



Kellogg's[®]

"Bringing Our Best To You"



For more than 100 years, corporate responsibility has been at the foundation of Kellogg Company and a key part of our heritage and culture. We are pleased to share this report with you. It provides an overview of our corporate responsibility approach, priorities and targets, as well as a baseline performance review in several key areas.

Welcome

Welcome to Kellogg’s first global Corporate Responsibility Report. We hope this report provides information useful to our stakeholders, including our consumers, employees, customers, investors, business partners, community members, and governmental and nongovernmental organizations. We plan to publish a corporate responsibility report on an annual basis, expanding and improving upon this first effort.

Data in this report are for 2007 except as noted. Although the report focuses primarily on calendar year 2007, it includes discussion of some 2008 events that were particularly relevant to our corporate responsibility strategy.

The report covers Kellogg’s wholly and majority-owned operations, and complements other information about Kellogg available on our company Web site (www.kelloggcompany.com) and our nutrition Web site (www.kelloggnutrition.com). As part of our strategic focus to pursue selective growth opportunities, we have recently acquired several new businesses around the world. Those acquisitions are being integrated into our company, and we intend to report on them more fully in the future, once they are aligned with the rest of our business.

This report uses the Global Reporting Initiative (GRI) G3 Guidelines, which provide a recommended framework and indicators for reporting. We are reporting at a GRI-checked application level of “B.” More information on the G3 Guidelines and application levels is available at: www.globalreporting.org. We did not seek third-party assurance of this report but will consider doing so for future reports. The report received extensive internal review by subject matter experts and our Global Leadership Team, composed of our top executives.

A printed Executive Summary of this report is available upon request by e-mailing corporateresponsibility@kellogg.com and is available online at www.kelloggcompany.com/CR.



Report Application Levels

		2002 <small>In Accordance</small>	C	C+	B	B+	A	A+
Mandatory	Self Declared				✓			
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked			Report Externally Assured	✓	Report Externally Assured		Report Externally Assured



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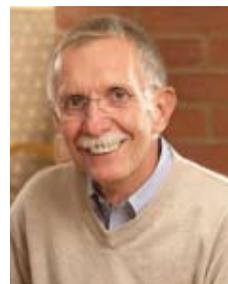




Chair Statement

To live up to our brand promise, we must confront and address a growing range of issues with humility and creativity.

Jim Jenness
Chairman of the Board



Our founder, William Keith Kellogg, was an exceptional leader with an entrepreneurial spirit and a passion for nutrition and health. He cared deeply about his employees and was a committed community activist and philanthropist.

W.K. Kellogg put his signature on every package of cereal to express his personal pledge to quality and nutrition. In doing so, he began building trust in the Kellogg brand. A century later, our vision is to be the food company of choice. But with so many choices available, why should consumers choose Kellogg? We believe it still comes down to trust.

Our brand is our promise. It says consumers can count on us to provide consistent, high-quality, great tasting, wholesome food.

More and more, consumers also trust companies like ours to care about the things they care about. Beyond the product itself, this includes a wide range of social and environmental concerns that arise in our value chain, such as the impacts of agriculture and food processing on climate change, water availability and energy use, as well as food safety. Consumers are also increasingly concerned about global issues like malnutrition, obesity, public health and access to clean water and nutritious foods. To live up to our brand promise, we must confront and address a growing range of issues with humility and creativity.

At our company, W.K. Kellogg's passion, vision and values live on today. His example not only continues to inspire us, but also guides us as we examine our role and responsibilities in contributing positively to tackling global challenges, managing in an increasingly complex global business and value chain, and minimizing our impact.

Building on our values and heritage, we have begun a process to define a robust corporate responsibility strategy. As we move through the process, we will reach out to stakeholders to understand their perspectives and take these views into account as we chart our response to operational and global issues.

This report is a key part of our strategy. Providing a transparent and comprehensive account of our goals, our actions, our achievements and our areas of opportunity is the right thing to do – and in keeping with W.K. Kellogg's vision for this company.

This is the first in what will be a series of annual global Corporate Responsibility Reports. We hope you find this report useful, and we welcome your feedback (corporateresponsibility@kellogg.com) on how we can improve it.

Jim Jenness
Chairman of the Board

CEO Statement

Companies today face higher expectations from their customers, their ultimate consumers, investors and communities, among others.

David Mackay
President
Chief Executive Officer



Kellogg Company was founded to provide high-quality, nutritious and great-tasting food. We manage the company for long-term, sustainable growth using a proven business strategy. We avoid fads and short-term thinking and set realistic targets. We are committed to innovation and to measuring our progress in achieving it. Kellogg has defined a set of values that truly do guide the day-to-day choices and actions of employees at all levels of the company.

All of these elements of our culture, which are fundamental to how we do business, are also drivers of corporate responsibility. They have inspired us to take significant actions on key issues:

- Providing Fact-Based Consumer Information:** In February 2005, we became the first company to voluntarily introduce nutrition information labeling (GDAs) on the front of cereal packaging in the United Kingdom. By the end of 2007, we had extended this pioneering approach to the United States, Europe, Australia, Mexico, Canada and South Korea. The information prominently shown on the package is designed to help consumers make more informed choices by providing simple, at-a-glance information about the product's nutritional profile.
- Marketing Responsibly:** We strengthened our World-wide Marketing and Communications Guidelines with enhanced practices for marketing to children under age 12. In addition to strengthening our overall marketing commitments, we developed nutrition

standards, called the Kellogg Global Nutrient Criteria, to determine which products around the world will be marketed to children. Products that do not meet our new Nutrient Criteria will not be advertised to children under 12 or will be reformulated. By the end of 2008, we will be fully operational with our commitments.

- Reducing Our Environmental Impacts:** We have adopted goals to achieve 15 to 20 percent reductions in our energy use, greenhouse gas emissions, water use and waste per metric tonne of food produced by 2015, working from 2005 baselines.

Our Corporate Responsibility Strategy

These are all important steps, but much more remains to be done. Companies today face higher expectations from their customers, their ultimate consumers, investors and communities, among others. These stakeholders look at the choices we make in deciding whether to choose us. We also have high expectations for ourselves. In 2008, we began a process that uses our heritage and culture as a solid foundation on which to build a systematic and comprehensive corporate responsibility strategy. We discuss this strategy in greater detail in the next section of this report.

Organized around our four strategic areas – marketplace (issues relating to our products and customers), workplace, environment and community – this Corporate Responsibility Report provides a look back at our performance in 2007 and part of 2008, as well as a glimpse of our direction and priorities as we move forward.

Risks and Opportunities

I firmly believe that developing and implementing our strategy will strengthen our business in the long term. Intensive use of limited natural resources – including clean water, fertile land and fossil fuels – has driven up the cost of the basic inputs to our business, while the interconnections between markets for energy and food are becoming more evident. Nutrition issues, including hunger, obesity and the role of food in contributing to and preventing disease, have taken center stage in public discussion. The globalization of food markets and supply chains has heightened concerns about human rights, food safety and the impacts of transporting foods.

These issues pose both risks and opportunities for Kellogg. As a company with deep expertise in nutrition, we are in a position to expand nutritious food choices for consumers. We see tremendous potential for growth in developing markets. Deepening our understanding of corporate responsibility issues and stakeholder concerns will allow us to take greater advantage of opportunities and challenges created by global markets. Implementing our corporate responsibility strategy will also help to improve the efficiency of our operations and avoid risks to our reputation. At the same time, we believe our strategy will benefit our consumers and the communities within which we operate.

We have begun the process of defining goals, targets and performance indicators for our key opportunities. With a disciplined and thoughtful approach, our strategy will enable us to make decisions about these key issues and create value for our consumers, our customers, our employees and the environment upon which we all depend.

I'm pleased to report on our efforts so far, and look forward to sharing our progress with you in future reports.



David Mackay
President
Chief Executive Officer



Our Company

With 2007 sales of nearly \$12 billion, Kellogg Company is the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, frozen waffles and vegetable-based meat alternatives.



"Our 32,000 employees around the globe are committed to our consumers, customers and communities."

David Mackay, President and CEO

32,000*	Employees worldwide
180	Countries where our products are marketed
19*	Countries where our products are manufactured
59*	Manufacturing facilities
\$11.8 billion	2007 net sales
\$1.1 billion	2007 net earnings
7 percent	2007 shareholder return
\$2.76 per share	2007 diluted earnings per share
\$1.03 billion	2007 cash flow
\$9.908 billion	2007 operating costs
\$472 million	2007 capital expenditures
\$444 million	2007 income taxes
\$36.8 million	2007 community investments

*2008 data

To learn about our company and its history, visit www.kellogghistory.com.

Kellogg Company Around the World



Kellogg is a publicly traded company headquartered in Battle Creek, Michigan.

Kellogg products are manufactured in 19 countries and marketed in 180 countries around the world.

Kellogg Company operates through four operating segments: Kellogg North America, Europe, Latin America and Asia Pacific.

Sample Brands and Products



More information on our brands can be found at www.kelloggs.com and at our company's various international Web sites.

Our Vision and Mission

Statement of Purpose "Bringing Our Best to You"

Through our foods, we bring health, nutrition and enjoyment to people all over the world.

Our brands and our heritage differentiate and guide us. We will be economically, socially and environmentally responsible by managing all aspects of our business for sustainable performance.



Our people and their diversity are our greatest asset. We strive to provide employees with a great place to work and the opportunity to grow and prosper.



Our vision, mission, operating principles and values unite and inspire us to succeed together.



Our Business Strategy

At Kellogg, our business model is based on sustainable growth. We maintain an unwavering focus on the long-term health of our business, set realistic targets and follow a simple, but successful, business strategy:

1. Grow Cereal. We recognize that the success of our cereal business is essential for our company to succeed. Consequently, we make significant investments in research and development and brand building. We hold the leading share position in most countries in which we operate.

2. Expand Snacks. We also have a strong snacks business. We have the number-two cookie, cracker and wholesome snack businesses in the U.S. (based

on category dollar share).* We also have fast-growing, wholesome snacks businesses in many other countries around the world. The focus for all of these businesses is innovation and strong brand-building support.

3. Pursue Selected Growth Opportunities. Because we manage our business for long-term performance with realistic targets, we have the flexibility to make strategic investments that strengthen the health of our company. Examples of opportunities for growth might include small, complementary acquisitions; expansion of existing infrastructure or capabilities; and expansion into related categories. Our goal is to remain focused on our areas of strength while generating sustainable, dependable rates of sales growth.

Acquisitions 2007/2008

- ▶ Acquisition of **Bear Naked Inc.**, a U.S. all-natural granola and trail mix business. (November 2007)
- ▶ Acquisition of **Gardenburger**, a U.S. veggie foods business, including one manufacturing facility and approximately 120 employees. (November 2007)
- ▶ Acquisition of **United Bakers Group**, a Russian biscuit and cereal maker with six manufacturing facilities and approximately 4,000 employees. (January 2008)
- ▶ Acquisition of substantially all of **Zhenghang Foods Company Ltd.**, a Chinese manufacturer of cookies and crackers, with approximately 1,800 employees and two manufacturing facilities. (June 2008)
- ▶ Acquisition of the assets of **IndyBake Products** and **Brownie Products**, with two manufacturing facilities in Illinois and Indiana and approximately 150 employees. (August 2008)
- ▶ Acquisition of **Specialty Cereals Pty Limited**, a manufacturer of natural ready-to-eat cereals based in Australia, including one manufacturing facility and approximately 50 employees. (September 2008)
- ▶ Acquisition of **Mother's Cookies'** trademarks and recipes in the U.S. (December 2008)

Our Values

Kellogg Company's values, *K Values*[™], shape our culture, serve as our social contract and guide the way we run our business. We have elaborated on the values to help our employees understand how they play out in day-to-day business activities. They are integrated with several of our business processes, including employee performance evaluation.



At Kellogg Company, we act with integrity and show respect.

We are all accountable.

We are passionate about our business, our brands and our food.

We have the humility and hunger to learn.

We strive for simplicity.

We love success.

More information on our company can be found at www.kelloggcompany.com under "Our Company" and "Investor Relations."

*Information Resources Inc. data

Governance and Ethics

Our company is governed by a 12-member Board of Directors. Ten of these Board members are independent of the company, as defined by the New York Stock Exchange. The Board operates through six committees – Audit, Compensation, Executive, Consumer Marketing, Nominating and Governance, and Social Responsibility – and according to a set of Corporate Governance Guidelines. All of the members of Board committees are independent.

We established a Social Responsibility Committee of the Board in 1979. Recently, the Committee updated its charter to specifically include corporate responsibility. The Committee oversees aspects of our corporate responsibility approach, including our community investment strategy and initiatives, diversity, equal opportunity matters, nutrition and regulatory affairs, environmental protection, ethical business conduct, consumer affairs, the development of our corporate responsibility strategy and the preparation of this report. Other committees of

the Board address corporate responsibility issues as well. For example, the Audit Committee reviews various environmental issues. The Board as a whole also addresses key issues discussed in this report, including many relating to health and nutrition.

A Global Code of Ethics guides the business practices of all Kellogg employees worldwide. Substantially all employees with access to company computers complete Kellogg's Compliance and Ethics Training, which is conducted in 13 languages. This annual program has been in place since 2000, and we are continually refining our training to make it more effective and to drive the right behaviors. During 2007, 13,122 employees or about half of our employees received the training, totaling more than 26,000 hours. The training addresses a variety of subjects such as labor standards, diversity and inclusion, employee health and safety, harassment prevention.

We have both a hotline, called the Ethics Alert Line, and a Web-based reporting tool for our employees to raise questions or concerns anonymously.

Our Corporate Governance Guidelines, Global Code of Ethics and additional information about our governance systems can be found online at www.kelloggcompany.com.

Kellogg Named one of the “World’s Most Ethical Companies”

In 2007 and again in 2008, the Ethisphere Institute named Kellogg Company to its World’s Most Ethical Companies list. Ethisphere’s recognition is based on expert review of the performance of 10,000 companies worldwide in several categories: citizenship and responsibility, corporate governance, innovation that contributes to the public well-being, industry leadership, executive leadership and tone from the top, legal, regulatory and reputation track record, internal systems and ethics/compliance program.



