

**Quaker Oats Limited**

**Directors' report and financial  
statements**

**Registered number 64262**

**31 December 2004**



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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 2004.

### Principal activity

The principal activity of the company was the processing and sale of grocery products.

### Results and business review

The directors are satisfied with the results for the year and are confident of the continued profitability.

Turnover for the year ended 31 December 2004 was £139,317,000 (2003: £144,535,000) and the profit before taxation for the year was £9,842,000 (2003: £12,176,000). A prior year adjustment has been made in the year as detailed in note 2.

The directors paid a dividend of £855,000 (2003: £12,000,000).

### 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 2004.

### 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 19 days (2003: 11 days).

### Directors

The directors who served during the year and subsequently were:

G Sewell	(resigned 1 March 2004)
R Bouchier	(resigned 30 November 2005)
M Williams	(appointed 21 March 2005)
J Van Der Eems	(appointed 12 February 2004, resigned 21 March 2005)
S Fraser	
G Legge	(resigned 12 February 2004)
M McGowan	
L Prescott-Brann	(appointed 30 November 2005)

None of the directors who held office at the end of the financial year 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

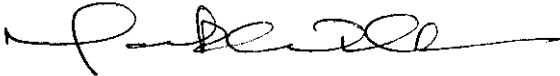
The company places a high value on employee contribution to business success. Teamwork in the organisation is promoted through training workshops, the use of multifunctional groups, and the involvement of all levels of employees in contributing ideas and solutions to projects.

The communication of company goals and business performance is actively encouraged.

### Auditors

In accordance with Section 385 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



**M Williams**  
*Director*

1600 Arlington Business Park  
Theale  
Reading  
Berkshire  
RG7 4SA

20 | 1 | 2006

## 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 17.

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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG LLP*

KPMG LLP  
Chartered Accountants  
Registered Auditor

*30 January* 2006

**Profit and loss account**  
*for the year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <b>£000</b>	2003 £000
<b>Turnover</b>	3	139,317	144,535
Cost of sales		(52,774)	(60,038)
<b>Gross profit</b>		<u>86,543</u>	<u>84,497</u>
Selling and distribution expenses		(63,300)	(58,146)
Administrative expenses		(12,925)	(13,669)
Other operating expenses	4	(476)	(507)
<b>Operating profit</b>		<u>9,842</u>	<u>12,175</u>
Interest receivable and similar income	5	-	1
<b>Profit on ordinary activities before taxation</b>	6	<u>9,842</u>	<u>12,176</u>
Tax on profit on ordinary activities	9	(2,991)	(3,543)
<b>Profit on ordinary activities after taxation</b>		<u>6,851</u>	<u>8,633</u>
Dividends paid		(855)	(12,000)
<b>Retained profit/(loss) for the financial year</b>		<u><u>5,996</u></u>	<u><u>(3,367)</u></u>

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

A statement of movement in shareholders funds is given in note 18.

**Balance sheet**  
*as at 31 December 2004*

	Notes 2	2004 £000	2003 (as restated) £000
<b>Fixed assets</b>			
Intangible assets	10	-	-
Tangible assets	11	23,964	24,422
Investments	12	4,985	4,985
		<hr/> 28,949	<hr/> 29,407
<b>Current assets</b>			
Stocks	13	7,454	7,073
Debtors	14	21,759	17,273
Cash at bank and in hand		828	654
		<hr/> 30,041	<hr/> 25,000
<b>Creditors: amounts falling due within one year</b>	15	(23,701)	(25,270)
<b>Net current assets/(liabilities)</b>		<hr/> 6,340	<hr/> (270)
<b>Total assets less current liabilities</b>		<hr/> 35,289	<hr/> 29,137
<b>Provisions for liabilities and charges</b>	16	(3,066)	(2,910)
<b>Net assets</b>		<hr/> 32,223	<hr/> 26,227
<b>Capital and reserves</b>			
Called up share capital	17	500	500
Share premium	18	4,785	4,785
Profit and loss account	18	26,938	20,942
<b>Equity shareholders' funds</b>	18	<hr/> 32,223	<hr/> 26,227

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

20/1/06 and signed on its



**M Williams**  
*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 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.

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

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%
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 (representing the excess of fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation 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 except as otherwise required by FRS 19.

