

KELLOGG CO
Form DEF 14A
March 19, 2007

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

KELLOGG COMPANY

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No:

(3) Filing party:

(4) Date Filed:

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KELLOGG COMPANY, BATTLE CREEK, MICHIGAN 49017-3534

Dear Shareowner:

It is my pleasure to invite you to attend the 2007 Annual Meeting of Shareowners of Kellogg Company. The meeting will be held at 1:00 p.m. Eastern Daylight Time on April 27, 2007 at the W. K. Kellogg Auditorium, 50 West Van Buren Street, Battle Creek, Michigan.

The following pages contain the formal Notice of the Annual Meeting and the Proxy Statement. Please review this material for information concerning the business to be conducted at the meeting and the nominees for election as Directors. Attendance at the annual meeting will be limited to Shareowners only. If you are a holder of record of Kellogg common stock and you plan to attend the meeting, please detach the admission ticket attached to your proxy card and bring it to the meeting.

If you plan to attend the meeting, but your shares are not registered in your own name or you receive our proxy materials electronically, please request an admission ticket by writing to the following address: Kellogg Company Shareowner Services, One Kellogg Square, Battle Creek, MI 49017-3534. Evidence of your stock ownership, which you may obtain from your bank, stockbroker, etc., must accompany your letter. **Shareowners without tickets will only be admitted to the meeting upon verification of stock ownership.**

Shareowners needing special assistance at the meeting are requested to contact Shareowner Services at the address listed above.

Your vote is important. Whether you plan to attend the meeting or not, I urge you to vote your shares as soon as possible. Please either sign and return the accompanying card in the postage-paid envelope or instruct us by telephone or via the Internet as to how you would like your shares voted. This will ensure representation of your shares if you are unable to attend. Instructions on how to vote your shares by telephone or via the Internet are on the proxy card or voting instruction card.

Sincerely,

A. D. David Mackay
President and Chief Executive Officer

March 19, 2007

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ELECTRONIC VOTING:

You may now vote your shares by telephone or over the Internet.

Voting electronically is quick, easy, and saves us money.

Just follow the instructions on your proxy card or voting instruction card.

ELECTRONIC DELIVERY:

Reduce paper mailed to your home and help lower our printing and postage costs!

We are pleased to offer the convenience of viewing proxy statements, Annual Reports to Shareowners, and related materials on-line. With your consent, we will stop sending paper copies of these documents unless you notify us otherwise.

To participate, follow the easy directions below.

You will receive notification when the materials are available for review.

ACT NOW. . . . IT S FAST AND EASY

Just follow these 2 easy steps:

1. Log on to the Internet at
www.icsdelivery.com/kelloggs.
 2. Follow the instructions on the website.
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**KELLOGG COMPANY
One Kellogg Square
Battle Creek, Michigan 49017-3534**

NOTICE OF THE ANNUAL MEETING OF SHAREOWNERS

TO BE HELD APRIL 27, 2007

TO OUR SHAREOWNERS:

The 2007 Annual Meeting of Shareowners of Kellogg Company, a Delaware corporation, will be held at 1:00 p.m. Eastern Daylight Time on April 27, 2007 at the W. K. Kellogg Auditorium, 50 West Van Buren Street, Battle Creek, Michigan, for the following purposes:

1. To elect four Directors for a three-year term to expire at the 2010 Annual Meeting of Shareowners;
2. To ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP for Kellogg's 2007 fiscal year;
3. To consider and act upon a Shareowner proposal to prepare a sustainability report, if presented at the meeting;
4. To consider and act upon a Shareowner proposal to enact a majority voting requirement, if presented at the meeting; and
5. To take action upon any other matters that may properly come before the meeting, or any adjournments thereof.

Only Shareowners of record at the close of business on March 1, 2007 will receive notice of and be entitled to vote at the meeting or any adjournments. We look forward to seeing you there.

By Order of the Board of Directors,

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

March 19, 2007

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KELLOGG COMPANY

**ONE KELLOGG SQUARE
BATTLE CREEK, MICHIGAN 49017-3534
PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF SHAREOWNERS
TO BE HELD ON FRIDAY, APRIL 27, 2007**

ABOUT THE MEETING

Solicitation of Proxy. This proxy statement and the accompanying proxy are furnished to Shareowners of Kellogg Company in connection with the solicitation of proxies for use at the 2007 Annual Meeting of Shareowners of Kellogg to be held at 1:00 p.m. Eastern Daylight Time at the W. K. Kellogg Auditorium, 50 West Van Buren Street, in Battle Creek, Michigan, on Friday, April 27, 2007, or any adjournments thereof. **The enclosed proxy card is solicited by Kellogg's Board of Directors.**

Mailing Date. Kellogg's Annual Report for 2006, including financial statements, the Notice of the Annual Meeting, this proxy statement, and the proxy, were first mailed to Shareowners on or about March 19, 2007.

Who Can Vote Record Date. The record date for determining Shareowners entitled to vote at the annual meeting is March 1, 2007. Each of the approximately 397,644,084 shares of Kellogg common stock issued and outstanding on that date is entitled to one vote at the annual meeting.

How to Vote Proxy Instructions. If you are a holder of record of Kellogg Company common stock, you may vote your shares either (1) over the telephone by calling a toll-free number, (2) by using the Internet or (3) by mailing in your proxy card. Shareowners who hold their shares in street name will need to obtain a voting instruction card from the institution that holds their shares and must follow the voting instructions given by that institution.

The telephone and Internet voting procedures have been set up for your convenience and have been designed to authenticate your identity, to allow you to give voting instructions, and to confirm that those instructions have been recorded properly. If you would like to vote by telephone or by using the Internet, please refer to the specific instructions on the proxy card. The deadline for voting by telephone or via the Internet is 11:59 p.m. Eastern Daylight Time on Thursday, April 26, 2007. If you wish to vote using the proxy card, complete, sign, and date your proxy card and return it to us before the meeting.

Whether you choose to vote by telephone, over the Internet or by mail, you may specify whether your shares should be voted for all, some or none of the nominees for Director (Proposal 1); whether you approve, disapprove or abstain from voting on the proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent auditor for our 2007 fiscal year (Proposal 2); whether you approve, disapprove, or abstain from voting on the Shareowner proposal to prepare a sustainability report, which may be presented at the meeting (Proposal 3); and whether you approve, disapprove or abstain from voting on the Shareowner proposal to enact a majority voting standard requirement, which may be presented at the meeting (Proposal 4).

If you do not specify how you want to vote your shares on your proxy card or voting instruction card, or voting by telephone or over the Internet, we will vote them For the election of all nominees for Director as set forth under Proposal 1 Election of Directors below, For Proposal 2, Against Proposal 3 and Proposal 4, and otherwise at the discretion of the persons named in the proxy card.

When a properly executed proxy is received, the shares represented thereby, including shares held under Kellogg's Dividend Reinvestment Plan, will be voted by the persons named as the proxy according to each Shareowner's directions. Proxies will also be considered to be voting instructions to the applicable Trustee with respect to shares held in accounts under Kellogg's Savings & Investment Plans.

Revocation of Proxies. If you are a holder of record, you may revoke your proxy at any time before it is exercised in any of three ways:

- (1) by submitting written notice of revocation to Kellogg's Secretary;

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- (2) by submitting another proxy by telephone, via the Internet or by mail that is later dated and, if by mail, that is properly signed; or
- (3) by voting in person at the meeting.

If your shares are held in street name, you must contact your broker or nominee to revoke and vote your proxy.

Quorum. A quorum of Shareowners is necessary to hold a valid meeting. A quorum will exist if the holders representing a majority of the votes entitled to be cast by the Shareowners at the annual meeting are present, in person or by proxy. Broker non-votes and abstentions are counted as present at the annual meeting for purposes of determining whether a quorum exists. A broker non-vote occurs when a nominee, such as a bank or broker, holding shares for a beneficial owner, does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. Under current New York Stock Exchange rules, nominees would have discretionary voting power for the election of Directors (Proposal 1) and for ratification of PricewaterhouseCoopers LLP as independent auditors (Proposal 2), but not for the Shareowner proposals (Proposal 3 and Proposal 4).

Required Vote. Our Board has adopted a majority voting policy which applies to the election of Directors. Under this policy, any nominee for Director who receives a greater number of votes withheld from his or her election than votes for such election is required to offer his or her resignation following certification of the Shareowner vote. Our Board's Nominating and Governance Committee would then consider the offer of resignation and make a recommendation to our independent Directors as to the action to be taken with respect to the offer. This policy does not apply in contested elections. For more information about this policy, see Corporate Governance Majority Voting for Directors; Director Resignation Policy.

Under Delaware law, a nominee who receives a plurality of the votes cast at the annual meeting will be elected as a Director (subject to the resignation policy described above). The plurality standard means the nominees who receive the largest number of for votes cast are elected as Directors. Thus, the number of shares not voted for the election of a nominee (and the number of withhold votes cast with respect to that nominee) will not affect the determination of whether that nominee has received the necessary votes for election under Delaware law. However, the number of withhold votes with respect to a nominee will affect whether or not our Director resignation policy will apply to that individual. If any nominee is unable or declines to serve, proxies will be voted for the balance of those named and for such person as shall be designated by the Board to replace any such nominee. However, the Board does not anticipate that this will occur.

The affirmative vote of the holders representing a majority of the shares present and entitled to vote at the annual meeting is necessary to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm (Proposal 2) and to approve the Shareowner proposals (Proposal 3 and Proposal 4). Shares present but not voted because of abstention will have the effect of a no vote on Proposals 2, 3 and 4. If you do not provide your broker or other nominee with instructions on how to vote your street name shares, your broker or nominee will not be permitted to vote them on non-routine matters (a broker non-vote) such as Proposal 3 and Proposal 4. Shares subject to a broker non-vote will not be considered as present with respect to Proposal 3 and Proposal 4 and will not affect the outcome on those proposals.

Other Business. We do not intend to bring any business before the meeting other than that set forth in the Notice of the Annual Meeting and described in this proxy statement. However, if any other business should properly come before the meeting, the persons named in the proxy card intend to vote in accordance with their best judgment on such business and on any matters dealing with the conduct of the meeting pursuant to the discretionary authority granted in

the proxy.

Costs. We pay for the preparation and mailing of the Notice of the Annual Meeting and proxy statement. We have also made arrangements with brokerage firms and other custodians, nominees, and fiduciaries for forwarding proxy-soliciting materials to the beneficial owners of the Kellogg common stock at our expense. In addition, we have retained Georgeson Inc. to aid in the solicitation of proxies by mail, telephone, facsimile, e-mail and personal solicitation. For these services, we will pay Georgeson a fee of \$12,500, plus reasonable expenses.

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Five Percent Holders. The following table shows each person who, based upon their most recent filings or correspondence with the Securities and Exchange Commission, which we refer to as the SEC, beneficially owns more than 5% of Kellogg's common stock.

Beneficial Owner	Shares Beneficially Owned	Percent of Class on December 31, 2006
W. K. Kellogg Foundation Trust(1) c/o The Bank of New York Company, Inc. One Wall Street New York, NY 10286	93,759,190 shares(2)	23.6%
George Gund III 39 Mesa Street San Francisco, CA 94129	34,473,818 shares(3)	8.5%
KeyCorp 127 Public Square Cleveland, OH 44114-1306	31,655,007 shares(4)	8.0%

- (1) The trustees of the W. K. Kellogg Foundation Trust (the Kellogg Trust) are James M. Jenness, Sterling K. Speirn, Shirley Bowser and The Bank of New York. The W. K. Kellogg Foundation, a Michigan charitable corporation (the Kellogg Foundation), is the sole beneficiary of the Kellogg Trust. Under the agreement governing the Kellogg Trust (the Agreement), at least one trustee of the Kellogg Trust must be a member of the Kellogg Foundation's Board, and one member of Kellogg's Board must be a trustee of the Kellogg Trust. The Agreement provides if a majority of the trustees of the Kellogg Trust (which majority must include the corporate trustee) cannot agree on how to vote the Kellogg stock, the Kellogg Foundation has the power to direct the voting of such stock. With certain limitations, the Agreement also provides that the Kellogg Foundation has the power to approve successor trustees, and to remove any trustee of the Kellogg Trust.
- (2) According to Schedule 13G/A filed with the SEC on February 13, 2007, The Bank of New York is a trustee of the Kellogg Trust and shares voting and investment power with the other three trustees with respect to the shares owned by the Kellogg Trust. The Bank of New York and its subsidiaries hold 94,665,854 shares for various persons in various fiduciary capacities. The Bank of New York has sole voting power for 153,103 shares, shared voting power for 94,512,751 shares (including those shares beneficially owned by the Kellogg Trust), sole investment power for 743,827 shares and shared investment power for 93,783,776 shares (including those shares beneficially owned by the Kellogg Trust).
- (3) According to Schedule 13G/A filed with the SEC on February 13, 2007, George Gund III has sole voting power for 184,650 shares, shared voting power for 34,289,168 shares, sole investment power for 66,650 shares and shared investment power for 6,252,881 shares. Of the shares over which Mr. Gund has shared voting and investment power, 2,832,189 shares are held by a nonprofit foundation of which Mr. Gund is one of eight trustees

and one of twelve members. Mr. Gund disclaims beneficial ownership as to all of these shares. Gordon Gund, a Kellogg Director, is a brother of George Gund III and may be deemed to share voting or investment power over the shares shown as beneficially owned by George Gund III, as to which shares Gordon Gund disclaims beneficial ownership.

