COMPANY REGISTRATION NUMBER 3233144

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

FINANCIAL STATEMENTS

30 DECEMBER 2006

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 30 DECEMBER 2006

The Directors present their report and the audited financial statements of the Company for the year ended 30 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company during the year was the provision of administration and related services to the European operating units of its ultimate parent undertaking, Kellogg Company

Turnover for the financial year ended 30 December 2006 was £37,661,000 (2005 £37,301,000) and pre-tax profit was £984,000 (2005 £1,733,000 loss)

The Company continues to strive to provide efficient and cost effective services to its customers

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

The Directors expect the current level of business to be sustained for the foreseeable future

RESULTS AND DIVIDENDS

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements

The Directors do not recommend the payment of a dividend (2005 £nil)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt, foreign exchange risk and liquidity risk The Company has in place risk management programmes that seek to manage the financial exposures of the Company by monitoring levels of debt finance and the related finance costs

Foreign exchange risk

The Company is exposed to transactional foreign exchange risks in the normal course of its business, principally on inter-company sales and purchases of goods and services The Company's policy on mitigating the effect of this currency exposure is to consider hedging up to 75% of the net exposure on certain transactions for up to twelve months forward by entering into forward foreign exchange contracts

Liquidity risk

The Company continually reviews its working capital needs and is able to arrange a mix of long-term and short-term borrowings, to ensure the Company always has sufficient available liquid funds for its operations

DIRECTORS

The Directors who served the Company during the year were as follows

K Meehan
RB Smith
J Gregory

No Director had any interest in the shares of the Company or in any material contract with the Company

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual 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 the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the Directors are aware

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

EMPLOYEES

Established consultative structures continued to provide a framework for employee involvement and for discussion of an extensive range of issues of mutual interest The Company's programme of employee communication was continued with the staging of employee conferences at which Directors and senior management presented a financial and business review and highlighted plans for the future

Recruitment is based on achieving and maintaining a workforce including disabled persons who can reasonably be expected to become effective employees Selection is according to ability, acceptability to training, character dependability and potential for future advancement within the Company All employment is without discrimination on grounds of sex, marital status, sexual orientation, racial group, religion or belief, age or disability

Whilst in employment, the Company ensures that all employees, including disabled persons, are given the opportunity to apply for and are considered for vacancies based on their abilities to fulfil the job requirements Special guidance ensures that disabled employees receive full and fair training opportunities for career development with the Company Newly disabled persons will, wherever possible, be retained within the workforce and in their original activity, subject to medical approval

Employees are encouraged to participate in the success of the business through profit sharing and employee share purchase schemes

AUDITORS

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

Registered office
Manchester
England

Signed by order of the Directors

J N AINLEY
Company Secretary

Approved by the Directors on 11 September 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

YEAR ENDED 30 DECEMBER 2006

We have audited the financial statements of Kellogg Management Services (Europe) Limited for the year ended 30 December 2006 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, the statement of accounting policies and the related notes These financial statements have been prepared under the accounting policies set out therein

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
Manchester
14 September 2007

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 DECEMBER 2006

	Note	2006 £000	2005 *(restated)* £000
TURNOVER	2	37,661	37,301
Administrative expenses		(36,677)	(39,034)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	984	(1,733)
Tax (charge)/credit on profit/(loss) on ordinary activities	6	(352)	105
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	16	632	(1,628)

All of the activities of the Company are classed as continuing

The accounting policies and notes on pages 9 to 20 form part of these financial statements

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 30 DECEMBER 2006

	2006	2005 *(restated)*
	£000	£000
Profit/(loss) for the financial year attributable to the shareholder	632	(1,628)
Total recognised gains and losses relating to the year	632	(1,628)
Prior year adjustment (see note 7)	(1,384)	
Total gains and losses recognised since the last annual report	(752)	

The accounting policies and notes on pages 9 to 20 form part of these financial statements

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

BALANCE SHEET

30 DECEMBER 2006

	Note	2006 £000	2005 *(restated)* £000
CURRENT ASSETS			
Debtors	8	7,699	14,790
CREDITORS: Amounts falling due within one year	10	(7,436)	(15,348)
NET CURRENT ASSETS/(LIABILITIES)		263	(558)
TOTAL ASSETS LESS CURRENT LIABILITIES		263	(558)
CAPITAL AND RESERVES			
Share capital	15	–	–
Share options reserve	16	1,573	1,384
Profit and loss account	16	(1,310)	(1,942)
SHAREHOLDER'S FUNDS/(DEFICIT)	17	263	(558)

