COMPANY REGISTRATION NUMBER 3233144

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

FINANCIAL STATEMENTS

29 DECEMBER 2007

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 29 DECEMBER 2007

The Dırectors have pleasure ın presentıng theır report and the audıted financıal statements of the Company for the year ended 29 December 2007

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW
The prıncıpal actıvıty of the Company durıng the year was the provısıon of admınıstratıon and related servıces to the European operatıng unıts of ıts ultımate parent undertakıng, Kellogg Company

Turnover for the financıal year ended 29 December 2007 was £40,353,000 (2006 £37,661,000) and profit before tax was £1,395,000 (2006 £145,000 loss re-stated)

The Company contınues to strıve to provıde efficıent and cost effectıve servıces to ıts customers

Gıven the straıghtforward nature of the busıness, the Company's Dırectors are of the opınıon that analysıs usıng key performance ındıcators ıs not necessary for an understandıng of the development, performance or posıtıon of the busıness

The Dırectors expect the current level of busıness to be sustaıned for the foreseeable future

RESULTS AND DIVIDENDS
The tradıng results for the year and the Company's financıal posıtıon at the end of the year are shown ın the attached financıal statements (pages 6 & 8)

The Dırectors do not recommend the payment of a dıvıdend (2006 £nıl)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Company's operatıons expose ıt to a varıety of financıal rısks that ınclude the effects of changes ın debt, foreıgn exchange rısk and lıquıdıty rısk The Company has ın place rısk management programmes that seek to manage the financıal exposures of the Company by monıtorıng levels of debt finance and the related finance costs

Foreign exchange risk
The Company ıs exposed to transactıonal foreıgn exchange rısks ın the normal course of ıts busıness, prıncıpally on ınter-company sales and purchases of goods and servıces The Company's polıcy on mıtıgatıng the effect of thıs currency exposure ıs to consıder hedgıng up to 75% of the net exposure on certaın transactıons for up to twelve months forward by enterıng ınto forward foreıgn exchange contracts

Liquidity rısk
The Company contınually revıews ıts workıng capıtal needs and ıs able to arrange a mıx of long-term and short-term borrowıngs, to ensure the Company always has sufficıent available lıquıd funds for ıts operatıons

DIRECTORS
The Dırectors who served the Company durıng the year and up to the date of sıgnıng the financıal statements, were as follows

K Meehan
RB Smıth
J Gregory

Subsequent to the year end:
C Bailey was appointed as a director on 28 March 2008
S Knill was appointed as a director on 28 March 2008
C Wilkinson was appointed as a director on 28 March 2008
T Middleton was appointed as a director on 28 March 2008

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 confirm that they have complied with the above requirements in preparing the financial statements

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

DISCLOSURE OF INFORMATION TO AUDITORS

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditor is 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 auditor is 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

Registered office
Manchester
England

Signed by order of the Board of Directors

J N AINLEY
Company Secretary

Approved by the Directors on 22 October 2008

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

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

YEAR ENDED 29 DECEMBER 2007

We have audited the financial statements of Kellogg Management Services (Europe) Limited for the year ended 29 December 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Accounting Policies and the related notes These financial statements have been prepared on the basis of the accounting policies set out therein

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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 shareholder 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 29 December 2007,
- 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.

Pricewaterhouse Coopers LLP,
Chartered accountants and registered auditors,
Manchester,
22 October 2008

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 29 DECEMBER 2007

	Note	**2007** **£000**	2006 *restated* £000
TURNOVER	**2**	40,353	37,661
Administrative expense		(39,958)	(38,416)
OPERATING PROFIT/(LOSS)	**3**	395	(755)
Other finance income	**13**	1,000	610
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		1,395	(145)
Tax charge on profit/(loss) on ordinary activities	**6**	(715)	(14)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**17**	680	(159)

All of the activities of the Company are classed as continuing

The statement of accounting policies and notes on pages 9 to 23 form part of these financial statements

