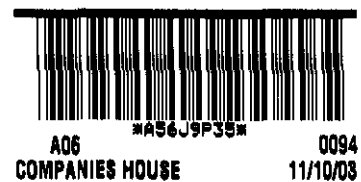


Quaker Oats Limited

**Directors' report and financial
statements**

Registered number 64262

31 December 2002



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Directors' report

The directors have pleasure in presenting their annual report, together with the audited financial statements, for the year ended 31 December 2002.

Principal activity

The principal activity of the company was the processing and sale of grocery products. During the year substantially all products were sold to Quaker Old Trading Limited or Quaker Trading Limited .

Results and business review

Turnover for the year ended 31 December 2002 was £58,034,000 (2001: £34,399,000) and the profit before taxation for the year was £14,111,000 (2001: £5,393,000).

The proposed dividend for the year was £nil (2001: £nil).

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company exceeds the book values of these assets at 31 December 2002.

Payment of suppliers

The company's policy is to abide by the agreed terms of payment. The number of supplier's days outstanding at the year end was 27 days (2001: 27 days).

Directors

The directors who served during the year and subsequently were:

M Welch	(resigned 13 May 2002)
G Sewell	
R Bouchier	
R Schellekens	(appointed 8 March 2002, resigned 31 March 2003)
S Fraser	(appointed 20 March 2002)
G Legge	(appointed 20 March 2002)
M McGowan	(appointed 28 March 2003)

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company. There were no other interests in group companies requiring disclosure under the Companies Act 1985.

Directors' report *(continued)*

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.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



G Sewell
Director

PO Box 24
Bridge Road
Southall
Middlesex
UB2 4HE

6th October, 2003

Statement of 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 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 to enable them to ensure that the 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.



Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Report of the independent auditors to the members of Quaker Oats Limited

We have audited the financial statements on pages 5 to 15.

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 are responsible for preparing the directors' report and, as described on page 3, 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.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

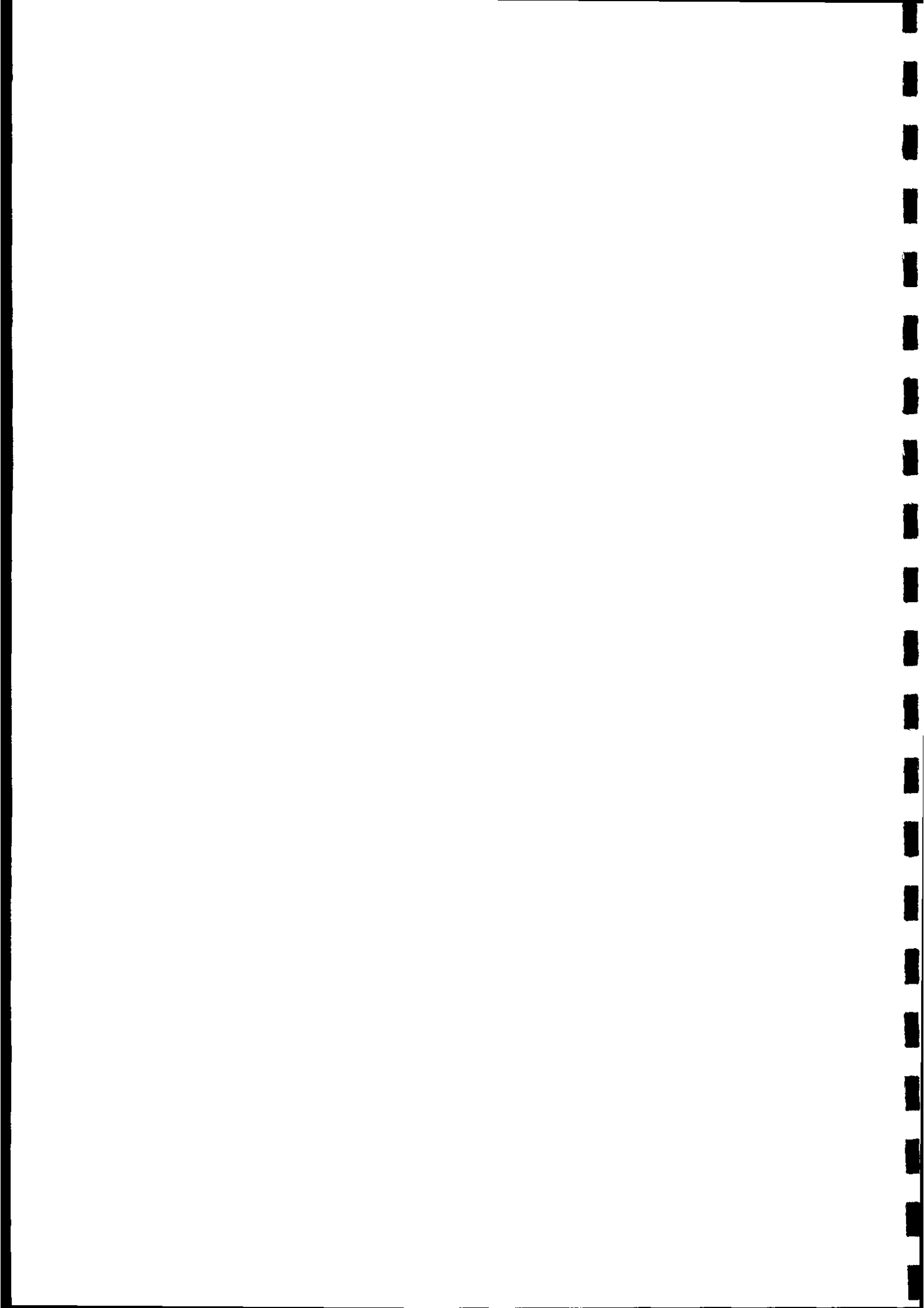
KPMG LLP
Chartered Accountants
Registered Auditors

