

“Talking Points: How to Implement a Wealth Accumulation Analysis: What to Do with Your Findings”

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1. What is Wealth Accumulation?

A focus on how much the executive ends up with at different points in his/her career.

Typically wealth is defined as realized plus unrealized equity value plus deferred income, i.e., retirement/savings plans

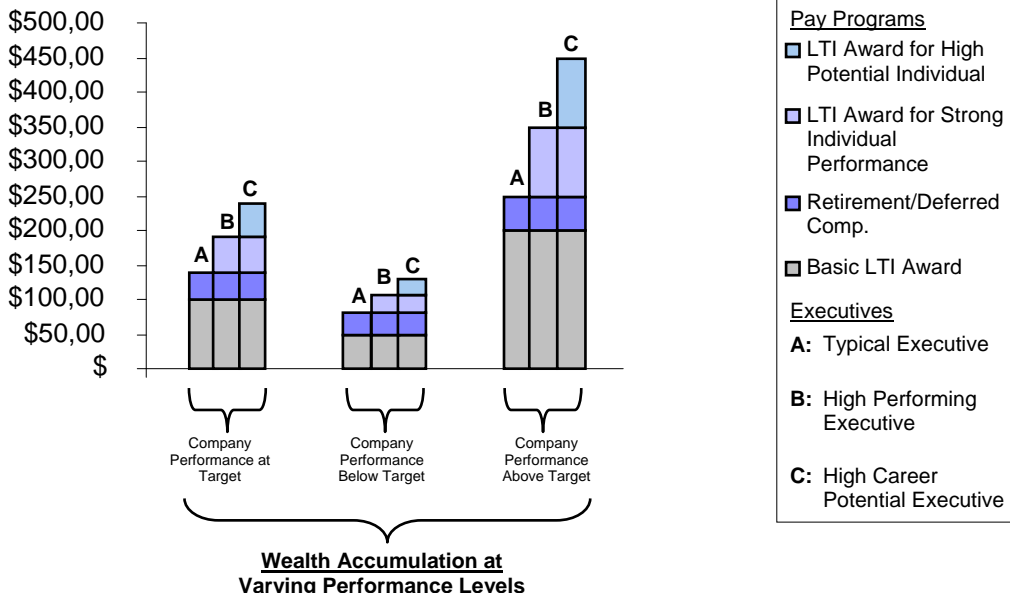
Why Should A Company Care about Wealth Accumulation?

Way to Retain and Reward Top Performers / High Potentials

Way to Potentially Determine How Much is Enough and How Much is Too Much

Notes:

2. Wealth Accumulation Has Both an Individual and Company Performance Component



Notes:

3. Wealth Accumulation as a Strategy to Reward and Retain Top Performers

	Gives	Receives
Executive	<ul style="list-style-type: none"> - Performs/delivers results - Stays with Company 	<ul style="list-style-type: none"> - Fulfilling career - Significant wealth accumulation
Company	<ul style="list-style-type: none"> - Ongoing and strategic career development - Pay for performance, with focus on wealth accumulation 	<ul style="list-style-type: none"> - Outstanding performance and leadership from key individuals

Notes:

4. If a pay program with a wealth accumulation focus were an integrated part of total rewards for key performers, the following key decisions would need to be made:

How to identify the individual's starting point, subsequent career milestones and wealth accumulation targets

- How much is enough...too much?

What is a reasonable minimum "guaranteed wealth" and from what sources

- For example, stock price can be volatile and subject to timing distortions

What and how will various performance dimensions be used, such as:

- Individual results and career progression, to determine the wealth accumulation opportunity

- Organization performance to determine the actual amount of wealth accumulation

How much individual choice will be allowed to customize wealth accumulation, as appropriate, and in what form(s)

How will the "performance contract" with these high potential employees be communicated

Notes:

5. Kellogg's Situation

A new CEO promoted from within

Age 51 with \$24M of K stock ownership at time of promotion

Well established executive pay system and business model

- Annual CEO LTI target award opportunity of roughly \$6M
- Sustained 8% earnings growth expectation, and assumed annual 8% share price growth, as well

Longer-term and emergency succession candidates identified

Notes:

6. Kellogg's Foray into Wealth Accumulation

3 Points of Focus

- How the CEO's equity would accumulate over 5 years
- How challenging the annual 8% stock price growth would be
- How the CEO's total accumulated equity and performance would compare with other CEO's

Notes:

7. CEO Accumulated 5-Year Equity: 2007 to 2011

\$ in millions

Annual Share Price Growth

	<u>0%</u>	<u>4%</u>	<u>8%</u>	<u>12%</u>
Equity Earned as CEO	\$0.0	\$12.9	\$26.4	\$46.0
Total Equity Earned	\$19.8	\$45.1	\$64.9	\$94.9
(including equity owned prior to becoming CEO)				

Notes:

8. Five Year Annual Share Price Growth of 8% Compared to Peers

	Compound Annual Share Price Growth	
	50th Percentile	75th Percentile
Peer group 5 yrs ending:		
December 2006	2.5%	5.2%
December 2005	(2.0%)	4.4%
December 2004	3.6%	7.0%
Kellogg 5 yr required performance	8.0%	8.0%

Notes:

9. Alignment Between Equity Accumulation and Performance

\$ in millions

Peer Group Comparison

Peer Group Percentiles	Peer Group Comparison	
	Total Equity Earned Before and After Becoming CEO Divided by Years as CEO	5 Yr TSR CAGR 2002-06
50th Percentile	\$13.5M	6.7%
75th Percentile	\$18.7M	9.8%
Kellogg CEO 2007 through 2011	\$13.0M	~10%

Notes:

10. Following the Wealth Accumulation Analysis, Questions Still Needed to be Answered

Do we agree on the overall approach to CEO compensation?

