

## PART I

### ITEM 1. BUSINESS

*The Company.* Kellogg Company, founded in 1906 and incorporated in Delaware in 1922, and its subsidiaries are engaged in the manufacture and marketing of ready-to-eat cereal and convenience foods.

The address of the principal business office of Kellogg Company is One Kellogg Square, P.O. Box 3599, Battle Creek, Michigan 49016-3599. Unless otherwise specified or indicated by the context, "Kellogg," "we," "us" and "our" refer to Kellogg Company, its divisions and subsidiaries.

*Financial Information About Segments.* Information on segments is located in Note 17 within Notes to the Consolidated Financial Statements which are included herein under Part II, Item 8.

*Principal Products.* Our principal products are ready-to-eat cereals and convenience foods, such as cookies, crackers, toaster pastries, cereal bars, fruit snacks, frozen waffles and veggie foods. These products were, as of February 23, 2009, manufactured by us in 19 countries and marketed in more than 180 countries. Our cereal products are generally marketed under the **Kellogg's** name and are sold principally to the grocery trade through direct sales forces for resale to consumers. We use broker and distribution arrangements for certain products. We also generally use these, or similar arrangements, in less-developed market areas or in those market areas outside of our focus.

We also market cookies, crackers, and other convenience foods, under brands such as **Kellogg's**, **Keebler**, **Cheez-It**, **Murray**, **Austin** and **Famous Amos**, to supermarkets in the United States through a direct store-door (DSD) delivery system, although other distribution methods are also used.

Additional information pertaining to the relative sales of our products for the years 2006 through 2008 is located in Note 17 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

*Raw Materials.* Agricultural commodities are the principal raw materials used in our products. Cartonboard, corrugated, and plastic are the principal packaging materials used by us. World supplies and prices of such commodities (which include such packaging materials) are constantly monitored, as are government trade policies. The cost of such commodities may fluctuate widely due to government policy and regulation, weather conditions, or other unforeseen circumstances. Continuous efforts are made

to maintain and improve the quality and supply of such commodities for purposes of our short-term and long-term requirements.

The principal ingredients in the products produced by us in the United States include corn grits, wheat and wheat derivatives, oats, rice, cocoa and chocolate, soybeans and soybean derivatives, various fruits, sweeteners, flour, vegetable oils, dairy products, eggs, and other filling ingredients, which are obtained from various sources. Most of these commodities are purchased principally from sources in the United States.

We enter into long-term contracts for the commodities described in this section and purchase these items on the open market, depending on our view of possible price fluctuations, supply levels, and our relative negotiating power. While the cost of some of these commodities has, and may continue to, increase over time, we believe that we will be able to purchase an adequate supply of these items as needed. As further discussed herein under Part II, Item 7A, we also use commodity futures and options to hedge some of our costs.

Raw materials and packaging needed for internationally based operations are available in adequate supply and are sometimes imported from countries other than those where used in manufacturing.

Natural gas and propane are the primary sources of energy used to power processing ovens at major domestic and international facilities, although certain locations may use oil or propane on a back-up or alternative basis. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products. As further discussed herein under Part II, Item 7A, we use over-the-counter commodity price swaps to hedge some of our natural gas costs.

*Trademarks and Technology.* Generally, our products are marketed under trademarks we own. Our principal trademarks are our housemarks, brand names, slogans, and designs related to cereals and convenience foods manufactured and marketed by us, and we also grant licenses to third parties to use these marks on various goods. These trademarks include **Kellogg's** for cereals, convenience foods and our other products, and the brand names of certain ready-to-eat cereals, including **All-Bran**, **Apple Jacks**, **Bran Buds**, **Complete Bran Flakes**, **Complete Wheat Flakes**, **Cocoa Krispies**, **Cinnamon Crunch Crispix**, **Corn Pops**, **Cruncheroos**, **Kellogg's Corn Flakes**, **Cracklin' Oat Bran**, **Crispik**, **Froot Loops**, **Kellogg's Frosted Flakes**, **Frosted Mini-Wheats**, **Frosted Krispies**, **Just Right**, **Kellogg's Low Fat Granola**, **Mueslix**, **Pops**, **Product 19**, **Kellogg's Raisin Bran**, **Rice Krispies**, **Raisin Bran**