- (4) According to a Schedule 13G/A filed with the SEC on January 31, 2007, KeyCorp, as trustee for certain Gund family trusts included under (3) above, as well as other trusts, has sole voting power for 3,488,309 shares, shared voting power for 10,500 shares, sole investment power for 31,311,767 shares and shared investment power for 266,311 shares.

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Officer and Director Stock Ownership. The following table shows the number of shares of Kellogg common stock beneficially owned as of January 15, 2007, by each non-employee Director, each executive officer included in the Summary Compensation Table and all Directors and executive officers as a group.

Name	Shares(1)	Options(2)	Deferred Stock Units(3)	Total Beneficial Ownership(4)	Percentage
Non-Employee Directors					
B. S. Carson Sr.	16,674	35,000	0	51,674	*
J. T. Dillon(5)	17,151	33,750	0	50,901	*
C. X. Gonzalez	30,434	29,999	20,569	81,002	*
G. Gund(6)	47,014	26,376	47,915	121,305	*
D. A. Johnson	31,082	29,715	15,536	76,333	*
L. D. Jorndt	64,572	19,270	9,086	92,928	*
A. M. Korologos	25,431	35,000	15,004	75,435	*
W. C. Richardson(7)(8)	17,403	35,000	17,486	69,889	*
J. L. Zabriskie	26,084	31,800	17,947	75,831	*
Named Executive Officers					
J. M. Boromisa(9)	108,130	270,519	0	378,649	*
J. A. Bryant	125,188	514,668	0	639,856	*
A. F. Harris(10)	168,037	667,912	0	835,949	*
J. W. Montie	111,522	425,469	0	536,991	*
All Directors and executive officers as a group (20 persons)(11)	1,376,923	4,800,684	152,604	6,330,211	1.6%

* Less than 1%.

- (1) Represents the number of shares beneficially owned, excluding shares which may be acquired through exercise of stock options and units held under the Deferred Compensation Plan for Non-Employee Directors. Includes the following number of shares held in Kellogg's Grantor Trust for Non-Employee Directors which are subject to restrictions on investment: Dr. Carson, 15,374 shares; Mr. Dillon, 12,901 shares; Mr. Gonzalez, 22,098 shares; Mr. Gund, 21,990 shares; Mr. Jenness, 9,399 shares; Ms. Johnson, 14,411 shares; Mr. Jorndt, 9,462 shares; Ms. McLaughlin Korologos 21,759 shares; Dr. Richardson, 17,003 shares; Dr. Zabriskie, 18,884 shares; and all Directors as a group, 163,282 shares. These numbers exclude the shares held in the Deferred Compensation Plan for Non-Employee Directors.
- (2) Represents shares which may be acquired through exercise of stock options as of January 15, 2007 or within 60 days after that date.
- (3) Represents the number of common stock units held under the Deferred Compensation Plan for Non-Employee Directors as of January 15, 2007. The deferred stock units, or DSUs, have no voting rights. For additional information, refer to 2006 Non-Employee Director Compensation and Benefits Elective Deferral Program for a description of this plan.
- (4) None of the shares listed have been pledged as collateral.

- (5) Includes 250 shares held for the benefit of a minor son, over which Mr. Dillon disclaims beneficial ownership.
- (6) Includes 10,000 shares owned by Mr. Gund's wife. Gordon Gund disclaims beneficial ownership of the shares beneficially owned by his wife and George Gund III.
- (7) Dr. Richardson retired as a Director on February 16, 2007. He recently retired from his role as trustee of the Kellogg Trust. Sterling K. Speirn, who was elected to the Board effective March 1, 2007 to fill Dr. Richardson's position, did not beneficially own any Kellogg common stock as of the date of this table.
- (8) Does not include shares owned by the Kellogg Trust, as to which Mr. Jenness and Dr. Richardson, as trustees of the Kellogg Trust as of the date of this table, share voting and investment power, or shares as to which the Kellogg Trust

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or the Kellogg Foundation have current beneficial interest. Dr. Richardson retired from his role as trustee of the Kellogg Trust on January 31, 2007. Mr. Speirn filled the vacancy created by Dr. Richardson's retirement from the position of trustee of the Kellogg Trust.

- (9) Includes 2,002 shares held by his children, over which Mr. Boromisa disclaims beneficial ownership.
- (10) Includes 8,825 shares owned by Mr. Harris's wife.
- (11) Includes 20,785 shares owned by, or held for the benefit of, spouses; 2,980 shares owned by, or held for the benefit of, children, over which the applicable Director, or executive officer disclaims beneficial ownership; 42,859 shares held in Kellogg's Savings & Investment Plans, which contain some restrictions on investment; and 119,429 restricted shares, which contain some restrictions on investment.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 requires Kellogg's Directors, executive officers, and greater-than-10% Shareowners to file reports with the Securities and Exchange Commission. SEC regulations require us to identify anyone who filed a required report late during the most recent fiscal year. Based on our review of these reports and written certifications provided to us, we believe that the filing requirements for all of these reporting persons were complied with, except that two Form 4s for each of Mr. Gund, Mr. Gonzalez, Dr. Zabriskie and Ms. McLaughlin Korologos were inadvertently filed late. A Form 4 was filed in October 2006 for each of these Directors reporting these transactions.

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CORPORATE GOVERNANCE

Board-Adopted Corporate Governance Guidelines. We operate under corporate governance principles and practices that are designed to maximize long-term Shareowner value, align the interests of the Board and management with those of Kellogg's Shareowners and promote high ethical conduct among Kellogg's Directors and employees. The Board has focused on continuing to build upon our strong corporate governance practices over the years. The Board's current corporate governance guidelines include the following:

A majority of the Directors, and all of the members of the Audit, Compensation, and Nominating and Governance Committees, are required to meet the independence requirements of the New York Stock Exchange.

One of the Directors is designated a Lead Director, who approves proposed meeting agendas and schedules, may call executive sessions of the non-employee Directors and establishes a method for Shareowners and other interested parties to use in communicating with the Board.

The Board reviews succession planning at least once per year.

The Board and each Board committee have the power to hire independent legal, financial or other advisors as they may deem necessary, at Kellogg's expense.

Non-employee Directors meet in executive session at least three times annually.

The Board and Board committees conduct annual self-evaluations.

The independent members of the Board use the recommendations from the Nominating and Governance Committee and Compensation Committee to conduct an annual review of the CEO's performance and determine the CEO's compensation.

Non-employee Directors who change their principal responsibility or occupation from that held when they were elected shall offer his or her resignation for the Board to consider continued appropriateness of Board membership under the circumstances.

Directors have free access to Kellogg officers and employees.

Continuing education is provided to Directors consistent with our Board Education Policy.

No Director may be nominated for a new term if he or she would be seventy-two or older at the time of election.

No Director shall serve as a Director, officer or employee of a competitor.

All Directors are expected to comply with stock ownership guidelines for Directors, under which they are generally expected to hold at least five times their annual cash retainer in stock and stock equivalents.

Majority Voting for Directors; Director Resignation Policy. In an uncontested election of Directors (that is, an election where the number of nominees is equal to the number of seats open) any nominee for Director who receives a greater number of votes withheld from his or her election than votes for such election shall promptly tender his or her

resignation to the Nominating and Governance Committee (following certification of the Shareowner vote) for consideration in accordance with the following procedures.

The Nominating and Governance Committee would promptly consider such resignation and recommend to the Qualified Independent Directors (as defined below) the action to be taken with respect to such offered resignation, which may include (1) accepting the resignation; (2) maintaining the Director but addressing what the Qualified Independent Directors believe to be the underlying cause of the withheld votes; (3) determining that the Director will not be renominated in the future for election; or (4) rejecting the resignation. The Nominating and Governance Committee would consider all relevant factors including, without limitation, (a) the stated reasons why votes were withheld from such Director; (b) any alternatives for curing the underlying cause of the withheld votes; (c) the tenure and qualifications of the Director; (d) the Director's past and expected future contributions to Kellogg; (e) Kellogg's Director criteria; (f) Kellogg's Corporate Governance Guidelines; and (g) the overall composition of the Board, including whether accepting the resignation would cause Kellogg to fail to meet any applicable SEC or NYSE requirement.

The Qualified Independent Directors would act on the Nominating and Governance Committee's recommendation no later than 90 days following the date of the Shareowners' meeting where the election occurred. In considering the Nominating and Governance Committee's recommendation, the Qualified Independent Directors would consider the

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factors considered by the Nominating and Governance Committee and such additional information and factors the Board believes to be relevant. Following the Qualified Independent Directors' decision, Kellogg would promptly disclose in a current report on Form 8-K the decision whether to accept the resignation as tendered (providing a full explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation).

To the extent that any resignation is accepted, the Nominating and Governance Committee would recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board.

Any Director who tenders his or her resignation pursuant to this provision would not participate in the Nominating and Governance Committee's recommendation or Qualified Independent Directors' consideration regarding whether to accept the tendered resignation. Prior to voting, the Qualified Independent Directors would afford the Director an opportunity to provide any information or statement that he or she deems relevant. If a majority of the members of the Nominating and Governance Committee received a greater number of votes withheld from their election than votes for their election at the same election, then the remaining Qualified Independent Directors who are on the Board who did not receive a greater number of votes withheld from their election than votes for their election (or who were not standing for election) would consider the matter directly or may appoint a Board committee amongst themselves solely for the purpose of considering the tendered resignations that would make the recommendation to the Board whether to accept or reject them.

For purposes of this policy, the term "Qualified Independent Directors" means:

All Directors who (1) are independent Directors (as defined in accordance with the NYSE Corporate Governance Rules) and (2) are not required to offer their resignation in accordance with this policy.

If there are fewer than three independent Directors then serving on the Board who are not required to offer their resignations in accordance with this policy, then the Qualified Independent Directors shall mean all of the independent Directors and each independent Director who is required to offer his or her resignation in accordance with this Policy shall recuse himself or herself from the deliberations and voting only with respect to his or her individual offer to resign.

Director Independence. The Board has determined that all current Directors (other than Mr. Jenness and Mr. Mackay) are independent based on the following standards: (a) no entity (other than a charitable entity) of which a Director is an employee in any position or any immediate family member (as defined) is an executive officer, made payments to, or received payments from, Kellogg and its subsidiaries in any of the 2006, 2005, or 2004 fiscal years in excess of the greater of (1) \$1,000,000 or (2) two percent of that entity's annual consolidated gross revenues; (b) no Director, or any immediate family member employed as an executive officer of Kellogg or its subsidiaries, received in any twelve month period within the last three years more than \$100,000 per year in direct compensation from Kellogg or its subsidiaries, other than Director and committee fees and pension or other forms of deferred compensation for prior service not contingent in any way on continued service; (c) Kellogg did not employ a Director in any position, or any immediate family member as an executive officer, during the past three years; (d) no Director was currently employed by the present or former independent or internal Kellogg auditor ("Auditor"), no immediate family member of a Director was a current partner of the Auditor, no Director or immediate family member was an employee of the Auditor who personally worked on our audit during the past three years and no immediate family member of a Director was a current employee of the Auditor and participated in the Auditor's audit, assurance or tax compliance practice; (e) no Director or immediate family member served as an executive officer of another company during the past three years at the same time as a current executive officer of Kellogg served on the compensation committee of such company; and (f) no other material relationship exists between any Director and Kellogg or our subsidiaries. The Board also determined that Mr. Perez and Dr. Richardson met the above standards for Director independence in 2006

while they served as Directors.