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 29 DECEMBER 2007

	2007 **£000**	2006 *restated* £000
Profit/(loss) for the financial year		
Attributable to the shareholder	680	(159)
Actuarial gain/(loss) in respect of defined benefit pension scheme	(760)	2,280
Deferred tax in respect of defined benefit pension scheme	228	(684)
Total recognised gains and losses relating to the year	148	1,437
Prior year adjustment (see note 7)	1,246	
Total gains and losses recognised since the last annual report	1,394	

The statement of accounting policies and notes on pages 9 to 23 form part of these financial statements

KELLOGG MANAGEMENT SERVICES (EUROPE) LIMITED

BALANCE SHEET

AS AT 29 DECEMBER 2007

	Note	**2007** **£000**	2006 *restated* £000
CURRENT ASSETS			
Debtors	**8**	3,019	4,677
CREDITORS: Amounts falling due within one year	**10**	(6,989)	(6,584)
NET CURRENT LIABILITIES		(3,970)	(1,907)
TOTAL ASSETS LESS CURRENT LIABILITIES		(3,970)	(1,907)
NET LIABILITIES EXCLUDING PENSION ASSET		(3,970)	(1,907)
Defined benefit pension scheme asset	**13**	5,954	3,416
NET ASSETS INCLUDING PENSION ASSET		1,984	1,509
CAPITAL AND RESERVES			
Share capital	**15**	–	–
Share options reserve	**16**	1,900	1,573
Profit and loss account	**16**	84	(64)
TOTAL SHAREHOLDER'S FUNDS	**17**	1,984	1,509

These financial statements were approved by the Directors and authorised for issue on 22 October 2008, and are signed on their behalf by

J GREGORY
Director

The statement of accounting policies and notes on pages 9 to 23 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

The principal accounting policies, which have been applied consistently throughout the year, except as detailed below, are set out below

Prior year adjustment

The Company previously accounted for the defined benefit pension scheme on a defined contribution basis due to the availability of the multi employer exemption Under this exemption FRS 17 permits use of defined contribution accounting when an employer contribution is affected by a surplus or deficit in the scheme and that employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis Following receipt of further advice from the Company's actuarial advisor, the Directors are now able to split the assets and liabilities of the scheme on a reasonable and consistent basis, as such the pension scheme has been accounted for on a defined benefit basis under FRS 17 "Retirement benefits" and comparative information adjusted accordingly

For the year ended 31 December 2005, the effect of the prior year adjustment was to increase the value of the Company's profit and loss reserve by £441,000

For the year ended 30 December 2006, the effect of the prior year adjustment was to increase the value of the Company's profit and loss reserve by £805,000 The balance sheet at 30 December 2006 has been restated to reflect the recognition of a defined benefit pension scheme asset of £4,880,000 and a deferred tax liability of £1,464,000

For the year ended 29 December 2007 the effect of defined benefit accounting has resulted in a net credit to the profit and loss account of £863,000

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 'Cash Flow Statements' (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 'Related Party Disclosures' from disclosing separately transactions with other entities in the Group Consolidated financial statements of Kellogg Company, 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 when the related costs are incurred

Operating leases

Rental payments due under operating lease agreements are expensed on a straight line basis over the lease term

Pension costs and other post-retirement benefits

Employees whose employment commenced after 1 April 2004 can apply for membership of the Kellogg Group's UK defined contribution pension scheme to which both employees and employer contribute

The assets of the scheme are independently administered and are held separately from those of the employer The pension expense arising in these accounts equates to the contributions paid by the employer

Employees whose employment commenced before 1 April 2004 were eligible to apply for membership of a defined benefit pension scheme The assets of the scheme are held separately from those of the company

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using AA corporate bonds of appropriate term and currency

Pension scheme assets are valued at mid market value at the balance sheet date

The pension scheme surplus (being the excess of the fair value of the scheme assets over the present value of obligations in respect of pensionable service) is recognised in full on the balance sheet

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax assets or liabilities

The current service cost of the defined benefit pension scheme is charged to operating profit as are past service costs including enhancements to scheme benefits that are already vested

Other finance income in respect of the scheme represents the excess of the expected return on scheme assets over the unwinding discount on scheme liabilities

Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses along with the related deferred taxation