Corporate Responsibility Strategy

Every day, all around the world, we make thousands of choices that affect the future direction of our company and the impacts we have on our stakeholders. To better understand those choices and the risks and opportunities they pose for our company, we have begun to develop a comprehensive and integrated global corporate responsibility strategy. Our approach to corporate responsibility aims to ensure that we consider a range of options and impacts when we make decisions, that we understand the short- and long-term ramifications and that we make informed, responsible choices.

Analyzing Our Issues

Strategically addressing corporate responsibility issues requires an understanding of the range of issues that occur across Kellogg's value chain (see figure page 17) and – just as important – which are most relevant to the company and its stakeholders. Kellogg has long engaged with customers, consumers, health and nutrition experts, environmental experts and

others to gain insight into the significant issues for our industry and our company. To better understand these issues, and as a first step in our strategy development, we conducted a materiality analysis. Materiality is a familiar concept in financial accounting that has recently been applied to corporate responsibility as a way to focus a company's efforts on those issues that pose the most significant risks and opportunities.*



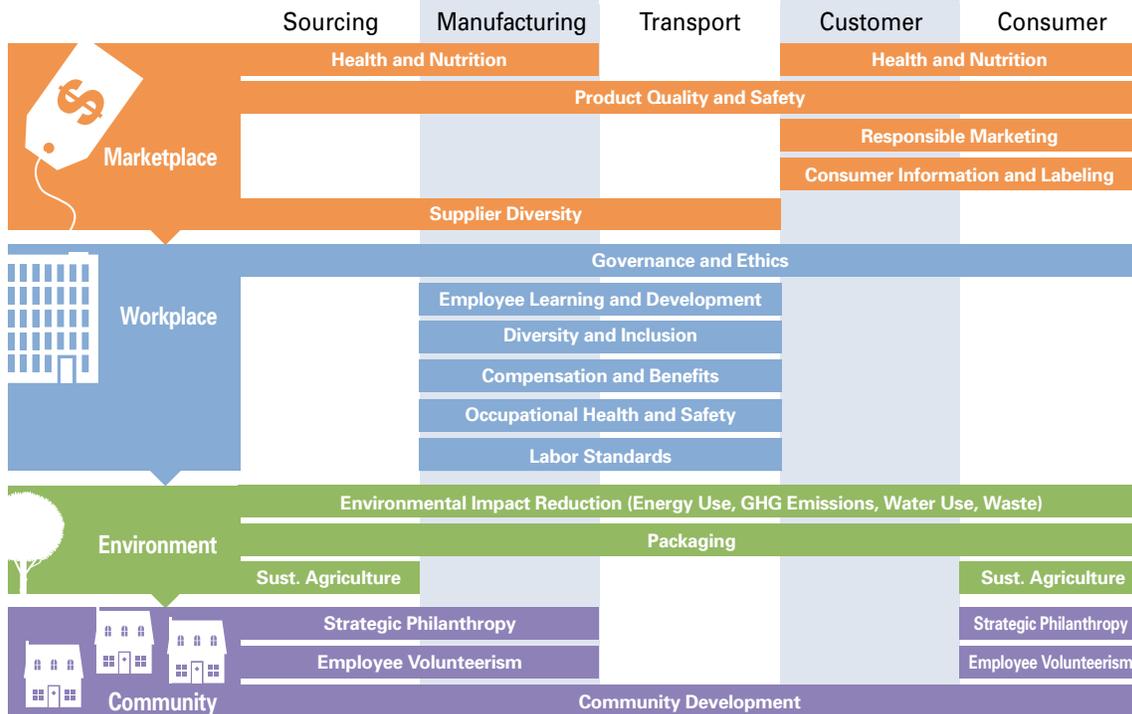
Kellogg's Emerging Issues Team

Identifying, understanding and managing key issues is an ongoing process. New health, nutrition and food-safety issues are always emerging, and additional research can change our understanding of issues we're already tracking. To help identify these emerging issues and the risks they may pose for our company, we recently formed an Emerging Issues Team. The cross-functional team, which reports to our vice president of corporate quality, research and technology, identifies food industry issues that may have an impact on our company across the globe, evaluates and prioritizes these issues and provides regular updates to senior leaders. The team will also identify key stakeholders within Kellogg and engage them in formulating strategies to address the highest priority issues.

*The Global Reporting Initiative defines materiality in a corporate responsibility reporting context as follows: "The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental and social impacts, or that would substantively influence the assessments and decisions of stakeholders."

Corporate Responsibility Across the Value Chain

Addressing corporate responsibility issues strategically requires an understanding that the issues occur at multiple stages of Kellogg's value chain, and consequently must be managed across organizational boundaries.



The materiality analysis process proceeded in several steps:

- ▶ A large set of stakeholder concerns and expectations were identified.
- ▶ An external group conducted a series of in-depth interviews with numerous Kellogg business leaders to identify key corporate responsibility business risks and opportunities.
- ▶ The issues were assessed and ranked qualitatively along three parameters: societal interest and concern, impact on Kellogg (based on financial and reputational impact), and level of control.

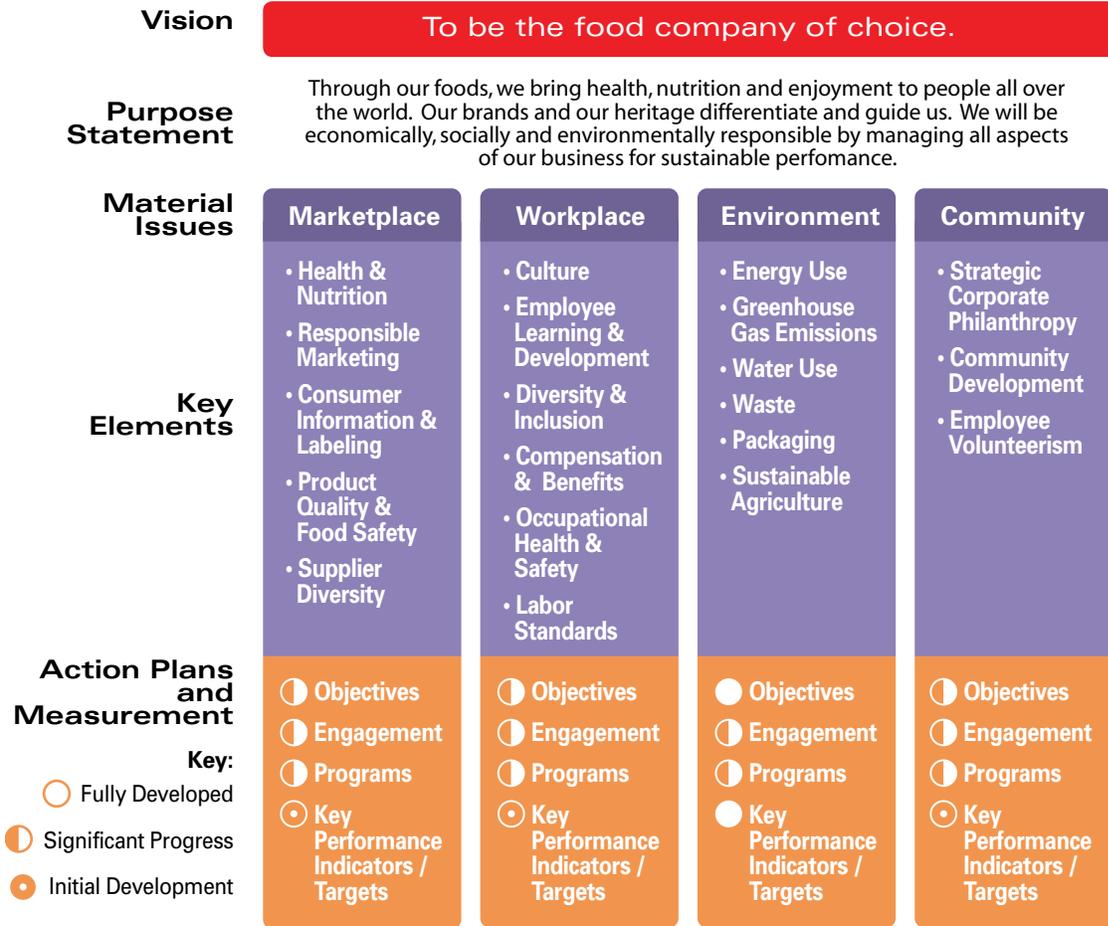
Among the issues ranked highly for societal interest and concern and impact on Kellogg were food quality and safety, health and nutrition, climate change and energy use, and consumer information and labeling. The issues were grouped into four areas that form the structure for this report and the further development of the strategy: marketplace, workplace, environment and community.

Setting Priorities and Ambitions

To better understand best practice in addressing the key issues, we benchmarked the approaches of industry peers and leading companies in other sectors. In an interactive workshop in June 2008, our Global Leadership Team reviewed various issues and our current positioning and agreed on where they would like to see the company in these areas in five years, as a way to set direction for the development of more detailed plans. Among our ambitions are:

- ▶ **Marketplace:** We will continue to be a trusted provider of safe and high-quality products and contribute to the health and nutrition of our consumers by providing them with food products that they can integrate as part of a balanced diet and that meet their varying taste requirements. We will continue to advance our efforts as a trusted leader in creating ethical and responsible marketing standards and ensure that our consumers

Corporate Responsibility Strategy Framework



have access to the information necessary to make informed choices.

- Workplace:** Kellogg will support an exemplary work force and foster a work environment that values diversity and inclusion and reflects the diverse nature of our consumer demographics. We will remain competitive in our compensation policies, lead our sector in health and safety programs, and expect our suppliers to hold to the same labor standards that we expect of our own operations.
- Environment:** Protecting and conserving natural resources is key to our mission of sustainable growth. We will target both reductions in the environmental footprint of our products and significant cost savings throughout our value chain. We will aim to reduce the ratio of packaging to product and increase the recycled and recyclable content of our packaging. We

will incorporate the tenets of sustainable agriculture into the procurement of our ingredients, ensuring required quality, traceability, nutritional content and continuity of supply.

- Community:** Contributing to the communities in which we operate will continue to be an important element of our corporate responsibility strategy. We will seek to continue our support of community development and local philanthropy.

Identifying Objectives, Goals and Action Plans

The next steps in our strategy development process are to identify overall objectives, actions needed to achieve the objectives, and goals and key performance

Corporate Responsibility Structure



indicators for each of the issues. (See figure page 18.) We have completed this process for the environmental area, reflected in the goals and key performance indicators presented in this report. We are working systematically to do the same in the other key issue areas. We will update our progress in future reports.

Governance, Transparency and Engagement

We consider sound governance, transparency and engagement to be enablers of progress in addressing our material issues. We will continue to be among the leaders in our industry on corporate governance and ethics. We will also develop appropriate governance structures for our corporate responsibility strategy to ensure the success of our strategy and its integration with our business.

Recently, we established a new structure for corporate responsibility management at Kellogg (see figure above). Our chief sustainability officer reports to our CEO. Through this structure, we will drive initiatives across our business units and gather input on important regional issues.

We currently engage with a wide variety of stakeholders on issues ranging from nutrition to climate change, as described in this report. The achievements discussed

in this report would not have been possible without stakeholder input. Moving forward, we intend to expand our stakeholder engagement efforts to be more comprehensive and systematic, with a goal to gain new insights, improve our business decisions and better understand and meet stakeholders’ needs.

Through the materiality analysis process, we identified the issues on which it is most important to get stakeholder input. These insights will influence which stakeholders we engage with and how. Our engagement will include a range of methods, from ongoing outreach and communication to focused dialogue around critical issues. We will seek to ensure that our goals and stakeholders’ goals are clear and that there is accountability in the engagement process. This report is an important tool in that process.

Our Evolving Corporate Responsibility Strategy

Our corporate responsibility framework aligns with our vision to be the food company of choice, making that vision relevant to both business imperatives and external stakeholder expectations. It builds on our culture, heritage and expertise in food and nutrition issues. We believe that refining and implementing the strategy will help Kellogg stay competitive – and lead – in a rapidly changing global business environment.

Progress and Performance

The table below identifies current activities at Kellogg in our key corporate responsibility areas, along with future plans, challenges and our current performance. We look forward to advancing our corporate responsibility strategy and performance across our company.