In connection with its independence determinations for Mr. Speirn, the Board noted that Kellogg entered into two agreements with the W. K. Kellogg Foundation Trust (the Kellogg Trust), one dated as of November 8, 2005 (the 2005 Agreement) and one dated as of February 16, 2006 (the 2006 Agreement, and together with the 2005 Agreement, the Agreements) under which we repurchased a total of 22,156,318 shares of our common stock from the Kellogg Trust for an aggregate cash purchase price of \$950,000,000 (collectively, the Trust Transactions). Mr. Speirn, a recently elected Kellogg Director, became a trustee of the Kellogg Trust in January 2007 and became the President and Chief Executive Officer of the W. K. Kellogg Foundation (the Kellogg Foundation), a charitable foundation that is the sole beneficiary of the Kellogg Trust, in January 2006. In connection with Mr. Speirn s election to the Board, the Board determined that

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Mr. Speirn was independent under the NYSE listing standards, and that the Agreements and the Trust Transactions were not material for these purposes. In reaching this conclusion, the Board took into account that:

the Agreement and the contemplated Trust Transactions were each negotiated on an arm's-length basis and, on behalf of the full Board, by a committee of the Board comprised of independent Directors (with Directors who are affiliated with the Kellogg Trust or Kellogg Foundation not participating in the deliberations or approval);

Mr. Speirn, and his predecessor, Dr. William C. Richardson, did not participate in any of the Board deliberations regarding the Agreements or any of the Trust Transactions;

the price of the shares sold in the Trust Transactions was based on a discount to market;

Mr. Speirn is not a beneficiary of the Kellogg Trust or of the Kellogg Foundation;

Mr. Speirn's compensation with respect to his service to the Kellogg Trust and the Kellogg Foundation was not related to the Kellogg Trust Transactions; and

Mr. Speirn did not and will not receive, directly or indirectly, any of the proceeds of, or other interest in, the Kellogg Trust Transaction.

The Board also considered commercial ordinary-course transactions with respect to several Directors as it assessed independence status, including transactions relating to purchasing supplies, selling product and marketing arrangements. The Board concluded that these transactions did not impair Director independence for a variety of reasons including that the amounts in question were considerably under the thresholds set forth in our independence standards and the relationships were not deemed material.

Shareowner Recommendations for Director Nominees. The Nominating and Governance Committee will consider Shareowner nominations for membership on the Board. For the 2008 Annual Meeting of Shareowners, nominations may be submitted to the Office of the Secretary, Kellogg Company, One Kellogg Square, Battle Creek, Michigan 49017, which will forward them to the Chairman of the Nominating and Governance Committee. Recommendations must be in writing and we must receive the recommendation not earlier than the 120th day prior to the 2008 annual meeting and not later than February 3, 2008. Recommendations must also include certain other requirements specified in our bylaws.

The Nominating and Governance Committee believes that all nominees must, at a minimum, meet the criteria set forth in the Board's Code of Conduct and the Corporate Governance Guidelines, which specify, among other things, that the Nominating and Governance Committee will consider criteria such as independence, diversity, age, skills and experience in the context of the needs of the Board. The Nominating and Governance Committee also will consider a combination of factors for each nominee, including (1) the nominee's ability to represent all Shareowners without a conflict of interest; (2) the nominee's ability to work in and promote a productive environment; (3) whether the nominee has sufficient time and willingness to fulfill the substantial duties and responsibilities of a director; (4) whether the nominee has demonstrated the high level of character and integrity that we expect; (5) whether the nominee possesses the broad professional and leadership experience and skills necessary to effectively respond to the complex issues encountered by a multi-national, publicly-traded company; and (6) the nominee's ability to apply sound and independent business judgment.

When filling a vacancy on the Board, the Nominating and Governance Committee identifies the desired skills and experience of a new director in light of the criteria described above and the skills and experience of the then-current Directors. The Nominating and Governance Committee may, as it has done in the past, engage third parties to assist in

the search and provide recommendations. Also, Directors are generally asked to recommend candidates for the position. The candidates would be evaluated based on the process outlined in the Corporate Governance Guidelines and the Nominating and Governance Committee charter, and the same process would be used for all candidates, including candidates recommended by Shareowners.

Communication with the Board. Mr. Gund, the Chairman of the Nominating and Governance Committee and the Lead Director, usually presides at executive sessions of the independent members of the Board. Mr. Gund may be contacted at gordon.gund@kellogg.com. Any communications which Shareowners may wish to send to the Board may be directly sent to Mr. Gund at this e-mail address.

Attendance at Annual Meetings. All Directors properly nominated for election are expected to attend the annual meeting of Shareowners. All of our Directors attended the 2006 annual meeting of Shareowners.

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Code of Ethics. We have adopted the Code of Conduct for Kellogg Company Directors and Global Code of Ethics for Kellogg Company employees (including the chief executive officer, chief financial officer and corporate controller). Any amendments to or waivers of the Global Code of Ethics applicable to our chief executive officer, chief financial officer or corporate controller will be posted on www.kelloggcompany.com. There were no amendments to or waivers of the Global Code of Ethics in 2006.

Availability of Corporate Governance Documents. Copies of the Corporate Governance Guidelines, the Charters of the Audit, Compensation, and Nominating and Governance Committees of the Board, the Code of Conduct for Kellogg Company Directors, and Global Code of Ethics for Kellogg Company employees can be found on the Kellogg Company website at www.kelloggcompany.com under Corporate Governance. Shareowners may also request a free copy of these documents from: Kellogg Company, P.O. Box CAMB, Battle Creek, Michigan 49016-1986 (phone: (800) 961-1413), Ellen Leithold of the Investor Relations Department at that same address (phone: (269) 961-2800) or investor.relations@kellogg.com.

BOARD AND COMMITTEE MEMBERSHIP

The Board has the following standing committees: Audit, Compensation, Nominating and Governance, Finance, Social Responsibility, Consumer Marketing and Executive.

The Board held eight meetings in 2006. All of the incumbent Directors attended at least 75% of the total number of meetings of the Board and of all Board committees of which the Directors were members during 2006.

The table below provides 2006 membership and meeting information for each Board committee:

Name	Nominating and						
	Audit	Compensation	Governance	Finance	Social Responsibility	Consumer Marketing	Executive
B. S. Carson Sr.			ü		Chair		ü
J. T. Dillon	Chair			ü			ü
C. X. Gonzalez		ü	ü	ü		ü	
G. Gund		ü	Chair	ü		ü	ü
J. M. Jenness(1)							Chair
D. A. Johnson				ü	ü	ü	
L. D. Jorndt	ü	ü				ü	
A. D. D. Mackay(1)							
A. M. Korologos		ü	ü		ü	ü	
W. D. Perez(2)	ü					Chair	ü
W. C. Richardson(3)		ü		Chair	ü	ü	ü
J. L. Zabriskie	ü	Chair	ü				ü
2006 Meetings	6	4	5	3	2	2	0

- (1) Mr. Jenness and Mr. Mackay attend committee meetings as members of management, other than portions of those meetings held in executive session.
- (2) Mr. Perez resigned as a Director on November 14, 2006, in connection with being named president and chief executive officer of Wm. Wrigley Jr. Company.
- (3) Dr. Richardson retired as a Director on February 16, 2007. He was a trustee of the Kellogg Trust until his retirement on January 31, 2007. Mr. Speirn, who was elected to the Board effective March 1, 2007 to fill the vacancy created by Dr. Richardson's retirement, was appointed to the Social Responsibility and Consumer Marketing Committees.

Audit Committee. Pursuant to a written charter, the Audit Committee, among other responsibilities, assists the Board in monitoring the integrity of our financial statements, the independence and performance of our independent registered public accountants, the performance of our internal audit function and independent registered public accountants and our compliance with legal and regulatory requirements. The Audit Committee, or its Chairman, also pre-approves all audit, internal control-related and permitted non-audit engagements and services by the independent registered public accountants and their affiliates. It also discusses and/or reviews specified matters with, and receives specified information

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or assurances from, Kellogg management and the independent registered public accountants. The Committee also has the sole authority to appoint or replace the independent registered public accountants, which directly report to the Audit Committee, and is directly responsible for the compensation and oversight of the independent registered public accountants. Each member of the Audit Committee has been determined by the Board to be an audit committee financial expert, as that term is defined in paragraph (h) of Item 401 of SEC Regulation S-K. Each member has experience actively supervising a principal financial officer and/or principal accounting officer. Each of the Committee members meets the independence requirements of the New York Stock Exchange.

Compensation Committee. Pursuant to a written charter, the Compensation Committee, among other responsibilities, reviews and makes recommendations for the compensation of senior management personnel and monitors overall compensation for senior executives; reviews and recommends, subject to approval by the independent members of the Board, the corporate goals and objectives and compensation of the Chief Executive Officer; has sole authority to retain or terminate any compensation consultant used to evaluate senior executive compensation; oversees and administers employee benefit plans to the extent provided in those plans; and reviews trends in management compensation. The Committee may form and delegate authority to subcommittees or the Chair when appropriate. To assist the Compensation Committee in discharging its responsibilities, the Committee has retained an independent compensation consultant Towers Perrin. The consultant reports directly to the Compensation Committee. Other than the work it performs for the Compensation Committee and the Board, Towers Perrin does not provide any consulting services to Kellogg or its executive officers.

Each year, Towers Perrin presents the Compensation Committee with peer group benchmarking data and information about other relevant market practices and trends, and makes recommendations to the Compensation Committee regarding target levels for various elements of total compensation for senior executives, which the Compensation Committee reviews and considers in its deliberations. The CEO makes recommendations to the Compensation Committee regarding the compensation package for each of the NEOs (other than himself). Based on its review of the peer group information, individual performance (taking into account input from the CEO), input from the compensation consultant and other factors, the Compensation Committee makes recommendations to the Board regarding the compensation for the CEO and the other NEOs. The independent members of the Board, meeting in executive session, determine the compensation of the CEO. The full Board determines the compensation of the other NEOs (unless an NEO is also a Director, in which case he abstains from the determination of his own compensation). Each of the Committee members meets the independence requirements of the New York Stock Exchange. For additional information about the Compensation Committee's processes for establishing and overseeing executive compensation, refer to Compensation Discussion and Analysis Our Compensation Methodology.

Nominating and Governance Committee. Pursuant to a written charter, the Nominating and Governance Committee, among other responsibilities, assists the Board by identifying and reviewing the qualifications of candidates for Directors and in determining the criteria for new Directors; recommends nominees for Director to the Board; recommends committee assignments; reviews annually the Board's compliance with the Corporate Governance Guidelines; reviews annually the Corporate Governance Guidelines and recommends changes to the Board; monitors the performance of Directors and conducts performance evaluations of each Director before the Director's renomination to the Board; administers the annual evaluation of the Board; provides annually an evaluation of CEO performance used by the independent members of the Board in their annual review of CEO performance; considers and evaluates potential waivers of the Codes of Conduct and Ethics for Directors and senior officers (for which there were none in 2006), and makes a report to the Board on succession planning at least annually; provides an annual review of the independence of Directors to the Board; and reviews Director compensation annually and recommends any changes to the Board. The Chairman of this Committee, as Lead Director, also presides at executive sessions of independent Directors of the Board. Each of the Committee members meets the independence requirements of the New York Stock Exchange.

Finance Committee. Pursuant to a written charter, the Finance Committee, among other responsibilities, reviews matters regarding our financial affairs, such as strategic and operating plans, the financial terms of acquisitions, divestitures, joint ventures and other transactions, short- and long-term financing, foreign exchange management, financial derivatives including commodities and hedging, capital expenditures, dividends and taxes, financial policies including cash flow, borrowing and dividend policy, sales or repurchases of equity and long-term debt, finance, treasury and related functions, insurance programs, pension investment performance and pension plan compliance. The Committee also receives a report from management which covers any off-balance sheet transactions and confirms that Kellogg has not made or arranged for any personal loan to any executive officer or Director.

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Social Responsibility Committee. Pursuant to a written charter, the Social Responsibility Committee, among other responsibilities, reviews the manner in which we discharge our social responsibilities and recommends to the Board policies, programs and practices it deems appropriate to enable us to carry out and discharge our social responsibilities. Kellogg views social responsibility as a way of life. This commitment means investing in and enriching communities in which we conduct business, as well as encouraging employee involvement in these activities.

Consumer Marketing Committee. Pursuant to a written charter, the Consumer Marketing Committee reviews, among other responsibilities, matters regarding our marketing activities, including strategies, programs, spending and execution quality in order to help ensure that our marketing is consistent with, and is sufficient to support, our overall strategy and performance goals.

Executive Committee. Pursuant to a written charter, the Executive Committee is generally empowered to act on behalf of the Board between meetings of the Board, with some exceptions.

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PROPOSAL 1 ELECTION OF DIRECTORS

Kellogg's amended restated certificate of incorporation and bylaws provide that the Board shall be comprised of not less than seven and no more than fifteen Directors divided into three classes as nearly equal in number as possible, and that each Director shall be elected for a term of three years with the term of one class expiring each year.