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

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate Transactions in a foreign currency are converted to sterling at the rate ruling at the date of the transaction All differences on exchange are taken to the profit and loss account

Share-based payments

The Ultimate Parent 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

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

1. PERIOD COVERED

The financial statements cover the financial year from 31 December 2006 to 29 December 2007 (2006 the financial year was from 1 January 2006 to 30 December 2006)

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

	2007	2006
	£000	£000
United Kingdom	11,299	9,529
Overseas	29,054	28,132
	40,353	37,661

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging

	2007	2006
	£000	£000
Auditors' remuneration		
- as auditor	39	39
- for other services	140	360
Operating lease costs		
Plant and machinery	4,230	4,343

Operating lease rentals include daily rentals of fixed assets from fellow subsidiaries

Auditors' fees

The fees charged by the auditor can be further analysed under the following headings for services rendered

	2007	2006
	£000	£000
Audit	39	39
Taxation	67	256
Other Services	73	104
	179	399

4. PARTICULARS OF EMPLOYEES

The average monthly number of persons employed by the Company during the financial year, including the Directors, amounted to 305 (2006 - 308)

The aggregate payroll costs of the above were

	2007	2006 *restated*
	£000	£000
Wages and salaries	12,866	12,924
Social security costs	1,182	1,305
Pension costs – defined benefit scheme	1,980	3,190
Pension costs – defined contribution scheme	158	85
Equity-settled share-based payments	522	674
	16,708	18,178

Other pension costs are amounts charged to operating profit and do not include amounts credited to finance income (see note 13) and amounts recognised in the statement of recognised gains and losses

Employee numbers include executive Directors whose primary employer is the Company, and is adjusted for staff on secondment from and to affiliated group undertakings All employees worked in administration

5. DIRECTORS' EMOLUMENTS

The aggregate amount of Directors' emoluments during the period was £405,929 (2006 £400,000), including £246,848 (2006 £236,000) in respect of the highest paid Director The aggregate amount excludes apportionments of the gross emoluments receivable by one Director (2006 one), whose emoluments, whilst wholly paid by the Company, also relate to services he performs as Director of other affiliated group undertakings (for which no direct charge is made), and in whose financial statements the emoluments are reported Three Directors, including the highest paid Director, (2006 three, including the highest paid director) were members during the financial year of the U K Group's defined benefit pension scheme and three Directors, including the highest paid Director, (2006 three 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 £31,000 (2006 £22,000)

6. TAX ON ORDINARY ACTIVITIES

(a) Analysis of tax charge in the year

	2007 **£000**	2006 *restated* £000
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	(616)	(628)
Total current tax credit	(616)	(628)
Deferred tax		
Revaluation of tax asset due to change in future tax rate to 28%	(147)	-
Origination and reversal of timing differences	1,478	642
Tax charge on profit/(loss) on ordinary activities	715	14

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 different than the standard rate of corporation tax in the UK of 30% (2006 - 30%) for the following reasons

	2007 **£000**	2006 *restated* £000
Profit/(loss) on ordinary activities before taxation	1,395	(145)
Profit/(loss) on ordinary activities multiplied by the standard rate of tax	419	(44)
Permanent differences	345	58
Timing differences	(1,380)	(642)
Total current tax credit (note 6(a))	(616)	(628)

7. PRIOR YEAR ADJUSTMENT

The Company previously accounted for the defined benefit pension scheme on a defined contribution basis due to the availability of the multi employer exemption Under this exemption FRS 17 permits use of defined contribution accounting when an employer contribution is affected by a surplus or deficit in the scheme and that employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis Following receipt of further advice from the Company's actuarial advisor, the Directors are now able to split the assets and liabilities of the scheme on a reasonable and consistent basis, as such the pension scheme has been accounted for on a defined benefit basis under FRS 17 "Retirement benefits" and comparative information adjusted accordingly

For the year ended 31 December 2005, the effect of the prior year adjustment was to increase the value of the Company's profit and loss reserve by £441,000