	Where we are	Where we are going	Key challenges	Performance*
Marketplace	<ul style="list-style-type: none"> Acquisitions to expand healthful products (e.g., Bear Naked, Kashi, Gardenburger) Development and roll-out of Kellogg Global Nutrient Criteria (KGNC) Development and expansion of consumer-friendly Guideline Daily Amount labeling Product reformulations (meeting KGNC, eliminating trans fats, etc.) Enhancement and expansion of healthy lifestyle and fitness messaging in product marketing Enhancement of food quality and safety strategy Increased spending on supplier diversity 	<ul style="list-style-type: none"> Expand strategy for consumer information, education and transparency Expand consumer engagement around health and nutrition in new markets Evaluate and improve effectiveness of health and nutrition education programs Expand responsible sourcing program; engage with suppliers Meet increased supplier diversity spending targets Develop Marketplace Key Performance Indicators and targets 	<ul style="list-style-type: none"> Addressing global health challenges including obesity, malnutrition, diabetes, heart disease Innovating and reformulating products to address health concerns while maintaining great taste Balancing popular perception about nutrition with validated science Managing product safety within a global supply chain 	<ul style="list-style-type: none"> Insight Investment ranked Kellogg first among U.S.-based global food companies in responsiveness to obesity Compliance with commitment to shift products marketed to children under 12 to only those that meet the KGNC More than 95 percent of portfolio converted to 0 grams trans fat per serving Diverse supplier spending at 5.8 percent, up from 1.9 percent in 1999
Workplace	<ul style="list-style-type: none"> Global Code of Ethics and Code of Conduct for Manufacturing for suppliers Comprehensive Code of Ethics training Recognized excellence in corporate governance <i>K Values</i>™ training Periodic culture survey New learning curriculum and business leader model Investments in diversity and inclusion programs and initiatives <i>Feeling Gr-r-reat</i>™ wellness program Continuous improvement in occupational safety 	<ul style="list-style-type: none"> Continue to engage employees and provide learning and development opportunities to create talent powerhouse Invest further in diversity and inclusion programs and recruitment to build a work force that is representative of consumer demographics Develop Workplace Key Performance Indicators and targets 	<ul style="list-style-type: none"> Ensuring that we continue to build a diverse and inclusive employee population Ensuring that human resource investments continue to drive culture of innovation Progress toward ultimate goal of zero illnesses and injuries on the job Ensuring that labor standards are met by suppliers 	<ul style="list-style-type: none"> Award in recognition of the <i>Feeling Gr-r-reat</i>™ program Outperforming comparable companies in employee engagement benchmark Multiple recognitions as a leading company for diversity and inclusion Total Recordable Injury Rate 47 percent lower than industry average
Environment	<ul style="list-style-type: none"> New senior management structure overseeing environmental sustainability 15-20 percent reduction targets for greenhouse gas emissions, energy use, water use and waste (per metric tonne of food using a 2005 baseline) Industry partnerships to drive sustainable packaging Multi-stakeholder partnerships to define sustainable agriculture 	<ul style="list-style-type: none"> Embed environmental sustainability practices throughout company Implement multiple efforts in facilities worldwide to achieve reduction targets Expand internal networks to share best practices company-wide Ensure new acquisitions meet environmental policies Explore ways to encourage and support sustainable agriculture Identify cost-effective alternative energy options 	<ul style="list-style-type: none"> Finding new markets and infrastructure to increase re-use and recycling of waste streams Understanding potential impact of climate change on our food ingredient supply 	<ul style="list-style-type: none"> 4.5 percent decrease in energy use since 2005** 4.0 percent decrease in CO2 emissions since 2005** 6.9 percent decrease in water use since 2005** 5.9 percent increase in waste generated since 2005 (though a 6.6 percent decrease from 2006 to 2007)**
Community	<ul style="list-style-type: none"> Founding member of Global FoodBanking Network Significant contributions of food to hunger and disaster relief programs Exemplary support for United Way efforts in communities where we operate Volunteer incentive program 	<ul style="list-style-type: none"> Focus even more strategically on the communities in which we operate Place even greater emphasis on those programs that align with our objectives as a global food company Gain a deeper understanding of communities that are new to Kellogg Develop Community Key Performance Indicators and targets 	<ul style="list-style-type: none"> Developing methods to evaluate the impact of strategic philanthropy programs Finding ways to affect and reduce the growing problems of obesity and malnutrition 	<ul style="list-style-type: none"> More than \$40 million in cash and \$120 million in products donated over last five years Increased United Way contributions by more than \$2 million since 2003

*All data is global unless noted **Per metric tonne of food



Marketplace

As one of the world's largest food companies, Kellogg is committed to providing high-quality foods that satisfy a diverse range of consumer needs and tastes. With more than 1,500 products sold in 180 countries, we strive to meet our consumers' desires while taking into account broader concerns about health and nutrition, product quality and food safety.

In recent years, we have undertaken a series of important global nutrition initiatives as part of our ongoing commitment to the fight against obesity and related health problems, such as Type 2 diabetes and heart disease. We recognize that we have a responsibility to enable consumers to make informed nutritional choices, which in turn will help them address their individual dietary needs.

To do that, we are providing a wider portfolio of products that are lower in fat, sugar and sodium and/or higher in fiber and whole grains. We have reduced and removed trans fats. And we have made substantial commitments in product labeling and responsible marketing. Many of these initiatives resulted from ongoing engagement with consumers, nutrition experts, health professionals and nongovernmental organizations.



Health and Nutrition

At Kellogg, we believe that all foods can have their place in a diet, with balance and moderation. Exercise and a well-rounded dietary approach are integral to a healthy lifestyle. These concepts underpin our Global Nutrition Policy, which outlines our commitments to our consumers. We have pledged, for example, to stay current with scientific advances in nutrition and food research by collaborating with academia, health professionals, advocacy groups and government agencies. Our research and development teams are continuously developing new products, and reformulating existing ones, to keep pace with scientific advances in health and wellness.

We believe the notion of balance – or “calories in, calories out” – must remain the central tenet of any long-term solution to global obesity and weight management. Our role at Kellogg is to give consumers the tools they need to make informed dietary choices for themselves and for their families. We offer a range of products to meet consumers' desires to have great-tasting alternatives in their diet, including healthful foods and more indulgent treats.

Innovation and Reformulation

Innovation is a key element of our global business strategy.

At our global R&D headquarters in the U.S., the W.K. Kellogg Institute for Food and Nutrition Research (WKKI), and at our R&D centers around the world, hundreds of nutritionists, food technologists and food scientists evaluate our existing products and those in the development pipeline for ways to improve their nutritional profiles.

We believe it's important to invest in research that enhances consumer and academic understanding. For example:

▶ In Spain, we financed that country's largest dietary survey among young people, the results of which are now used as reference data by the Spanish government (see www.nature.com/ejcn/journal/v57/n1s/full/1601814a.html).

▶ In Canada, we host an annual nutrition symposium for health professionals, focusing on issues such as weight management and the role of parents in promoting healthy lifestyles (see www.kelloggsnutrition.ca).

In recent years, we have significantly expanded our portfolio of healthier product offerings through innovation at Kellogg and through the acquisition of such popular brands as:



7 whole grains on a mission.™





Heart Health



Brain Health



Our product portfolio is as diverse as our international consumer base and can help consumers better manage their specific dietary needs.



Digestive Health



Shape Management



We developed the Kellogg Global Nutrient Criteria to determine which products around the world will be marketed to children. Products that don't meet our new Nutrient Criteria will not be advertised to children under 12 or will be reformulated. By the end of 2008, we will be fully operational with our commitments.



We team up frequently with external experts, academic researchers and consultants to help us further our knowledge of important issues in nutrition. Kellogg is a corporate sponsor of the American Dietetic Association, and our executives have sat on the boards of the International Food Information Council, the International Life Sciences Institute and AACC International, the organization formerly known as the American Association of Cereal Chemists.

One of our key challenges as a company is balancing popular perceptions (or misconceptions) about nutrition with credible, validated science.

We continually monitor and evaluate science, and interpretations of it, as we develop and innovate our portfolio. For instance, in December 2005, in response to growing evidence linking trans fats to heart disease, we announced a plan to eliminate or reduce trans-fatty acids from our products worldwide. By the end of 2007, more than 95 percent of our portfolio worldwide had been converted to 0 grams trans fat per serving.*

To coincide with these efforts, we began investing in new technologies and alternatives to trans fats. We were the first in our industry to use low-linolenic soybean oil, which can reduce or eliminate the need for hydrogenation. We have been working with seed developers to influence the characteristics of “low-lin” soybeans that would be most beneficial for the food industry, and we have encouraged edible oil converters to work together with developers to adopt a plan for commercialization to meet demand. We also have held grower meetings to promote the benefits of the oils to consumers and the agricultural supply chain.

The Importance of Breakfast

As the world’s leading producer of cereals, Kellogg understands the importance of breakfast for people of all ages, for fueling the body and brain for the day’s activities and for maintaining a healthy weight. It’s especially important that children eat a nutritious breakfast. Scores of studies around the globe have consistently shown that kids who eat breakfast have more physical and mental energy than those who do not. Breakfast eaters are also more likely to have healthier body weights, greater vitamin and mineral intakes and better memory skills, to name just some of the benefits corroborated by researchers.

Ready-to-eat cereals supply B-vitamins and minerals, such as iron and zinc, which are essential for healthy growth and development. Milk boosts those benefits with additional calcium and vitamins D, A and B12. We fortify our cereals and other products in keeping with national laws and regulations and the nutrient intakes and needs of consumers.

Pre-sweetened cereals have been demonstrated to be a good source of vitamins and minerals for children. Studies show that children who eat pre-sweetened cereal have lower BMIs (body mass index) and better nutritive content in their diets. According to the National Health and Nutrition Examination Survey, less than five percent of the total sugar consumed by U.S. children comes from ready-to-eat cereals. The National Diet and Nutrition Survey found that breakfast cereals contribute less than six percent of the average daily intake of sugar in children in the U.K. And the 2005 U.S. Dietary Guidelines note that small amounts of sugar can improve the taste of nutrient-dense foods that might not otherwise be consumed.

**The Food and Drug Administration has determined that amounts of less than 0.5g per serving are dietetically insignificant for all fats, including trans fat, and should be declared as “0g” trans fat per serving on the Nutrition Facts panel. As a result, consumers may see products that list 0g trans fat on the label, while the ingredient list still shows “partially hydrogenated oil.”*

Obesity

Cardiovascular disease. Hypertension. Type 2 diabetes. Cancer. Obesity-related health implications, for children and adults, are taking their toll. While lower-income families and minorities are especially at risk, obesity cuts across socio-economic and racial lines.

The causes of obesity are varied and complex. Both at work and play, modern lifestyles are typically less active than those of even recent generations. And many people lack access to affordable, healthy food. There is also considerable irony in the fact that obesity is a global health concern at the same time that millions of people face hunger and under-nutrition.

Solutions to the problem are multi-faceted and complex, too. Food companies like ours have been concerned – and need to continue playing an active role in contributing to solutions. Although Kellogg believes that all foods can have a place in a balanced diet, we recognize that food companies are in a unique position to offer consumers healthier options, provide and fund nutrition research and education, and encourage and fund physical fitness initiatives, among other things.

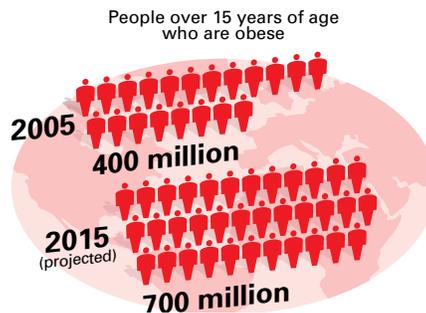
The obesity epidemic is a driving force behind many of our business decisions at Kellogg – from product development to responsible marketing. For more than a century, we have demonstrated a commitment to health and nutrition, implementing many robust activities, as described elsewhere in this report, that respond directly to the World Health Organization’s 2004 Global Strategy on Diet, Physical Activity and Health.

A recent study by Insight Investment, sponsored by JP Morgan, ranked Kellogg first among U.S.-based, global food companies in responsiveness to obesity. In addition to our product innovations, we have developed programs that encourage kids to get physically fit, and we have made nutrition and fitness a priority in our corporate giving strategy, contributing \$10 million in this area in 2007 alone.

Our CEO has joined with counterparts from many of our peer companies, as well as the Food Marketing Institute and the Grocery Manufacturers Association, to share ideas on obesity reduction, find ways to build on existing company initiatives and align industry efforts.

No single institution can solve the obesity problem alone. But at Kellogg, we will continue to make obesity reduction a priority. Kellogg is also involved in a host of active working groups around the world that are seeking ways to make even more of an impact.

Obesity Around the World



17.6 million children under five worldwide are overweight

Responsible Marketing

We are committed to marketing and communicating about our brands in a responsible, truthful and transparent manner, allowing consumers to make informed choices. Our Worldwide Marketing and Communications Guidelines, which form the basis for all of our consumer communications, were designed to ensure high uniform standards across the globe.

While we understand that consumer values and customs vary from country to country, we believe these principles provide sound guidance for all our consumers – no matter where they live.

In June 2007, in what many viewed as an industry-leading approach, we announced changes in our practices for marketing to children under age 12. (Our prior guidelines already prohibited advertising to children under the age of six.)

We developed nutrition standards, called the Kellogg Global Nutrient Criteria (KGNC), to determine which products will be marketed to children. Products that do not meet the Nutrient Criteria will not be advertised to children under 12 or will be reformulated to meet the Nutrient Criteria by the end of 2008.

Kellogg Global Nutrient Criteria

We devoted significant time and resources to developing the Kellogg Global Nutrient Criteria

(see figure below). We based these Nutrient Criteria on a broad review of scientific reports. As we developed the standards, we shared our approach with a number of key stakeholders, including the Food and Drug Administration (FDA), the U.S. Department of Agriculture (USDA), the Center for Science in the Public Interest and members of the Institute of Medicine. We also reached out to dozens of influencers – including nutritionists, regulators, academics and industry leaders – to gather feedback.

When we made our announcement, about half of the products we marketed to children worldwide did not meet our new criteria. Since then, we have made significant efforts to introduce new products that do meet the criteria and reformulate existing ones by reducing sugar, salt, fats and adding other grains. For example, to meet or exceed the KGNC, we have reformulated *Rice Krispies*®, *Cocoa Krispies*®, *Corn Pops*® and *Apple Jacks*® in the U.S.; *Rice Krispies*®, *Crispix Krispies*® and *Corn Pops*® in Canada; and *Frosties*®, *Cocoa Frosties*® and *Coco Pops*® in Southeast Asia/ Greater China.

Finding ways to reformulate products has been challenging, but we are committed to making continued progress while delivering the same great taste that our consumers desire.

We anticipate that, by the end of 2008, the majority of our products currently marketed to children will meet

Kellogg Global Nutrient Criteria



The KGNC set upper per-serving thresholds to determine which products we will market to children. These thresholds allow no more than:

- 200** calories
- 2** grams of saturated fat and **0** grams of trans fat
- 230** milligrams of sodium*
- 12** grams of sugar

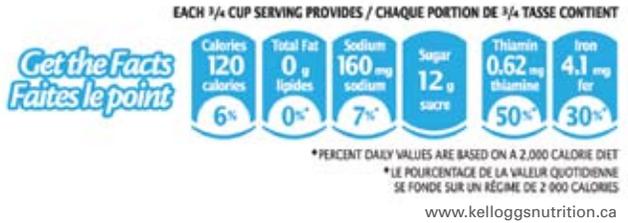
* For Eggo™ frozen waffles/products, the maximum allowable level of sodium under the KGNC is 20 percent DV (460mg), since these products are typically served as entrees/main dishes and approximately 50 percent of the sodium is attributed to the leavening agent necessary to the functionality and form of the food.

the new KGNC. Those that do not meet the criteria will no longer be marketed to children under the age of 12.