E. Catebe 2003

Profit and loss account
for the year ended 31 December 2002

	<i>Notes</i>	2002 £000	2001 £000
Turnover	2	58,034	34,399
Cost of sales		(30,089)	(22,742)
Gross profit		27,945	11,657
Administrative expenses		(13,369)	(10,014)
Other operating (expenses)/income	3	(464)	3,776
Operating profit		14,112	5,419
Interest receivable and similar income		-	1
Interest payable on similar charges	4	(1)	(27)
Profit on ordinary activities before taxation	5,6	14,111	5,393
Tax on profit on ordinary activities	8	(4,326)	(1,320)
Retained profit for the financial year		9,785	4,073

All activities are derived from continuing operations. There are no recognised gains or losses other than the profit for the year.



Balance sheet
as at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	23,199	18,437
		<u>23,199</u>	<u>18,437</u>
Current assets			
Stocks	11	3,955	3,365
Debtors	12	10,886	3,822
Cash at bank and in hand		160	240
		<u>15,001</u>	<u>7,427</u>
Creditors: amounts falling due within one year	13	(10,550)	(8,456)
Net current assets/(liabilities)		<u>4,451</u>	<u>(1,029)</u>
Total assets less current liabilities		<u>27,650</u>	<u>17,408</u>
Provisions for liabilities and charges	14	(2,841)	(2,384)
Net assets		<u>24,809</u>	<u>15,024</u>
Capital and reserves			
Called up share capital	15	500	500
Profit and loss account	16	24,309	14,524
Equity shareholders' funds	16	<u>24,809</u>	<u>15,024</u>

The financial statements were approved by the board of directors on behalf by:

6/10/03

and signed on its

George Sewell

G Sewell
Director

Notes

(forming part of the financial statements)

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year except that the company has adopted Financial Reporting Standard 19 Deferred Taxation during the 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.

Under FRS 1 (Revised) the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the cashflows of the company in its own consolidated financial statements.