Four Directors are to be reelected at the 2007 Annual Meeting to serve for a term ending at the 2010 Annual Meeting of Shareowners, and the proxies cannot be voted for a greater number of persons than the number of nominees named. There are currently eleven members of the Board.

The Board recommends that the Shareowners vote FOR the following nominees: Benjamin S. Carson, Sr., Gordon Gund, Dorothy A. Johnson and Ann McLaughlin Korologos. Each nominee was proposed for reelection by the Nominating and Governance Committee for consideration by the Board and proposal to the Shareowners.

Nominees for Election for a Three-Year Term Expiring at the 2010 Annual Meeting

BENJAMIN S. CARSON, SR. Dr. Carson, age 55, has served as a Kellogg Director since 1997. He is Professor and Director of Pediatric Neurosurgery, The Johns Hopkins Medical Institutions, a position he has held since 1984, as well as Professor of Oncology, Plastic Surgery, Pediatrics and Neurosurgery at The Johns Hopkins Medical Institutions. Dr. Carson is also a director of Costco Wholesale Corporation.

GORDON GUND. Mr. Gund, age 67, has served as a Kellogg Director since 1986. He is Chairman and Chief Executive Officer of Gund Investment Corporation, which manages diversified investment activities. He is also a director of Corning Incorporated.

DOROTHY A. JOHNSON. Ms. Johnson, age 66, has served as a Kellogg Director since 1998. Ms. Johnson is President of the Ahlburg Company, a philanthropic consulting agency, a position she has held since February 2000, and President Emeritus of the Council of Michigan Foundations, which she led as President and Chief Executive Officer from 1975 to 2000 and is on the Board of Directors of the Corporation for National and Community Service and AAA Michigan. She has been a member of the Board of Trustees of the W. K. Kellogg Foundation since 1980.

ANN MCLAUGHLIN KOROLOGOS. Ms. McLaughlin Korologos, age 65, has served as a Kellogg Director since 1989. She is currently Chairman, RAND Board of Trustees, Chairman Emeritus of The Aspen Institute, a nonprofit organization, and is a former U.S. Secretary of Labor. She is also a director of AMR Corporation (and its subsidiary, American Airlines), Host Hotels & Resorts, Inc. and Harman International Industries, Inc.

Continuing Directors to Serve Until the 2009 Annual Meeting

JOHN T. DILLON. Mr. Dillon, age 68, has served as a Kellogg Director since 2000. He is Vice Chairman of Evercore Capital Partners and a Senior Managing Director of that firm's investment activities and private equity business. He retired in October 2003 as Chairman of the Board and Chief Executive Officer of International Paper Company, a position he held since 1996, and retired as Chairman of the Business Roundtable in June 2003. He is a director of the following public companies: Caterpillar Inc. and E. I. du Pont de Nemours and Company. He is also a director of the following privately-held companies: Vertis, Inc. and Specialty Products & Insulation Co.

JAMES M. JENNESS. Mr. Jenness, age 60, has been Kellogg Chairman since February 2005 and has served as a Kellogg Director since 2000. He was Kellogg's Chief Executive Officer from February 2005 through December 30, 2006, and Chief Executive Officer of Integrated Merchandising Systems, LLC, a leader in outsource management of retail promotion and branded merchandising, from 1997 to December 2004. Before joining Integrated Merchandising Systems, Mr. Jenness served as Vice Chairman and Chief Operating Officer of the Leo Burnett Company from 1996 to 1997 and, before that, as Global Vice Chairman North America and Latin America from 1993 to 1996. He has also been a trustee of the W. K. Kellogg Foundation Trust since 2005. He is also a director of Kimberly-Clark Corporation.

L. DANIEL JORNDT. Mr. Jorndt, age 65, has served as a Kellogg Director since 2002. Mr. Jorndt retired in January 2003 as a director of Walgreen Co. and from his position as Chairman of the Board of Walgreen Co. He had been Chairman of the Board since 1999, was Chief Executive Officer from 1998 to 2002 and was Chief Operating Officer and President from 1990 to 1999. He is also a director of The Investment Company of America.

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Continuing Directors to Serve Until the 2008 Annual Meeting

CLAUDIO X. GONZALEZ. Mr. Gonzalez, age 72, has served as a Kellogg Director since 1990. He has been Chairman of the Board and Chief Executive Officer of Kimberly-Clark de Mexico, S.A. de C.V., a producer of consumer disposable tissue products. He is a director of the following public companies: Kimberly-Clark Corporation, General Electric Company, The Home Depot, Inc., The Investment Company of America, Grupo Televisa, America Movil and The Mexico Fund. He is also a director of the following privately-held companies: Grupo ALFA, Grupo Mexico and Grupo Carso.

A. D. DAVID MACKAY. Mr. Mackay, age 51, has served as a Kellogg Director since February 2005. On December 31, 2006, he assumed the role of Kellogg's President and Chief Executive Officer after having served as Kellogg's President and Chief Operating Officer since September 2003. Mr. Mackay joined Kellogg Australia in 1985 and held several positions with Kellogg USA, Kellogg Australia and Kellogg New Zealand before leaving Kellogg in 1992. He rejoined Kellogg Australia in 1998 as managing director and was appointed managing director of Kellogg United Kingdom and Republic of Ireland later in 1998. He was named Senior Vice President and President, Kellogg USA in July 2000, Executive Vice President in November 2000 and President and Chief Operating Officer in September 2003. He is also a director of Fortune Brands, Inc.

STERLING K. SPEIRN. Mr. Speirn, age 59, has served as a Kellogg Director since March 1, 2007. He is President and Chief Executive Officer of the W. K. Kellogg Foundation. He is also a trustee of the W. K. Kellogg Foundation Trust. Prior to joining the W. K. Kellogg Foundation in January 2006, he was President of Peninsula Community Foundation from November 1992 to the end of 2005 and served as a director of the Center for Venture Philanthropy, which he co-founded in 1999.

JOHN L. ZABRISKIE. Dr. Zabriskie, age 67, has served as a Kellogg Director since 1995. He is also co-founder and Director of PureTech Ventures, LLC, a firm that co-founds life science companies. In 2001, he became Chairman of the Board of Directors of MacroChem Corporation. In 1999, he retired as Chief Executive Officer of NEN Life Science Products, Inc., a position he had held since 1997. From November 1995 to January 1997, Dr. Zabriskie served as President and Chief Executive Officer of Pharmacia & Upjohn, Inc. Dr. Zabriskie is a director of the following public companies: Array Biopharma, Inc. and MacroChem Corporation. He is also a director of the following privately-held companies: Protein Forest, Inc., Puretech Ventures, L.L.C., ARCA Discovery and Cellicon Biotechnologies.

Table of Contents**2006 NON-EMPLOYEE DIRECTOR COMPENSATION AND BENEFITS**

Only non-employee Directors receive compensation for their services as Directors. Kellogg's 2006 compensation package for non-employee Directors was comprised of cash (annual retainers and committee meeting fees), stock awards and stock option grants. The annual pay package is designed to attract and retain highly-qualified, independent professionals to represent our Shareowners and positioned to approximate the median of our peer group. Refer to Compensation Discussion and Analysis - Our Compensation Methodology for a description of the companies that make up our peer group. The Nominating and Governance Committee generally reviews our non-employee Director compensation program on an annual basis with Towers Perrin, the independent compensation consultant, including the competitiveness and appropriateness of the program. Although the Nominating and Corporate Governance Committee conducts this review on an annual basis, its general practice is to consider adjustments to Director compensation every other year.

Our compensation package is also designed to create alignment between our Directors and our Shareowners through the use of equity-based grants. In 2006, approximately 55% of non-employee Director pay was in equity and approximately 45% in cash (prior to elective deferrals by the Directors). Actual annual pay varies among Directors based on Board committee memberships, committee chair responsibilities and meetings attended.

2006 compensation for non-employee Directors consisted of the following:

Type of Compensation	Amount
Annual Cash Retainer(1)	\$70,000
Annual Stock Options Retainer	5,000 shares
Annual Stock Awards Retainer	1,700 shares
Annual Retainer for Committee Chair:	
Audit and Compensation Committees	\$10,000
All Other Committees	\$5,000
Board or Committee Attendance Fee (per meeting attended):	
Board Meeting Fee	\$0
Audit Committee Meeting Fee	\$2,000
All Other Committee Meetings(2)	\$1,500

(1) The annual cash retainer is paid in quarterly installments.

(2) No fee is payable for Executive Committee meetings held on the same day as a regular Board meeting.

Stock Option Awards. Stock option grants (1) are made each year on January 31 or the next business day, (2) are exercisable six months after the date of grant, (3) have a ten-year term and (4) are granted with exercise prices equal to the average of the high and low trading prices of our stock on the date of grant. Prior to 2004, we granted original options with an accelerated ownership feature (AOF). Under the terms of the original option grant, a new option, or AOF option, is generally received when Kellogg stock is used to pay the exercise price of a stock option and related taxes. The holder of the option receives an AOF option for the number of shares so used. For AOF options, the expiration date is the same as the original option and the option exercise price is the fair market value of Kellogg's

stock on the date the AOF option is granted. To better align with peer group compensation practices, the Compensation Committee discontinued the use of the accelerated ownership feature in all new option grants to Directors and employees after 2003 and effective in 2007, changed the AOF feature so that AOF options may only be received once each calendar year.

Stock Awards. Stock awards are granted each May 1 or the next business day and are automatically deferred pursuant to the Kellogg Company Grantor Trust for Non-Employee Directors. Under the terms of the Grantor Trust, shares are available to a Director only upon termination of service on the Board.

Business Expenses. The Directors are reimbursed for their business expenses related to their attendance at Kellogg meetings, including room, meals and transportation to and from board and committee meetings. On rare occasions, a Director's spouse accompanies a Director when traveling on Kellogg business. At times, a Director travels to and from Kellogg meetings on Kellogg corporate aircraft. Directors are also eligible to be reimbursed for attendance at qualified Director education programs.

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Director and Officer Liability Insurance and Travel Accident Insurance. Director and officer liability insurance individually insures our Directors and officers against certain losses that they are legally required to pay as a result of their actions while performing duties on our behalf. Kellogg's D&O insurance policy does not break out the premium for Directors versus officers and, therefore, a dollar amount cannot be assigned for individual Directors. Travel accident insurance provides benefits to each Director in the event of death or disability (permanent and total) during travel on Kellogg corporate aircraft. Our travel accident insurance policy also covers employees and others while traveling on Kellogg corporate aircraft and, therefore, a dollar amount cannot be assigned for individual Directors.

Elective Deferral Program. Non-employee Directors may each year irrevocably elect to defer, under the Deferred Compensation Plan for Non-Employee Directors, all or a portion of their board annual cash retainer, committee Chair annual retainers and committee meeting fees payable for the following year. The amount deferred is credited to an account in the form of units equivalent to the fair market value of our common stock. If the Board declares dividends, a fractional unit representing the dividend is credited to the account of each participating Director. A participant's account balance is paid in cash or stock, at the election of the Director, upon termination of service as a Director. The balance is paid in a lump sum or over a period from one to ten years at the election of the Director and the unpaid account balance accrues interest annually at the prime rate in effect when the termination of service occurred.

Minimum Stock Ownership Requirement. All non-employee Directors are expected to comply with stock ownership guidelines, under which they are expected to hold at least five times the annual cash retainer in stock or stock equivalents, subject to a five-year phase-in period for newly-elected Directors. As of December 30, 2006, all of the non-employee Directors satisfied this requirement by holding Kellogg common stock or units equivalent in value to at least \$350,000 (*i.e.*, five times the \$70,000 annual cash retainer).

Kellogg Matching Grant Program. Directors are eligible to participate in our Corporate Citizenship Fund Matching Grant Program, which is also available to all of our active, full-time U.S. employees. Under this program, our Corporate Citizenship Fund matches 100 percent of donations made to eligible organizations up to a maximum of \$10,000 per calendar year for each individual. These limits apply to both employees and Directors.

Discontinued Programs. Prior to December 1995, we had a Director's Charitable Awards Program pursuant to which each Director could name up to four organizations to which Kellogg would contribute an aggregate of \$1 million upon the death of the Director. In 1995, the Board discontinued this program for Directors first elected after December 1995. In 2006, the following current Directors, who were first elected to the Board in 1995 or earlier, continued to be eligible to participate in this program: Mr. Gonzalez, Mr. Gund, Ms. McLaughlin Korologos and Dr. Zabriskie. We funded the cost of this program for three out of the four eligible Directors through the purchase of insurance policies prior to 2006. We will have to make cash payments in the future under this program if insurance proceeds are not available at the time of the Director's death. There were no cash payments made in 2006 with respect to this program; however, in 2006, we recognized nonpension postretirement benefits expense associated with this obligation as follows: Mr. Gonzalez \$27,159, Mr. Gund \$22,748, Ms. McLaughlin Korologos \$16,819 and Dr. Zabriskie \$23,495. These benefits are not reflected in the Non-Employee Directors' Compensation Table.