Worldwide Marketing and Communication Guidelines

Our Worldwide Marketing and Communication Guidelines, which we recently updated to reflect our latest additional commitments, continue our heritage of responsible business practices. They cover online and established media, in-school activities, licensed property use, contests and promotions, as well as related areas of privacy protection, e-commerce and digital media. The guidelines are comprehensive in breadth and depth and apply globally to our businesses. They contain innovative approaches, including a new online feature, “Get Your Move On,” on child-directed Web sites, which automatically interrupts screen time after 15 minutes and encourages children to get active with a menu of fun activities.

In addition, we continue to look for opportunities to use our trademarked characters to serve as effective messengers on issues of diet and fitness. For example, Tony the Tiger encourages children to exercise through our *Frosted Flakes® Earn Your Stripes™* program.



Consumer Information and Labeling

Through our commitment to transparency, we empower consumers to make good nutritional choices. We provide comprehensive nutrition information, education and healthy lifestyle messages on millions of product packages, as well as on our Web sites. Our goal is always to provide clear and understandable explanations of our products and what ingredients go into them.

In the 1930s, we were the first company to include nutrition messages and product information on cereal packages. Today, we continue to provide comprehensive information – often going beyond legal and regulatory requirements.

Guideline Daily Amounts (GDAs)

In February 2005, we became the first company in the U.K. to voluntarily introduce nutrition information labeling – in the form of Guideline Daily Amounts, or GDAs – on the front of cereal packaging. GDAs were designed to provide simple, at-a-glance information about a product – including per-serving percentages of calories, total fat, sodium and total grams of sugar – and where the food might fit in a consumer’s daily 2,000-calorie diet. This fact-based, front-of-pack labeling system, which complements the more detailed nutrition and ingredient labels found on the side or back panels of packages, also identifies the nutrients consumers typically need more of, such as fiber, calcium and potassium, among others (see figure above).

We rolled out the GDA labeling programs in Europe and Australia, where they were also adopted by many other major international food manufacturers and retailers. In 2007, we extended the labeling program to the U.S., Mexico, Canada and South Korea. Further expansion continued in 2008 to South Africa and Latin America.

In the U.S., we have been encouraging other food and beverage companies to join this initiative, and we're engaging in ongoing dialogue within the industry to establish labeling uniformity to minimize consumer confusion. While we believe in and will continue to endorse fact-based nutrition labeling such as our GDA initiative, we are open to additional approaches that may gain industry-wide acceptance.

Meanwhile, Kellogg continues to conduct research to examine consumers' understanding of the labels and how they are putting them to use.

Nutrition Education Programs

Nutrition education is an important part of what we do, and we have a long history of proactively encouraging health and fitness.

Our U.S. packages and online materials help educate consumers about the USDA's food pyramid. And we have developed active, school-based nutrition programs in a number of countries, including the U.S., Canada, Denmark and Sweden. (For more examples of our nutrition outreach, see the Community section of this report.)

Product Quality and Food Safety

Consumers trust the Kellogg name – a trust we have earned by manufacturing our products to strict standards. Over a century ago, our founder, W.K. Kellogg, placed his name on every product as his personal assurance of quality.

The quality and safety of our foods remains a top priority at Kellogg. Managing the integrity of more than 1,500 products requires extensive coordination across our global operations, from the sourcing of raw materials to manufacturing, packaging and distribution. The globalization of the food-supply chain in the 21st century has made food safety particularly challenging.

At Kellogg, we don't view food safety as a competitive issue. When one food company experiences a product safety problem, consumers lose confidence in the entire industry. We actively engage with other food manufacturers and industry groups to ensure that we all are in line with best practices to produce the safest products for consumers.

Kellogg has a comprehensive and robust quality model for monitoring the steps that are pivotal to ensuring product safety. These elements include:

- ▶ internal training programs
- ▶ internal and supplier audits
- ▶ periodic product testing
- ▶ environmental pathogen monitoring
- ▶ allergen controls
- ▶ labeling verification systems
- ▶ recall procedures and traceability programs
- ▶ benchmarking of industry best practices

The food industry has made a collective commitment to improved self-regulation, and we're proud to be a charter member of the Children's Food and Beverage Advertising Initiative with 14 other major food and beverage manufacturers in the U.S. This important, voluntary industry program is designed to encourage healthier dietary choices and lifestyles for children. The Council of Better Business Bureaus will monitor and report on companies' compliance with the initiative. The first such report was issued in July 2008. For more information, visit <http://us.bbb.org>.

We participate in comparable programs in Australia, Canada, the EU, Mexico and Thailand. We also continue our efforts around the world to support and strengthen existing self-regulatory programs and to create similar initiatives around food and beverage advertising to children.



In 2008, Wal-Mart Canada selected Kellogg Canada division for two major supplier awards:

Dry Grocer Vendor of the Year*

and overall

Vendor of the Year*

Award recipients are selected from the thousands of vendors that serve Wal-Mart's Canadian business.

Training and Education

The most rigorous safety measures are only as effective as the employees who execute them. We have an extensive training program for our employees based on the Hazard Analysis Critical Control Point (HACCP) Program, a systematic and preventative food-safety approach adopted by the FDA and the USDA.

Although we have employed the HACCP principles for several years, we recently began a mandatory HACCP training program for all employees at all levels of our food development, manufacturing and production process.

Material Supplier Food Safety

All of our suppliers must meet our stringent food-safety requirements, which are based on internationally adopted food standards (www.codexalimentarius.net). We have a series of safeguards for each raw material ingredient that goes into our products, as well as the promotional items packaged with them in some countries. We require that each of our contracted suppliers maintain a documented quality management process for its factories, agree to follow the Kellogg Code of Conduct for Manufacturers, and maintain a Social Accountability program setting forth a policy for compliance regarding working conditions (including cleanliness).

Kellogg Quality Assurance personnel visit suppliers' plants to make certain that raw materials meet our rigid specifications and that the suppliers are adhering to quality systems. Raw materials are checked before they are unloaded to our storage silos or warehouses and are assessed against a certificate of analysis or compliance. Our contracts provide that suppliers must also submit to third-party audits and conform to all applicable laws and regulations governing product and quality requirements.

Nanotechnology

All components used by Kellogg to manufacture food products are acceptable for their intended use and, where applicable, compliant with federal and local regulations for use in food for human consumption. Nanotechnology is bringing new materials and new uses of existing materials to technology, foods and packaging. Only those uses and applications deemed to be safe and acceptable by the scientific community and regulatory bodies would be considered for use in Kellogg products as they become available to the industry.

Kellogg is not conducting any nanotechnology research at this time, nor do we intentionally or knowingly use engineered nanotechnology materials in our products. We will continue to monitor and evaluate developments and will comply with direction from regulatory bodies as the science progresses.



Our U.S. snacks business was recognized by more than 30 major grocery retailers as

America's top snack foods manufacturer in 2007.**

*Awarded in 2008 for 2007

**Conducted by Advantage Group Inc.

Complex Ingredient Supply Chain

Managing Allergens

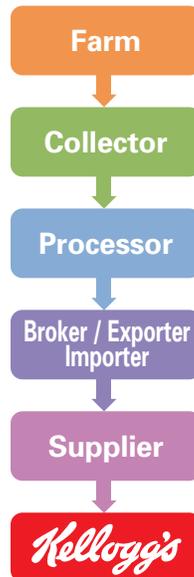
We understand and share the concerns of consumers who are affected by food allergies. In the early 1990s, we developed an extensive allergen-management program focusing on the control of allergenic materials during manufacturing and the communication of allergens to consumers. Kellogg is a leader within the food industry in developing manufacturing processes to control food allergens. We work extensively with organizations around the world such as the Food Allergy and Anaphylaxis Network to share industry best practices.

We likewise require our suppliers to have allergen-control programs and to provide us with a listing of all the allergens present in their facilities. To ensure we communicate the presence of serious allergens, our retail product packages declare allergenic ingredients in accordance with local applicable laws. Because product formulations may change, we encourage our consumers to check the ingredient statement on each package for the most up-to-date product information.

Auditing Standards

In recent years, we have updated and expanded our internal auditing program to emphasize greater responsibility for employees at each of our manufacturing facilities. Our internal food safety audit program, which we enhanced during 2008, verifies quality and food safety activities to assure continuous improvement across our manufacturing facilities.

Successful internal audits are a prerequisite for the external audits we voluntarily undergo through the Global Food Safety Initiative, which was launched in 2000 to improve food-safety management systems throughout the supply chain. We have also been strengthening the quality requirements for the third-party contract manufacturers that help produce our products.



Incident Management

We have an early warning system to identify concerns or potential problems with our products, and experienced, cross-functional, crisis-management teams across the world who are prepared to handle any issues that may arise.

Potential issues are typically identified in one of two ways: during routine internal quality audits at our production facilities or through consumers. We have a strong system in place to track consumer comments and complaints. When an incident occurs, we take immediate, corrective action and resolve any gaps in the process. We conduct regular training sessions, using mock scenarios, to assess our ability to react to a situation and to continuously improve our systems.

Product Traceability

The ability to quickly trace products and ingredients back through the manufacturing process has become increasingly important in recent years, particularly as the supply chain has grown ever more global. Federal regulations require manufacturers like Kellogg to ensure we can trace our products and ingredients through our supply chain – one step upstream and one step downstream. Our suppliers must have written procedures in place to record and track their usage of specific lots of ingredients, packaging materials, intermediate products and finished goods – from receipt through finished product distribution.

Supplier Diversity

More than 20 years ago, we began a supplier diversity program in the U.S. to increase our use of supplier companies that are owned by women and minorities. By investing in diverse suppliers, we can provide better opportunities for companies owned by minorities and



In 2007, Kellogg's supplier diversity program was recognized with prestigious awards from four organizations:

DiversityBusiness.com
America's Top Organizations for Multicultural Business Opportunities

Michigan Hispanic Chamber of Commerce
Corporation of the Year

Michigan Minority Business Development Council
Corporation of the Year

Native American Business Alliance
Advocate of the Year

women and, simultaneously, help strengthen our communities.

Partnering with diverse suppliers also opens up a pipeline of ideas, solutions and better ways of doing things.

We have made good progress with this program, quintupling our investment in diverse suppliers in less than a decade. In 2007, we spent \$247 million on goods and services from minority- and women-owned businesses, or 5.8 percent

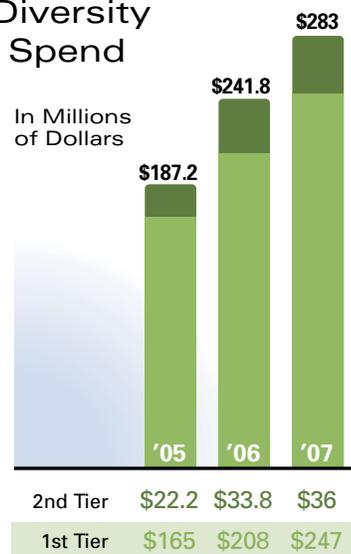
of our total spend, up from \$49 million and 1.9 percent in 1999. Our target for 2008 was \$270 million.

Today's program includes suppliers representing more than 300 businesses owned by minorities, women and disabled veterans in the United States. Our Million Dollar Club, which recognizes those diverse companies from which we purchase more than \$1 million in goods and services, has grown from 14 companies in 2001 to 49 in 2007. We have seven companies in our Platinum Club, recognizing diverse companies with which we spend \$10 million or more per year.

We consider supplier diversity essential to our efforts to acquire materials, products and services from the widest and best base of sources. We conduct reviews to ensure that we are meeting our goals.

We are also working with our suppliers to ensure that they create opportunities for sourcing from diverse suppliers. We began tracking our second-tier diversity supplier spend in 2005. The combined spend has increased from \$22.2 million in 2005 to \$36 million in 2007. Our second-tier spending target for 2008 is \$48 million.

Total Supplier Diversity Spend



Looking Ahead

We will continue to focus on generating innovative new products that will assist people in reaching, and maintaining, their health goals. We aim to be a trusted leader in creating ethical and responsible marketing standards and providing the information our customers need to make healthy and informed choices. The safety and quality of our products will always remain our top priority. We see these as evolving areas that require not only involvement on the part of Kellogg but on the part of a broad range of stakeholders and groups, including other food companies, suppliers, industry organizations and government. We are continuing to develop and refine our marketplace corporate responsibility strategies around health and wellness, and we expect to have more to share in future reports about our goals and performance in these areas.



Cart Corral

13

WKKI

Kalpesh

CITRIC ACID

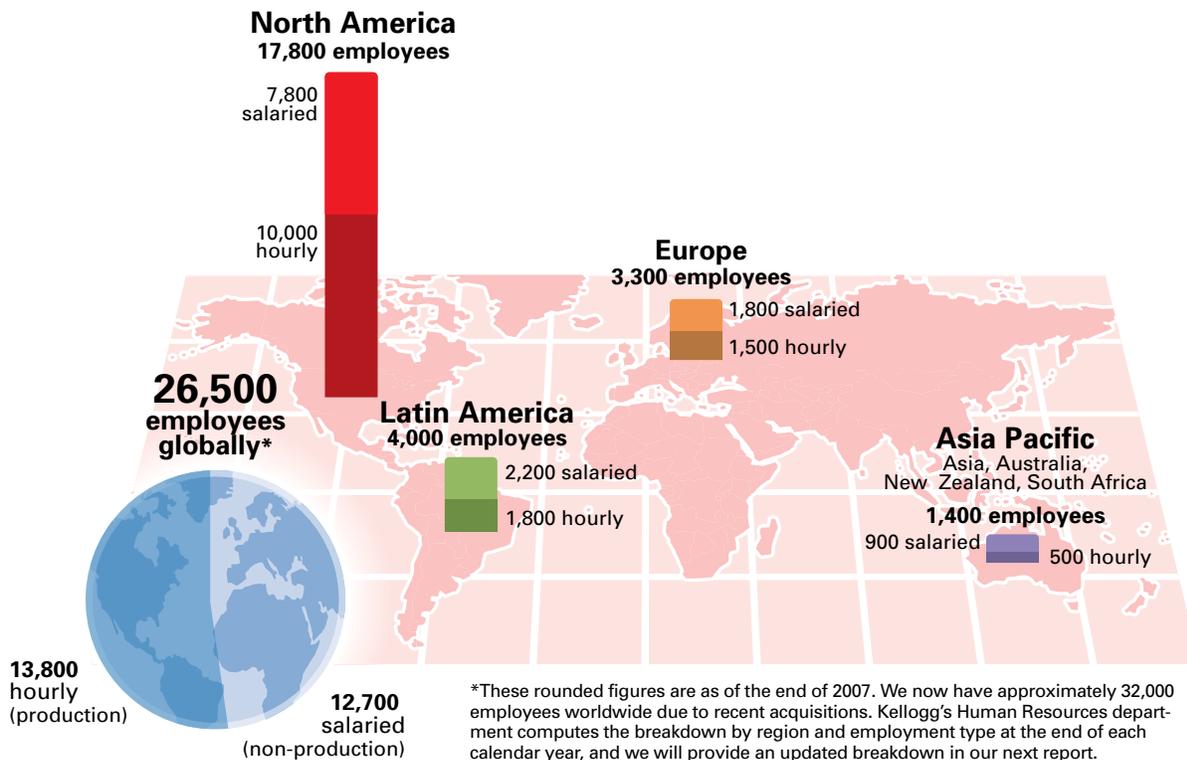
SODIUM DIPHOSPHATE

BATCH COATING ONLY



Workplace

At Kellogg, we not only aspire to be the food company of choice, we want to be the employer of choice in our communities. Company founder W.K. Kellogg famously said a century ago, “I will invest my money in people,” and that statement holds true today. We invest in recruiting, developing, engaging and retaining high-performing talent in all of our global locations. Achieving this powerhouse of talent will help us to fulfill our vision of becoming the food company of choice.



