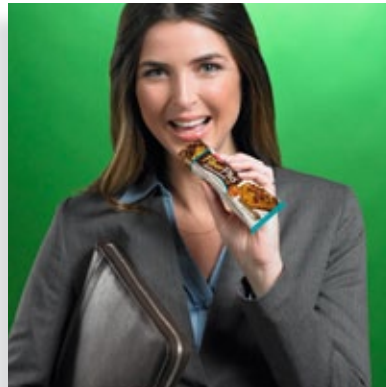


Kellogg's[®]

**KELLOGG
COMPANY**
2010
ANNUAL
REPORT



what
people
love...



“YUMMY.”

— DESOTO, MO

Pop Tarts



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...*inspires* us.

1ST



Kellogg was one of the first companies to print nutrition messages, recipes and product information on the back and side panel of cereal packages.

Frosted Flakes

“Like Tony sez...
‘Ther’re Gr-r-reat’”™

— LAFAYETTE, GA

28,265,317 LBS

of cheese is used each year to make Cheez-Its.



80^K
MILES

The Keebler elves drizzle over 80,000 miles of delicious fudge on our classic Fudge Stripes and Mini Fudge Stripes cookies every year—enough to circle the world three times!

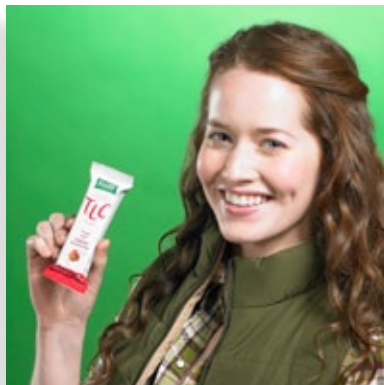


People around the world love our foods, and we love delighting them with time-honored favorites and new, great-tasting, nutritious foods.

Pop-Tarts are eaten by

2/3

of families with kids.



We bake

15.8 MM

waffles a day.

Kashi

“Delicious & healthy.”

— LEMON GROVE, CA



1.7 BILLION LBS

We make more than 1.7 billion pounds of food in our Morning Foods manufacturing facilities.





JOHN A. BRYANT
President and
Chief Executive Officer

JIM JENNESS
Chairman of the Board




**DEAR
SHAREOWNERS,**

We feel extremely fortunate to be a part of Kellogg Company. For more than one hundred years, the Company has remained true to Mr. Kellogg's belief in building brands that deliver great taste, nutrition and value to our consumers. And, today, our brands are recognized and loved throughout the world. Thanks to the hard work and passion of our 31,000 employees around the globe, our brands continue to be as relevant to consumers today as they were one hundred years ago.

EXECUTIVE LEADERSHIP CHANGE

In connection with David Mackay's retirement, the Board of Directors elected John A. Bryant Chief Executive Officer of Kellogg, effective January 2, 2011. Mr. Bryant joined Kellogg in 1998 and has been a member of the Board of Directors since July 2010. He served as Chief Financial Officer from 2002 to 2004 and also 2006 to 2009. In addition to serving in numerous leadership roles, Mr. Bryant has led both Kellogg North America and Kellogg International businesses. He was named Executive Vice President in 2002 and Chief Operating Officer in 2008.



After eight continuous years of robust growth, 2010 was a challenging year for our company against the backdrop of a tough operating environment. That said, we have a clear understanding of the issues that impacted our performance, and we are taking the necessary steps to position us well for the future. We are confident that we can regain momentum in 2011 and are excited by our long-term growth potential.

2010 Recap

In 2010, internal net sales were down 1 percent, our internal operating profit was flat, and currency-neutral EPS rose 6 percent. Over the past 10 years, our reported EPS compounded annual growth rate was 9 percent.

We also delivered cash flow in 2010 of approximately \$1 billion before a \$467 million net-of-tax pension contribution. Through our current \$2.5 billion share repurchase authorization and dividends, we maintained our commitment to return cash to our shareowners. In 2010, we purchased just slightly over \$1 billion in shares and increased our annual dividend by 9 percent.