Table of Contents**NON-EMPLOYEE DIRECTORS COMPENSATION TABLE**

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)	Option Awards \$(3)	Change in Pension Value and Non-equity Incentive			Total \$(
				Plan Compensation \$(4)	Deferred Compensation Earnings \$(5)	All Other Compensation \$(6)	
B. S. Carson Sr.	85,500	78,617	34,513			0	198,630
J. T. Dillon	94,500	78,617	34,513			5,500	213,130
C. X. Gonzalez	89,500	78,617	34,513			0	202,630
G. Gund	94,500	78,617	155,469			10,000	338,586
D. A. Johnson	80,500	78,617	34,513	Not Applicable		10,000	203,630
L. D. Jorndt	91,000	78,617	34,513			9,277	213,407
A. M. Korologos	89,500	78,617	34,513			6,000	208,630
W. D. Perez(7)	90,000	78,617	105,646			10,000	284,263
W. C. Richardson(8)	91,500	78,617	34,513			10,000	214,630
J. L. Zabriskie	105,500	78,617	34,513			0	218,630

- (1) The aggregate dollar amount of all fees earned or paid in cash for services as a Director, including annual board and committee chair retainer fees, and committee meeting fees, in each case before deferrals.
- (2) Value of the annual grant of 1,700 deferred shares of common stock, which are placed in the Kellogg Company Grantor Trust for Non-Employee Directors. Under the terms of the Grantor Trust, shares are available to a Director only upon termination of service on the Board. The value reflects the compensation expense recognized by Kellogg during 2006 under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)). The compensation expense reflected in the table above is the same as the grant-date fair value pursuant to SFAS No. 123(R) because all of the stock awards vested during 2006. Refer to Notes 1 and 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 30, 2006, for a discussion of the relevant assumptions used in calculating the compensation expense and grant-date fair value pursuant to SFAS No. 123(R). The recognized compensation expense and grant-date fair value of the stock-based awards for financial reporting purposes will likely vary from the actual amount the Director ultimately receives based on a number of factors. These factors include our actual operating performance, stock price fluctuations, differences from the valuation assumptions used and the timing of vesting. As of December 30, 2006, none of our Directors was deemed to have outstanding restricted stock awards, because all of those awards vested earlier in the year (or in prior years). The number of shares of restricted stock held by each of our Directors is shown under *Officer and Director Stock Ownership* on page 4 of this proxy statement.
- (3) Value of the annual grant of options to purchase 5,000 shares of common stock (options have a ten-year term and generally become exercisable six months after grant) plus the value of any AOF options received by the Director.

The value reflects the compensation expense recognized by Kellogg during 2006 under SFAS No. 123(R). The compensation expense reflected in the table above is the same as the grant-date fair value pursuant to SFAS No. 123(R) because all of the option awards vested during 2006. Refer to Notes 1 and 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 30, 2006, for a discussion of the relevant assumptions used in calculating the recognized compensation expense and grant-date fair value pursuant to SFAS No. 123(R). The recognized compensation expense and grant-date fair value of the stock option awards for financial reporting purposes will likely vary from the actual amount ultimately realized by the Director based on a number of factors. These factors include our actual operating performance, stock price fluctuations, differences from the valuation assumptions used and the timing of exercise. As of December 30, 2006, the following Directors had the following stock options outstanding: B. S. Carson, Sr. 35,000 options; J. T. Dillon 33,750 options; C. X. Gonzalez 29,999 options; G. Gund 26,376 options; D. A. Johnson 29,715 options; L. D. Jorndt 19,270 options; A. M. Korologos 35,000 options; W. D. Perez 26,337 options; W. C. Richardson 35,000 options; and J. L. Zabriskie 31,800 options. The number of stock options held by our non-employee Directors is a function of years of Board service and their decisions as to the timing of exercise of vested awards.

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The table below presents the recognized compensation expense separately for regular options and AOF options received by our non-employee Directors in 2006:

	Regular Options (\$)	AOF Options (\$)	Total
B. S. Carson, Sr.	34,513		34,513
J. T. Dillon	34,513		34,513
C. X. Gonzalez	34,513		34,513
G. Gund	34,513	120,956	155,469
D. A. Johnson	34,513		34,513
L. D. Jorndt	34,513		34,513
A. M. Korologos	34,513		34,513
W. D. Perez	34,513	71,133	105,646
W. C. Richardson	34,513		34,513
J. L. Zabriskie	34,513		34,513

- (4) Kellogg does not have a non-equity incentive plan for non-employee Directors.
- (5) Kellogg does not have a pension plan for non-employee Directors and does not pay above-market or preferential rates on non-qualified deferred compensation for non-employee Directors.
- (6) Represents charitable matching contributions made under our Corporate Citizenship Fund Matching Grant Program.
- (7) Mr. Perez resigned as a Director on November 14, 2006, in connection with being named president and chief executive officer of Wm. Wrigley Jr. Company.
- (8) Dr. Richardson retired as a Director on February 16, 2007. He was a trustee of the Kellogg Trust until his retirement on January 31, 2007. Mr. Speirn, who was elected to the Board effective March 1, 2007 to fill the vacancy created by Dr. Richardson's retirement, did not receive any Director compensation in 2006.

Table of Contents**COMPENSATION DISCUSSION AND ANALYSIS**

We are generally required to provide information regarding the compensation program in place for our CEO, CFO and the three other most highly-compensated executive officers. For continuity purposes, we have also elected to include information concerning an additional executive officer in this proxy statement. The SEC rules required us to include information about this individual in our proxy statement last year, and we expect that the rules will require us to include information about him in our proxy statement next year. In this proxy statement, we refer to our CEO, CFO and the other four most highly-compensated executive officers as our **Named Executive Officers** or **NEOs**. This section includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide. This section should be read in conjunction with the detailed tables and narrative descriptions under **Executive Compensation** beginning on page 27 of this proxy statement.

Overview of Kellogg Company. We are the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, fruit snacks, frozen waffles and veggie foods. Kellogg products are manufactured and marketed globally.

We manage our company for sustainable performance defined by our long-term annual growth targets. During the periods presented in our Annual Report on Form 10-K for the year ended December 30, 2006, these targets were low single-digit for internal net sales, mid single-digit for internal operating profit and high single-digit for net earnings per share. In combination with an attractive dividend yield, we believe this profitable growth has and will continue to provide a strong total return to our Shareowners. We plan to continue to achieve this sustainability through a strategy focused on growing our cereal business, expanding our snacks business, and pursuing selected growth opportunities. We support our business strategy with operating principles that emphasize profit-rich, sustainable sales growth, as well as cash flow and return on invested capital. We believe our steady earnings growth, strong cash flow and continued investment during a multi-year period of significant commodity and energy-driven cost inflation demonstrates the strength and flexibility of our business model.

Our Compensation Philosophy and Principles. We operate in a competitive and challenging industry, both domestically and internationally. We believe that our executive compensation program for the CEO, CFO and other NEOs should be designed to provide a competitive level of total compensation necessary to attract and retain talented and experienced executives and motivate them to contribute to Kellogg's short- and long-term success and strong total return to our Shareowners. Consistent with our business strategy discussed above, our executive compensation program is driven by the following principles:

1. **Overall Objectives.** Compensation should be competitive with the organizations with which we compete for talent, and should reward performance and contribution to Kellogg objectives.
2. **Pay for Performance.** As employees assume greater responsibility, a larger portion of their total compensation should be at risk incentive compensation (both annual and long-term), subject to corporate, business unit and individual performance measures.
3. **Long-Term Focus.** Consistent, long-term performance is expected. Performance standards are established to drive long-term sustainable growth.
4. **Shareowner Alignment.** Equity-based incentives are an effective method of facilitating an ownership culture and further aligning the interests of executives with those of our Shareowners. For example, about 70% of the

2006 target compensation (salary, annual incentives and long-term incentives) for Mr. Jenness, our CEO during 2006, was comprised of equity-based incentives.

5. Values-Based. The compensation program encourages both desired results as well as the right behaviors. In other words, our compensation is linked to how we achieve as well as what we achieve. The shared behaviors that Kellogg believes are essential to achieving long-term growth in sales and profits and increased value for Shareowners (what we call our K Values) are:

Being passionate about our business, our brands and our food;

Having the humility and hunger to learn;

Striving for simplicity;

Acting with integrity and respect;

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Being accountable for our actions and results; and

Recognizing success.

Our Compensation Methodology. The Compensation Committee of the Board is responsible for administering the compensation program for executive officers and certain other senior management of Kellogg. The Board has determined that each member of the Compensation Committee meets the definition of independence under Kellogg's corporate governance guidelines and further qualifies as a non-employee Director for purposes of Rule 16b-3 under the Securities Exchange Act of 1934. None of the members of the Compensation Committee are current or former employees of Kellogg nor are any members eligible to participate in any of Kellogg's executive compensation programs. Additionally, the Compensation Committee operates in a manner designed to meet the tax deductibility criteria included in Section 162(m) of the Internal Revenue Code. Refer to Board and Committee Membership beginning on page 9 for additional information about the Compensation Committee and its members.

To assist the Compensation Committee in discharging its responsibilities, the Committee has retained an independent compensation consultant Towers Perrin. The consultant reports directly to the Compensation Committee. Other than the work it performs for the Compensation Committee and the Board, Towers Perrin does not provide any consulting services to Kellogg or its executive officers.

Each year, Towers Perrin presents the Compensation Committee with peer group benchmarking data and information about other relevant market practices and trends, and makes recommendations to the Compensation Committee regarding target levels for various elements of total compensation for senior executives, which the Compensation Committee reviews and considers in its deliberations. The CEO makes recommendations to the Compensation Committee regarding the compensation package for each of the NEOs (other than himself). Based on its review of the peer group information, individual performance (taking into account input from the CEO), input from the compensation consultant and other factors, the Compensation Committee makes recommendations to the Board regarding the compensation for the CEO and the other NEOs. The independent members of the Board, meeting in executive session, determine the compensation of the CEO. The full Board determines the compensation of the other NEOs (unless an NEO is also a Director, in which case he abstains from the determination of his own compensation).

To ensure that our executive officer compensation is competitive in the marketplace, we benchmark ourselves against a comparator group (our compensation peer group). Our peer group is comprised of the following branded consumer products companies:

Anheuser-Busch Cos., Inc.
Campbell Soup Co.
Clorox Co.
The Coca-Cola Co.
Colgate-Palmolive Co.
ConAgra Foods, Inc.

General Mills, Inc.
H.J. Heinz Co.
The Hershey Co.
Johnson & Johnson
Kimberly-Clark Corporation

Kraft Foods Inc.
PepsiCo Inc.
The Procter & Gamble Co.
Sara Lee Corporation
Wm. Wrigley Jr. Co.

We believe that our peer group is representative of the market in which we compete for talent. The size of the group has been established so as to provide sufficient benchmarking data across the range of senior positions in Kellogg. Our peer group companies were chosen because of their leadership positions in branded consumer products and their general relevance to Kellogg. The quality of these organizations has allowed Kellogg to maintain a high level of continuity in the peer group over many years, providing a consistent measure for benchmarking compensation. The Compensation Committee periodically reviews the peer group to confirm that it continues to be an appropriate

benchmark for Kellogg.

All components of our executive compensation package are targeted at the 50th percentile of our peer group. Actual pay will vary above or below the 50th percentile in line with Kellogg's performance relative to the performance of peer companies in the food and beverage group (our performance peer group). The performance peer group consists of the nine food companies in the broader compensation peer group (Campbell Soup Co., ConAgra Foods, Inc., General Mills, Inc., H.J. Heinz Co., The Hershey Co., Kraft Foods, Inc., PepsiCo Inc., Sara Lee Corporation and Wm. Wrigley Jr. Co.), plus Unilever N.V. and Nestlé S.A. The performance peer companies were chosen because they compete with us in the consumer marketplace and/or face similar business dynamics and challenges.

The Compensation Committee annually reviews executive pay tallies for NEOs (detailing the executives' annual pay target and actual and total accumulated wealth under various performance and employment scenarios) and peer group practices and performance (actual and projected) to help ensure that the design of our program is consistent with our compensation philosophy and that the amount of compensation is within appropriate competitive parameters. Based on

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this review, the Compensation Committee has concluded that the total compensation of each NEO (and, in the case of the severance and change-in-control scenarios, potential payouts) is appropriate and reasonable.

