

The 2003 Long-Term Incentive Plan ("2003 Plan"), approved by shareholders in 2003, permits benefits to be awarded to employees and officers in the form of incentive and non-qualified stock options, performance shares or performance share units, restricted stock or restricted stock units, and stock appreciation rights. The 2003 Plan authorizes the issuance of a total of (a) 25 million shares plus (b) shares not issued under the 2001 Long-Term Incentive Plan (the "2001 Plan"), with no more than 5 million shares to be issued in satisfaction of performance units, performance-based restricted shares and other awards (excluding stock options and stock appreciation rights), and with additional annual limitations on awards or payments to individual participants. Options granted under the 2003 Plan and 2001 Plan generally vest over two years, subject to earlier vesting if a change of control occurs. Restricted stock and performance share grants under the 2003 Plan and the 2001 Plan generally vest in three years, subject to earlier vesting and payment if a change in control occurs.

The Non-Employee Director Stock Plan ("Director Plan") was approved by shareholders in 2000 and allows each eligible non-employee director to receive 1,700 shares of the Company's common stock annually and annual grants of options to purchase 5,000 shares of the Company's common stock. Shares other than options are placed in the Kellogg Company Grantor Trust for Non-Employee Directors (the "Grantor Trust"). Under the terms of the Grantor Trust, shares are available to a director only upon termination of service on the Board. Under this plan, awards were as follows: 2003-55,000 options and 18,700 shares; 2002-50,850 options and 18,700 shares; 2001-55,000 options and 17,000 shares.

Options under all plans described above are granted with exercise prices equal to the fair market value of the Company's common stock at the time of the grant and have a term of no more than ten years, if they are incentive stock options, or no more than ten years and one day, if they are non-qualified stock options. In addition, these plans permit stock option grants to contain an accelerated ownership feature ("AOF"). An AOF option is generally granted when Company stock is used to pay the exercise price of a stock option or any taxes owed. The holder of the option is generally granted an AOF option for the number of shares so used with the exercise price equal to the then fair market value of the Company's stock. For all AOF options, the original expiration date is not changed but the options vest immediately.

In addition to employee stock option grants presented in the tables below, under its long-term incentive plans, the Company

made restricted stock grants to eligible employees as follows (approximate number of shares): 2003-209,000; 2002-132,000; 2001-300,000. Additionally, performance units were awarded to a limited number of senior executive-level employees for the achievement of cumulative three-year performance targets as follows: awarded in 2001 for cash flow targets ending in 2003; awarded in 2002 for sales growth targets ending in 2004; awarded in 2003 for gross margin targets ending in 2005. If the performance targets are met, the award of units represents the right to receive shares of common stock (or a combination of shares and cash) equal to the dollar award valued on the vesting date. No awards are earned unless a minimum threshold is attained. The 2001 award was earned at 200% of target and vested in February 2004 for a total dollar equivalent of \$15.5 million. The maximum future dollar award that could be attained under the 2002 and 2003 awards is approximately \$19 million.

The 2002 Employee Stock Purchase Plan was approved by shareholders in 2002 and permits eligible employees to purchase Company stock at a discounted price. This plan allows for a maximum of 2.5 million shares of Company stock to be issued at a purchase price equal to the lesser of 85% of the fair market value of the stock on the first or last day of the quarterly purchase period. Total purchases through this plan for any employee are limited to a fair market value of \$25,000 during any calendar year. Shares were purchased by employees under this plan as follows (approximate number of shares): 2003-248,000; 2002-119,000. Additionally, during 2002, a foreign subsidiary of the Company established a stock purchase plan for its employees. Subject to limitations, employee contributions to this plan are matched 1:1 by the Company. Under this plan, shares were granted by the Company to match an approximately equal number of shares purchased by employees as follows (approximate number of shares): 2003-94,000; 2002-82,000.

The Executive Stock Purchase Plan was established in 2002 to encourage and enable certain eligible employees of the Company to acquire Company stock, and to align more closely the interests of those individuals and the Company's shareholders. This plan allows for a maximum of 500,000 shares of Company stock to be issued. Under this plan, shares were granted by the Company to executives in lieu of cash bonuses as follows (approximate number of shares): 2003-11,000; 2002-14,000.

Transactions under these plans are presented in the tables below. Refer to Note 1 for information on the Company's method of accounting for these plans.