Looking across our business segments:

- **North America Retail Cereal** experienced a decline in internal net sales in 2010, reflecting both the deflationary environment and the impact of the cereal recall on our second and third quarter performance. We are gradually seeing improved trends in U.S. cereal, and we expect better performance driven by stronger innovation, brand building and net price realization to help offset higher input costs. Our 2011 innovation pipeline represents some of our best new product launches in the last five years. Consumers are enthusiastically embracing our new 2011 offerings including *Crunchy Nut* and *Special K Oats & Honey* cereals.
- **North America Retail Snacks** internal net sales in 2010 increased low single-digits, and we continued to grow share in *Pop-Tarts* toaster pastries, crackers and wholesome snacks. One of our iconic brands, *Pop-Tarts*, marked its 29th consecutive year of growth. Our wholesome snacks business continues to deliver growth and remains on trend with consumers' interest in healthier snacks. We are excited about our 2011 innovation, including the introduction of two varieties of *Special K Cracker Chips* and *Kellogg's FiberPlus Caramel Coconut* bars.

“Breakfast, lunch and dinner!”

— BARTLETT, IL

Frosted Flakes

“Can’t live without them!”

— UTICA, NY

Cheez-It

“A family tradition.”

— AURORA, IL

Kellogg’s Corn Flakes

- **North America Frozen and Specialty Channels** internal net sales in 2010 decreased as a result of the waffle supply disruptions earlier in the year. We rebuilt the *Eggo* frozen products business throughout the year and saw positive momentum in the fourth quarter with internal net sales growth up high single-digits. At the end of 2010, we also introduced new innovations—*Eggo* Thick and Fluffy Original and *Kashi* waffles, as well as several varieties of *Eggo FiberPlus* waffles.
- **International** had flat internal net sales growth in 2010 with Latin America and Asia Pacific’s positive top line growth offsetting Europe’s softer performance. During the year, our business in the United Kingdom was operating in a deflationary environment and faced difficult 2009 comparisons. We expect recently announced price increases in the United Kingdom to help offset inflation and the launch of new innovations such as *Special K Clusters* and *Milk Chocolate Krave* cereals to drive improved sales performance. In Latin America, healthy cereal performance was driven, in part, by the successful re-launch of *Special K* and resulted in mid single-digit sales growth. And, in Asia Pacific, strong performance from India and South Korea drove low single-digit sales growth. In Australia, our *Sultana Bran Buds* cereal innovation continues to perform well.

Regaining Momentum in 2011—Investing in Our Supply Chain, Innovation and Brands

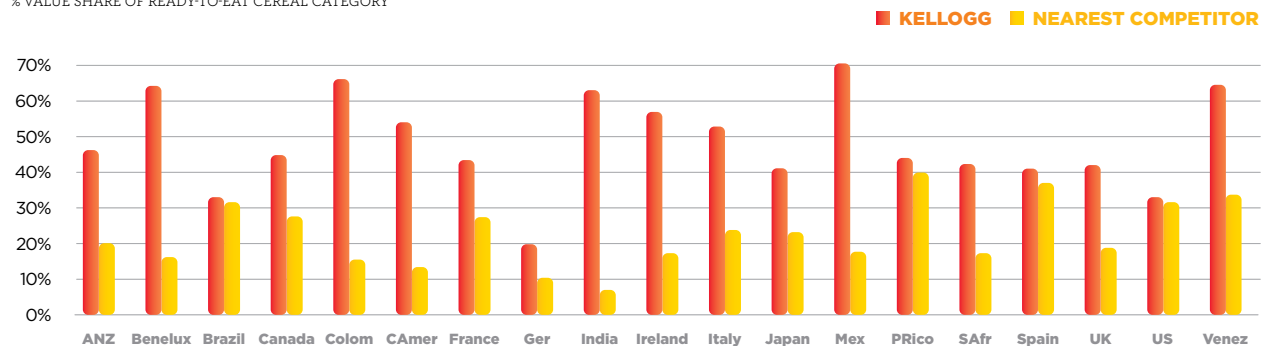
Our 2010 results were impacted by supply chain disruptions, lower levels of innovation, a deflationary cycle and tough year-over-year comparisons.

Over the last year, we faced the second largest recall in Kellogg Company’s history, and we experienced supply disruptions in our *Eggo* waffles. These events had a significant impact on both our top and bottom line in 2010. As one of the world’s largest and best-known food companies, our success depends on trust—among customers and consumers—and putting our consumers’ well-being first is always the right thing to do for our business. The quality and safety of our foods is our highest priority, and we are taking steps to help mitigate potential risks. We are also investing in additional capacity for *Eggo* waffles.