**Crunch, Smacks/Honey Smacks, Smart Start, Special K** and **Special K Red Berries** in the United States and elsewhere; **Zucaritas, Choco Zucaritas, Crusli Sucrilhos, Sucrilhos** Chocolate, **Sucrilhos** Banana, **Vector, Musli, NutriDia**, and **Choco Krispis** for cereals in Latin America; **Vive** and **Vector** in Canada; **Choco Pops, Chocos, Frosties, Muslix, Fruit 'n' Fibre, Kellogg's Crunchy Nut Corn Flakes, Kellogg's Crunchy Nut Red Corn Flakes, Honey Loops, Kellogg's Extra, Sustain, Country Store, Ricicles, Smacks, Start, Smacks Choco Tresor, Pops**, and **Optima** for cereals in Europe; and **Cerola, Sultana Bran, Chex, Frosties, Goldies, Rice Bubbles, Nutri-Grain, Kellogg's Iron Man Food**, and **BeBig** for cereals in Asia and Australia. Additional Company trademarks are the names of certain combinations of ready-to-eat **Kellogg's** cereals, including **Fun Pak, Jumbo**, and **Variety**.

Other Company brand names include **Kellogg's** Corn Flake Crumbs; **Croutettes** for herb season stuffing mix; **All-Bran, Choco Krispis, Froot Loops, NutriDia, Kuadri-Krispis, Zucaritas, Special K**, and **Crusli** for cereal bars, **Keloketas** for cookies, **Komplete** for biscuits; and **Kaos** for snacks in Mexico and elsewhere in Latin America; **Pop-Tarts Pastry Swirls** for toaster danish; **Pop-Tarts** and **Pop-Tarts Snak-Stix** for toaster pastries; **Eggo, Special K, Froot Loops** and **Nutri-Grain** for frozen waffles and pancakes; **Rice Krispies Treats** for baked snacks and convenience foods; **Special K** and **Special K2O** flavored water and flavored protein water mixes; **Nutri-Grain** cereal bars, **Nutri-Grain** yogurt bars, **All-Bran** bars and crackers, for convenience foods in the United States and elsewhere; **K-Time, Rice Bubbles, Day Dawn, Be Natural, Sunibrite** and **LCMs** for convenience foods in Asia and Australia; **Nutri-Grain** Squares, **Nutri-Grain Elevenses**, and **Rice Krispies Squares** for convenience foods in Europe; **Fruit Winders** for fruit snacks in the United Kingdom; **Kashi** and **GoLean** for certain cereals, nutrition bars, and mixes; **TLC** for granola and cereal bars, crackers and cookies; **Special K** and **Vector** for meal replacement products; **Bear Naked** for granola trail mix and **Morningstar Farms, Loma Linda, Natural Touch, Gardenburger** and **Worthington** for certain meat and egg alternatives.

We also market convenience foods under trademarks and tradenames which include **Keebler, Cheez-It, E. L. Fudge, Murray, Famous Amos, Austin, Ready Crust, Chips Deluxe, Club, Fudge Shoppe, Hi-Ho, Sunshine, Krispy, Munch'Em, Right Bites, Sandies, Soft Batch, Stretch Island, Toasteds, Town House, Vienna Fingers, Wheatables**, and **Zesta**. One of our subsidiaries is also the exclusive licensee of the **Carr's** cracker and cookie line in the United States.

Our trademarks also include logos and depictions of certain animated characters in conjunction with our products, including **Snap!Crackle!Pop!** for **Cocoa Krispies** and **Rice Krispies** cereals and **Rice Krispies**

**Treats** convenience foods; **Tony the Tiger** for **Kellogg's Frosted Flakes, Zucaritas, Sucrilhos** and **Frosties** cereals and convenience foods; **Ernie Keebler** for cookies, convenience foods and other products; the **Hollow Tree** logo for certain convenience foods; **Toucan Sam** for **Froot Loops**; **Dig 'Em** for **Smacks**; **Sunny** for **Kellogg's Raisin Bran, Coco the Monkey** for **Coco Pops**; **Cornelius** for **Kellogg's Corn Flakes**; **Melvin** the elephant for certain cereal and convenience foods; **Chocos** the Bear, **Kobi** the Bear and **Sammy** the seal for certain cereal products.

The slogans **The Best To You Each Morning, The Original & Best, They're Gr-r-reat!, The Difference is K, One Bowl Stronger, Supercharged, Earn Your Stripes** and **Gotta Have My Pops**, used in connection with our ready-to-eat cereals, along with **L' Eggo my Eggo**, used in connection with our frozen waffles and pancakes, **Elfin Magic, Childhood Is Calling, The Cookies in the Passionate Purple Package** and **Uncommonly Good** used in connection with convenience food products, **Seven Whole Grains on a Mission** used in connection with **Kashi** all-natural foods and **See Veggies Differently** used in connection with meat and egg alternatives are also important Kellogg trademarks.