For the year ended 30 December 2006, the effect of the prior year adjustment was to increase the value of the Company's profit and loss reserve by £805,000 The balance sheet at 30 December 2006 has been restated to reflect the recognition of a defined benefit pension scheme asset of £4,880,000 and a deferred tax liability of £1,464,000

For the year ended 29 December 2007 the effect of defined benefit accounting has resulted in a net credit to the profit and loss account of £863,000

8. DEBTORS

	2007	2006 *restated*
	£000	£000
Amounts owed by ultimate parent undertaking	663	1,109
Amounts owed by group undertakings	979	2,461
Corporation tax repayable	617	78
Prepayments and accrued income	510	528
Deferred taxation (note 9)	250	501
	3,019	4,677

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

9. DEFERRED TAXATION

The deferred tax included in the balance sheet is as follows

	2007	2006
	£000	£000
Included in debtors (note 8)	250	501

The movement in the deferred taxation account during the year was

	2007	2006
	£000	£000
Balance brought forward	501	552
Origination and reversal of timing differences	(233)	(51)
Revaluation due to change in tax rate to 28%	(18)	-
Balance carried forward	250	501

9. DEFERRED TAXATION *(continued)*

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

	2007 £000	2006 £000
Timing differences in respect of share-based payments	250	501
	250	501

10. CREDITORS: Amounts falling due within one year

	2007 £000	2006 *restated* £000
Trade creditors	2,474	2,662
Accruals and deferred income	4,515	3,922
	6,989	6,584

11. SHARE-BASED PAYMENTS

The Company has a share option scheme operated by the ultimate parent undertaking for certain employees (including Directors) Options are exercisable at a price equal to the market price of Kellogg Company's shares on the date of grant The vesting period is usually 2 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) are as follows

	2007 No	2007 WAEP £	2006 No	2006 WAEP £
Outstanding at the beginning of the year	763,262	22	1,083,432	21
Granted during the year	138,771	25	171,965	25
Forfeited during the year	(20,160)	22	(28,249)	23
Exercised during the year	(157,048)	20	(463,886)	20
Outstanding at the end of the year	724,825	22	763,262	22
Exercisable at the end of the year	542,845	21	571,352	22

11. SHARE-BASED PAYMENTS *(continued)*

In the year ended 29 December 2007, options were granted throughout the year and the estimated fair value per option granted was £4 (2006 £4)

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

	2007	2006
Weighted average share price - £	22 00	22 00
Weighted average exercise price - £	25 61	25 00
Expected volatility - %	17 00	18 00
Expected life - years	3 20	3 00
Risk free rate - %	4 58	4 65
Expected dividend yield - %	2 40	2 40

Expected volatility was determined by calculating the historical volatility of Kellogg 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 £522,000 (2006 £674,000) related to equity-settled share-based payment transactions during the year

12. 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 the fair value of outstanding forward contracts was £12 3 million (2006 £3 3 million)

13. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Defined Contribution Scheme

The major assumptions used by the actuary were

	2007 %	2006 %	2005 %
Inflation	3 30	2 90	2 70
Rate of increase in salaries	4 80	4 40	4 20
Rate of increase of pensions in payment			
Pre 97	0 00	0 00	0 00
Post 97/pre 05	3 30	2 90	2 70
Post 05	2 50	2 40	2 20
Rate of increase for deferred pensioners	3 30	2 90	2 70
Discount rate	5 80	5 20	4 90

The cost of contributions to the defined contribution scheme amounts to £158,000 (2006 £85,000)

The fair value of the scheme assets and the expected rate of return, the present value of the scheme liabilities and the resulting surplus/(deficit) are

	2007 Long-term rate of return expected %	**2007** Value £000	**2006** Long-term rate of return expected %	**2006** Value £000	**2005** Long-term rate of return expected %	**2005** Value £000
Equities	8 1	33,682	7 9	26,070	7 8	19,911
Bonds	5 1	9,034	4 8	7,113	4 3	5,566
Property	6 6	1,483	6 3	1,296	6 1	601
Others	5 1	2,131	4 8	561	3 6	52
Total market value of assets		46,330		35,040		26,130
Present value of scheme liabilities		(38,060)		(30,160)		(25,500)
Surplus in the scheme		8,270		4,880		630
Related deferred tax liability		(2,316)		(1,464)		(189)
Net pension asset		5,954		3,416		441