In 2010 as well as in 2009, the Company focused more on renovation than on innovation—the result was that fewer new products were brought to market. 2010 innovation successes included *Kellogg’s FiberPlus* cereal and *TownHouse* Flatbread Crisps, both of which were well received by the market and have achieved a solid share position. High quality

NUMBER 1 IN KEY MARKETS LEADER IN GLOBAL CEREAL SALES

% VALUE SHARE OF READY-TO-EAT CEREAL CATEGORY



Source: Nielsen, value share of retail sales, as of 12/31/10. ANZ includes Australia and New Zealand.

innovation is one of the key components to driving top-line growth across categories. For 2011, we are bringing innovation back to pre-2009 levels, and will continue to review gaps in our portfolio and share ideas across geographies to bring top performers to other markets.

As we innovate, we will continue to renovate to improve the nutrition credentials and quality of the food in our portfolio. To grow our business for the long term, we must excite people through fresh ideas, new health benefits and other advances that increase satisfaction, drive affinity and build brand loyalty. Kellogg Company was founded with an entrepreneurial spirit, and Mr. Kellogg's legacy of innovation is integral to the Kellogg culture.

Finally, our entire industry was impacted by deflationary pressures across the cereal industry due to the economy and widespread promotional activity. Looking ahead, we expect renewed growth in the core cereal business. For Kellogg, we expect net price realization and positive mix across the globe to drive a gradual improvement in sales performance on the top line in 2011.

Brand building, along with innovation, has always been one of the essential drivers of creating excitement within our categories and for our brands. Because popular global and local brands drive our success, we will continue our strong investment in brand building.

DID YOU KNOW?

1 bowl of *Kashi Go Lean* has the same amount of protein as 1 egg.



"SNAP, CRACKLE, POP" represent Rice Krispies cereal all over the world.

SWEDEN

Piff! Paff! Puff!

GERMANY

Knisper! Knasper! Knusper!

MEXICO

Pim! Pum! Pam!

FINLAND

Poks! Riks! Raks!

CANADIAN FRENCH

Cric! Crae! Croc!

HOLLAND

Pif! Paf! Pof!

SOUTH AFRICA

Klap! Knetter! Kraak!



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Kellogg Company and Subsidiaries

Consolidated Statement of Income

(millions, except per share data)	2010	2009	2008
Net sales	\$12,397	\$12,575	\$12,822
Cost of goods sold	7,108	7,184	7,455
Selling, general and administrative expense	3,299	3,390	3,414
Operating profit	\$ 1,990	\$ 2,001	\$ 1,953
Interest expense	248	295	308
Other income (expense), net	—	(22)	(14)
Income before income taxes	1,742	1,684	1,631
Income taxes	502	476	485
Net income	\$ 1,240	\$ 1,208	\$ 1,146
Net loss attributable to noncontrolling interests	(7)	(4)	(2)
Net income attributable to Kellogg Company	\$ 1,247	\$ 1,212	\$ 1,148
Per share amounts:			
Basic	\$ 3.32	\$ 3.17	\$ 3.01
Diluted	\$ 3.30	\$ 3.16	\$ 2.99
Dividends per share	\$ 1.560	\$ 1.430	\$ 1.300

Refer to Notes to Consolidated Financial Statements.

NOTE 4 EQUITY

Earnings per share

Basic net earnings per share is determined by dividing net income attributable to Kellogg Company by the weighted-average number of common shares outstanding during the period. Diluted net earnings per share is similarly determined, except the denominator is increased to include the number of additional common shares that would have been outstanding if all the dilutive potential common shares had been issued. Dilutive potential common shares are comprised principally of employee stock options issued by the Company. Basic net earnings per share is reconciled to diluted net earnings per share in the following table:

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Net earnings per share
2010			
Basic	\$1,247	376	\$ 3.32
Dilutive potential common shares	—	2	(0.02)
Diluted	\$1,247	378	\$ 3.30
2009			
Basic	\$1,212	382	\$ 3.17
Dilutive potential common shares	—	2	(0.01)
Diluted	\$1,212	384	\$ 3.16
2008			
Basic	\$1,148	382	\$ 3.01
Dilutive potential common shares	—	3	(0.02)
Diluted	\$1,148	385	\$ 2.99

The total number of anti-dilutive potential common shares excluded from the reconciliation for each period was (in millions): 2010—4.9; 2009—12.2; 2008—2.6.

Stock transactions

The Company issues shares to employees and directors under various equity-based compensation and stock purchase programs, as further discussed in Note 7. The number of shares issued during the periods presented was (in millions): 2010—5; 2009—3; 2008—5. The Company issued shares totaling less than one million in each of the years presented under *Kellogg Direct™*, a direct stock purchase and dividend reinvestment plan for U.S. shareholders.