#### 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 in respect of the accounting period.

#### 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 Prior year adjustment

	Stock £000	Amounts due to group undertakings £000
Adjustment to restate stock	3,812	(3,812)
	<hr/>	<hr/>
Balance at 31 December 2003 as previously stated	3,261	(13,211)
	<hr/>	<hr/>
Balance at 31 December 2003 as restated	<u>7,073</u>	<u>(17,023)</u>

Quaker Trading Limited provides the distribution services for Quaker products manufactured by Quaker Oats Limited. The risks and rewards of the ownership of this stock remains with Quaker Oats Limited. Accordingly Quaker Oats Limited retains ownership of all stock until it is sold outside of the group. Therefore an adjustment has been made to recognise all stock within Quaker Oats Limited.

The net effect on the net assets of the company and its profit and loss account were both nil.

## Notes (continued)

### 3 Segmental information

	2004 £000	2003 £000
<b>Turnover</b>		
Cereals	139,317	144,535

	2004 £000	2003 £000
<b>Turnover</b>		
UK	82,405	84,067
Europe	42,820	43,706
Rest of world	14,092	16,762
	139,317	144,535

### 4 Other operating expenses

The expenditure of £476,000(2003: £507,000) represents royalty payments to other associated companies.

### 5 Interest receivable and similar income

	2004 £000	2003 £000
To other group companies	-	1

### 6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2004 £000	2003 £000
Depreciation of tangible fixed assets	3,060	2,830
Operating lease rental - plant and machinery	92	76
Loss on disposal of fixed assets	27	312

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.

## Notes (continued)

### 7 Staff costs

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

	2004 £000	2003 £000
Wages and salaries	11,841	11,349
Social security costs	1,022	1,025
Other pension costs (see note 19c)	1,133	1,046
	<hr/> 13,996 <hr/>	<hr/> 13,420 <hr/>

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

	Number of employees 2004	2003
Manufacturing	347	341
Administration	57	63
	<hr/> 404 <hr/>	<hr/> 404 <hr/>

### 8 Directors' remuneration

	2004 £000	2003 £000
Directors' emoluments	611	1,633
Amounts receivable under long term incentive schemes	-	1,382
Company contributions to defined contribution pension scheme	55	66
	<hr/> 666 <hr/>	<hr/> 3,081 <hr/>

### Pensions

Retirement benefits are accruing to the following number of directors under:

	Number of directors 2004	2003
Defined benefit scheme	2	2
Defined contribution scheme	1	1
	<hr/>	<hr/>

## Notes (continued)

### 8 Directors' remuneration (continued)

#### Highest paid director

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

	2004 £000	2003 £000
Directors' emoluments	409	1,443
Amounts receivable under long term incentive schemes	-	1,382
Company contributions to defined contribution pension scheme	40	51
	<hr/> 449	<hr/> 2,876

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2004 was £202,069 (2003: £237,992) and there was no accrued lump sum entitlement at 31 December 2004 (2003: £nil).

### 9 Tax on profit on ordinary activities

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

	2004 £000	2003 £000
Corporation tax at 30% (2003: 30%)	2,835	3,490
Adjustment of UK corporation tax in respect of prior years	-	(16)
	<hr/> 2,835	<hr/> 3,474
Total current tax	2,835	3,474
Current deferred taxation (see note 16)	100	172
Adjustment to prior year (see note 16)	56	(103)
	<hr/> 2,991	<hr/> 3,543

Tax on profit on ordinary activities

## Notes (continued)

### 9 Tax on profit on ordinary activities (continued)

The current tax charge for the year of £2,835,000 (2003: £3,490,000) is lower (2003: lower) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	9,842	12,176
	<hr/>	<hr/>
Current tax at 30% (2003: 30%)	2,953	3,653
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	6	9
Capital allowances for period in excess of depreciation	(100)	(172)
Research and development provision	(24)	-
	<hr/>	<hr/>
Total current tax charge (see above)	2,835	3,490
	<hr/>	<hr/>

### 10 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 2003 and at 31 December 2004	1,172
	<hr/>
<i>Amortisation</i>	
At 31 December 2003 and at 31 December 2004	1,172
	<hr/>
<i>Net book value</i>	
At 31 December 2003 and at 31 December 2004	-
	<hr/>

## Notes (continued)

### 11 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Assets in course of construction £000	Total £000
<b>Cost</b>				
At 31 December 2003	7,339	39,892	1,438	48,669
Additions	-	-	2,658	2,658
Transfers	140	2,146	(2,286)	-
Disposals	-	(157)	-	(157)
Adjustments	-	(29)	-	(29)
At 31 December 2004	7,479	41,852	1,810	51,141
<b>Depreciation</b>				
At 31 December 2003	2,613	21,634	-	24,247
Charge in year	238	2,822	-	3,060
Disposals	-	(130)	-	(130)
At 31 December 2004	2,851	24,326	-	27,177
<b>Net book value</b>				
At 31 December 2004	4,628	17,526	1,810	23,964
At 31 December 2003	4,726	18,258	1,438	24,422

Freehold land of £172,727 (2003: £172,727) has not been depreciated.