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

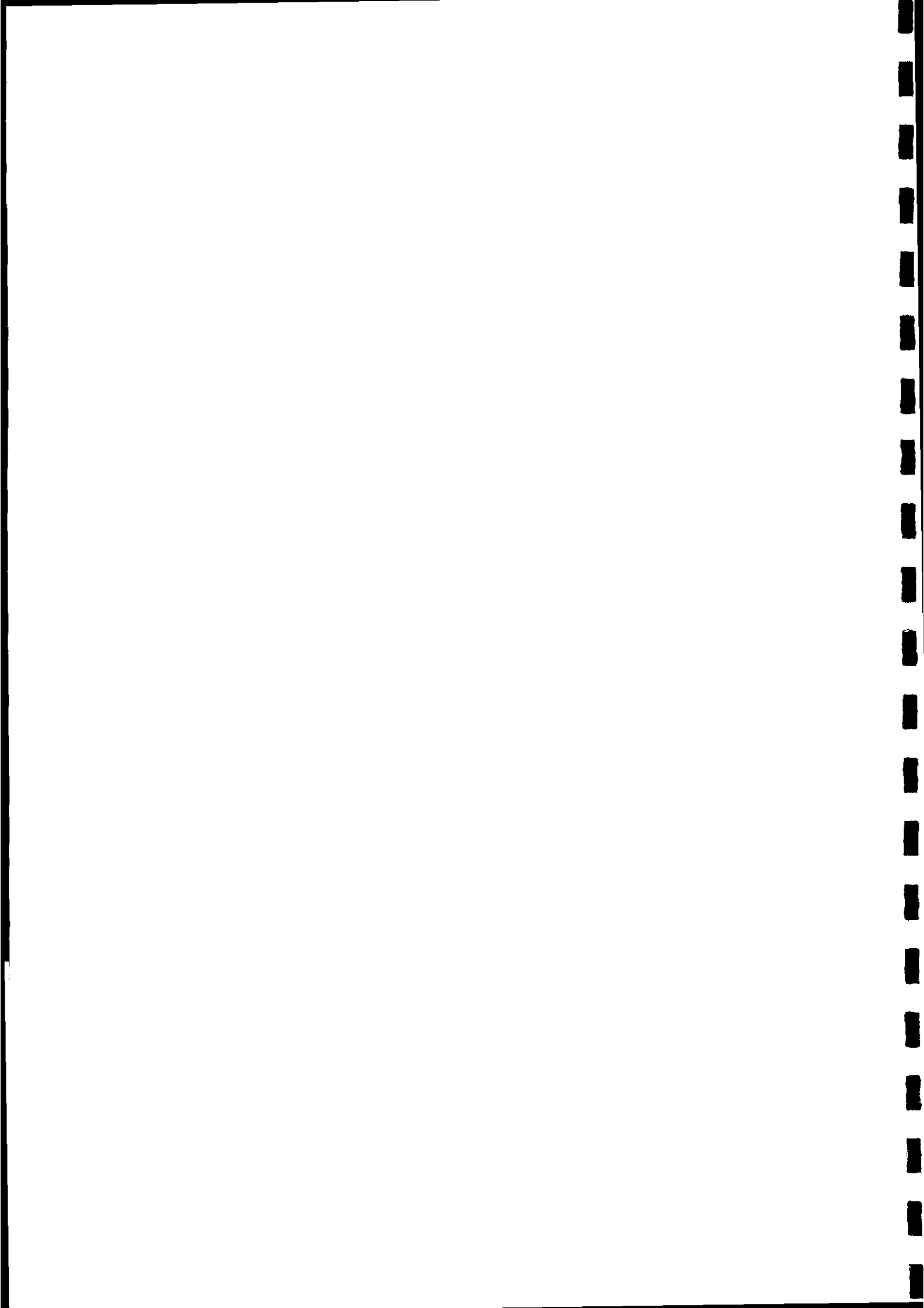
Purchased goodwill is stated at cost and is amortised over the shorter of 20 years and its estimated useful economic life.

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.



Notes (continued)

1 Accounting policies (continued)

Taxation

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

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.

Pension costs

The company participates in the Quaker Pension Scheme which is a defined benefit scheme run by Quaker Trading Limited. The company also contributes to a group defined contribution scheme formerly run by Quaker Old Trading Limited but now run by Quaker Trading Limited.

The amount charged to the profit and loss account for both schemes represents the amounts recharged by 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 current 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 cereals and related products.

Substantially all products were sold to the parent company and other UK group companies.

3 Other Operating (expenses)/income

The expenditure of £464,000 represents royalty payments to other associated companies. The royalty income of £3,776,000 represents royalty income receivable from other associated companies.

4 Interest payable and similar charges

	2002 £000	2001 £000
To other group companies	1	27

Notes (continued)

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002 £000	2001 £000
Amortisation of goodwill	-	72
Depreciation of tangible fixed assets	2,198	1,756
Operating lease rental - plant and machinery	109	117
	<u>2,307</u>	<u>1,945</u>

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

6 Staff costs

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

	2002 £000	2001 £000
Wages and salaries	9,353	6,330
Social security costs	707	478
Other pension costs (see note 17c)	851	390
	<u>10,911</u>	<u>7,198</u>