We seek to foster a safe, inclusive, values-driven workplace that develops and rewards employees for ethical behavior and sustainable results. Our employees come from diverse backgrounds and bring with them a wide range of experiences and expertise. We view this diversity as a competitive advantage, as it helps to drive innovation that meets the needs and desires of our global customer and consumer base. To provide a foundation for our diverse work force in their efforts to achieve Kellogg's vision and mission,

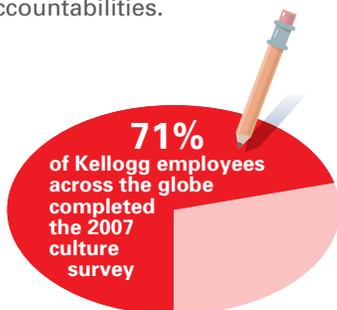
we depend on our *K Values*[™], which are discussed in this section along with other workplace-related aspects of our corporate responsibility strategy.

At the executive level, most of the workplace issues addressed in this section are overseen by our senior vice president of global human resources. Our senior director of safety has oversight responsibility for occupational health and safety.

Culture

Kellogg's *K Values*[™] set us apart as a company and form the basis of our workplace culture. Kellogg employees at all levels take the *K Values*[™] seriously, and we refer to them regularly in our work. Most of our new employees take part in an orientation program – customized to each location – that includes training in the *K Values*[™]. This ensures that all employees understand what those values are and how to put them into practice. In the U.S., for example, one full day of the two-day orientation course given to salaried employees is devoted to learning and applying the *K Values*[™].

In addition, employee performance reviews take into account an employee's adherence to and demonstration of the *K Values*[™]. In these reviews, employees self-assess and are rated by their managers regarding not only what they accomplished during the review period, but how they accomplished it – that is, how well they put the *K Values*[™] into practice in achieving the required accountabilities.



Employee engagement is another key aspect of our workplace culture. We work to ensure that our employees are engaged in the success of the company and dedicated to our shared future. We define employee engagement as a combination of perceptions employees hold about their jobs – satisfaction, pride, loyalty, personal responsibility and more.

In 2007, Kellogg conducted its third global culture survey of employees.* Four questions from the 2007 culture survey together make up an “employee engagement index.” The results indicate that employees at



Kellogg are highly engaged. In fact, the Kellogg employee engagement index is seven percentage points higher than in comparable companies. As an example of one question in the index, 74 percent of Kellogg respondents said they were “extremely satisfied with Kellogg Company as a place to work,” compared to 66 percent of respondents in comparable companies.

Employee Learning and Development

Kellogg's learning and development programs are a key part of our effort to develop a powerhouse of talent and become an employer of choice. These programs help employees transition into the company, build their skill sets, identify career growth opportunities and become effective managers and leaders.

For example, Gr-r-reat Manager U is a new Kellogg learning curriculum, launched in February 2008, designed to help first-time people managers make good hiring decisions, coach their direct reports, manage performance, develop talent and be effective leaders. Using this just-in-time modular combination of computer-based training and facilitator-led workshops, managers undertake the equivalent of five days of training over the course of a year. Kellogg's Global Learning and Development team developed and oversees the program.

Additional learning and development courses – open to all Kellogg employees – focus on the six competencies outlined in Kellogg's Business Leader Model (KBLM), which was introduced in 2007. This single, global set of competencies establishes a foundation and common language for leadership within Kellogg. The KBLM was designed by members of the Leadership Advisory Board (12 Kellogg leaders from around the world) and has been embedded into people practices and performance management globally.

*The previous surveys were conducted in 2002 and 2004 by the Great Place to Work Institute. The 2007 survey, conducted by Kenexa, was simplified and more closely tailored to Kellogg's culture and *K Values*[™] than the previous surveys, and thus the results are not easily comparable. Therefore, we focus in this section just on the results of the 2007 survey. Because these surveys are not conducted annually, we will not have new data to report in 2009.

Our Talent Management program, which covers all salaried employees, enables leaders to ensure that they have the right talent in the right roles – now and in the future. This program provides employees with a clear line of sight into how they directly impact Kellogg’s business results, establishes a structure to promote communication between employees and managers, and enables employees and managers to align employees’ career interests with development opportunities and the needs of the organization.

Diversity and Inclusion

Kellogg seeks to maintain a work force that is diverse in terms of gender, sexual orientation, age, culture, ethnicity, geography, experience, skills and work styles, reflecting the consumers we serve. In fact, diversity is woven directly into our foundational *K Values™*. One of those values is to “act with integrity and show respect,” which is further explained as to “show respect for and value all individuals for their diverse backgrounds, experiences, styles, approaches and ideas.”

Diversity is crucial to our current and future success. It enables us to attract and retain the most talented employees, sparks innovation, allows for stronger team collaboration and ensures that everyone feels respected and included. A diverse work force helps us stay aligned with consumer insights, needs and concerns. It also ensures that we remain an employer of choice and maintain goodwill in the communities in which we operate.

Kellogg has long sought to maintain a diverse work force, and has had a specific Diversity and Inclusion initiative for about 10 years. In 2005, the company made the decision to accelerate its efforts by creating an Office of Diversity and Inclusion. This office is responsible for creating the strategy and partnering with the business to implement our diversity and inclusion plan, which focuses on accountability through goal setting and tracking; recruitment, retention and

development; and building a more inclusive culture. As part of the plan’s implementation, an Executive Diversity and Inclusion Council – sponsored by CEO David Mackay and consisting of 18 executives from across the company – was created in late 2007 to ensure that our diversity strategy is aligned with our business objectives.

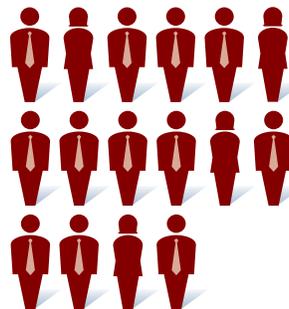
We offer diversity and inclusion training to build awareness, competency and business acumen among our employees. Our Global Leadership Team has undergone diversity and inclusion training. And in 2008, more than 50 diversity and inclusion training sessions were being offered to Kellogg employees in the U.S. alone.

Kellogg’s Board of Directors



Of our current Board of Directors members, two are women, one is African-American and one is Hispanic.

Kellogg’s Global Leadership Team



Four of the senior executives on our 16-member Global Leadership Team are women and two are African-American. In addition, the team is multicultural with three Europeans, two Australians, one Latin American and one Canadian.



Kellogg Diversity Recognition in 2007

- Hispanic Business**
Top 60 Companies for Hispanics
- DiversityInc**
Top 25 Noteworthy Companies for Diversity
- LATINA Style**
Top 50 Companies for Latinas
- Black Enterprise**
40 Best Companies for Diversity
- Black Professional**
Top 100 Companies for Diversity in Corporate America
- DiversityBusiness.com**
Top 50 Organizations for Diversity

We have five Employee Resource Groups (ERGs) in the U.S. – one each for African-American, female, young professional, Latino and multinational employees. The ERGs, which are open to all employees, are involved in recruitment, orientation of new employees, professional development, networking, retention and cultural awareness. While the company and executive leaders sponsor and support the groups, participation is voluntary.

While Kellogg deeply supports the concept of a diverse work force, we are still working toward our goal of increased representation across the diverse demographics of our consumers. We do believe that our diversity and inclusion plan has set us on the right path. And our efforts thus far have been recognized by several independent publications, as noted above.

Compensation and Benefits

Executive compensation is reviewed by the Compensation Committee, which is made up of four independent members of the Board of Directors. Working with an independent compensation consultant, the committee looks at salaries compared with our peer companies, executive performance and the company's financial results. All components of compensation (for all employees) are targeted at the 50th percentile of our peer company group.

Kellogg currently offers a competitive benefits program. Our major pension plans and U.S. retiree health and welfare plans are funded with trust assets invested in a globally diversified portfolio.

We offer a variety of work-life and health and wellness programs. For instance, the *Feeling Gr-r-reat™* program – available to employees worldwide – helps employees pursue healthier lifestyles, address health risks and boost physical activity. The program includes health screenings, health-risk assessments, health-coaching programs, exercise and weight-loss challenges and flu shots.

In 2007, Kellogg expanded the *Feeling Gr-r-reat™* program by offering salaried and non-union hourly employees a reduction of \$180 in their annual health insurance premiums for completing a health screening or health-risk assessment. In 2008, employees had the opportunity to double this premium reduction by also signing a tobacco-free declaration.

In the recent culture survey of Kellogg's employees...



... **63%** said that leadership in their location is committed to building and retaining a diverse work force.



... **61%** felt that Kellogg is committed to providing equal opportunities for all employees.



... **59%** said their work group creates a climate in which all opinions are valued.

In our 2007 culture survey, 67 percent of respondents said they were satisfied with the benefits they receive at Kellogg, and 59 percent said they are paid fairly for the work they do. These results are on track with those of comparable companies.

Occupational Health and Safety

Occupational health and safety activities at Kellogg are guided by the Corporate Safety Group, which educates, guides and assists safety managers across the company and in manufacturing locations with processes, policies, standards and best practices.

Each safety manager supports the local management team and employees, ensuring that appropriate policies are used and best practices are shared between facilities and business units. Employee engagement is established through cross-functional safety committees composed of both salaried and hourly employees. Employees receive comprehensive safety training relating to Occupational Safety and Health Administration and Kellogg requirements, including specialized training for certain jobs, such as forklift operator, and



In 2007, our *Feeling Gr-r-reat™* program received a "Best Employers for Healthy Lifestyles" award from the National Business Group on Health. Kellogg was one of only 11 companies to earn a Platinum-level award for established "healthy weight, healthy lifestyles" programs with measurable success.

Global Workplace Safety 2005-2007



Total Recordable Injuries
(per 100 employees)

'05 '06 '07

Lost Time Injuries
(per 100 employees)



'05 '06 '07

emergency response. A Global Safety Group, which includes senior executives, meets regularly to share current strategies and accomplishments from Kellogg areas and facilities.

We require our suppliers to have systems in place to assess and control health and safety risks for their employees. For example, each supplier must have a written program that identifies potential personal hazards associated with the job and machinery, and must address personal injury identification and prevention in employee training.

Safety performance improvement goals are included in each sector of our business and are key indicators of performance. Although our long-term goal is zero

injuries, a 15 percent reduction is our yearly target for continuous improvement.

In 2007, Kellogg's Total Recordable Injury Rate was 47 percent lower than the food industry average. Four of our facilities in 2007 did not experience a recordable injury and 10 did not record any lost work day cases.

In the 2007 culture survey, 87 percent of respondents said they understand the safety requirements related to their jobs, and 80 percent said they feel Kellogg provides a safe place to work.



We Believe:

All injuries are preventable.

Safety and health practices are everyone's responsibility.

Leadership commitment, employee engagement, job training and continuous improvement are essential components of a safety and health process.

Our Goal:

Zero Injuries and Illnesses

Labor Standards

In 2007, approximately 33 percent of Kellogg's global work force was represented by unions. Kellogg works to maintain a positive and professional working relationship with our employees and their bargaining representatives at every location. Kellogg's corporate Labor Relations function directly supports employee and union relationships in North America. In our other regions, Labor Relations collaborates with its international counterparts to share best practices.

Kellogg maintains high labor standards at all of our manufacturing and distribution locations around the globe, including but not limited to: a safe work environment, adherence to compensation and employment laws and regulations, access to freedom of association, and freedom from child labor or forced labor. Kellogg conducts regular audits at its manufacturing and distribution locations to ensure adherence to

regulatory requirements and Kellogg policies in such areas as compliance with payroll requirements, grievance processing, benefit administration, Taft-Hartley Plan administration and other areas associated with collective bargaining agreements. External audits are occasionally conducted in areas such as the administration of Taft-Hartley Plan compliance and payroll.

In addition, Kellogg supports ethical employment practices within our supply chain. Kellogg suppliers must comply with all labor laws in the country of origin, as well as with our Global Code of Ethics, which contains prohibitions against child labor, forced labor and corporal punishment that may go beyond local laws. Each of our suppliers must also agree to follow the Kellogg Code of Conduct for Manufacturers and maintain a Social Accountability program, setting forth a policy for compliance regarding working conditions, including cleanliness, wages and the prohibition of child labor.

 **Looking Ahead**

To become the employer of choice in the communities in which we operate, we will continue our efforts to engage employees, provide learning and development opportunities that will help us create a talent powerhouse, and uphold the ethics instilled by our founder. We aim to build a work force that is representative of our consumers' demographics, and to provide an open and innovative atmosphere that values new approaches, processes and ideas. We also aspire to provide a fulfilling place to work, where employees can achieve their own goals even as they drive the achievement of Kellogg's goals.



