Quaker Oats Limited

Directors' report and financial statements

Registered number 00064262

Period ended 26 December 2009

Contents

Directors' report

The directors present their annual report and the audited financial statements for the period ended 26 December 2009

Principal activities

The company is non-trading and receives a royalty income

Business review

Turnover has declined to £nil *(2008 £60 747,000)* due to the company ceasing trading in 2008

Operating profit now principally represents royalty income received In 2009 royalty income increased to £4,883,000 *(2008 £1,769 000)*, 2008 only being for half a year The income for 2009 includes £661,000 relating to 2008 following the revision of an estimate

Interest receivable and similar income has decreased to £4,065,000 *(2008 £4,631,000)*, due to a decline in foreign exchange gains to £178,000 *(2008 £813,000)*

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 2009, which may be obtained from their registered office as detailed in note 22

Dividends

During the period dividends of £5,251,000 were paid (2008 £nil)

The directors do not recommend the payment of a final dividend for the period *(2008 £nil)*

Directors

The directors who held office during the period were as follows

S W Fraser (resigned 24 April 2009)
AY Ahmed (resigned 15 January 2010)
C E Stone
S J Dean (appointed 15 January 2010)
J K Averiss

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 *(2008 £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 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 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

S J Dean
Director
5 July 2010

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

KPMG

Independent Auditors' report to the members of Quaker Oats Limited

We have audited the financial statements of Quaker Oats Limited for the period ended 26 December 2009 set out on pages 5 to18 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 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 web-site at www frc org uk/apb/scope/UKNP

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 26 December 2009 and of its 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 matter prescribed by the Companies Act 2006

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

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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, Reading RG7 4SD

9 July 2010

Profit and loss account

for the period ended 26 December 2009

	Note	2009 £000	2008 £000
Turnover	*2*	-	60,747
Cost of sales		-	(35,655)
Gross profit		-	25,092
Selling and distribution costs		-	(9,956)
Administrative expenses		**110**	(2,792)
Other operating income	*4*	**4,883**	2,207
Other operating expenses	*5*	-	(62)
Operating profit		**4,993**	14,489
Profit on sale of discontinued operation	*6*	-	1,938
Interest receivable and similar income	*9*	**4,065**	4,631
Interest payable and similar charges	*10*	-	(211)
Profit on ordinary activities before taxation	*3*	**9,058**	20,847
Tax on profit on ordinary activities	*11*	**(2,630)**	(3,317)
Profit for the period	*18*	**6,428**	17,530

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

The prior year 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 26 December 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Investments	*12*		**4,784**		4,784
			4,784		4,784
Current assets					
Debtors	*13*	**68,179**		74,768	
Cash at bank and in hand		**28,896**		23,777	
		97,075		98,545	
Creditors amounts falling due within one year	*14*	**(8,356)**		(11,009)	
Net current assets			**88,719**		87,536
Net assets			**93,503**		92,320
Capital and reserves					
Called up share capital	*16*		**500**		500
Share premium account	*17*		**4,785**		4,785
Profit and loss account	*17*		**88,218**		87,035
Equity shareholders' funds	*18*		**93,503**		92,320

The financial statements of Quaker Oats Limited, company number 00064262, were approved by the board of directors on 5th July 2010 and were signed on its behalf by

S J Dean
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

The following amendments to standards have been adopted in these financial statements for the first time

The amendment to FRS 8 Related Parties Disclosures has the effect that only wholly-owned subsidiaries are exempt from disclosure of intra-group transactions and there is no longer a disclosure exemption available in parent company's own financial statements

The amendment to FRS 21 Events after the balance sheet date to confirm no obligation exists at the balance sheet date for dividends declared after that date

The following new and amendments to standards are not yet effective

- Amendment to FRS 25 Financial Instruments Presentation (mandatory for periods starting on/after 1 January 2010)
- Amendment to FRS 20 (IFRS 2) Group Cash-settled Share-based Payment (mandatory for periods starting on/after 1 January 2010)

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 27 December 2008 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 is described in the consolidated financial statements of PepsiCo, Inc available to the public from the address in note 22

