accruals and deferred income	-	12
	<u>3,427</u>	<u>4,525</u>

12 Creditors: amounts falling due after more than one year

	2011 £000	2010 £000
Amounts owed to fellow group undertakings	4,508	-
	<u>4,508</u>	<u>-</u>

Amounts owed to fellow group undertakings comprises an intercompany loan which has no fixed repayment terms but is anticipated to be repaid after more than one year

13 Called up share capital

	2011 £000	2010 £000
<i>Authorised, allotted, called up and fully paid</i> 500,002 ordinary shares of £1 each	500	500
	<u>500</u>	<u>500</u>

Notes (continued)

14 Share premium and reserves

	Share Premium	Profit and loss reserve
	£000	£000
At beginning of period	4,785	94,729
Retained profit for the period	-	12,253
Dividends paid	-	(90,900)
At end of period	4,785	16,082

Dividends paid relate to a group capital restructuring project

15 Reconciliation of movements in equity shareholder's funds

	2011 £000	2010 £000
Opening equity shareholder's funds	100,014	93,503
Profit in financial period	12,253	6,530
Dividends paid	(90,900)	-
Payment to parent company in relation to share options	-	(19)
Closing equity shareholder's funds	21,367	100,014

16 Commitments

There were no capital commitments at the end of the financial period (2010 £nil)

17 Share based compensation

The share based payment charge for the period was £nil (2010 £nil)

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.

Notes (continued)

17 Share based compensation (continued)

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

In September 2010 it was announced that the SharePower programme was being discontinued. Consequently, beginning in 2011, no new awards have been granted under the SharePower programme. Outstanding SharePower awards from 2010 and earlier will continue to vest and be exercisable according to the terms and conditions of the programme

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

	2011 Weighted average exercise price £	2011 Number of options	2010 Weighted average exercise price £	2010 Number of options
LTIPS				
Outstanding at the beginning of the period	21.18	68,270	21.18	68,270
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Lapsed during the period	-	-	-	-
Transfer to group companies during the period	-	-	-	-
Outstanding at the end of the period	21.18	68,270	21.18	68,270
Exercisable at the end of the period	21.18	68,270	21.18	68,270

No options were granted or exercised during the year

The options outstanding at the period end have an exercise price in the range of £25.75 to £47.94 (2010: £25.75 to £47.94) 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

Notes *(continued)*

18 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