The trademarks listed above, among others, when taken as a whole, are important to our business. Certain individual trademarks are also important to our business. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use.

We consider that, taken as a whole, the rights under our various patents, which expire from time to time, are a valuable asset, but we do not believe that our businesses are materially dependent on any single patent or group of related patents. Our activities under licenses or other franchises or concessions which we hold are similarly a valuable asset, but are not believed to be material.

**Seasonality.** Demand for our products has generally been approximately level throughout the year, although some of our convenience foods have a bias for stronger demand in the second half of the year due to events and holidays. We also custom-bake cookies for the Girl Scouts of the U.S.A., which are principally sold in the first quarter of the year.

**Working Capital.** Although terms vary around the world and by business types, in the United States we generally have required payment for goods sold eleven or sixteen days subsequent to the date of invoice as 2% 10/net 11 or 1% 15/net 16. Receipts from goods sold, supplemented as required by borrowings, provide for our payment of dividends, repurchases of our

common stock, capital expansion, and for other operating expenses and working capital needs.

**Customers.** Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 20% of consolidated net sales during 2008, comprised principally of sales within the United States. At January 3, 2009, approximately 17% of our consolidated receivables balance and 27% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2008. During 2008, our top five customers, collectively, including Wal-Mart, accounted for approximately 33% of our consolidated net sales and approximately 42% of U.S. net sales. There has been significant worldwide consolidation in the grocery industry in recent years and we believe that this trend is likely to continue. Although the loss of any large customer for an extended length of time could negatively impact our sales and profits, we do not anticipate that this will occur to a significant extent due to the consumer demand for our products and our relationships with our customers. Our products have been generally sold through our own sales forces and through broker and distributor arrangements, and have been generally resold to consumers in retail stores, restaurants, and other food service establishments.

**Backlog.** For the most part, orders are filled within a few days of receipt and are subject to cancellation at any time prior to shipment. The backlog of any unfilled orders at January 3, 2009 and December 29, 2007 was not material to us.

**Competition.** We have experienced, and expect to continue to experience, intense competition for sales of all of our principal products in our major product categories, both domestically and internationally. Our products compete with advertised and branded products of a similar nature as well as unadvertised and private label products, which are typically distributed at lower prices, and generally with other food products. Principal methods and factors of competition include new product introductions, product quality, taste, convenience, nutritional value, price, advertising and promotion.

**Research and Development.** Research to support and expand the use of our existing products and to develop new food products is carried on at the W. K. Kellogg Institute for Food and Nutrition Research in Battle Creek, Michigan, and at other locations around the world. Our expenditures for research and development were approximately \$181 million in 2008, \$179 million in 2007 and \$191 million in 2006.

**Regulation.** Our activities in the United States are subject to regulation by various government agencies, including the Food and Drug Administration, Federal Trade Commission and the Departments of Agriculture,

Commerce and Labor, as well as voluntary regulation by other bodies. Various state and local agencies also regulate our activities. Other agencies and bodies outside of the United States, including those of the European Union and various countries, states and municipalities, also regulate our activities.

**Environmental Matters.** Our facilities are subject to various U.S. and foreign, federal, state, and local laws and regulations regarding the discharge of material into the environment and the protection of the environment in other ways. We are not a party to any material proceedings arising under these regulations. We believe that compliance with existing environmental laws and regulations will not materially affect our consolidated financial condition or our competitive position.

**Employees.** At January 3, 2009, we had approximately 32,400 employees.

**Financial Information About Geographic Areas.** Information on geographic areas is located in Note 17 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

**Executive Officers.** The names, ages, and positions of our executive officers (as of February 23, 2009) are listed below, together with their business experience. Executive officers are generally elected annually by the Board of Directors at the meeting immediately prior to the Annual Meeting of Shareowners.

*James M. Jenness* . . . . .62  
Chairman of the Board

Mr. Jenness has been our Chairman since February 2005 and has served as a Kellogg director since 2000. From February 2005 until December 2006, he also served as our Chief Executive Officer. He was Chief Executive Officer of Integrated Merchandising Systems, LLC, a leader in outsource management of retail promotion and branded merchandising from 1997 to December 2004. He is also a director of Kimberly-Clark Corporation.

*A. D. David Mackay* . . . . .53  
President and Chief Executive Officer

Mr. Mackay became our President and Chief Executive Officer on December 31, 2006 and has served as a Kellogg director since February 2005. Mr. Mackay joined Kellogg Australia in 1985 and held several positions with Kellogg USA, Kellogg Australia and Kellogg New Zealand before leaving Kellogg in 1992. He rejoined Kellogg Australia in 1998 as Managing Director and was appointed Managing Director of Kellogg United Kingdom and Republic of Ireland later in 1998. He was named Senior Vice President and President, Kellogg USA in July 2000, Executive Vice President in November 2000, and President and Chief

Operating Officer in September 2003. He is also a director of Fortune Brands, Inc.