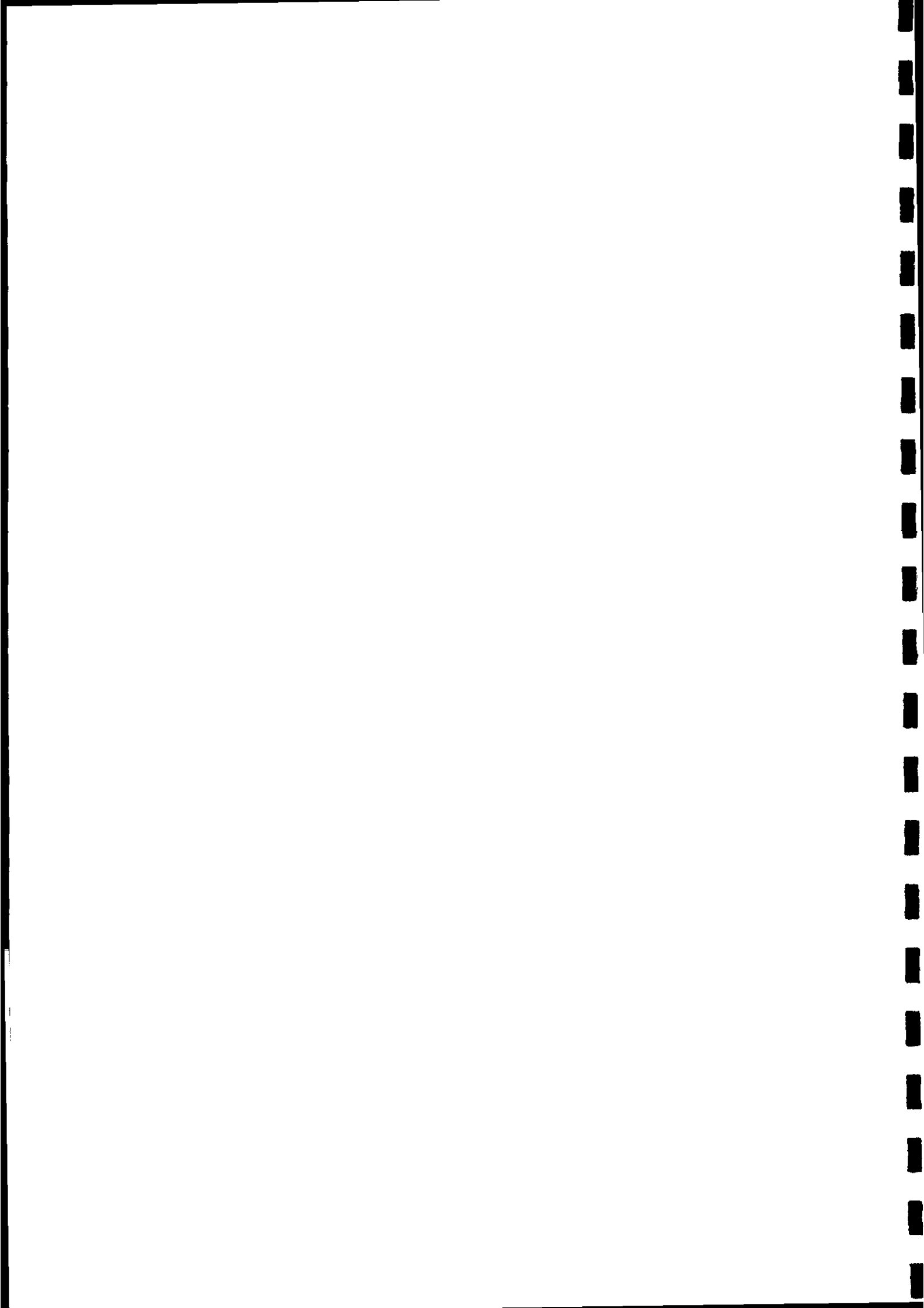
The average monthly number of persons employed by the company during the year was as follows:

	Number of employees 2002	2001
Manufacturing	307	210
Administration	59	50
	<u>366</u>	<u>260</u>

7 Directors' remuneration

In prior years director's emoluments were paid by Quaker Trading Limited, in the current year the director's services were performed on behalf of Quaker Oats Limited and payments were made through Quaker Oats Limited.