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

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

Classification of financial instruments issued by the company

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

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

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

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

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

Taxation

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

Dividends on shares presented within shareholders' 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

Notes *(continued)*

2 Segmental information

	2009 £000	2008 £000
By class of business		
Cereals	-	60,747
Geographical destination		
United Kingdom	-	30,260
Europe	-	19,892
Rest of world	-	10,595
	-	60,747

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)	2009 £000	2008 £000
Depreciation of tangible fixed assets	-	502
Hire of plant and machinery - operating leases	-	37
Gain on disposal of fixed assets	-	(1,809)

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 £5,000 *(2008 £11,800)*

4 Other operating income

	2009 £000	2008 £000
Insurance proceeds	-	438
Royalty income	4,883	1,769
	4,883	2,207

5 Other operating expenses

	2009 £000	2008 £000
Royalty payments to associated company	-	62

6 Profit on sale of discontinued operation

	2009 £000	2008 £000
Finished goods	-	140
Land and buildings	-	1,798
	-	1,938

Notes *(continued)*

7 Remuneration of directors

	2009 **£000**	2008 £000
Directors' emoluments	-	119
Pension contributions	-	14
	-	133

Following the re-structuring in the prior period the directors now principally work for other group companies Their emoluments, in the current period have been borne by the group company where the majority of the directors' time is expended, hence only the comparative information is shown below

	2009 **Number**	2008 Number
Number of directors for whom retirement benefits are accruing under defined benefit pension schemes	-	5
Number of directors who exercised share options (including highest paid director)	-	3
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	-	4

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 **2009**	2008
Production	-	71
Management and administration	5	20
	5	91

The aggregate payroll costs of these persons were as follows

	2009 **£000**	2008 £000
Wages and salaries	-	2,089
Social security costs	-	190
Other pension costs *(note 20)*	-	259
Share based payments *(note 21)*	-	20
	-	2,558

Other pension costs include special contributions of £nil *(2008 £15,383)*
In 2009 the cost of staff employed by Quaker Oats Limited was borne by a fellow group company where the majority of the employee's time was expended, without recharge

Notes *(continued)*

9 Interest receivable and similar income

	2009 £000	2008 £000
Interest receivable on bank deposits	**103**	89
Interest receivable on loans to group undertakings	**3,784**	3,729
Exchange gain	**178**	813
	4,065	4,631

10 Interest payable and similar charges

	2009 £000	2008 £000
Interest payable on loans from group undertakings	**-**	211

Notes *(continued)*

11 Taxation

Analysis of charge in period

	2009		2008	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period	**2,508**		5,009	
Adjustments in respect of prior periods	**(79)**		(1,176)	
Total current tax charge		**2,429**		3,833
Deferred tax (see note 15)				
Origination/reversal of timing differences	**229**		(546)	
Adjustments in respect of prior periods	**(28)**		30	
		201		(516)
Tax on profit on ordinary activities		**2,630**		3,317

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2008 lower)* than the standard rate of corporation tax in the UK 28% *((2008 28 5% aggregated rate for the 12 months ended December 2008)* The differences are explained below

	2009	2008
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**9,058**	20,847
Current tax at 28 0% *(2008 28 5%)*	**2,536**	5,941
Effects of		
Capital allowances in excess of depreciation	-	12
Profit on disposal of fixed assets	-	(516)
Timing difference on special pension contribution tax deduction	-	(420)
Employee share scheme deduction	-	(8)
Other timing differences	**(28)**	-
Adjustment in respect of prior periods	**(79)**	(1,176)
Total current tax charge (see above)	**2,429**	3,833

Factors that may affect future tax charges

The directors are not aware of any other factors that will affect the future tax charge

Notes *(continued)*

12 Fixed asset investments

	£000
Cost and net book value	
At beginning of period and end of period	**4,784**

Shares in group undertakings

	Ownership	*Principal activity*
Quaker Trading Limited	100%	Non-trading
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

13 Debtors

	2009 £000	2008 £000
Amounts owed by fellow group undertakings	**67,352**	74,535
Other debtors	**827**	32
Deferred tax asset (note 15)	**-**	201
	68,179	74,768