*John A. Bryant* . . . . .43  
Executive Vice President, Chief Operating Officer and Chief Financial Officer

Mr. Bryant joined Kellogg in March 1998, working in support of the global strategic planning process. He was appointed Senior Vice President and Chief Financial Officer, Kellogg USA, in August 2000, was appointed as Kellogg's Chief Financial Officer in February 2002 and was appointed Executive Vice President later in 2002. He also assumed responsibility for the Natural and Frozen Foods Division, Kellogg USA, in September 2003. He was appointed Executive Vice President and President, Kellogg International in June 2004 and was appointed Executive Vice President and Chief Financial Officer, Kellogg Company, President, Kellogg International in December 2006. In July 2007, Mr. Bryant was appointed Executive Vice President and Chief Financial Officer, Kellogg Company, President, Kellogg North America and in August 2008, he was appointed Executive Vice President, Chief Operating Officer and Chief Financial Officer.

*Celeste Clark* . . . . .55  
Senior Vice President, Global Nutrition and Corporate Affairs, Chief Sustainability Officer

Dr. Clark has been Kellogg's Senior Vice President of Global Nutrition and Corporate Affairs since June 2006. She joined Kellogg in 1977 and served in several roles of increasing responsibility before being appointed to Vice President, Worldwide Nutrition Marketing in 1996 and then to Senior Vice President, Nutrition and Marketing Communications, Kellogg USA in 1999. She was appointed to Vice President, Corporate and Scientific Affairs in October 2002, and to Senior Vice President, Corporate Affairs in August 2003. Her responsibilities were recently expanded to include sustainability.

*Bradford J. Davidson* . . . . .48  
Senior Vice President, Kellogg Company  
President, Kellogg North America

Brad Davidson was appointed President, Kellogg North America in August 2008. Mr. Davidson joined Kellogg Canada as a sales representative in 1984. He held numerous positions in Canada, including manager of trade promotions, account executive, brand manager, area sales manager, director of customer marketing and category management, and director of Western Canada. Mr. Davidson transferred to Kellogg USA in 1997 as director, trade marketing. He later was promoted to Vice President, Channel Sales and Marketing and then to Vice President, National Teams Sales and Marketing. In 2000, he was promoted to Senior Vice President, Sales for the Morning Foods Division, Kellogg USA, and to Executive Vice President and Chief Customer Officer, Morning Foods Division, Kellogg USA in 2002. In June 2003, Mr. Davidson was

appointed President, U.S. Snacks and promoted in August 2003 to Senior Vice President.

*Timothy P. Mobsby* . . . . .53  
Senior Vice President, Kellogg Company  
Executive Vice President, Kellogg International and President, Kellogg Europe

Tim Mobsby has been Senior Vice President, Kellogg Company; Executive Vice President, Kellogg International; and President, Kellogg Europe since October 2000. Mr. Mobsby joined the company in 1982 in the United Kingdom, where he fulfilled a number of roles in the marketing area on both established brands and in new product development. From January 1988 to mid 1990, he worked in the cereal marketing group of Kellogg USA, his last position being Vice President of Marketing. From 1990 to 1993, he was President and Director General of Kellogg France & Benelux, before returning to the United Kingdom as Regional Director, Kellogg Europe and Managing Director, Kellogg Company of Great Britain Limited. He was subsequently appointed Vice President, Marketing, Innovation and Trade Strategy, Kellogg Europe. He was Vice President, Global Marketing from February to October 2000.

*Paul T. Norman* . . . . .44  
Senior Vice President, Kellogg Company  
President, Kellogg International

Paul Norman was appointed President, Kellogg International in August 2008. Mr. Norman joined Kellogg's U.K. sales organization in 1987. He was promoted to director, marketing, Kellogg de Mexico in January 1997; to Vice President, Marketing, Kellogg USA in February 1999; and to President, Kellogg Canada Inc. in December 2000. In February 2002, he was promoted to Managing Director, United Kingdom/ Republic of Ireland and to Vice President in August 2003. He was appointed President, U.S. Morning Foods in September 2004. In December 2005, Mr. Norman was promoted to Senior Vice President.