The W.K. Kellogg Values Awards reinforce the *K Values*[™] behaviors and our efforts to build an inclusive culture. They also encourage the sharing of best practices globally.”



W.K. Kellogg Values Awards

Each year since 2005, Kellogg has recognized outstanding employees who have consistently modeled the company's *K Values*[™] while making significant contributions to our business results. The W.K. Kellogg Values Awards reinforce the *K Values*[™] behaviors and our efforts to build an inclusive culture. They also encourage the sharing of best practices globally.



K Values[™] Award winner Claire S.

In 2007, one of the individual *K Values*[™] Awards went to Claire S., a manager of financial reporting, who led the relocation of a collection function from Italy to Manchester, England. Although this proved to be a challenging project, Claire broke down internal barriers and worked across organizational boundaries to get it accomplished. She said she was inspired by the values of Humility and Accountability in her efforts.

“I found myself thinking about ‘*We Have the Hunger and Humility to Learn*’ at many stages in the process,” Claire said. “It really helped me focus on my need to learn from the local teams in Sales and Finance. By fully understanding their concerns about the transition, we were better able to address them as part of the plan.”

“‘*We Are All Accountable*’ reminded me to emphasize honesty and openness with stakeholders throughout the project,” she continued. “This helped us determine which parts of the process we could transition to [Manchester] and which parts would remain in Italy.”

Claire said employees in her department are encouraged to come up with one *K Value*[™] they think they should focus more on in their work. She selected “*Passion*” for herself. “I try to

make work fun for my team," she said. "Promoting a positive environment helps foster the passion that makes people motivated, engaged and productive."

Any Kellogg employee or team can be nominated by their fellow employees for a *K Values™* Award. "Area Awards" are given to one outstanding individual and one outstanding team from each Kellogg region. A global selection committee then typically chooses one individual and one team from among the Area Award winners for recognition with a final Global Award.

In 2007, the selection committee chose to bestow the Global Awards on two individuals and two teams. In addition to Claire, the 2007 winners included:

- ▶ David M., a demand planner and customer service representative in Canada who lived the *K Values™* every day as he helped to reduce lead time for orders, optimize truckload deliveries and better leverage warehouse resources.
- ▶ Latin America's Ecuador Sachets Team, which reduced costs and eliminated delays by packaging sachet (bagged) products locally at our Ecuador Plant.
- ▶ North America's Heat Seal for Bars Packaging Innovation Team, which successfully implemented a conversion from cold-seal to heat-seal film for wrapped bar products.



K Values™ Award winner David M.



To protect their privacy, this report uses first names and last initials only for our non-executive employees.



Environment

Environmental issues are increasingly shaping the context of our business. The cost and availability of water and energy, the impacts of agricultural production on land, biodiversity and water quality, and rising concerns about climate change all have implications for operations throughout our value chain. For Kellogg to be the food company of choice, we must make responsible choices relating to these and other environmental issues. Toward that end, we are seeking to foster an environmental sustainability culture within our company – to embed sustainability within our processes, understand the life-cycle impacts of our products and develop broad-based internal participation in our environmental improvement efforts.

We have made progress toward achieving this vision. We have implemented initiatives aimed at reducing our environmental impacts in the areas deemed most important in our materiality analysis – energy use, greenhouse gas (GHG) emissions, water use, waste and packaging. We recently updated and strengthened our Global Environmental Policy, set ambitious and specific environmental goals and reconfigured our management structure to best achieve these goals. We are also working with key external stakeholders – including industry associations, nonprofit organizations and government agencies – to further our achievement of these goals. With these steps, we have positioned ourselves to make significant progress in the coming years.

We are beginning to work with our suppliers to understand and assess their contributions to our environmental footprint and engage them in reducing the life-cycle impacts of our products. Through our participation with industry groups, we are seeking to encourage the broader application of sustainable agricultural practices. However, this section focuses on environmental goals and achievements specific to our own operations.

Management

Kellogg is working to incorporate environmental sustainability practices into every location and level of management within our operations. In August 2008, we reorganized our executive-level management of corporate responsibility issues, in part to respond to the heightened priority and materiality of environmental issues to our company.

Environmental issues are now overseen by a chief sustainability officer, who also serves as senior vice president of global nutrition and corporate affairs. This position is a member of our Global Leadership Team and reports to Kellogg’s president and CEO. A vice president for environmental stewardship, health and safety now has full responsibility for all aspects of those arenas within Kellogg and also oversees the Global Sustainability Advisory Council, a cross-functional team focused on driving Kellogg’s corporate responsibility efforts. (See page 19 for more information.)

Kellogg is targeting

REDUCTIONS

15-20%

in energy use, greenhouse gas emissions, water use and waste per metric tonne of food produced by 2015, working from 2005 baselines.*

*Does not include contract manufacturing partners’ facilities.

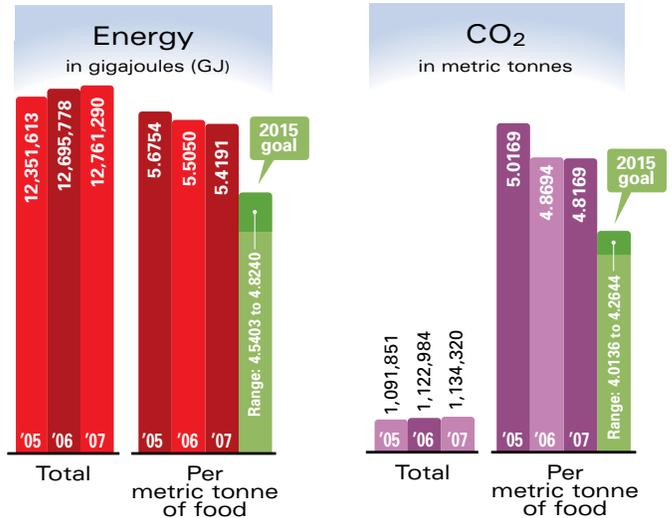


“Kellogg Company recognizes the need to ensure our business is conducted in a manner that protects and enhances the quality of life for current and future generations. By acknowledging our impact on the natural environment and society, we are actively working to ensure our Company operates in an environmentally sound and sustainable manner. Through continuous improvement in environmental performance, across all aspects of our business, Kellogg will seek to minimize the environmental footprint of our products throughout their life cycle.”

– Kellogg’s Global Environmental Policy, updated in 2008

Global Manufacturing Data 2005-2007

Environment Key Performance Indicator



In the late 1990s, Kellogg developed the Kellogg Environmental Management System (KEMS), which has helped to ensure that the environmental aspects of Kellogg's activities conform to the company's environmental policy. We routinely audit our facilities to ensure compliance. We are now in the process of developing a more robust system, fully aligned to ISO 14001; it is expected to be rolled out in 2009. In the U.K., three Kellogg facilities have undergone ISO 14001 certification: one in Manchester and two in Wrexham. In Mexico, our Querétaro plant has received four consecutive *Industry Limpia* ("clean industry") certifications from PROFEPA, Mexico's federal environmental protection agency.

Energy Use and Greenhouse Gas Emissions

Kellogg's use of energy – in both our manufacturing operations and in the transportation of our finished goods to market – represents our most significant environmental impact. Our energy use contributes to resource depletion and the emission of greenhouse gases, which are contributing to the pressing issue of anthropogenic climate change.

Climate change presents both risks and opportunities for Kellogg. As a company dependent on agricultural inputs, we are concerned about the potential for climate change to alter the availability of agricultural commodities and water. We have plans in place to handle short-term business interruptions, such as localized severe weather, and we will continue to track the long-term supply trends of our agricultural ingredients as they evolve.

At the same time, cutting our energy use not only reduces GHG emissions but results in significant cost savings. And as consumers become more aware of climate change, demand for environmentally responsible products may increase. That's one reason we are seeking to share our environmental performance more visibly with the public.

We have completed future scenario planning for energy using the approach developed by the Global Business Network. We are now applying this approach to assess climate change scenarios to further understand the potential impacts to our business.

The climate change regulatory landscape is evolving rapidly, and regulatory programs governing GHG emissions are now in place in the EU. Our U.K. business has aggressively addressed energy management, enabling us to consistently meet the GHG



Kellogg Position on Biofuels

Kellogg supports the development of renewable energy sources such as biofuels, provided that such development is sustainable, respects the environment and protects biodiversity, and that it is done in such a way that competition is encouraged in a free market environment that respects all stakeholders' interests. That said, we are very concerned about the unintended consequences of biofuels and urge government to reconsider policy in this area. By diverting grain and oilseed crops from dinner plates to fuel tanks, biofuels are raising world food prices and endangering the hungry.

Kellogg's New LEED-Certified Facility

A 215,460 square foot snacks distribution center in Hagerstown, Maryland is the first Kellogg facility certified by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED). Built by Liberty Property Trust and leased by Kellogg in June 2008, the facility includes:

- ▶ Innovative fluorescent lighting that uses 50 percent less energy than traditional fixtures
- ▶ State-of-the-art, blow-through space heaters that rack up 40 percent energy savings
- ▶ A white rubber roof that reflects the sun, reducing energy use for cooling in the summer months
- ▶ Locally adapted and native plants in the landscaping that don't require irrigation, saving thousands of gallons of water per year
- ▶ Building materials that contain a minimum of 20 percent recycled content, such as concrete walls that contain "slag," a waste product from metal refineries

emissions-reduction goals of the U.K.'s Climate Change Levy and its successor, the EU's Emissions Trading Scheme. These activities have given us perspective on how regulatory programs may impact our businesses around the world. We believe we are well positioned to address the risks and opportunities that may arise from increased regulation and the further development of carbon markets.

Performance

We have made substantial progress in reducing energy use and GHG emissions in recent years.

The figure on page 49 illustrates our performance since 2005.* The data show that our overall energy use and carbon dioxide (CO₂) emissions increased in 2007, due to expansions in production. Nonetheless, our energy use and CO₂ emissions per metric tonne of food continued to decrease.**

Facility Initiatives

We achieved GHG and energy use reductions through a variety of energy-efficiency projects in our

facilities worldwide, several of which are highlighted below. Many were part of a global energy-management program begun in 2005 (and continuing today) to promote conservation, manage energy use and investigate energy savings opportunities, including alternative fuels and renewable energy.

- ▶ A lighting retrofit across multiple manufacturing and warehouse facilities in the U.S. and Canada has reduced lighting-related energy use by more than 25 percent since late 2005. This project involved switching from high-intensity discharge lighting to high-efficiency fluorescent systems, as well as installing motion sensors in generally unoccupied areas of our warehouses. A few U.S. facilities remain to be retrofitted.
- ▶ At our Lancaster, Pennsylvania plant in 2007, we began using biogas from our wastewater treatment plant as one source of fuel for our boilers, thereby reducing CO₂ emissions by 3,300 metric tonnes annually.
- ▶ Modifications to the steam system at our Battle Creek, Michigan plant in 2006 have reduced GHG emissions by 1,700 metric tonnes per year.
- ▶ At our plants in the U.K., energy-efficiency initiatives completed in 2005 and 2006 cut CO₂ emissions by 2,000 metric tonnes per year.
- ▶ At Kellogg's Talbot Road U.K. headquarters, energy consumption decreased by 17 percent in 2007 through a variety of conservation initiatives.
- ▶ In India, our plant has reduced energy use per pound of product by 25 percent since 2006. This was achieved through improved combustion efficiency in the plant's steam generation system and redesign of the wastewater treatment aeration system.

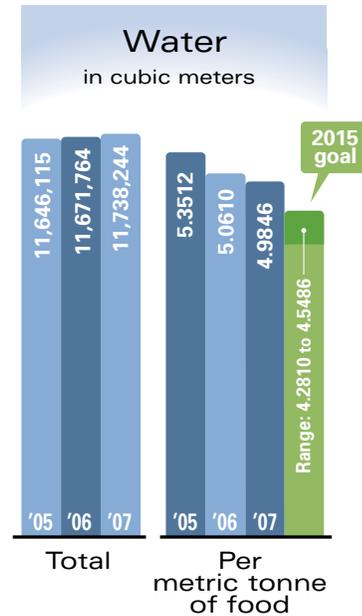
In October 2007, Kellogg's Manchester and Wrexham facilities in the U.K. began taking part in the EU's Emissions Trading Scheme (ETS). These facilities have met all ETS targets to date. In 2008, Wrexham may exceed its ETS target, but any increase will be offset by savings at the Manchester plant.

**We have been working to ensure that our emissions and energy use calculation methods are robust. In the U.S., the GHG emissions figures are calculated using the Environmental Protection Agency's Climate Leaders GHG Inventory Guidance. In Australia, the Greenhouse Office Factors and Methods Workbook was used. All of the protocols used are based on the GHG Protocol Corporate Accounting and Reporting Standard developed by the World Resources Institute and the World Business Council for Sustainable Development. In the future, we will continue to refine and expand the scope of our GHG emissions reporting.*

***"Metric tonnes of food" is a measurement of actual food product, not including packaging.*

Global Manufacturing Data 2005-2007

Environment Key Performance Indicator



Transportation Initiatives

Our Global Logistics team has been aggressively working to deliver more products to market with fewer vehicles and less energy. Our 800 vehicle, U.S.-based truck fleet uses about 4.5 million gallons of diesel fuel annually, which equates to approximately 46,000 metric tonnes of CO₂ emissions. The following are some examples of progress to date in reducing transportation-related energy use and GHG emissions:

- ▶ In a groundbreaking project in England, Kellogg teamed up with the global health and hygiene company Kimberly-Clark and the supply-chain management company TDG in 2006 to consolidate shipments to retailers. First rolled out in London, the partnership is now in operation throughout the country and is saving the companies 270,000 miles and 30,000 gallons of diesel fuel and reducing their CO₂ emissions by 380 metric tonnes per year.
- ▶ In the U.S., we have increased our use of rail shipments, saving more than 1.6 million gallons of diesel fuel per year since 2006.
- ▶ In 2007 we decreased the amount of air space in cases of ready-to-eat cereal and increased the amount of product on each truck, thus reducing the number of vehicle miles required for distribution. This project saved approximately 74,000 gallons of fuel with the same unit volume of product.
- ▶ GPS tracking and speed controls were piloted in 2007 and fully implemented in 2008 on our U.S. truck fleet. The GPS system delivers computer-generated routes and delivery schedules, minimizing the number of miles traveled. Also, the data gathered enables us to identify driver training opportunities and monitor speed, idle time and off-route miles. Initial use indicates a five percent increase in fuel efficiency.
- ▶ Recent distribution network efficiencies in the U.S. have saved more than 700,000 gallons of fuel annually.