Elements of Our Compensation Program. Our executive officer compensation package includes a combination of annual cash and long-term incentive compensation. Annual cash compensation for executive officers is comprised of base salary plus annual incentives. Long-term incentives currently consist of stock option grants and a three-year long-term performance plan.

Total Compensation. The target for total compensation (salary, annual incentives, long-term incentives and benefits), by element and in the aggregate, is the 50th percentile of our compensation peer group. Compensation peer group practices are analyzed annually for salary, target annual incentives and target long-term incentives, and periodically for other pay elements. In setting the total compensation of each executive, the Compensation Committee also considers individual performance, experience in the role and contribution to achieving Kellogg's business strategy. In 2006, Kellogg ranked in the top quartile of its performance peer group.

The basic construct of the primary elements of our 2006 executive officer pay package is outlined below.

Element	Purpose	Characteristics
<i>Base Salaries</i>	Compensate executives for their level of responsibility and sustained individual performance. Also helps attract and retain strong talent.	Fixed component; eligibility for annual merit increases based on sustained individual performance.
<i>Annual Incentives</i>	Promote the achievement of Kellogg's annual corporate and business unit financial goals, as well as individual goals.	Performance-based cash opportunity; amount earned will vary relative to the targeted level (peer group 50th percentile) based on company, business unit and individual results.
<i>Long-Term Incentives</i>	Promote the achievement of (a) Kellogg's long-term corporate financial goals through the Executive Performance Plan and (b) stock price appreciation through stock options.	Performance-based equity opportunity; amounts earned/realized will vary from the targeted grant-date fair value based on actual financial and stock price performance.
<i>Retirement Plans</i>	Provide an appropriate level of replacement income upon retirement. Also provide an incentive for a long-term career with Kellogg, which is a key objective.	Fixed component; however, retirement contributions tied to pay will vary based on performance.
<i>Post-Termination Compensation</i>	Facilitate the attraction and retention of high caliber executives in a competitive labor market in which formal severance plans are common.	Contingent component; only payable if the executive's employment is terminated as specified in the arrangements (amount of severance benefits varies by level in the organization).

In setting total compensation, we apply a consistent approach for all executive officers. The Compensation Committee also exercises appropriate business judgment in how it applies the standard approaches to the facts and circumstances associated with each executive. Additional detail about each pay element is presented below.

Base Salaries. Data on salaries paid to comparable positions in our peer group are gathered and reported to the Compensation Committee by the independent compensation consultant each year. The Compensation Committee, after receiving input from the compensation consultant, recommends to the Board for its consideration and approval the salaries for the CEO, CFO and other NEOs. The CEO provides input for the salaries for the CFO and other NEOs. The Compensation Committee generally seeks to establish base salaries for the CEO, CFO and other NEOs at the 50th percentile of our compensation peer group, which is the targeted market position to facilitate our attraction and retention of executive talent. In 2006, the salaries of each NEO approximated, on average, the compensation peer group median.

By policy, we require any executive base salary above \$950,000 (after pre-tax deductions for benefits and similar items) to be deferred under our Executive Deferral Program. This policy ensures that all base salary will be deductible under Section 162(m) of the Internal Revenue Code. The deferred amounts are credited to an account in the form of units that are equivalent to the fair market value of Kellogg's common stock. The units are payable in cash upon the executive's

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termination from employment. Only Mr. Jenness was affected by this policy in 2006, and during that period, he deferred \$94,714 of his salary.

Annual Incentives. Annual incentive awards to the CEO, CFO and NEOs are paid under the terms of the Kellogg Senior Executive Annual Incentive Plan (AIP), which is administered by the Compensation Committee. The total of all annual incentives granted in any one year under the AIP may not exceed 1% of our annual net income, as defined in the plan.

Annual incentive awards for the CEO, CFO and other NEOs are intended to promote the achievement of Kellogg's annual corporate and business unit financial goals, as well as individual goals. Each year the Compensation Committee reviews (1) our performance during the prior year and (2) our performance objectives for the upcoming year. The Compensation Committee also considers the actual and projected performance of our performance peer group. The Compensation Committee uses this information when considering recommendations from management relating to performance goals for the upcoming year. The target performance goals are generally set at the median of the performance peer group. Consequently, actual performance above the median would result in incentive payments above the target level, with payments at the maximum level being made for performance in the top quartile of the performance peer group. Conversely, performance below the median would generally result in incentive payments below the target level, with no payment being made for performance below a minimum threshold (generally set in the bottom quartile). The Compensation Committee believes that this approach leads to realistic and reasonable, but challenging, targets which drive sustainable growth.

The annual incentive opportunities are established as a percentage of an executive's base salary and are targeted at the 50th percentile of the compensation peer group. Actual AIP payments each year can range from 0% to 200% of the target opportunity, based on corporate, business unit and individual performance factors given the functions of the particular executive. In 2006, Kellogg ranked in the first (top) or second quartile of its performance peer group with respect to each of the metrics for the 2006 AIP. The chart below includes information about 2006 AIP opportunities and actual payout:

	AIP Target		AIP Maximum		2006 AIP Payout (paid in March 2007)	
	% of Base Salary(1)	Amount(\$)	% of AIP Target	Amount(\$)	% of AIP Target	Amount(\$)(2)
J. M. Jenness	130%	1,460,550	200%	2,921,100	170%	2,482,900
J. M. Boromisa	75%	358,650	200%	717,300	138%	494,900
A. D. D. Mackay	105%	952,350	200%	1,904,700	165%	1,571,400
A. F. Harris	75%	453,750	200%	907,500	163%	739,000
J. W. Montie	85%	514,250	200%	1,028,500	148%	761,100
J. A. Bryant	75%	427,500	200%	855,000	163%	697,000

(1) For AIP purposes, incentive opportunities are based on executives' salary levels at December 30. Annual salary increases become effective in April of each year.

(2) This amount is calculated by multiplying the executive's annualized base salary by (a) his AIP Target percentage as shown in the first column of the table and (b) the percentage of the AIP Target achieved as shown in the fifth column of the table. For example, Mr. Mackay's amount is calculated by multiplying his

annualized base salary of \$907,000 by (a) 105% and (b) 165%.

The financial metrics for the 2006 AIP were based on internal operating profit, internal net sales and cash flow. The Compensation Committee and management believe that the metrics for the 2006 AIP which are consistent with the metrics used for the AIPs in the last several years align well with our strategy of attaining sustainable growth. In 2006, Kellogg ranked in the first (top) or second quartile of its performance peer group with respect to each of the three measures. The Compensation Committee has the discretion to make adjustments to performance goals and award opportunities to mitigate the unbudgeted impact of unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the performance goals or award opportunities were established. With respect to the 2006 AIP, the Compensation Committee made adjustments to mitigate the impact of certain items of this nature.

We did not pay any bonuses outside of our AIP to our NEOs in 2006.

Long-Term Incentives. General. Long-term incentive awards for the CEO, CFO and other NEOs are granted in order to promote achieving Kellogg's long-term corporate financial goals and stock price appreciation. Each year, the

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Compensation Committee reviews and makes recommendations to the Board as to the long-term incentive awards for each of the NEOs. In determining the total value of the long-term incentive opportunity for each executive, the Compensation Committee reviews the peer group data presented by its compensation consultant on a position-by-position basis. Kellogg's long-term compensation program has consisted of a mix of stock options and performance-based stock awards, which the Compensation Committee evaluates each year.

Long-term incentives are provided to Kellogg's executives under the 2003 Long-Term Incentive Plan, or LTIP (the LTIP was approved by Shareowners). The LTIP permits grants of stock options, stock appreciation rights, restricted shares and performance shares and units. The plan is intended to meet the deductibility requirements of Section 162(m) of the Internal Revenue Code as performance-based pay (resulting in paid awards being tax deductible to Kellogg).

All of the 2006 long-term incentive opportunity was provided through equity-based awards, which the Compensation Committee believes best achieves the compensation principles for the program. For 2006, the Compensation Committee determined that the NEOs would receive 70% of their total long-term incentive opportunity in stock options and the remaining 30% in performance shares (granted under the Executive Performance Plan as discussed below). This award mix was set based on consideration of the compensation principles, as well as peer group practices and cost implications. The total amount of long-term incentives (based on the grant date expected value) is generally targeted at the 50th percentile of the peer group.

Stock Options. The Compensation Committee uses annual grants of stock options to deliver competitive compensation that recognizes executives for their contributions to Kellogg and aligns executives with Shareowners in focusing on long-term growth and stock performance. Stock options are granted annually based on pre-established grant guidelines calibrated to competitive standards and approved by the Compensation Committee under the LTIP with exercise prices equal to the average of the high and low trading prices of our stock on the date of grant. Beginning in 2007, the exercise price of our options will be set at the closing trading price on the date of grant. Our options have a ten-year term. These options provide value to the executive only if Kellogg's stock price increases after the grants are made.

A wide range of employees participate in Kellogg's LTIP. After considering recommendations from the independent compensation consultant and management, on February 16, 2006, the Compensation Committee recommended to the Board an overall stock option pool for approximately 2,500 employees, as well as individual option grants to executives. On February 17, 2006, the Board reviewed and approved the overall pool and the individual option grants to executives. Awards of options below the executive level are made by managers in accordance with authority delegated by the Board, subject to various internal guidelines and controls.

These options vest and become exercisable in two equal annual installments, with 50% vesting on February 17, 2007 (the first anniversary of the grant date), and the other 50% vesting on February 17, 2008 (the second anniversary of the grant date). The per-share exercise price for the stock options is \$44.46, the average of the high and low trading prices of Kellogg common stock on the date of the grant. The stock options expire on February 16, 2016. Approximately 81% of the stock options covered by the February 17, 2006 grant were made to employees other than the NEOs. Individual awards vary from target based on the individual's performance, ability to impact financial performance and future potential.

EPP. The Executive Performance Plan (EPP), which is part of the LTIP, is a stock-based, pay-for-performance, multi-year incentive plan intended to focus senior management on achieving critical multi-year operational goals that are designed to increase Shareowner value, such as cash flow, internal net sales growth and gross margin improvement. The Compensation Committee seeks to set performance goals that lead to realistic, yet challenging targets which drive sustainable growth. About 100 of our most senior employees are participating in the EPP covering

fiscal years 2006 through 2008, including the NEOs. Performance is generally measured on a cumulative basis over the three-year performance period based on target levels set at the start of the period. The final award under outstanding EPPs, if any, would be paid in Kellogg common stock.

The incentive targets for individuals participating in EPPs are based on market-competitive data and are established at the start of the performance cycle. Under the 2006 EPP, each individual's target was set at 30% of his or her total long-term incentive opportunity. Participants in the EPP have the opportunity to earn between 0% and 200% of their EPP target.

The 2006-2008 EPP cycle began on January 1, 2006 and concludes on January 3, 2009. The 2006-2008 awards are based on compound annual growth in internal net sales (adjusted for changes in foreign currency values, certain acquisitions and divestitures and sales days). The 2006-2008 EPP emphasizes the importance of top line growth, which the Compensation Committee and management believe is one of the key drivers of Shareowner value.

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Dividends are not paid on unvested EPP awards. The 2006-2008 EPP award opportunities, presented in number of potential shares earned, are included in the Grant of Plan-Based Awards Table on page 31 of this proxy statement.

Restricted Stock. In addition, we award restricted shares from time to time to selected executives and employees based on consideration of performance and other factors (e.g., to facilitate recruitment and retention). In 2006, one of our NEOs received a restricted stock award for retention purposes.

Post-Termination Compensation. The NEOs are covered by arrangements which specify payments in the event the executive's employment is terminated. The type and amount of payments vary by executive level and the nature of the termination. These severance benefits, which are competitive with the compensation peer group and general industry practices, are payable if and only if the executive's employment terminates as specified in the applicable plan document or employment agreement. For more information, please refer to Potential Post-Employment Payments, which begins on page 44 of this proxy statement.

Retirement Plans. The NEOs participate in the full range of benefits and are covered by the same plans (with exceptions noted) on the same terms as provided to all U.S. salaried employees. The plans are designed to provide an appropriate level of replacement income upon retirement. Kellogg targets its overall benefits to be competitive with median levels at leading consumer products companies (a group which is somewhat broader than the compensation peer group used for pay comparisons). These benefits consist of:

annual accruals under our pension plans; and

deferrals by the executive of salary and annual incentives, and matching contributions by us, under our savings and investment plans.