On April 23, 2010, the Company's board of directors authorized a \$2.5 billion three-year repurchase program for 2010 through 2012. During 2010, the Company repurchased approximately 21 million shares of common stock for a total of \$1,057 million, of which \$1,052 was paid during the year and \$5 million was payable at January 1, 2011. During 2009, the Company repurchased 4 million shares of common

stock at a total cost of \$187 million. During 2008, the Company repurchased 13 million shares of common stock at a total cost of \$650 million.

Comprehensive income

Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by or distributions to shareholders. Other comprehensive income for all years presented consists of foreign currency translation adjustments, fair value adjustments associated with cash flow hedges and adjustments for net experience losses and prior service cost related to employee benefit plans.

During 2010, the Company amended its U.S. postretirement healthcare benefit plan, which resulted in a \$17 million decrease of a deferred tax asset and is included in tax expense with prior service credit (cost) arising during the period. During 2008, the assets of the Company's postretirement and postemployment benefit plans suffered losses of over \$1 billion due to the substantial allocation of assets in the equity market.

Consolidated Balance Sheet

(millions, except share data)	2010	2009
Current assets		
Cash and cash equivalents	\$ 444	\$ 334
Accounts receivable, net	1,190	1,093
Inventories	1,056	910
Other current assets	225	221
Total current assets	2,915	2,558
Property, net	3,128	3,010
Goodwill	3,628	3,643
Other intangibles, net	1,456	1,458
Other assets	720	531
Total assets	\$11,847	\$11,200
Current liabilities		
Current maturities of long-term debt	\$ 952	\$ 1
Notes payable	44	44
Accounts payable	1,149	1,077
Other current liabilities	1,039	1,166
Total current liabilities	3,184	2,288
Long-term debt	4,908	4,835
Deferred income taxes	697	425
Pension liability	265	430
Other liabilities	639	947
Commitments and contingencies		
Equity		
Common stock, \$.25 par value, 1,000,000,000 shares authorized Issued: 419,272,027 shares in 2010 and 419,058,168 shares in 2009	105	105
Capital in excess of par value	495	472
Retained earnings	6,122	5,481
Treasury stock at cost 53,667,635 shares in 2010 and 37,678,215 shares in 2009	(2,650)	(1,820)
Accumulated other comprehensive income (loss)	(1,914)	(1,966)
Total Kellogg Company equity	2,158	2,272
Noncontrolling interests	(4)	3
Total equity	2,154	2,275
Total liabilities and equity	\$11,847	\$11,200

Refer to Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(millions)	2010	2009	2008
Operating activities			
Net income	\$ 1,240	\$ 1,208	\$ 1,146
Adjustments to reconcile net income to operating cash flows:			
Depreciation and amortization	392	384	375
Deferred income taxes	266	(40)	157
Other	97	13	121
Pension and other postretirement benefit contributions	(643)	(100)	(451)
Changes in operating assets and liabilities:			
Trade receivables	59	(75)	48
Inventories	(146)	(13)	41
Accounts payable	72	(59)	32
Accrued income taxes	(192)	112	(85)
Accrued interest expense	9	(5)	3
Accrued and prepaid advertising, promotion and trade allowances	(12)	91	(10)
Accrued salaries and wages	(169)	42	(47)
All other current assets and liabilities	35	85	(63)
Net cash provided by operating activities	\$ 1,008	\$ 1,643	\$ 1,267
Investing activities			
Additions to properties	\$ (474)	\$ (377)	\$ (461)
Acquisitions of businesses, net of cash acquired	—	—	(213)
Other	9	7	(7)
Net cash used in investing activities	\$ (465)	\$ (370)	\$ (681)
Financing activities			
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	\$ (1)	\$(1,284)	\$ 23
Issuances of notes payable, with maturities greater than 90 days	—	10	190
Reductions of notes payable, with maturities greater than 90 days	—	(70)	(316)
Issuances of long-term debt	987	1,241	756
Reductions of long-term debt	(1)	(482)	(468)
Net issuances of common stock	204	131	175
Common stock repurchases	(1,052)	(187)	(650)
Cash dividends	(584)	(546)	(495)
Other	8	5	5
Net cash used in financing activities	\$ (439)	\$(1,182)	\$ (780)
Effect of exchange rate changes on cash and cash equivalents	6	(12)	(75)
Increase (decrease) in cash and cash equivalents	\$ 110	\$ 79	\$ (269)
Cash and cash equivalents at beginning of year	334	255	524
Cash and cash equivalents at end of year	\$ 444	\$ 334	\$ 255

Refer to Notes to Consolidated Financial Statements.