	2002 £000	2001 £000
Emoluments	429	-
Amounts receivable under long term incentive schemes	889	-
Pension	42	-
	<u>1,360</u>	<u>-</u>



Notes (continued)

7 Directors' remuneration (continued)

Pensions

The number of directors who were members of pension schemes was as follows:

	2002 £000	2001 £000
Defined benefit scheme	2	-
Defined contribution scheme	1	-
	<u> </u>	<u> </u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

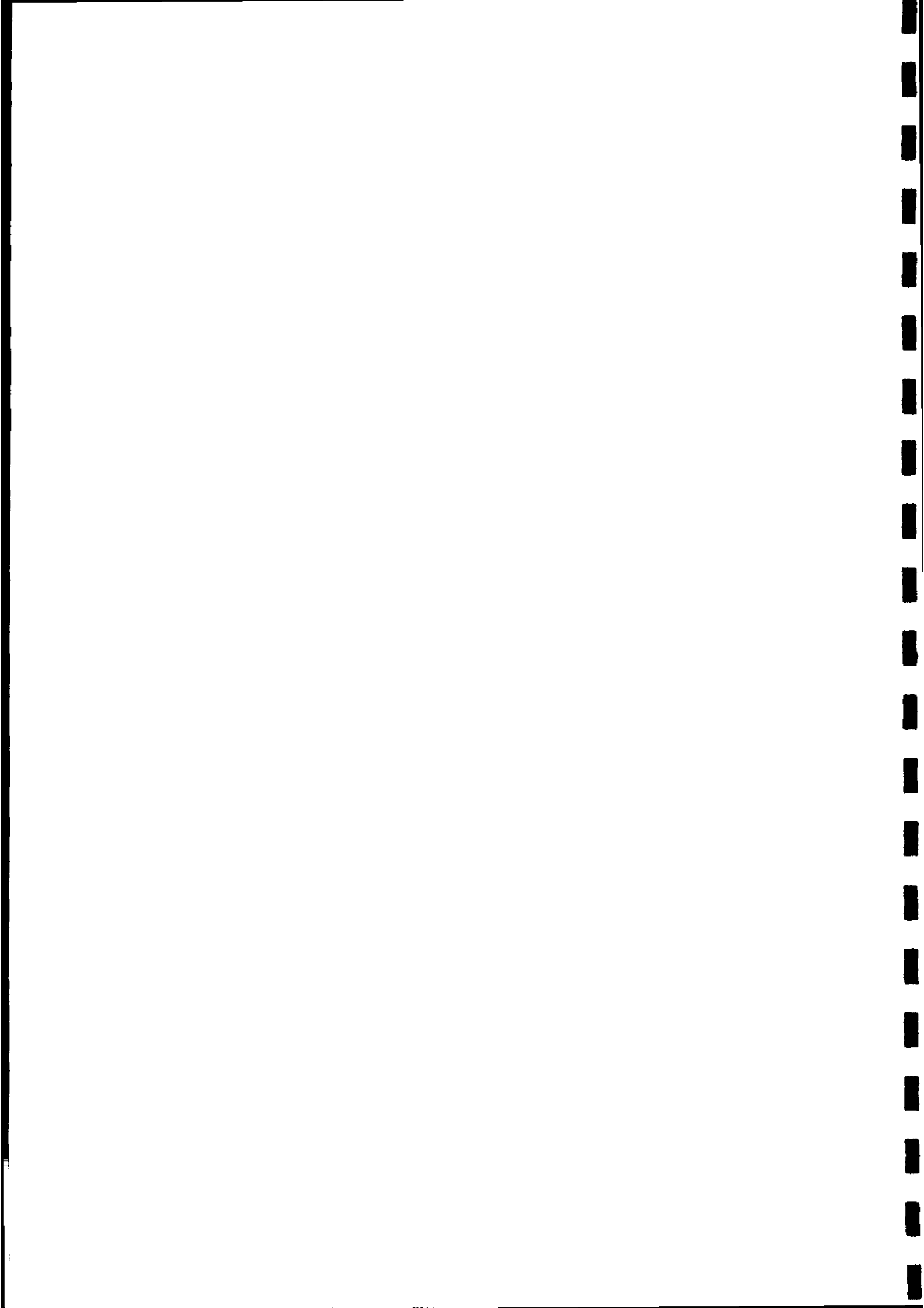
	2002 £000	2001 £000
Emoluments	302	-
Amounts receivable under long term incentive schemes	889	-
Pension	28	-
	<u> </u>	<u> </u>
	1,219	-
	<u> </u>	<u> </u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2002 was £213,960 (2001: £nil) and there was no accrued lump sum entitlement at 31 December 2002.

