

KELF LIMITED

Registered number 4317046

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

1 JANUARY 2005



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KELF LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the financial year from 28th December 2004 to 1 January 2005.

PRINCIPAL ACTIVITY

The Company acts as an investment holding company.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The profit and loss account for the period ended is set out on page 4. During the period the Company accrued for dividends receivable on its investments plus deferred payment interest thereon. The Directors expect the current level of activity to be sustained for the foreseeable future.

DIVIDENDS

No interim dividend (2003: \$1.91 per ordinary share amounting to \$135,269) was paid during the year. The directors do not recommend the payment of a final dividend (2003: nil)

DIRECTORS AND THEIR INTERESTS

The current Directors of the Company, who served throughout the period except where noted, are:

BM Yaffe	(resigned 20 September 2004)
AJ Holt	(resigned 31 December 2004)
M Thompson	
A Palmer	(appointed 2 November 2004)
K Meehan	(appointed 2 November 2004)

Subsequent to the year end, J Gregory was appointed Director 29 September 2005. No Director had any interest in the shares of the Company or in any material contract with the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial period that 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. The Directors are required to 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 suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 1 January 2005 and that applicable accounting standards have been followed.

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.

KELF LIMITED

REPORT OF THE DIRECTORS (continued)

AUDITORS

The auditors, PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to appoint them for the ensuing year will be proposed at the annual general meeting.

BY ORDER OF THE BOARD

J. N. Ainley

JN AINLEY
Secretary

Manchester, England

26 October 2005
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF KELF LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 in to 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 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

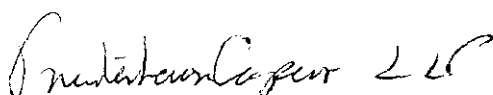
Basis of audit opinion

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 affairs of the company at 1 January 2005 and of the its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors,
101 Barbirolli Square,
Lower Mosley Street,
Manchester M2 3PW

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20 October 2005

KELF LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 1 JANUARY 2005

	<u>2004</u> \$000	<u>2003</u> \$000
Interest receivable and similar income	1	-
Income receivable from investments	<u>72,434</u>	<u>66,656</u>
Profit on ordinary activities before taxation (note 3)	72,435	66,656
Tax on profit on ordinary activities (note 4)	<u>(3,622)</u>	<u>(3,333)</u>
Profit on ordinary activities after taxation	68,813	63,323
Dividends Paid	<u>-</u>	<u>(135)</u>
Profit for the financial period transferred to reserves (note 9)	<u>68,813</u>	<u>63,188</u>

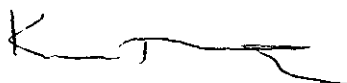
The Company has no recognised gains and losses other than as shown above and therefore no separate statement of total recognised gains and losses has been presented.

All items dealt with in arriving at the profit on ordinary activities before taxation above relate to continuing operations.

KELF LIMITED**BALANCE SHEET – 1 JANUARY 2005**

	<u>2004</u> \$000	<u>2003</u> \$000
FIXED ASSETS		
Investments (note 5)	708,700	708,700
CURRENT ASSETS		
Debtors (note 6)		
- amounts falling due after more than one year	194,957	126,130
Cash at bank and in hand	<u>159</u>	<u>146</u>
	195,116	126,276
CREDITORS		
Amounts falling due within one year (note 7)	<u>(58)</u>	<u>(31)</u>
NET CURRENT ASSETS	<u>195,058</u>	<u>126,245</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>903,758</u>	<u>834,945</u>
CAPITAL AND RESERVES		
Called up share capital (note 8)	709	709
Share premium (note 9)	708,091	708,091
Profit and loss account (note 9)	<u>194,958</u>	<u>126,145</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS (note 10)	<u>903,758</u>	<u>834,945</u>

The financial statements on pages 4 to 9 were approved by the Board of Directors on 19 October 2005 and were signed on its behalf by:



K MEEHAN
Director

KELF LIMITED

STATEMENT OF ACCOUNTING POLICIES FOR THE PERIOD ENDED 1 JANUARY 2005

The principal accounting policies followed in preparing the financial statements are as follows:

Accounting convention

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

Fixed assets: investments

Investments in shares are stated at cost; provision is made for any subsequent diminution in value.

Dividend income

Dividend income on cumulative preference shares held by the Company is accounted for on an accruals basis. Dividend income on ordinary shares is accounted for when such dividends are proposed.

Taxation

Corporation tax is provided on the assessable profits of the Company at the rate of tax prevailing during the 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.

Related party transactions

As a 100% owned subsidiary of Kellogg Company, 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 U.K. Holding Company Limited, and of Kellogg Company, which incorporate the accounts of the Company, are publicly available (see note 11). The Company was not involved in any other related party transactions during the financial year.