13. PENSIONS AND OTHER POST-RETIREMENT BENEFITS *(continued)*

An analysis of the movements in surplus/(deficit) during the year are shown below

	2007	2006
	£000	£000
At 31 December	4,880	630
Total operating charge	(1,980)	(3,190)
Total other finance income	1,000	610
Actuarial (loss)/gain	(760)	2,280
Contributions	5,130	4,550
At 29 December	8,270	4,880

An analysis of the defined benefit cost follows

Analysis of the amount charged to operating profit/(loss)

	2007	2006
	£000	£000
Current service cost	(1,980)	(1,980)
Past service costs	–	(1,210)
Total operating charge	(1,980)	(3,190)

Analysis of the amount credited to finance income

	29 December 2007	**30 December 2006**
	£000	**£000**
Expected return on pension scheme assets	2,510	1,830
Interest on pension scheme liabilities	(1,510)	(1,220)
Total finance income	1,000	610

Analysis of the amount recognised in statement of total recognised gains and losses

	29 December 2007	**30 December 2006**
	£000	**£000**
Actual return less expected return on pension scheme assets	(410)	920
Experience gains/(losses) arising on scheme liabilities	(1,380)	520
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities	1,030	840
Actuarial (losses)/gains	(760)	2,280

13. PENSIONS AND OTHER POST-RETIREMENT BENEFITS *(continued)*

A history of experience gains and losses is shown below

	2007	2006
Difference between the expected and actual return on scheme assets		
- amount (£000)	(410)	920
- % of scheme assets	(1)	3
Experience (losses)/gains on scheme liabilities		
- amount (£000)	(1,380)	520
- % of the present value of scheme liabilities	(4)	2
Total amount recognised in statement of total recognised gains and losses		
- amount (£000)	(760)	2,280
- % of the present value of scheme liabilities	(2)	8

The requirements of FRS 17 to provide historical information have been complied with to the extent that such information is available

14. COMMITMENTS UNDER OPERATING LEASES

At 29 December 2007 the Company had annual commitments under non-cancellable operating leases as set out below

	Assets Other Than Land & Buildings	
	2007	2006
	£000	£000
Operating leases which expire		
Within 1 year	512	203
Within 2 to 5 years	906	689
	1,418	892

15. SHARE CAPITAL

Authorised share capital:

	2007	2006
	£	£
1,000 Ordinary shares of £1 each	1,000	1,000

Allotted called up and fully paid:

	2007		2006	
	No	**£**	No	£
Ordinary shares of £1 each	2	2	2	2

16. RESERVES

	Share options reserve	**Profit and loss account** *restated*
	£000	**£000**
Balance brought forward	1,573	(1,310)
Prior year adjustment (note 7)	–	1,246
Restated balance as at 31 December 2006	1,573	(64)
Profit for the year	–	680
Deferred tax in respect of defined benefit pension scheme	–	228
Actuarial gain/(loss) in respect of defined benefit pension scheme	–	(760)
Recognition of equity-settled share-based payments in the year	522	–
Exercise of options during the year	(195)	–
Balance carried forward	1,900	84

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2007 **£000**	2006 *restated* £000
Profit/(loss) for the financial year	680	(159)
Actuarial gain/(loss) in respect of defined benefit pension scheme	(760)	2,280
Deferred tax in respect of defined benefit pension scheme	228	(684)
Recognition of equity-settled share-based payments in the year	522	674
Exercise of options during the year	(195)	(485)
Net addition to shareholder's funds	475	1,626
Opening shareholder's funds/(deficit)	1,509	(558)
Prior year adjustment (see note 7)	-	441
Opening shareholder's funds as restated	1,509	(117)
Closing shareholder's funds	1,984	1,509

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 consolidated accounts of Kellogg Company can be obtained from One Kellogg Square, PO Box 3599, Battle Creek, Michigan, USA Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 228A of the Companies Act 1985