Both our pension program and our savings and investment program include supplemental plans for our executives, which allow us to provide benefits comparable to those which would be available under our IRS qualified plans if the IRS regulations did not include limits on covered compensation and benefits. We refer to these plans as restoration plans because they restore benefits that would otherwise be available under the plans in which all of our U.S. salaried employees are eligible to participate. These plans use the same benefit formulas as our broad-based IRS qualified plans, and use the same types of compensation to determine benefit amounts.

Amounts earned under long-term incentive programs such as EPP, gains from stock options and awards of restricted stock are not included when determining retirement benefits for any employee (including executives). We do not pay above-market interest rates on amounts deferred under our savings and investment plans.

The amount of an employee's compensation is an integral component of determining the benefits provided under pension and savings plan formulas, and thus an individual's performance over time will influence the level of his or her retirement benefits. The amount of Kellogg contributions to our retirement plans is included in the Summary Compensation Table. For more information, please refer to Retirement and Non-Qualified Defined Contribution and Deferred Compensation Plans, which begins on page 39 of this proxy statement.

Perquisites. The Compensation Committee believes that it has taken a conservative approach to perquisites relative to other companies in the compensation peer group. For example, Kellogg does not provide company cars or club memberships to the NEOs. Pursuant to a policy adopted by the Board, our CEO is generally required, when practical, to use company aircraft for personal travel for security reasons. Personal use of company aircraft by other NEOs is infrequent. Kellogg does not provide tax gross-ups on perquisites. The Summary Compensation Table beginning on page 27 of this proxy statement contains itemized disclosure of all perquisites to our NEOs, regardless of amount.

Employee Stock Purchase Plan. We have a tax-qualified employee stock purchase plan, which is made available to all U.S. employees (including executive officers), which allows participants to acquire Kellogg stock at a discount price. The purpose of the plan is to encourage employees at all levels to purchase stock and become Shareowners. The plan allows participants to buy Kellogg stock at a 15% discount to the market price with up to 10% of their base salary (subject to IRS limits). Under applicable tax law, no plan participant may purchase more than \$25,000 in market value (based on the market value of Kellogg stock on the last trading day prior to the beginning of the enrollment period for each subscription period) of Kellogg stock in any calendar year. Although this benefit is generally available to all U.S. employees, we have included the compensation expense of any discounted stock purchased by our NEOs in the Summary Compensation Table.

Executive Compensation Policies. *Executive Stock Ownership Guidelines.* In order to preserve the linkage between the interests of senior executives and those of Shareowners, senior executives are expected to establish and

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maintain a significant level of direct stock ownership. This can be achieved in a variety of ways, including by retaining stock received upon exercise of options or the vesting of stock awards (including EPP awards), participating in the Employee Stock Purchase Plan and purchasing stock in the open market. The current stock ownership guidelines (minimum requirements) are as follows:

Chief Executive Officer	5x annual base salary
Global Leadership Team members (includes other NEOs)	3x annual base salary
Other senior executives	2x annual base salary

These executives have five years from the date they first become subject to a particular level of the guidelines to meet them. As of December 30, 2006, all of our NEOs met the guidelines (other than Mr. Jenness, who had served in the CEO position for approximately two years and was on track to meet his ownership guideline), and all of our other senior executives met or were on track to meet their ownership guideline. The Compensation Committee reviews compliance with the guidelines on an annual basis. Executives who are not in compliance with the guidelines may not sell stock without prior permission from our Chief Executive Officer, except for stock sales used to fund the payment of taxes and transaction costs incurred in connection with the exercise of options and the vesting of stock awards.

Practices Regarding the Grant of Equity Awards. The Board has generally followed a practice of making all option grants to executive officers on a single date each year. Prior to the relevant Board meeting, the Compensation Committee reviews an overall stock option pool for all participating employees (approximately 2,500 in 2006) and recommendations for individual option grants to executives. Based on the recommendation from the Compensation Committee, the Board reviews and approves the overall pool and the individual option grants to executives.

The Board grants these annual awards at its regularly-scheduled meeting in mid-February. The February meeting usually occurs within 2 or 3 weeks following our final earnings release for the previous fiscal year. We believe that it is appropriate that annual awards be made at a time when material information regarding our performance for the preceding year has been disclosed. We do not otherwise have any program, plan or practice to time annual option grants to our executives in coordination with the release of material non-public information. EPP Awards are granted at the same time as options.

While most of our option awards to NEOs have historically been made pursuant to our annual grant program, the Compensation Committee and Board retain the discretion to make additional awards of options or restricted stock to executives at other times for recruiting or retention purposes. We do not have any program, plan or practice to time off-cycle awards in coordination with the release of material non-public information.

All option awards made to our NEOs, or any of our other employees or Directors, are made pursuant to our LTIP. As noted above, all options under the LTIP are granted with an exercise price equal to the average of the high and low trading prices of our stock on the date of grant. Beginning in 2007, the exercise price of our options will be set at the closing trading price on the date of grant. We do not have any program, plan or practice of awarding options and setting the exercise price based on the stock's price on a date other than the grant date, and we do not have a practice of determining the exercise price of option grants by using average prices (or lowest prices) of our common stock in a period preceding, surrounding or following the grant date. All grants to NEOs are made by the Board itself and not pursuant to delegated authority. Awards of options to employees below the executive level are made by our CEO, pursuant to authority delegated by the Board and subject to the Board-approved allocation.

Securities Trading Policy. Our securities trading policy prohibits our directors, executives and other employees from engaging in any transaction in which they may profit from short-term speculative swings in the value of Kellogg's

securities. This includes short sales (selling borrowed securities which the seller hopes can be purchased at a lower price in the future) or short sales against the box (selling owned, but not delivered securities), put and call options (publicly available rights to sell or buy securities within a certain period of time at a specified price or the like) and hedging transactions, such as zero-cost collars and forward sale contracts. In addition, this policy is designed to ensure compliance with relevant SEC regulations, including insider trading rules.

Recoupment of Option Awards. We maintain clawback provisions relating to stock option exercises. Under these clawback provisions, if an executive voluntarily leaves our employment to work for a competitor within one year after any option exercise, then the executive must repay to Kellogg any gains realized from such exercise (but reduced by any tax withholding or tax obligations).

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Deductibility of Compensation and Other Related Issues. Section 162 (m) of the Internal Revenue Code includes potential limitations on the deductibility of compensation in excess of \$1 million paid to the company's CEO and four other most highly compensated executive officers serving on the last day of the year. Based on the regulations issued by the Internal Revenue Service, we have taken the necessary actions to ensure the deductibility of payments under the AIP and with respect to stock options and performance shares granted under our plans, whenever possible. We intend to continue to take the necessary actions to maintain the deductibility of compensation resulting from these types of awards. In contrast, restricted stock granted under our plans generally does not qualify as performance-based compensation under Section 162(m). Therefore, the vesting of restricted stock in some cases will result in a loss of tax deductibility of compensation, including in the case of the CEO. We view preserving tax deductibility as an important objective, but not the sole objective, in establishing executive compensation. In specific instances we have and in the future may authorize compensation arrangements that are not fully tax deductible but which promote other important objectives of the company.

The Compensation Committee also reviews projections of the estimated accounting (pro forma expense) and tax impact of all material elements of the executive compensation program. Generally, accounting expense is accrued over the requisite service period of the particular pay element (generally equal to the performance period) and Kellogg realizes a tax deduction upon the payment to/realization by the executive. As a result of the impact AOF options have on our overall non-cash compensation expense, the Compensation Committee discontinued the use of the AOF in all new option grants after 2003. In 2006, the Compensation Committee also changed the AOF feature so that AOF options may be received only once each calendar year. This change began in 2007 and should further reduce our non-cash compensation expense resulting from AOF options.

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COMPENSATION COMMITTEE REPORT

As detailed in its charter, the Compensation Committee of the Board of Kellogg Company oversees Kellogg's compensation program on behalf of the Board. In the performance of its oversight function, the Compensation Committee, among other things, reviewed and discussed with management the Compensation Discussion and Analysis set forth in this proxy statement.

Based upon the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in Kellogg's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 and Kellogg's Proxy Statement to be filed in connection with Kellogg's 2007 Annual Meeting of Shareowners, each of which will be filed with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

Dr. John L. Zabriskie, Chair
Mr. Claudio X. Gonzalez
Mr. Gordon Gund
Mr. L. Daniel Jorndt
Ms. Ann McLaughlin Korologos
Dr. William C. Richardson

Table of Contents**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following narrative, tables and footnotes describe the total compensation earned during 2006 by our NEOs. The total compensation presented below does not reflect the actual compensation received by our NEOs in 2006 or the target compensation of our NEOs in 2006. The actual value realized by our NEOs in 2006 from long-term incentives (options and restricted stock) is presented in the Option Exercises and Stock Vested Table on page 38 of this proxy statement. Target annual and long-term incentive awards for 2006 are presented in the Grants of Plan-Based Awards table on page 31 of this proxy statement.

The individual components of the total compensation calculation reflected in the Summary Compensation Table are broken out below:

Salary. Base salary earned during 2006. Refer to Compensation Discussion and Analysis Elements of Our Compensation Program Base Salaries. Mr. Harris base salary was set pursuant to the terms of his employment agreement.

Bonus. We did not award to our NEOs any annual non-performance-based cash incentives for 2006. The executives, however, earned an annual performance-based cash incentive under our AIP, as discussed below under Non-Equity Incentive Plan Compensation. Refer to Compensation Discussion and Analysis Elements of Our Compensation Program Annual Incentives.

Stock Awards. The awards disclosed under the heading Stock Awards consist of (1) the 2005-2007 EPP awards granted in 2005 and, in the case of Mr. Mackay, an increase to his 2005-2007 EPP award resulting from him assuming the role of Chief Executive Officer, (2) the 2006-2008 EPP awards granted in 2006 and (3) restricted stock awards. The Stock Awards column also includes relatively small compensation expense adjustments relating to 2003-2005 EPP awards as a result of a true up made in 2006. The dollar amounts for the awards represent the grant-date fair value-based compensation expense recognized in 2006 under SFAS No. 123(R) for each NEO and as reported in our audited financial statements contained in Kellogg's Annual Report on Form 10-K. Details about the EPP awards and restricted stock granted in 2006 are included in the Grant of Plan-Based Awards Table below. Refer to also Compensation Discussion and Analysis Elements of Our Compensation Program Long-Term Incentives for additional information. The recognized compensation expense of the stock awards for financial reporting purposes will likely vary from the actual amount ultimately realized by the NEO based on a number of factors. The ultimate value of the award will depend on the number of shares earned and the price of our common stock on the vesting date.

Option Awards. The awards disclosed under the heading Option Awards consist of annual option grants (each a regular option) and accelerated ownership feature (AOF) option grants (each an AOF option) granted in 2006 and in prior fiscal years (to the extent such awards remained unvested in whole or in part at the beginning of fiscal 2006). The dollar amounts for the awards represent the grant-date fair value-based compensation expense recognized in 2006 under SFAS No. 123(R) for each NEO and as reported in our audited financial statements contained in Kellogg's Annual Report on Form 10-K. Details about the option awards made during 2006 are included in the Grant of Plan-Based Awards Table below. Refer to also Compensation Discussion and Analysis Elements of Our Compensation Program Long-Term Incentives Stock Options for additional information. The recognized compensation expense of the option awards for financial reporting purposes will likely vary from the actual amount

ultimately realized by the NEO based on a number of factors. The factors include our actual operating performance, stock price fluctuations, differences from the valuation assumptions used and the timing of exercise or applicable vesting.

Prior to 2004, we granted original options with an accelerated ownership feature. Under the terms of the original option grant, a new option, or AOF option, is generally received when Kellogg stock is used to pay the exercise price of a stock option and related taxes. The holder of the option receives an AOF option for the number of shares so used. For AOF options, the expiration date is the same as the original option and the option exercise price is the fair market value of Kellogg's stock on the date the AOF option is granted. To better align with peer group compensation practices, the Compensation Committee discontinued the use of the accelerated ownership feature in all new option grants after 2003 and, effective in 2007, changed all AOF options so that AOF options may only be exercised once each calendar year.

Non-Equity Incentive Plan Compensation. The amount of Non-Equity Incentive Plan Compensation consists of the Kellogg Senior Executive Annual Incentive Plan (AIP) awards granted and earned in 2006. At the outset of 2006,

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the Compensation Committee granted AIP awards to the CEO, CFO and the other NEOs. Such awards are based on Kellogg's performance during 2006 and were paid in March 2007. For information on these awards refer to Compensation Discussion and Analysis Elements of Our Compensation Program Annual Incentives.