Included within amounts owed to fellow group undertakings are loans with a total principal value of £56,636,628 *(2008 £66,235,412)* and interest rate of 6 2125% *(2008 interest rates that vary between 3 14% and 6 2125%)* The loans are repayable on demand at the option of the lender or borrower

14 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Amounts owed to fellow group undertakings	**881**	966
Corporation tax	**7,436**	9,731
Accruals and deferred income	**39**	312
	8,356	11,009

Notes *(continued)*

15 Deferred tax

	2009 £000	2008 £000
Deferred tax (asset)/liability		
At beginning of period	(201)	315
Charge/(credit) for the period *(note 11)*	201	(516)
	-	(201)
	-	(201)

The elements of deferred taxation are as follows	2009 £000	2008 £000
Difference between accumulated depreciation and capital allowances	-	-
Other timing differences	-	(201)
At end of period	-	(201)

The company's deferred tax asset is included in debtors as disclosed in note 13

16 Called up share capital

	2009 £000	2008 £000
Authorised, allotted, called up and fully paid		
500,002 ordinary shares of £1 each	500	500

17 Share premium and reserves

	Share Premium £000	Profit and loss reserve £000
At beginning of period	4,785	87,035
Retained profit for the period	-	6,428
Dividends paid	-	(5,251)
Payment to parent company in relation to share options	-	6
At end of period	4,785	88,218

Notes *(continued)*

18 Reconciliation of movements in equity shareholders' funds

	2009 £000	2008 £000
Opening equity shareholders' funds	**92,320**	74,834
Profit in financial period	**6,428**	17,530
Dividends paid	**(5,251)**	-
Credit in relation to share based payments	**-**	20
Payment to parent company in relation to share options	**6**	(64)
Closing equity shareholders' funds	93,503	92,320

19 Commitments

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

20 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 2008 by a qualified independent actuary The overall pension deficit at that date was £117,800,000 To eliminate this shortfall the company has agreed that additional contributions will be paid to the Plan by the participating employers

The pension charge for the period was £nil *(2008 £259,000)* It has been agreed that an employer contribution rate of 13 8% of pensionable pay will apply in future years

Notes *(continued)*

21 Share based compensation

The share based payment charge for the period was £nil *(2008 £20,000)*

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)*

21 Share based compensation *(continued)*

	2009 Weighted average exercise price £	**2009 Number of options**	2008 Weighted average exercise price £	2008 Number of options
LTIPS				
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	-	-	-	-
Transfer (to)/from group companies during the period	**20 49**	**(3,374)**	-	-
Outstanding at the end of the period	**21 18**	**68,270**	21 15	71,644
Exercisable at the end of the period	**21 18**	**68,270**	21 15	71,644
SharePower				
Outstanding at the beginning of the period	**41 10**	**1,651**	27 59	48,791
Granted during the period			46 75	10,079
Forfeited during the period			-	-
Exercised during the period			33 75	(6,524)
Lapsed during the period			-	-
Transfer (to) group companies during the period	**41 10**	**(1,651)**	30 17	(50,695)
Outstanding at the end of the period	-	-	41 10	1,651
Exercisable at the end of the period	-	-	35 40	509
Chairman's Awards				
Outstanding at the beginning of the period	-	-	26 03	638
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	32 47	(838)
Lapsed during the period	-	-	-	-
Transfer from group companies during the period	-	-	53 01	200
Outstanding at the end of the period	-	-	-	-
Exercisable at the end of the period	-	-	-	-

Notes *(continued)*

21 Share based compensation *(continued)*

No options were exercised during the year

The options outstanding at the period end have an exercise price in the range of £20 49 to £24 36 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

	2009	2008
Weighted average share price at grant date	**33 23**	46 75
Exercise price	**33 23**	46 75
Expected volatility	**17%**	16%
Option life in years	**6**	6
Expected dividend yield	**3 0%**	1 9%
Risk free interest rate (based on U S Treasury rate)	**2 8%**	3 0%

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

22 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