These financial statements were approved by the Directors on the 11 September 2007 and are signed on their behalf by

J GREGORY
Director

The accounting policies and notes on pages 9 to 20 form part of these financial statements

Basis of accounting

The Directors have prepared the financial statements on a going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and with accounting standards applicable in the United Kingdom

Changes in accounting policies

FRS 20 'Share-Based Payment (IFRS 2)' requires the recognition of equity-settled share-based payments at fair value at the date of the grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date Prior to the adoption of FRS 20, the Company did not recognise the financial effect of share-based payments until such payments were settled

In accordance with the transitional provisions of FRS 20, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002

For year ended 31 December 2005, the change in accounting policy has resulted in a net decrease in the profit for the year of £1,384,000 The balance sheet at 31 December 2005 has been restated to reflect the recognition of a share option reserve of £1,384,213 (being the fair value of options granted in the year of £1,835,000 less recharges from the ultimate parent Company based on exercise of £451,000) and an additional deferred tax asset of £551,538

For the year ended 30 December 2006 the change in accounting policy has resulted in a net charge to the profit and loss account of £674,202 Recharges of £485,000 from the ultimate parent Company have been taken directly to the share options reserve

Cash flow statement

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard number 1 (as revised 1996) on the grounds that a group cash flow statement is included in the consolidated financial statements of its ultimate parent undertaking, Kellogg Company, whose accounts are publicly available (see note 18) and include the results of the Company

Related party transactions

As a 100% owned subsidiary, the Company is exempt under Financial Reporting Standard number 8 from disclosing separately transactions with other entities in the Group Consolidated financial statements of Kellogg Company Limited, which incorporate the accounts of the Company, are publicly available (see note 18) The Company was not involved in any other related party transactions during the financial year

Turnover

Turnover, which excludes value added tax, represents the invoiced value of services supplied to other group companies, and is recognised monthly when the related costs are incurred

Leased assets

Rental payments due under operating lease agreements are expensed as incurred

Foreign currencies

Monetary assets and liabilities are expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date and any foreign exchange differences are dealt with in the profit and loss account

Share-based payments

The Company issues equity-settled share-based payments to certain employees (including directors) Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the company's estimate of the shares that will eventually vest

Fair value is measured using the Black Scholes Model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately

Pensions

Employees of the Company are eligible to apply to join one of the Kellogg Group's UK pension schemes Employees whose employment commenced after 1 April 2004 can apply for membership of a defined contribution pension scheme to which both employees and employers contribute The assets of the scheme are independently administered and are held separately from those of the employing companies The pension expense arising equates to the contributions paid by the employer Employees whose employment commenced before 1 April 2004 were eligible to apply for membership of one of the UK Group's defined benefits pension schemes Pension contributions paid to the schemes are based upon independent actuarial advice However, the contributions paid by the Company are accounted for as if the schemes were defined contribution schemes, as the Company is unable to identify its share of the underlying assets and liabilities in the schemes Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives

Taxation

Corporation tax is provided on the assessable profits of the Company at the rate of tax prevailing during the financial year Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 DECEMBER 2006

1. PERIOD COVERED

The financial statements cover the financial year from 1 January 2006 to 30 December 2006 (2005 the financial year was from 2 January 2005 to 31 December 2005)

2 TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the Company An analysis of turnover is given below

	2006	2005
	£000	£000
United Kingdom	9,527	9,243
Overseas	28,134	28,058
	37,661	37,301

3 PROFIT/(LOSS) ON OPERATING ACTIVITIES BEFORE TAXATION

Profit/(loss) on ordinary activities before taxation is stated after charging

	2006	2005
	£000	£000
Auditors' remuneration		
- as auditor	39	82
- for other services	104	280
- tax services	256	220
Operating lease costs		
Plant, equipment and other	4,343	4,951

Operating lease rentals include daily rentals of fixed assets from fellow subsidiaries and are cancellable

4. PARTICULARS OF EMPLOYEES

The average number of persons employed by the Company during the financial year, including the Executive Directors, amounted to 308 (2005 - 297) This is also adjusted for staff on secondment from and to affiliated group undertakings All employees worked in administration