*Gary H. Pilnick* . . . . .44  
Senior Vice President, General Counsel,  
Corporate Development and Secretary

Mr. Pilnick was appointed Senior Vice President, General Counsel and Secretary in August 2003 and assumed responsibility for Corporate Development in June 2004. He joined Kellogg as Vice President — Deputy General Counsel and Assistant Secretary in September 2000 and served in that position until August 2003. Before joining Kellogg, he served as Vice President and Chief Counsel of Sara Lee Branded Apparel and as Vice President and Chief Counsel, Corporate Development and Finance at Sara Lee Corporation.

*Kat hleen Wilson-Thompson*. . . . .51  
Senior Vice President, Global Human Resources

Kathleen Wilson-Thompson has been Kellogg Company's Senior Vice President, Global Human Resources since July 2005. She served in various legal roles until 1995, when she assumed the role of Human Resources Manager for one of our plants. In 1998, she returned to the legal department as Corporate Counsel, and was promoted to Chief Counsel, Labor and Employment in November 2001, a position she held until October 2003, when she was promoted to Vice President, Chief Counsel, U.S. Businesses, Labor and Employment.

*Alan R. Andrews* . . . . .53  
Vice President and Corporate Controller

Mr. Andrews joined Kellogg Company in 1982. He served in various financial roles before relocating to China as general manager of Kellogg China in 1993. He subsequently served in several leadership innovation and finance roles before being promoted to Vice President, International Finance, Kellogg International in 2000. In 2002, he was appointed to Assistant Corporate Controller and assumed his current position in June 2004.

**Availability of Reports; Website Access; Other Information.** Our internet address is <http://www.kelloggcompany.com>. Through "Investor Relations" — "Financials" — "SEC Filings" on our home page, we make available free of charge our proxy statements, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, SEC Forms 3, 4 and 5 and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our reports filed with the Securities and Exchange Commission are also made available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at [www.sec.gov](http://www.sec.gov).

Copies of the Corporate Governance Guidelines, the Charters of the Audit, Compensation and Nominating and Governance Committees of the Board of Directors, the Code of Conduct for Kellogg Company directors and Global Code of Ethics for Kellogg Company employees (including the chief executive officer, chief financial officer and corporate controller) can also be found on the Kellogg Company website. Any amendments or waivers to the Global Code of Ethics applicable to the chief executive officer, chief financial officer and corporate controller can also be found in the "Investor Relations" section of the Kellogg Company website. Shareowners may also request a

free copy of these documents from: Kellogg Company, P.O. Box CAMB, Battle Creek, Michigan 49086-1986 (phone: (800) 961-1413), Ellen Leithold of the Investor Relations Department at that same address (phone: (269) 961-2800) or [investor.relations@kellogg.com](mailto:investor.relations@kellogg.com).

**Forward-Looking Statements.** This Report contains "forward-looking statements" with projections concerning, among other things, our strategy, financial principles, and plans; initiatives, improvements and growth; sales, gross margins, advertising, promotion, merchandising, brand building, operating profit, and earnings per share; innovation; investments; capital expenditures; asset write-offs and expenditures and costs related to productivity or efficiency initiatives; the impact of accounting changes and significant accounting estimates; our ability to meet interest and debt principal repayment obligations; minimum contractual obligations; future common stock repurchases or debt reduction; effective income tax rate; cash flow and core working capital improvements; interest expense; commodity and energy prices; and employee benefit plan costs and funding. Forward-looking statements include predictions of future results or activities and may contain the words "expect," "believe," "will," "will deliver," "anticipate," "project," "should," or words or phrases of similar meaning. For example, forward-looking statements are found in this Item 1 and in several sections of Management's Discussion and Analysis. Our actual results or activities may differ materially from these predictions. Our future results could be affected by a variety of factors, including the impact of competitive conditions; the effectiveness of pricing, advertising, and promotional programs; the success of innovation and new product introductions; the recoverability of the carrying value of goodwill and other intangibles; the success of productivity improvements and business transitions; commodity and energy prices, and labor costs; the availability of and interest rates on short-term and long-term financing; actual market performance of benefit plan trust investments; the levels of spending on systems initiatives, properties, business opportunities, integration of acquired businesses, and other general and administrative costs; changes in consumer behavior and preferences; the effect of U.S. and foreign economic conditions on items such as interest rates, statutory tax rates, currency conversion and availability; legal and regulatory factors; the ultimate impact of product recalls; business disruption or other losses from war, terrorist acts, or political unrest and the risks and uncertainties described in Item 1A below. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them.

**ITEM 1A. RISK FACTORS**

In addition to the factors discussed elsewhere in this Report, the following risks and uncertainties could materially adversely affect our business, financial