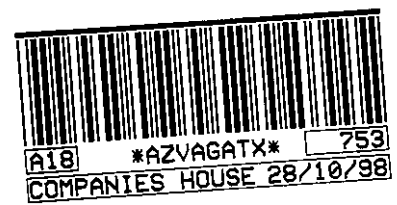


1580322

KELMILL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1997



KELMILL LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the financial statements for the financial year ended 31 December 1997.

PRINCIPAL ACTIVITY AND DIVIDENDS

The Company did not trade during the year and made neither profit nor loss. No dividends have been paid nor are recommended for payment (1996: nil).

DIRECTORS

The Directors of the Company at 31 December 1997, who served throughout the year, were:

DG Fritz (Chairman)
TP Mobsby
G Lord

There were no changes in Directors during the course of the year. Subsequent to the year end, DG Fritz resigned as a Director on 1 October 1998.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The Directors consider that, in preparing the financial statements on page 4, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, 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 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.

KELMILL LIMITED

REPORT OF THE DIRECTORS (Continued)

STATE OF AFFAIRS

There are no other matters material for an appreciation of the state of the Company's affairs by its members.

AUDITORS AND ELECTIVE RESOLUTIONS

Consequent upon the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, the Directors have appointed the successor firm of PricewaterhouseCoopers as auditors. At the annual general meeting held on 14 October 1996, pursuant to the Companies Act 1985 resolutions were passed to dispense with the laying of accounts and reports before the Company in general meeting, to dispense with the holding of annual general meetings, and to dispense with the obligation to appoint Auditors annually; PricewaterhouseCoopers are accordingly deemed to be reappointed for each succeeding financial year.

BY ORDER OF THE BOARD

J. N. Ainley

JN AINLEY
Secretary

Registered number 1580322
Manchester, England

16 October 1998

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF KELMILL LIMITED

We have audited the financial statements on page 4, which have been prepared under the historical cost convention.

Respective responsibilities of Directors and Auditors

As described on page 1, the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 at 31 December 1997 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PRICEWATERHOUSECOOPERS

Chartered Accountants and
Registered Auditors,
Manchester.

16 October 1998

KELMILL LIMITED

BALANCE SHEET - 31 DECEMBER 1997

	Notes	<u>1997</u> £	<u>1996</u> £
AMOUNT OWED BY PARENT UNDERTAKING	2	<u>20,901,210</u>	<u>20,901,210</u>
CAPITAL AND RESERVES			
Called up share capital	3	100	100
Profit and loss account	4	<u>20,901,110</u>	<u>20,901,110</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>20,901,210</u>	<u>20,901,210</u>

Approved by the Board of Directors on 16 October 1998.


TP MOBSBY
Director

NOTES

1. The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. During the year, the Company did not trade, did not incur any liabilities and, consequently, made neither profit nor loss. None of the Directors received any emoluments in respect of their services to the Company.
2. The amount owed by the parent undertaking is due after more than one year.
3. The authorised share capital comprised 1,000 shares of £1 each; the allotted and called up share capital comprised 100 shares of £1 each, fully paid.
4. There were no movements in reserves nor in equity shareholders' funds during the year.
5. The Company's immediate parent company is Kellogg Company of Great Britain Limited, which is itself a subsidiary of Kellogg UK Holding Company Limited, both of which are registered in England. The Company's results for the financial year are included in the consolidated financial statements of Kellogg UK 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.