The aggregate payroll costs of the above were

	2006	2005 *(restated)*
	£000	£000
Wages and salaries	12,924	12,365
Social security costs	1,305	1,643
Other pension costs	1,535	2,614
Equity-settled share-based payments	674	1,835
	16,438	18,457

5. DIRECTORS' EMOLUMENTS

The aggregate amount of Directors' emoluments during the period was £400,000 (2005 £442,000), including £236,000 (2005 £174,000) in respect of the highest paid Director The aggregate amount includes apportionments of the gross emoluments receivable by one Director (2005 none), whose emoluments, whilst wholly paid by the Company, also relate to services they perform as Director of other affiliated group undertakings (for which no direct charge is made), and in whose financial statements the balance of their emoluments is reported Three Directors, including the highest paid Director, (2005 four, including the highest paid director) were members during the financial year of one of the U K Group's defined benefit pension schemes and three Directors, including the highest paid Director, (2005 four Directors, including the highest paid Director) participated in a Group employee share ownership scheme In the case of the highest paid Director, accrued annual benefits under such pension schemes at the end of the financial year amounted to £22,000 (2005 £16,000)

6. TAX ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	2006	2005 *(restated)*
	£000	£000
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	301	447
Total current tax	301	447
Deferred tax		
Origination and reversal of timing differences (note 9)		
Other timing differences	51	(552)
Tax charge/(credit) on profit/(loss) on ordinary activities	352	(105)

A fellow subsidiary, Kellogg Company of Great Britain Limited, has assumed responsibility for discharging any liability for United Kingdom corporation tax, current and deferred, so long as the Company remains a member of the Kellogg group Any differences between the tax provided in these accounts and the tax paid is settled by Kellogg Company of Great Britain Limited There are no factors that may have a significant impact on future tax charges

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

	2006	2005 *(restated)*
	£000	£000
Profit/(loss) on ordinary activities before taxation	984	(1,733)
Profit /(loss) on ordinary activities at 30%	295	(520)
Permanent differences	57	415
Timing differences	(51)	254
Adjustments to tax charge in respect of previous periods	-	298
Total current tax (note 6(a))	301	447

7. PRIOR YEAR ADJUSTMENT

In preparing the financial statements for the current year, the Company has adopted FRS20, Share Based Payments The adoption of this standard represents a change in accounting policy The effect of the change in accounting policy was to reduce the value of the Company's profit and loss reserve by £1,384,000, being £449,000 in 2005 and £935,000 relating to prior years The balance sheet at 31 December 2005 has been restated to reflect the recognition of a share option reserve of £1,384,000 and an additional deferred tax asset of £552,000

8. DEBTORS

	2006	2005 *(restated)*
	£000	£000
Amounts owed by ultimate parent undertaking	1,109	–
Amounts owed by group undertakings	5,561	13,955
Prepayments and accrued income	528	283
Deferred taxation (note 9)	501	552
	7,699	14,790

9. DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows

	2006	2005 *(restated)*
	£000	£000
Included in debtors (note 8)	501	552

The movement in the deferred taxation account during the year was

	2006	2005 *(restated)*
	£000	£000
Balance brought forward	552	-
Profit and loss account movement arising during the year	(51)	552
Balance carried forward	501	552

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2006	2005 *(restated)*
	£000	£000
Other timing differences	501	552
	501	552

10. CREDITORS: Amounts falling due within one year

	2006	2005 *(restated)*
	£000	£000
Trade creditors	2,663	3,271
Corporation tax	852	447
Amounts owed to ultimate parent undertaking	–	1,233
Amounts owed to other group undertakings	–	6,110
Accruals and deferred income	3,921	4,287
	7,436	15,348

Amounts owed to the ultimate parent undertaking and to other group undertakings are interest free, unsecured and repayable on demand

11. PENSIONS

Employees of the Company can apply to become members of group pension schemes established for employees of Kellogg Company's U K subsidiaries Employees whose employment with the Group commenced after 1 April 2004 can apply for membership of a defined contribution pension scheme to which both employees and employers contribute The cost of the defined contribution scheme for the year was £85,000 (2005 £39,000)

Employees whose employment commenced before 1 April 2004 were eligible to apply for membership of one of the UK Group's defined benefits pension schemes The assets of the schemes are managed by independent investment managers and are held separately from those of the companies concerned However, the contributions paid by the Company are accounted for as if the schemes were defined contribution schemes, as the Company is unable to identify its share of the underlying assets and liabilities in the schemes The cost of contributions to the schemes in the financial year amounted to £1,450,000 (2005 £2,575,000), being based on 17 3% of relevant pensionable salaries, and are based upon pension costs across the U K group as a whole The most recent actuarial valuation was at April 2005 and was carried out by an independent actuary, Watson Wyatt