8 Tax on profit on ordinary activities

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

	2002 £000	2001 £000
Corporation tax at 30% (2001: 30%)	3,814	1,653
Adjustment of UK Corporation tax in respect of prior years	55	(321)
	<u> </u>	<u> </u>
Total current tax	3,869	1,332
Deferred taxation (see note 14)	457	(12)
	<u> </u>	<u> </u>
Tax on profit on ordinary activities	4,326	1,320
	<u> </u>	<u> </u>



Notes (continued)

8 Tax on profit on ordinary activities (continued)

The current tax charge for the period is lower (2001: higher) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002 £000	2001 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	14,111	5,393
	<hr/>	<hr/>
Current tax at 30% (2001: 30%)	4,233	1,618
<i>Effects of:</i>		
Expenses not deductible for tax purposes	60	-
Capital allowances for period in excess of depreciation	(479)	12
Adjustments to tax charge in respect of previous periods	-	23
	<hr/>	<hr/>
Total current tax charge (see above)	3,814	1,653
	<hr/> <hr/>	<hr/> <hr/>

9 Intangible fixed assets

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

The movement in the year was as follows:

	£000
<i>Cost</i>	
At 31 December 2001 and at 31 December 2002	1,172
	<hr/>
<i>Amortisation</i>	
At 31 December 2001	1,172
Charge during the year	-
	<hr/>
At 31 December 2002	1,172
	<hr/>
<i>Net book value</i>	
At 31 December 2002	-
	<hr/> <hr/>
At 31 December 2001	-
	<hr/> <hr/>

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Assets in course of construction £000	Total £000
Cost				
At 31 December 2001	5,755	28,712	5,136	39,603
Additions	-	-	7,075	7,075
Transfers to other associated companies	-	(5)	-	(5)
Transfers	716	8,631	(9,347)	-
Disposals	-	(1,067)	-	(1,067)
At 31 December 2002	6,471	36,271	2,864	45,606
Depreciation				
At 31 December 2001	2,235	18,921	10	21,166
Charge in year	171	2,037	(10)	2,198
Transfers to other associated companies	-	(1)	-	(1)
Disposals	-	(956)	-	(956)
At 31 December 2002	2,406	20,001	-	22,407
Net book value				
At 31 December 2002	4,065	16,270	2,864	23,199
At 31 December 2001	3,520	9,791	5,126	18,437

Freehold land of £172,727 (2001: £172,727) has not been depreciated.

11 Stocks

	2002 £000	2001 £000
Raw materials	3,942	3,358
Work-in-progress	13	7
	<u>3,955</u>	<u>3,365</u>

The value of consignment stock included in raw materials held by the company at the end of the year was £1,731,000 (2001: £1,517,000). Although the stock remains the property of the consigner until Quaker decides to transfer the stock into its ownership (based on usage in production) Quaker bears the key risks and rewards of ownership.

Notes (continued)

12 Debtors: amounts falling due within one year

	2002 £000	2001 £000
Trade debtors	186	130
Amounts due from group undertakings	10,084	3,103
VAT receivable	358	306
Other debtors	197	229
Prepayments and accrued income	61	54
	<u>10,886</u>	<u>3,822</u>

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

13 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	4,019	2,859
Amounts due to group undertakings	1,314	-
UK corporation tax payable	1,980	625
Social security and PAYE	270	163
Accruals and deferred income	2,967	4,809
	<u>10,550</u>	<u>8,456</u>