### 12 Fixed asset investment

	Shares in group undertakings £000
Brought forward as restated	4,985
Additions	-
Cost and net book value at 31 December 2004	4,985

Name	Ordinary shares owned by the company	Country of principal operation	Principal activity
Quaker Trading Ltd	100%	UK	Distribution
Quaker Oats BV	100%	The Netherlands	Manufacturing
Gatorade Ltd	100%	UK	Dormant
A&R Scott Ltd	50%	UK	Dormant

## Notes (continued)

### 13 Stocks

	2004	2003 (as restated see note 2)
	£000	£000
Raw materials	2,946	3,220
Work-in-progress	25	41
Finished goods	4,483	3,812
	<hr/> 7,454	<hr/> 7,073

The value of consignment stock included in raw materials held by the company at the end of the year was £1,015,000 (2003: £1,413,000). Although the stock remains the property of the consigner until Quaker Oats Limited decides to transfer the stock into its ownership (based on usage in production) Quaker Oats Limited bears the key risks and rewards of ownership.

### 14 Debtors: amounts falling due within one year

	2004	2003
	£000	£000
Trade debtors	20,281	16,493
Amounts due from group undertakings	191	146
UK corporation tax receivable	562	-
Other debtors	625	574
Prepayments and accrued income	100	60
	<hr/> 21,759	<hr/> 17,273

The amounts due from group undertakings are interest free and repayable on demand. Trade debtors have been restated to show the gross external receivable as principal in agreement with Quaker Trading Ltd and Quaker Oats BV.

### 15 Creditors: amounts falling due within one year

	2004	2003 (as restated see note 2)
	£000	£000
Trade creditors	2,245	1,548
Amounts due to group undertakings	16,391	17,023
UK corporation tax payable	-	1,576
Social security and PAYE	322	355
Accruals and deferred income	4,743	4,768
	<hr/> 23,701	<hr/> 25,270



## Notes (continued)

### 16 Provisions for liabilities and charges

	Deferred taxation £000
At 31 December 2003	2,910
Adjustment to estimated recoverable amount	56
Provided in the year	100
	<hr/>
<b>At 31 December 2004</b>	<b>3,066</b>
	<hr/> <hr/>

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:

	2004 £000	2003 £000
Excess of tax allowances over book depreciation of fixed assets	3,066	2,910
	<hr/>	<hr/>
Deferred tax liability	3,066	2,910
	<hr/> <hr/>	<hr/> <hr/>

### 17 Called up share capital

	2004 £000	2003 £000
<i>Authorised, allotted, called up and fully paid</i>		
500,002 (2003: 500,002) ordinary shares of £1 each	500	500
	<hr/> <hr/>	<hr/> <hr/>

### 18 Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium £000	Profit and loss account £000	Total shareholders' funds £000
Beginning of year	500	4,785	20,942	26,227
Retained profit for the financial year	-	-	5,996	5,996
Shares Issued	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>End of year</b>	<b>500</b>	<b>4,785</b>	<b>26,938</b>	<b>32,223</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes (continued)**

**19 Guarantees and other financial commitments**

**a) Capital commitments**

At the end of the year, there were contracted capital commitments of £32,000 (2003: £297,471).

**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:

	2004 £000	2003 £000
<i>Operating leases which expire:</i>		
Within one year	20	16
Within two to five years	127	45
	<hr/>	<hr/>
	147	61
	<hr/>	<hr/>

**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 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 £296,000 (2003: £256,000).

**19 Guarantees and other financial commitments (continued)**

**ii) Defined benefit scheme**

The combined pension cost charge relating to this scheme for the period was £837,000 (2003: £790,000).

**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.

## Notes (continued)

### 20 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  
1600 Arlington Business Park  
Theale  
Reading  
Berkshire  
RG7 4SA

PepsiCo, Inc.  
700 Andersen Hill Road  
Purchase  
New York 10577  
USA

### 21 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 20.