Using the projected unit method to value the schemes' liabilities, the valuation showed that the market value of the assets of the schemes amounted to £356 6 million and that the actuarial value of those assets represented 93 0% of the past service benefits that had accrued to members

The defined benefit scheme was closed to new members with effect from 4 April 2004 and a new defined contribution scheme was established Existing defined benefit scheme members are required to contribute 5 0% to maintain previous levels of benefits Members not opting to do so suffer a reduction in future benefit accrual

12. SHARE-BASED PAYMENTS

The Company has a share option scheme for all employees (including Directors) Options are exercisable at a price equal to the average market price of the Company's shares on the date of grant The vesting period is usually 3 years The options are settled in equity once exercised

If the options remain unexercised after a period of, in the majority of cases, 10 years from the date of grant, the options expire Options are forfeited if the employee leaves the Company before the options vest

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows

	2006		2005	
		WAEP		WAEP
	No	**£**	No	£
Outstanding at the beginning of the year	371,464	21	288,017	19
Granted during the year	89,245	25	112,486	24
Forfeited during the year	–	23	(15,400)	23
Exercised during the year	(2,151)	20	(13,639)	19
Outstanding at the end of the year	458,558	22	371,464	21
Exercisable at the end of the year	458,558	22	371,464	20

In the year ended 30 December 2006, options were granted throughout the year and the estimated fair value per option granted was £4 (2005 £4)

The fair values were calculated using the Black Scholes Model The inputs into the model were as follows

	2006	2005
Weighted average share price - £	22 00	24 00
Weighted average exercise price - £	25 00	24 00
Expected volatility - %	18 00	22 00
Expected life - years	3 00	3 00
Risk free rate - %	4 65	3 80
Expected dividend yield - %	2 40	2 00

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 10 years The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

The Company recognised expenses of £674,000 (2005 £1,835,000) related to equity-settled share-based payment transactions during the year

13. DERIVATIVES

In accordance with the Company's policy on hedging, 75% of the net exposure on certain future intercompany transactions are hedged for up to twelve months by entering into forward foreign exchange contracts

At the year end there were outstanding forward contracts of £3 3 million (2005 £nil)

14. COMMITMENTS UNDER OPERATING LEASES

At 30 December 2006 the Company had annual commitments under non-cancellable operating leases as set out below

	Assets Other Than Land & Buildings	
	2006	2005 *(restated)*
	£000	£000
Operating leases which expire		
Within 1 year	203	132
Within 2 to 5 years	689	1,122
	892	1,254

15 SHARE CAPITAL

Authorised share capital:

	2006	2005
	£	£
1,000 Ordinary shares of £1 each	1,000	1,000

Allotted and called up:

	2006		2005	
	No	**£**	No	£
Ordinary shares of £1 each	2	2	2	2

16 RESERVES

	Share options reserve £000	Profit and loss account (restated) £000
Balance brought forward as previously reported	–	(558)
Prior year adjustment (note 7)	1,384	(1,384)
Restated balance as at 1 January 2006	1,384	(1,942)
Profit for the year	–	632
Recognition of equity-settled share-based payments in the year	674	–
Exercise of options during the year	(485)	–
Balance carried forward	1,573	(1,310)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS/(DEFICIT)

	2006 £000	2005 *(restated)* £000
Opening shareholders funds/(deficit)	826	(314)
Prior year adjustment (see note 7)	(1,384)	–
	(558)	(314)
Profit /(loss) for the financial year	632	(1,628)
Recognition of equity settled share based payments in the year	674	1,835
Exercise of options during the year	(485)	(451)
Net addition to shareholders funds / (deficit)	821	(244)
Closing shareholders funds / (deficit)	263	(558)

18 ULTIMATE PARENT COMPANY

The Company's immediate parent company is Kellogg U K Holding Company Limited (registered in England and Wales) and the Company's ultimate holding company and controlling party is Kellogg Company (incorporated in the United States of America) Copies of the accounts of Kellogg Company can be obtained from One Kellogg Square, PO Box 3599, Battle Creek, Michigan, USA