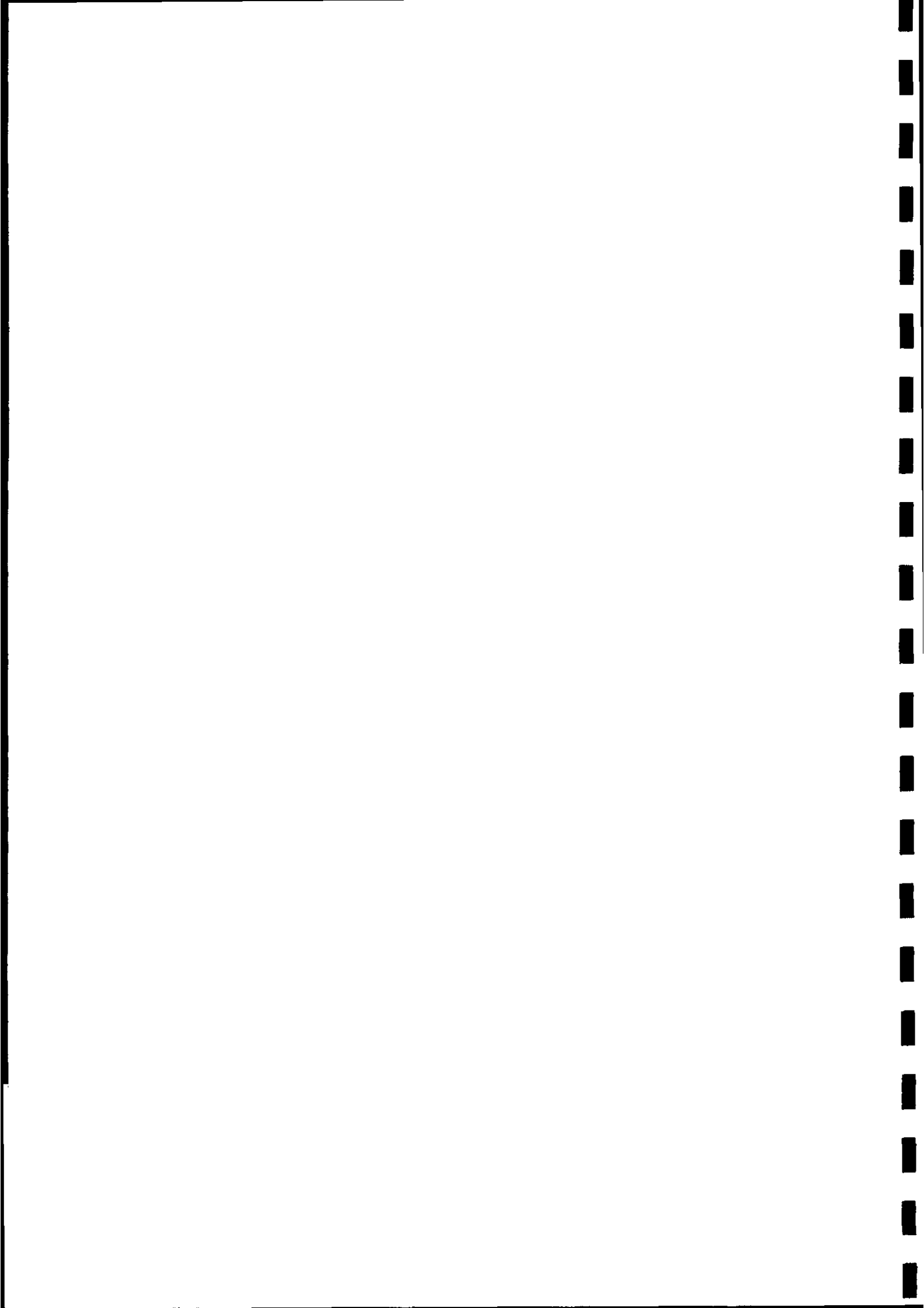
14 Provisions for liabilities and charges

	Deferred taxation £000
At 31 December 2001	2,384
Released in the year	(22)
Provided in the year	479
At 31 December 2002	<u>2,841</u>

There is no unprovided deferred tax since in the view of the directors all timing differences are expected to reverse.

The elements of deferred taxation are as follows:

	2002 £000	2001 £000
Excess of tax allowances over book depreciation of fixed assets	2,841	2,384
Deferred tax liability	<u>2,841</u>	<u>2,384</u>



Notes (continued)

15 Called up share capital

	2002 £000	2001 £000
<i>Authorised, allotted, called up and fully paid</i>		
500,000 ordinary shares of £1 each	500	500

16 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	Total shareholders' funds £000
Beginning of year	500	14,524	15,024
Profit for the financial year	-	9,785	9,785
End of year	500	24,309	24,809

17 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, there were contracted capital commitments of £733,615 (2001: £612,000).

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:

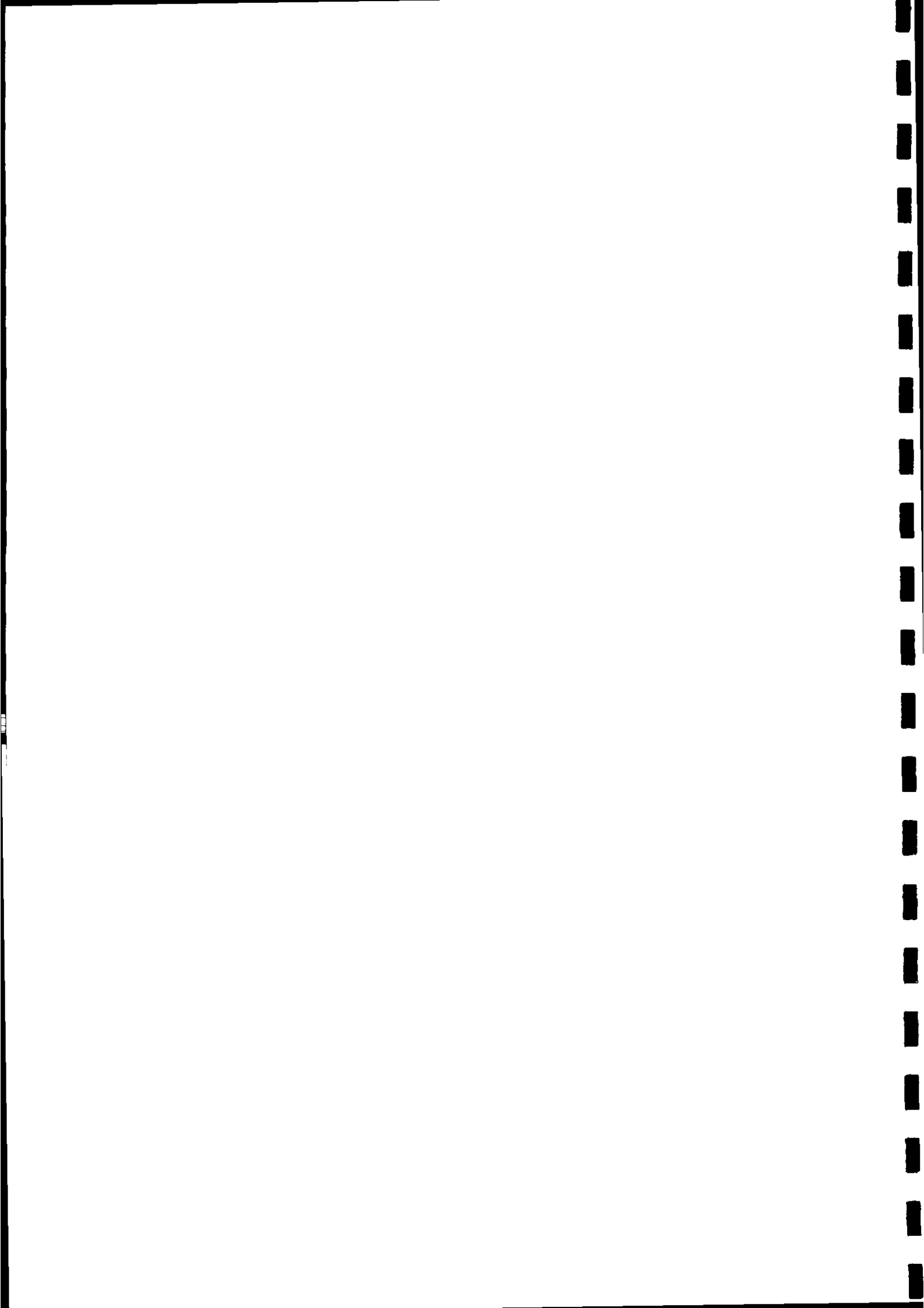
	2002 £000	2001 £000
<i>Operating leases which expire:</i>		
Within one year	15	46
Within two to five years	94	71
	109	117

c) Pension arrangements

The company is a member of the Quaker Pension Scheme – a defined benefits scheme and Quaker Oats Money Purchase scheme. Any pension costs charged are based on contribution rates 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 Quaker Old Trading Limited/Quaker Trading Limited in the year. Full disclosure of the group pension scheme is included in the financial statements of Quaker Holdings (UK) Limited.

i) Defined contribution scheme

The pension cost charge relating to this scheme for the period was £218,000 (2001: £167,000)



Notes (continued)

17 Guarantees and other financial commitments (continued)

ii) Defined benefit scheme

The combined pension cost charge relating to this scheme for the period was £633,000 (2001: £223,000).

FRS 17 transitional disclosures

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 scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme. Full disclosure of the group pension scheme under the transitional requirements of FRS 17 is included in the financial statements of Quaker Holdings (UK) Limited.

18 Ultimate parent company

The company is a subsidiary undertaking of PepsiCo Inc. a company registered and incorporated in the United States of America.

The largest group in which the results of the Company are consolidated is that headed by PepsiCo Inc. The smallest group in which they are consolidated is that headed by Quaker Holdings (UK) Limited, a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from their respective registered offices as follows:

Quaker Holdings (UK) Limited
PO Box 24
Bridge Road
Southall
Middlesex
UB2 4HE

PepsiCo Inc
700 Andersen Hill Road
Purchase
New York 10577
USA

19 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 PepsiCo Inc, a company whose consolidated accounts are available to the public, as detailed in note 18.