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 the ultimate parent undertaking, Kellogg Company, whose accounts are publicly available (see note 11) and include the results of the Company.

KELF LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 JANUARY 2005

1 PERIOD COVERED

The financial statements cover the financial year from 28 December 2003 to 1 January 2005 (2003: the financial year was from 29 December 2002 to 27 December 2003).

2. REPORTING CURRENCY

The reporting currency of the Company is considered to be the US dollar, rather than Sterling. The average £/\$ exchange rate applicable to the period covered by the profit and loss account is 1.89 (2003: 1.64), the exchange rate at the time of the Company's formation was 1.4176, and the exchange rate at the balance sheet date was 1.92 (2003: 1.77).

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The Company has no employees and is administered by Kellogg U.K. Holding Company Limited, which does not make a charge for its services. None of the Directors received any emoluments in respect of their services to the Company. Audit fees are borne by fellow group subsidiaries.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>2004</u>	<u>2003</u>
	\$000	\$000
Foreign - withholding tax on foreign dividend income	<u>3,622</u>	<u>3,333</u>
	<u>3,622</u>	<u>3,333</u>

UK corporation tax is provided at 30.0% on interest receivable and similar income; the income receivable from investments is not liable to any additional UK taxation. There are no factors that may have a significant impact on future tax charges.

KELF LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 JANUARY 2005 - continued

5. FIXED ASSETS: INVESTMENTS

	<u>2004</u>
	<u>\$000</u>
At 27 December 2003 & 1 January 2005	<u>708,700</u>

The fixed asset investments comprise the cost of unlisted ordinary and preference shares issued by a fellow subsidiary, Kellogg Talbot Limited, which is incorporated in Jersey and registered in the U.S.A.; the shareholding comprises:

- a) 10% of the company's ordinary shares, the voting rights on which equate to the proportion held; and
- b) 100% of the company's cumulative, non-voting, 8.40% preference shares.

Kellogg Talbot Limited is not consolidated as the Company does not have a controlling interest. Kellogg Talbot Limited acts principally as an investment holding company.

6. DEBTORS

	<u>2004</u>	<u>2003</u>
	<u>\$000</u>	<u>\$000</u>
Amounts falling due after more than one year:		
- cumulative preference dividends receivable	<u>194,957</u>	<u>126,130</u>
	<u>194,957</u>	<u>126,130</u>

Cumulative preference dividends receivable includes an additional dividend of \$22,185,000 (2003: \$9,448,000) receivable under the deferral terms of the preference shares.

7. CREDITORS (Amounts falling due within one year)

	<u>2004</u>	<u>2003</u>
	<u>\$000</u>	<u>\$000</u>
Taxation and social security	-	-
Amounts owed to group undertakings - parent company	47	20
Amounts owed to group undertakings - fellow subsidiaries	<u>11</u>	<u>11</u>
	<u>58</u>	<u>31</u>

Amounts owed to group undertakings are interest free, unsecured and repayable on demand.

KELF LIMITED**NOTES TO THE FINANCIAL STATEMENTS – 1 JANUARY 2005 - continued****8. SHARE CAPITAL AND SHARE PREMIUM**

The share capital of the Company at the end of the financial year was as follows:

	<u>2004 & 2003</u>
	\$000
Authorised:	
75,000 ordinary shares of \$10 each	<u>750</u>
Allotted, called up and fully paid:	
70,881 ordinary shares of \$10 each (issued at a premium of \$9,990)	<u>709</u>

9. RESERVES

	<u>Share premium</u>	<u>Profit and</u>
	<u>account</u>	<u>loss account</u>
	\$000	\$000
At 27 December 2003	708,091	126,145
Profit for the financial year	<u>-</u>	<u>68,813</u>
At 1 January 2005	<u>708,091</u>	<u>194,958</u>

10. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<u>2004</u>
	\$000
At 27 December 2003	834,945
Net transfer to revenue reserves	<u>68,813</u>
At 1 January 2005	<u>903,758</u>

11. PARENT UNDERTAKING

The Company's immediate parent company is Kellogg Manchester Limited, which is itself a subsidiary of Kellogg U.K. Holding Company Limited, both of which are registered in England and Wales. The Company's results for the financial year are included in the consolidated financial statements of Kellogg U.K. Holding Company Limited, copies of which can be obtained from Companies House, Crown Way, Maindy, Cardiff. The ultimate parent company and controlling party is Kellogg Company, which is incorporated in the United States of America; copies of the financial statements of Kellogg Company can be obtained from One Kellogg Square, P.O. Box 3599, Battle Creek, Michigan, USA.