Water Use

Sustainable water use is an issue of increasing global importance, and one we take very seriously. Water scarcity presents several potential risks for our company. In our agricultural supply chain, the place of Kellogg's largest water impact, farmers use significant quantities of irrigation water to produce the agricultural commodities used in our products. Drought conditions in agricultural regions thus have the potential to increase grain prices, which in turn affects our input costs. In our manufacturing facilities, we use water primarily for cleaning, but also to feed boilers, cool machinery and wet filtration systems and as a raw ingredient in our products. Water scarcity in areas where our facilities are located could potentially disrupt manufacturing. In addition, water used for irrigation and manufacturing must meet certain quality standards, so we are dependent on other users within each watershed to maintain acceptable quality. We are very mindful of these potential risks and are prepared to address them if they arise. And to do our part in water conservation, we are working hard to minimize our overall water use and our impacts on local water supplies in the communities in which we operate.

Global Manufacturing Data 2005-2007

Environment Key Performance Indicator

Performance

The figure on page 51 shows our performance since 2005. Our overall water use has risen in the past few years as we have increased production, but water use per metric tonne of food produced has continued to decrease.

The following are examples of how we have been curbing water use:

- ▶ Our plant in Querétaro, Mexico, saves more than 57 million gallons of water annually by reusing it for irrigation. In 2007, new, high-efficiency washing equipment was installed at this plant, which will save an additional seven million gallons annually.
- ▶ Our Botany plant near Sydney, Australia, has reduced its water use by 40 percent over the past five years by introducing high-efficiency spray equipment and capturing wastewater for reuse in non-product-contact areas, such as air exhaust filtration systems.
- ▶ At our Lancaster, Pennsylvania facility, new equipment installed in 2007 filters and reuses the water used for cleaning our incoming wheat supply, saving more than seven million gallons of water per year.

Waste

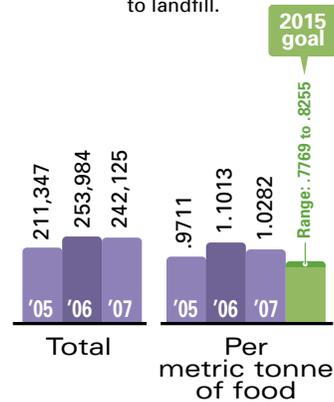
We define waste as materials leaving our facilities that are not part of a package of finished food. This includes materials designated for recycling, food waste that can be converted into animal feed and materials destined for landfills and incinerators. We view waste as an indication of inefficiency, and we are seeking to reduce it wherever feasible. Doing so will enable us to both reduce our use of natural resources and realize cost savings.

Performance

As seen in the figure above, we have succeeded in reducing both overall nonfood waste and nonfood waste per metric tonne of food produced in 2007, after experiencing an increase in both these measures in 2006.

Waste in metric tonnes

Waste data include waste materials that are recycled and reused, as well as those sent to landfill.



Many of our waste-related initiatives have focused on increasing the recycling of waste products, which has a positive environmental effect but does not contribute toward our waste-reduction goal. We have chosen to include recycled waste materials in our waste metrics in order to drive the reduction of total waste generated.

Some locations have achieved truly outstanding results with regard to recycling. At our Bremen, Germany plant, 100 percent of food and nonfood waste is recovered for reuse or recycling or incinerated for energy generation. (And only about one percent is incinerated for energy.) The recycling infrastructure in Germany, driven by government regulation, enabled us to achieve this performance. In addition, more than 95 percent of food and nonfood waste from our London, Canada plant is recycled.

Additional highlights include the following:

- ▶ From 2004 to 2006, we eliminated 25 million pounds of paper packaging through a project with our supply chain to reduce waste associated with bulk material shipping.
- ▶ A 2007 project improved the separation of waste streams at our cereal plants in Lancaster, Pennsylvania

and Memphis, Tennessee, allowing packaging-related materials to be removed for recycling. This project ultimately diverted more than 1,300 metric tonnes per year from landfill into recycling.

- ▶ In the U.K., Kellogg worked with the National Industrial Symbiosis Programme to identify items typically sent to landfill (such as used work garments) that could be reused or recycled. As a result, we diverted 3.4 metric tonnes of waste from landfills.
- ▶ Also in the U.K., at Kellogg's Talbot Road headquarters, the amount of waste sent to landfills decreased by 15 percent in 2007 through a variety of recycling and reduction initiatives.

Packaging

Kellogg's packaging protects our products, maintains freshness during transport and in our customers' homes, and provides a means to communicate to consumers. Sturdy, good-quality packaging can actually help to prevent the waste of stale or damaged food.

For all its benefits, packaging does require energy and natural resources to produce, and it can become a waste product if not recycled after the contents are consumed. While not included in our waste metrics, our packaging does represent a waste issue for society.

We are committed to optimizing our processes and designs to reduce overall packaging and maximize the use of recycled content and recyclable materials. In 1994 we began source-reduction initiatives in all packaging categories. Since then, new goals for source reduction have been identified and achieved every year. We also aim to identify ways to increase the recycling of packaging material at the consumer level.

Kellogg has recently developed a list of environmental guiding principles relating to packaging. These principles communicate a consistent approach within our Packaging Innovation and Technology group for how to incorporate and track the environmental impacts of design decisions.

Kellogg Global Recycling Rate, Manufacturing Facilities



Performance

In 1906, the first box of *Kellogg's® Corn Flakes®* came off the assembly line packaged in 100 percent recycled paperboard, and Kellogg has used recycled board for most of our products since that time. We are one of the largest users of recycled paperboard in the U.S. Today, almost all of Kellogg's cereal cartons are made of 100 percent recycled fiber, with at least 35 percent coming from consumer-recycled material.

The following are some examples of recent environmental improvements in our packaging.

- ▶ In the U.S. in 2006, we eliminated more than 3,200 metric tonnes of packaging material (annual use) through multiple initiatives, one of which involved a reduction in the thickness of flexible packaging films in the cereal category. We reduced an additional 1,500 metric tonnes in 2007 by converting select corrugate cases to trays, reducing the size of certain cartons to improve the product-to-package ratio and optimizing film thickness in additional product categories.
- ▶ In 2007, we redesigned the geometry of the serving trays for Kashi frozen food entrees, eliminating 145 metric tonnes of plastic resin and 90 metric tonnes of paperboard and corrugate per year.
- ▶ In Australia in 2006, we eliminated 24 metric tonnes of corrugate annually. This was achieved by changing how one of our snack products was stacked for shipping, enabling us to reduce the dimensions of the shipping cases.



At the 2007 Northwest Business Environment Awards ceremony, our U.K. team was honored with the prestigious award of Best Environmental Practices for a large company.

Sustainable Agriculture

We remain in the early stages of understanding sustainable agriculture and how we can help to promote its use. To learn more, we are actively participating in the five sustainable agriculture-related, multi-stakeholder efforts noted in the table on page 59. Through these and other activities, we aim to contribute to the development of industry expectations for sustainable agriculture and incorporate sustainable agriculture into our responsible sourcing standards. We are also seeking to contribute to the development of programs that ensure the sustainability of our food ingredient supplies, enable traceability for our primary ingredients from field to production, and identify links between agriculture and the nutritional content of crops. Our ultimate aspiration is to drive the intersection of sustainable agriculture with ingredient traceability and improved nutritional content for our primary food ingredients.



Looking Ahead

This section outlined our current performance and near-term goals. To achieve these goals, we are:

- ▶ continuing to identify effective ways to reduce energy use, GHG emissions, water use and waste through the life cycle of our products
- ▶ establishing an internal network to share best practices across facilities and regions
- ▶ engaging with external groups and experts, as noted in the table on page 59
- ▶ developing GHG emissions-reduction targets for each of our business units and exploring the use of energy-efficient technologies and alternative energy sources
- ▶ working to improve our assessment, measurement and reporting of water use and focusing more closely on our operations in water-stressed regions

In the longer term, we aspire to be recognized as an energy-efficient business and to reduce the carbon footprint and the “water footprint” of our products within every stage of their life cycle. We also aim to achieve reductions in our use of materials and resources, reduce the ratio of packaging to product and increase the recycled and recyclable content in our packaging. These are high aspirations, and it will take the combined effort of our entire global work force to achieve them. We look forward to reporting on our progress in the coming years.



“In Querétaro, Mexico, our employees undertook a complex project to restore a native plant species in protected areas around Peña de Bernal, the world’s second-largest rock monolith.”



Employee-Driven Environmental Initiatives

At Kellogg locations throughout the world, our employees are launching and taking part in initiatives that help us (and them) positively impact the environment.

In Querétaro, Mexico for example, our employees undertook a complex project to restore a native plant species in protected areas around Peña de Bernal, the world’s second-largest rock monolith. The project was coordinated by a Corporate Social Responsibility (CSR) Committee in our Mexican business. “This plant [Desert Spoon, or *sotol* in Spanish] used to grow everywhere but now is endangered,” explained Lulu I., coordinator of the Committee’s environmental activities. “It has been exploited for traditional indigenous crafts.” The plant is also necessary for halting erosion in the dry, desert-like landscape.

The CSR Committee pulled together multiple entities to make the restoration project happen. “An active social club at our Querétaro plant wanted to do an environmental project to give back to the community,” Lulu explained. “At the same time, we learned that Kellogg’s Merchandising Team wanted to undertake a project with Wal-Mart to raise money for a good cause, and the government wanted to replant *sotols* in this area to restore the native ecosystem.” The Committee saw the opportunity to harness Kellogg’s fundraising and volunteering abilities to achieve this environmental goal.

In November 2007, Kellogg launched the Peña de Bernal promotion in Wal-Mart stores. For every two boxes of Kellogg snack bars sold, Kellogg donated funds for the restoration project.

In this way, approximately \$200,000 pesos (\$20,000 USD) was raised and donated to the state government’s Sustainable Development Office. With those funds, the government conducted nearly two dozen seminars in early 2008 to educate community members about their local ecosystem and about planting, caring for and reproducing the *sotols*.

Then in June 2008, 150 Kellogg volunteers worked with local citizens to plant an amazing 5,000 *sotols* in one day. The volunteers included employees (and some spouses and

children) from the Querétaro manufacturing plant, from Kellogg's Latin American headquarters in Querétaro, from a nearby Kellogg distribution facility and from the local factory of a Kellogg packaging supplier. The day of planting ended with a meal of traditional Mexican dishes presented by the community to the volunteers.

Ultimately, the government oversaw the planting of 15,000 sotols with the funds raised by Kellogg. Lulu said the project was a very positive experience that they hope to repeat. "We are all starting to be more environmentally conscious, and we want to do the right thing," she said.

Kellogg employees in other locations around the world have similarly taken the initiative to launch and take part in "green" projects. For example:

- ▶ In the U.S., "Green Teams" have recently been launched at several North American locations. These teams aim to promote environmentally sustainable practices in Kellogg offices and our employees' homes.
- ▶ Employees at our European headquarters in Dublin and U.K. headquarters in Manchester held "Environmental Week" events in 2007 and 2008. Activities included employee education regarding the use of video conferencing as an alternative to carbon-intensive business travel, the launch of a new recycling scheme and a Q&A with a representative of the Carbon Trust.
- ▶ Kellogg offices in the U.K. and Italy have launched "paper leagues" to track the amount of paper used per person in each department, in a competition to reduce those numbers. The U.K. league has set a target to reduce paper and toner use by 10 percent in 2008.





External Engagement Activities

To help foster continued progress toward our environmental goals, and as a key piece of our corporate responsibility strategy, Kellogg is engaging with a range of external stakeholders – including customers, government agencies, nonprofit organizations and others in our industry – to better understand important environmental issues and participate in the search for solutions.

Partnership

Involvement

Sustainability

Confederation of the Food and Drink Industry in the EU, a Belgium-based industry association (www.ciaa.be)	Take part in the Environment Committee and the Sustainable Production and Consumption Working Group
Food and Consumer Products of Canada, an industry association (www.fcPMC.com)	As a member, participate in sustainability-related committees working to define industry metrics
Food and Drink Federation, a U.K.-based industry association (www.fdf.org.uk)	Set reduction goals (outlined in this section) aligned with FDF targets for energy use, transport, water use, waste and packaging
Food Marketing Institute, a U.S.-based industry association (www.fmi.org)	As a member of the Sustainability Committee, contribute to understanding and program development for food-retail supply chain sustainability initiatives
Grocery Manufacturers Association, a U.S.-based industry association (www.gmabrands.com)	Participate in sustainability-related committees
World 50/Sustainability 50, a cross-industry, invitation-only committee of chief sustainability officers (www.w50.com)	As a member, participate in the sharing of ideas and best practices

GHG Emissions

Carbon Disclosure Project (CDP), a U.K.-based nonprofit organization (www.cdproject.net)	Report annually on global GHG emissions and climate-related shareholder risks
Carbon Trust, a U.K.-based government-funded company (www.carbontrust.co.uk)	Set benchmarks for CO ₂ emissions for the life cycle of our products
Climate Leaders Program of the U.S. Environmental Protection Agency (www.epa.gov/climateleaders)	Work with the EPA to track, report and reduce our GHG emissions

Sustainable Packaging

National Packaging Covenant, an Australia-based, co-regulatory arrangement (www.pca.org.au/?id=8)	Develop and implement a voluntary action plan to reduce the environmental impacts of packaging
Sustainable Packaging Coalition, a U.S.-based industry working group (www.sustainablepackaging.org)	As a member, take part in sharing information on best practices
Waste Resource Action Program, a U.K.-based government-funded company (www.wrap.org.uk)	Participate with this organization to increase recycling

Sustainable Agriculture and Responsible Sourcing

AIM-PROGRESS, a forum sponsored by industry associations in the U.S. and Europe	Collaboratively develop common positions regarding responsible sourcing practices and methods for evaluating and driving responsible supply chain practices
American National Standards Institute, a U.S.-based nonprofit organization (www.ansi.org)	Involved in developing the American National Standard for Sustainable Agriculture Practices
Field to Market – The Alliance for Sustainable Agriculture Outcomes (www.keystone.org)	As a member of the Steering Committee of this cross-industry group (facilitated by the Keystone Center), identify and support sustainable agriculture practices
Roundtable on Sustainable Palm Oil, a Malaysia-based nonprofit organization (www.rspo.org)	As a member, along with several of our palm oil suppliers, contribute to the development of additional sustainable palm oil
Sustainable Agriculture Initiative, an EU-based industry group (www.saiplatform.org)	As a member, work to understand trends and contribute to developments



Community

Our founder, W.K. Kellogg, was as passionate about his community as he was about his company, and his vision of a socially responsible business was well ahead of his time. He opened a nursery in the company's plant in 1928 to care for the children of employees. He created a six-hour workday to provide more jobs during the Great Depression. And, in 1930, he launched the W.K. Kellogg Foundation, putting his personal fortune to work on behalf of others.