Change in Pension Value. The amounts disclosed under the heading Change in Pension Value and Non-Qualified Deferred Compensation Earnings solely represent the actuarial increase during 2006 in the pension value provided under the Pension Plans. Kellogg does not pay above-market or preferential rates on non-qualified deferred compensation for employees, including the NEOs. A detailed narrative and tabular discussion about our Pension Plans, as defined in the section described below, and non-qualified deferred compensation plans, our contributions to our Pension Plans and the estimated actuarial increase in the value of our Pension Plans are presented under the heading Retirement and Non-Qualified Defined Contribution and Deferred Compensation Plans.

SUMMARY COMPENSATION TABLE

It is important to note that the information required by the Summary Compensation Table does not necessarily reflect the target or actual compensation for our NEOs in 2006. In addition, the SEC regulations and accounting rules require certain compensation expense reflected in the table to be recognized immediately if any of the NEOs were retirement eligible in 2006. Footnote 1 below describes the compensation for Mr. Jenness and Mr. Mackay had they not been considered retirement eligible.

Principal Position(2)	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(3)	Option Awards (\$)(4)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-Qualified Deferred	All Other Compensation (\$)(6)	
							Compensation Earnings (\$)(5)		
Jenness, Chief Executive Officer	2006	1,103,720	0	3,066,356(7)	5,985,117	2,482,900	1,453,000	257,773	14
Tomisa, President Financial	2006	467,599	0	450,286	1,268,466	494,900	682,000	70,095	3
Mackay, Chief Executive Officer	2006	898,743	0	4,939,572	4,809,773	1,571,400	878,000	135,600	13
President Marketing Officer	2006	618,272	0	666,039	2,451,524	739,000	136,000	85,897	4
Statie, President North America	2006	594,361	0	1,267,579	1,624,620	761,100	335,000	79,561	4

President	2006	561,948	0	1,186,127	1,811,463	697,000	80,000	67,585	4
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- (1) If Mr. Jenness were not retirement eligible, his Total Compensation in 2006 would have been \$9,994,331 (as opposed to \$14,348,866 which appears in the table). This difference is a result of compensation expense for certain equity-based awards and pension benefits being recognized immediately when an employee is retirement eligible. Specifically, the amounts that would have been reflected in the table are as follows: (a) Stock Awards: \$1,699,844 (as opposed to \$3,066,356 in the table); (b) Option Awards: \$4,036,094 (as opposed to \$5,985,117 in the table); and (c) Change in Pension: \$414,000 (as opposed to \$1,453,000 in the table).

If Mr. Mackay were not considered retirement eligible, his Total Compensation in 2006 would have been \$9,861,662 (as opposed to \$13,233,088 which appears in the table). This difference is a result of compensation

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expense for certain equity-based awards being recognized immediately when an employee is considered retirement eligible. Specifically, the amounts that would have been reflected in the table are as follows: (a) Stock Awards: \$2,336,357 (as opposed to \$4,939,572 in the table); and (b) Option Awards: \$4,041,562 (as opposed to \$4,809,773 in the table).

- (2) On December 31, 2006, the following titles changed: (a) Mr. Jenness became our Chairman; (b) Mr. Boromisa became Senior Vice President, Kellogg Company, Executive Vice President, Kellogg International and President, Asia Pacific; (c) Mr. Mackay became our President and Chief Executive Officer; and (d) Mr. Bryant became Executive Vice President and Chief Financial Officer, Kellogg Company, and President, Kellogg International. On January 31, 2007, Mr. Harris ceased to be an active employee of Kellogg.
- (3) Reflects the compensation expense recognized in 2006 for stock awards under SFAS No. 123(R) for each NEO and as reported in our audited financial statements. Refer to Notes 1 and 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 30, 2006 for a discussion of the relevant assumptions used in calculating the compensation expense. The table below presents separately the compensation expense recognized in 2006 for our outstanding EPP awards and restricted stock awards:

	EPP (\$)	Restricted Stock (\$)	Total (\$)
J. M. Jenness(a)	2,733,024	333,332	3,066,356
J. M. Boromisa	450,286	0	450,286
A. D. D. Mackay(a)	4,939,572	0	4,939,572
A. F. Harris(a)	591,450	74,589	666,039
J. W. Montie	737,560	530,019	1,267,579
J. A. Bryant	653,712	532,415	1,186,127

(a) Messrs. Jenness, Mackay and Harris are considered retirement eligible.

Prior to adoption of SFAS No. 123(R) on January 1, 2006, we generally recognized stock compensation expense over the stated vesting period of the award, with any unamortized expense recognized immediately if an acceleration event occurred (for example, retirement). SFAS No. 123(R) specifies that a stock-based award is considered vested for expense attribution purposes when the employee's retention of the award is no longer contingent on providing subsequent service. Accordingly, compensation expense is recognized immediately for awards granted to retirement-eligible individuals or over the period from the grant date to the date retirement eligibility is achieved, if less than the stated vesting period.

- (4) Reflects the compensation expense recognized in 2006 for the stock option grants made in 2006 and in prior years (to the extent such awards remained unvested in whole or in part at the beginning of fiscal 2006). Refer to Notes 1 and 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 30, 2006 for a discussion of the relevant assumptions used in calculating the compensation expense. The table below presents separately the compensation expense recognized in 2006 between our regular options and our AOF options:

Regular Options (\$)	AOF Options (\$)	Total (\$)
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J. M. Jenness(a)	5,631,571	353,546	5,985,117
J. M. Boromisa	584,686	683,780	1,268,466
A. D. D. Mackay(a)	2,219,699	2,590,074	4,809,773
A. F. Harris(a)	812,473	1,639,051	2,451,524
J. W. Montie	1,011,525	613,095	1,624,620
J. A. Bryant	915,500	895,963	1,811,463

(a) Messrs. Jenness, Mackay and Harris are considered retirement eligible.

Prior to adoption of SFAS No. 123(R) on January 1, 2006, we generally recognized stock compensation expense on a pro forma basis over the stated vesting period of the award, with any unamortized expense recognized immediately if an acceleration event occurred (for example, retirement). SFAS No. 123(R) specifies that a stock-based award is considered vested for expense attribution purposes when the employee's retention of the award is no longer contingent on providing subsequent service. Accordingly, beginning in 2006, we prospectively revised our expense attribution method so that the related compensation expense is recognized immediately for awards granted to retirement-eligible

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individuals or over the period from the grant date to the date retirement eligibility is achieved, if less than the stated vesting period.

- (5) Solely represents the actuarial increase during 2006 in the pension value provided under the Pension Plans as we do not pay above-market or preferential earnings on non-qualified deferred compensation.
- (6) The table below presents an itemized account of All Other Compensation provided in 2006 to the NEOs, regardless of the amount and any minimal thresholds provided under the SEC rules and regulations. Consistent with our emphasis on performance-based pay, perquisites and other compensation are limited in scope and primarily comprised of retirement benefit contributions and accruals.

	Kellogg Contributions to		Financial			Non- Business		
	S&I and Restoration Plans(a)	Company Paid Death Benefit(b)	Planning Assistance(c)	ESPP Purchases(d)	Aircraft Usage(e)	Physical Exams(f)	TOTAL	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	
J. M. Jenness	129,393	91,772	15,000	4,984	15,570	1,054	257,773	
J. M. Boromisa	43,050	11,053	8,125	5,121	0	2,746	70,095	
A. D. D. Mackay	100,882	26,593	8,125	0	0	0	135,600	
A. F. Harris	60,631	15,660	3,700	4,819	0	1,087	85,897	
J. W. Montie	57,702	8,938	8,125	4,796	0	0	79,561	
J. A. Bryant	52,158	5,133	5,414	4,880	0	0	67,585	

(a) For information about our Savings & Investment Plan and Restoration Plan, refer to Non-Qualified Deferred Compensation beginning on page 41.

(b) Annual cost for Kellogg-paid life insurance, Kellogg-paid accidental death and dismemberment, Executive Survivor Income Plan (Kellogg funded death benefit provided to executive employees).

(c) Reflects reimbursement for financial and tax planning assistance.

(d) Our tax-qualified Employee Stock Purchase Plan (ESPP) is generally available to all U.S. salaried employees. The dollar amounts represent the grant-date fair value-based compensation expense recognized in 2006 under SFAS No. 123(R) for each NEO and as reported in our audited financial statements contained in Kellogg's Annual Report on Form 10-K. The price paid by all U.S. salaried employees, including the NEOs, is 85% of the price of our common stock at the beginning or the end of each quarterly purchase period, whichever is lower.

(e) The incremental cost of Kellogg aircraft used for a non-business flight is calculated by multiplying the aircraft's hourly variable operating cost by a trip's flight time, which includes any flight time of an empty return flight. Variable operating costs include: (1) landing, parking, crew travel and flight planning services expenses; (2) supplies, catering and crew traveling expenses; (3) aircraft fuel and oil expenses;

(4) maintenance, parts and external labor (inspections and repairs); and (5) any customs, foreign permit and similar fees. Fixed costs that do not vary based upon usage are not included in the calculation of direct operating cost. On certain occasions, an NEO's spouse or other family member may accompany the NEO on a flight. No additional direct operating cost is incurred in such situations under the foregoing methodology because the costs would not be incremental. Kellogg does not pay its NEOs any amounts in respect of taxes (*i.e.*, gross up payments) on income imputed to them for non-business aircraft usage.

(f) Actual cost of a physical exam.

In addition to the foregoing compensation, the NEOs also participated in health and welfare benefit programs, including vacation and medical, dental, prescription drug and disability coverage. These programs are generally available and comparable to those programs provided to all U.S. salaried employees.

(7) Mr. Jenness agreed to forfeit his 2006-2008 EPP award as a result of his transition from Chairman and Chief Executive Officer to Chairman. Thus, the entry in the table does not reflect compensation expense relating to his 2006-2008 EPP award.

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During 2006, we granted the following plan-based awards to our NEOs:

1. Stock Options (both Regular and AOF Options);
2. 2006 AIP grants (annual cash performance-based awards);
3. 2006-2008 EPP grants (multi-year stock performance-based awards);
4. Only in the case of Mr. Mackay, a 2005-2007 EPP grant, which reflects an increase to his outstanding 2005 grant as a result of assuming the role of Chief Executive Officer; and
5. Only in the case of Mr. Boromisa, a Restricted Stock Grant.

Information with respect to each of these awards on a grant-by-grant basis is set forth in the table below. For a detailed discussion of each of these awards and their material terms, refer to Executive Compensation Summary Compensation Table and Compensation Discussion and Analysis Elements of Our Compensation Program above. We no longer grant new options with the AOF feature, but as disclosed in the Outstanding Equity Awards at Fiscal Year-End Table, a number of options granted prior to 2004 contain this feature. When an executive exercises an original option with an AOF, the AOF option is treated as a new grant for disclosure and accounting purposes even though the new grant relates back to the approval of the original option grant. All of our regular and AOF options are granted with an exercise price equal to the fair market value of our common stock on the date of grant. Prior to 2007, fair market value was defined under our LTIP as the average of the highest and lowest trading price per share of our common stock on the date of grant. As of 2007, fair market value is defined under our LTIP as the officially quoted closing price of our common stock on the date of grant. As such, we have added an additional column to the table to show the closing price on the grant date.

Grant Date(1)	Approval Date(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Option		Exercise or Base Price of Option Awards (\$/Sh)	Closing Price (\$/S)
		Thresh- old (\$)	Target (\$)	Max- imum (\$)	Thresh- old (#)	Target (#)	Max- imum (#)	Number of Shares of Stock or Units Underlying Securities Options (#)	Number of Awards (#)		
2/17/06	2/17/06								421,410	44.46	44.46
3/10/06	7/27/00								28,978	45.12	45.12

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9/11/06	7/27/00					29,604	50.01	50.
9/11/06	1/31/01					2,816	50.01	50.
9/11/06	1/31/02					3,863	50.01	50.
9/11/06	1/31/03					3,977	50.01	50.
		0	1,460,550	2,921,100				
2/17/06	2/17/06				0	50,400(3)	100,800(3)	
2/17/06	2/17/06					63,900	44.46	44.
5/18/06	3/14/97					1,435	45.94	45.
5/18/06	3/13/98					6,382	45.94	45.
5/18/06	1/4/99					1,570	45.94	45.
5/18/06	1/31/00					17,295	45.94	45.
5/18/06	2/16/01					11,511	45.94	45.
5/18/06	2/22/02					26,844	45.94	45.
11/20/06	3/14/97					1,367	50.06	49.
11/20/06	3/13/98					4,301	50.06	49.
11/20/06	1/4/99					4,131	50.06	49.
11/20/06	1/31/00					4,416	50.06	49.
11/20/06	2/16/01					17,355	50.06	49.
11/20/06	2/22/02							