W.K. Kellogg's strong legacy of giving continues at our company today. We care about our communities and believe we have a responsibility to invest in them – whether we are donating products to the hungry, educating young people about proper nutrition or working to reduce global malnutrition.

Our charitable contributions and programs come from two primary sources: Kellogg Company and Kellogg's Corporate Citizenship Fund, a charitable corporate foundation. Four independent members of our Board of Directors provide guidance to and oversight of our community engagement approach through the Social Responsibility Committee. (The W.K. Kellogg Foundation, a separate and distinct entity, makes its own investments and is governed by its own independent Board of Trustees.)

Strategic Corporate Philanthropy

We partner with a variety of service and nonprofit organizations to provide financial support, food and other resources to improve the communities where we operate – and beyond. In the last five years, Kellogg's Corporate Citizenship Fund has contributed more than \$40 million in cash and \$120 million in products to nonprofits and charitable organizations around the world.

We designed our philanthropic strategy to align with our business goals. As a food company – and one with a 100-year heritage of nutrition leadership – it makes good sense for us focus on programs that target nutrition and physical fitness. While we emphasize these areas, we also support initiatives that improve community development and expand opportunities for people of diverse backgrounds.

Charitable Contributions

Funding to community improvement initiatives through Kellogg's Corporate Citizenship Fund:

Cash contributions

2005	\$7,700,000
2006	\$7,900,000
2007	\$7,800,000

In-kind contributions*

2005	\$23,000,000
2006	\$27,100,000
2007	\$25,000,000

Brand philanthropy**

2006	\$3,900,000
2007	\$4,000,000

*In-kind contributions are typically products that are too close to sell-by dates to be marketable, but are still high quality and nutritious. Annual product donation totals fluctuate yet are consistently in the range of \$20 million to \$30 million. These products are valued at cost of goods sold.
**Data not available for 2005

Nutrition and Physical Fitness Programs

We are committed to supporting programs that focus on multiple aspects of nutrition, from malnutrition to obesity to health and fitness. Our support includes the following:

- ▶ **Action for Healthy Kids.** In 2008, Kellogg contributed \$400,000 to implement wellness policies at public schools in 12 U.S. states through Action for Healthy Kids, a leading force in the fight against childhood obesity.
- ▶ **Active Healthy Kids Canada.** Since 2005, Kellogg Canada has sponsored Active Healthy Kids Canada’s Report Card on Physical Activity for Children and Youth, designed to offer insight into how well the country provides physical activity opportunities for young people.
- ▶ **ContinYou.** We have invested more than £1 million (\$1.86 million) with ContinYou, a community learning organization in the U.K., to promote the benefits of breakfast clubs in schools and other settings. Kellogg and ContinYou have helped establish hundreds of clubs that serve over 500,000 morning meals to young people every year.
- ▶ **Feeding America.** For more than 25 years, Kellogg has partnered closely with Feeding America (formerly known as America’s Second Harvest), the nation’s largest charitable hunger relief organization. Each year, Kellogg donates approximately \$25 million worth of food products that are distributed to thousands of community-based feeding programs. The organization recognized Kellogg for Group Volunteer Service in 2007 and as its Donor of the Year in 2005.
- ▶ **Health is Vital.** Kellogg is partnering with Joint Aid Management of South Africa to develop Health is Vital, a nutritional intervention program for people living with HIV/AIDS. Kellogg supplies high-protein food.
- ▶ **Swim Active.** In the U.K., Kellogg is in the middle of a three-year, £3 million (\$5.3 million) partnership with the Amateur Swimming Association to help thousands of people get active by making swimming a regular part of their lives.



- ▶ **YMCA of the USA.** Over the last two years, Kellogg has contributed \$1.25 million to the YMCA for programs that encourage healthy living and physical fitness.
- ▶ **Youth Trains for Olympia.** Kellogg has been the official partner for Germany's Youth Trains for Olympia, the world's biggest school sports competition, since 1987.

Community Development

We strive to make a difference in the communities where we operate, and we assist organizations that address community economic and social development. One of our largest company-wide efforts focuses on United Way. Our senior executives lead this effort, which we have supported for years through corporate contributions and dollar-for-dollar matches of employee and retiree donations. In 2008, Kellogg pledged \$5.3 million to campaigns that will benefit 30 U.S. communities. We have increased our United Way contributions by more than \$2 million since 2003.

We have chosen to focus on a few strategic nonprofit partners, like United Way, because we believe we can have the biggest impact when our company and our employees are aligned in our efforts. Our community engagement and philanthropy programs are designed to encourage employees and retirees to contribute their skills, as well as their personal financial resources. Employees and retirees who volunteer a minimum of 25 hours a year to the same organization are eligible to apply for a \$250 grant for the charity, through the Kellogg's Care\$ Employee and Retiree Volunteer Program.

Each year, Kellogg supports United Way Days of Caring by encouraging and arranging volunteer opportunities for our employees. In 2008, more than 1,800 Kellogg employees participated in service projects in their communities, building homes and playgrounds, distributing food to families and preparing meals at homeless shelters, among many other efforts.



In 2008, United Way honored Kellogg with the prestigious **Spirit of America® Summit Award**

for exemplary work in corporate philanthropy and for our support of the organization's fundraising and volunteer initiatives within local communities.

The previous year, Kellogg received United Way's **Employee Community Investment Summit Award.**



When disasters strike, Kellogg responds with product donations, cash contributions and volunteer relief efforts. In recent years, we have made contributions to assist victims of the 2005 tsunami in South Asia and Africa; the 2005 hurricanes, Katrina and Rita, in the U.S.; and the 2007 wildfires in California and Montana.

Diversity Programs

We view diversity as a critical component of our success – both within our company and within the communities in which we operate. Internally, we have been implementing our enhanced diversity and inclusion plan to attract and retain talented employees. (See Supplier Diversity, page 33, as well as the Workplace section of this report for more information on our programs.)

We also fund several external initiatives to provide new opportunities for individuals of diverse backgrounds, including:

- ▶ **NAACP Law Fellows Program.** We have been the primary funding source for the Law Fellows Program of the National Association for the Advancement of Colored People in its Baltimore, Maryland headquarters.
- ▶ **Scholarships.** In 2007, we contributed nearly \$300,000 to scholarship programs that include diversity as a criterion, including: Historically Black Colleges and Universities, 100 Black Men of America, Hispanic Scholarship Fund, Asian and Pacific Islander Scholarship Fund, National Black MBA Association, National Society of Hispanic MBAs, Society of Hispanic Professional Engineers, Society of Women Engineers, and the University of Michigan Gay and Lesbian Alumni Society.

Looking Ahead

We believe companies can make a significant impact by contributing funds and goods to nonprofits – including those charities that are unrelated to the corporations' core business goals – and we will continue to make donations that benefit the missions of a variety of causes.

As we further develop our corporate responsibility strategy, we will work to shift our current community investment programs to focus even more strategically on the communities in which we operate, and to place even greater emphasis on those programs that align with our objectives as a global food company.

As our global reach expands in places such as Russia, China and Turkey, we, like many companies, are challenged to gain a deeper understanding of communities that are new to Kellogg, and to determine what we can do to create long-term, positive impacts.





“Mini, whose first name means ‘daytime’ in Zulu, has had a successful and fulfilling 17-year career in Kellogg’s human resources department in Johannesburg. It’s a far cry from his apartheid-era boyhood in the rural town of Ladysmith....”



Employee Engagement

South Africa is a nation of stark contrasts, with one of the greatest disparities between rich and poor of any country in the world. Half of South Africa’s nearly 48 million residents live in poverty. Yet the country has never had a formalized mechanism for feeding the legions of hungry – until now.

In 2009, the Global FoodBanking Network, or GFN, will open the first of what will become a national system of food banks in South Africa. Kellogg Company has been a key donor and leader in the process. And Mini K., director of organizational transformation for Kellogg’s South African division, has been one of the primary drivers.

Mini, whose first name means “daytime” in Zulu, has had a successful and fulfilling 17-year career in Kellogg’s human resources department in Johannesburg. It’s a far cry from his apartheid-era boyhood in the rural town of Ladysmith, part of the KwaZulu-Natal province. Many evenings, he said, his mother would have nothing to cook for her seven children.

“My mother would build a fire, put on a pot of water to boil, and go to our neighbors to ask for food,” Mini said. “I know what hunger is about.”

When the GFN approached Kellogg in 2007 about spearheading the initiative, the project fell into Mini’s lap. In the year that followed, he spent countless hours – both during the business day and on his own time – preparing to get the food banks up and running. He traveled to the U.S. to visit established food banks in Chicago, in Milwaukee and in Kellogg’s headquarters community of Battle Creek.

“When I saw the U.S. food banks, the lights just went on for me,” he said. “I knew it would work here. We’ve been waiting for years for something like this.”

As a member of the GFN’s Food Sourcing Committee, Mini has to liaise with supermarkets, restaurants, hotels and other companies to convince them to donate food that would otherwise be thrown away. The committee also encourages farmers to sell some of their produce to the GFN for use in the food banks.

Some vendors were initially skeptical. Over the years, many grocers and food companies in South Africa have donated food to what seemed like perfectly legitimate causes – only to discover that the products were later sold on the black market. The foodbanking program will guarantee that the donations will go to the people who truly need them.

Kellogg's involvement, which will include significant product donations, has lent credibility to the project. Kellogg's vice president of corporate social responsibility serves on the GFN board of directors. And the managing director of Kellogg Company South Africa, K. "Venkat" Venkatachalam, was the first co-chair of the South African Forum for Food Security.

The first pilot food bank is expected to open in the city of Cape Town in the first quarter of 2009. Ultimately, the GFN plans to operate food banks in four cities, including Johannesburg and Durban, and four rural communities where poverty is particularly pronounced.

The need for food banks has become even more urgent recently, as South Africa has experienced an influx of impoverished immigrants from nations such as Zimbabwe, Nigeria and the Democratic Republic of Congo. In fact, Mini said, there is some concern that the first food banks will be overwhelmed by the numbers of needy individuals. But, he said, "We have to soldier on."

The GFN volunteers have been taking some cues from other new foodbanking projects that have launched with Kellogg's help in India, Guatemala, Japan and Mexico. Although each country has its unique challenges, "hunger is hunger" no matter where you go, Mini said.

The foodbanking program is a perfect fit for Kellogg, which has historically focused its philanthropic efforts on ways to improve the health and wellness of individuals. Moreover, the program ties in nicely with Kellogg's corporate values of respect and integrity, said Mini.

For Mini, the project has struck a deeply personal chord. "Even when my formal working days are over, I will continue with the food bank," the 58-year-old said. "This is my torch."

To protect their privacy, this report uses first names and last initials only for our non-executive employees.



Malnutrition

More than 854 million people face hunger around the world. Hunger is the number one contributor to mortality, with the death toll from hunger and its related diseases surpassing the fatalities from AIDS, tuberculosis and malaria combined. Poverty is, of course, a primary factor. Civil conflicts, droughts and natural disasters also contribute to the widespread hunger epidemic.

The world produces enough food to feed every man, woman and child. Nonetheless, billions of pounds of food are wasted every year.

In January 2006, the Global FoodBanking Network (GFN) was established with a mission of alleviating world hunger by supporting food banks and creating new ones where they are needed. Today, the GFN's members and developing food banks can be found in 14 countries, where more than one-third of the malnourished people in the world live.

The GFN is also currently building national food bank networks in Colombia, India, Israel and South Africa, and it is working to strengthen foodbanking efforts in Mexico, Guatemala, Venezuela, Brazil, Eastern Europe and Japan.

Food banks acquire surplus food from growers and manufacturers that would otherwise be thrown away – and help distribute it to tens of millions of people each year. Many of these foods may simply have an error on the label, or be a brand that has been discontinued. Food banks never distribute foods that are damaged or unfit for consumption.

Kellogg is proud to be one of three founding partners of the GFN. We contributed \$500,000 to the GFN for the support of food bank development projects in Mexico, Guatemala and South Africa. This funding, for example, enabled the GFN to create a Global How-To Food Sourcing Manual, which will be produced for international distribution in several languages. The support has also paid for additional staff members at food banks, expanded cold storage capacity, refrigerated trucks for distributing perishable foods, as well as analysis of opportunities and challenges for food distribution.

For more information, visit www.foodbanking.org.

Additional Information

Contact Us/Feedback

Your feedback will help us improve our future reporting, and we welcome your comments and opinions.

E-mail us at: corporateresponsibility@kellogg.com



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*Specific information on indicators 4.1–4.10 can be found at: investor.kelloggs.com/governance.cfm • investor.kelloggs.com/directors.cfm?navSection=Governance&navSubSection=Directors • investor.kelloggs.com/contactus.cfm • investor.kelloggs.com/Proxy.cfm?navSection=Services • investor.kelloggs.com/documentdisplay.cfm?DocumentID=51 • investor.kelloggs.com/documentdisplay.cfm?DocumentID=52 • files.shareholder.com/downloads/K/493227578x0x196418/ec25a03a-7081-450d-a942-16ee7ad2ee1b/GlobalCodeofEthic.pdf