- Is the wealth accumulation appropriate in the context of the CEO's overall compensation?
- Do K shareowners need/want to fund this level of executive wealth accumulation?
- Are there better LTI plans that can improve alignment with K shareowners?

Notes:

11. The approach to CEO Compensation - Peers

The peer group of 16 companies K competes with for executive talent pays a premium in LTI opportunities versus General Industry and Fortune 500 samples

- Peers were selected based on revenue size, performance, and competition with Kellogg for customers and/or executive talent

\$ in thousands

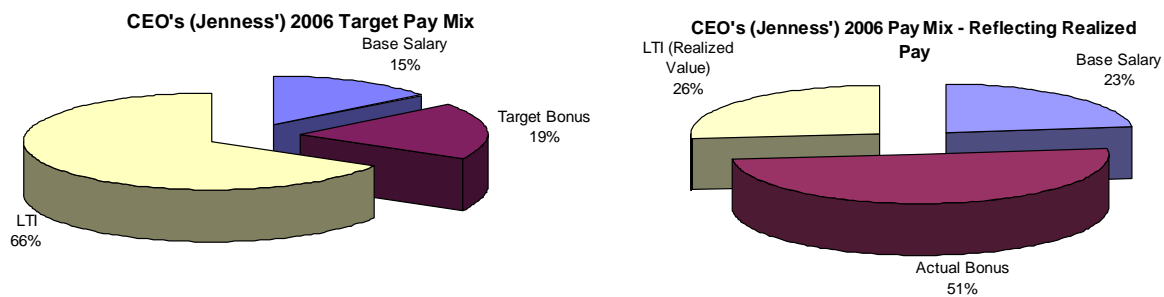
Pay Component	2007 CEO Target Pay	Peer Group 50th Percentile	General Industry 50th Percentile	Fortune 500 50th Percentile
Base	\$1,100	\$1,200	\$1,100	\$1,042
Bonus	\$1,375	\$1,740	\$1,320	\$1,250
Long-Term	\$6,166	\$6,092	\$5,387	\$4,979
Total	\$8,541	\$9,032	\$7,807	\$7,271

Had the CEO received an LTI opportunity at median of the General Industry or Fortune 500 peer groups, wealth accumulation would have been approximately 15% - 20% less over a 5-year period

Eliminating two largest peer companies who fall outside a desired revenue range of 2X Kellogg used for selecting/retaining peers would reduce LTI 6%

Notes:

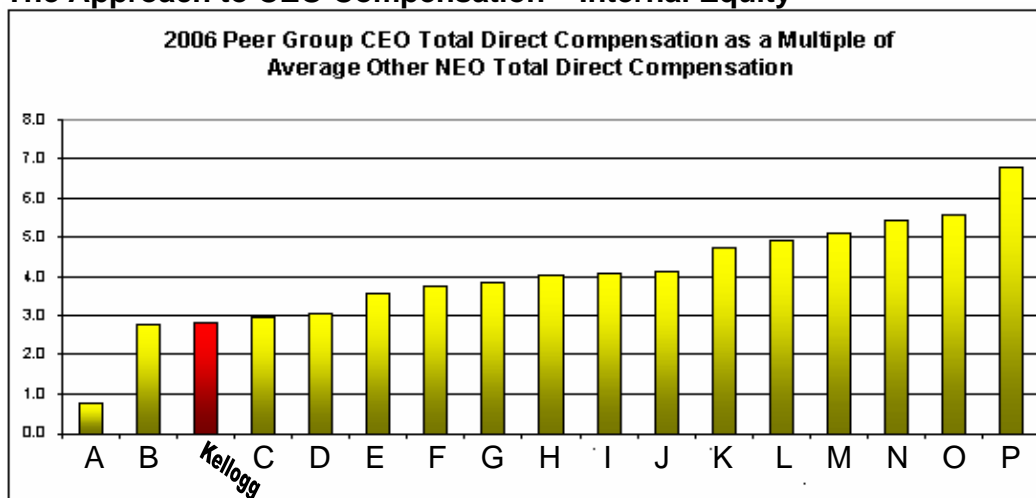
12. The Approach to CEO Compensation – Pay Mix



Pay mix is heavily performance based (85%) and aligns with shareholder interests

Notes:

13. The Approach to CEO Compensation – Internal Equity



Notes:

14. Looking at Wealth Accumulation in the Context of Total Pay – Tally Sheets

Chief Executive Officer
Estimated Pay from Termination of Employment Under Various Scenarios
Assumes a December 31, 2007 Termination Date and \$55 Stock Price (\$55 for COC)



\$ in millions

Value of Already Accrued/Vested Pay

Value of Stock Owned Outright (excludes restricted stock)	\$14.0
Total Value of Vested Stock Options	\$11.2
2005-07 Performance Share Award (assumed to be at tgt)	\$1.7
Retirement Benefits (includes retiree medical)	\$5.8
Total Value of Already Accrued/Vested Pay	\$32.7

Incremental Compensation in the Event of Termination as a Result of the Following Events:

<u>Pay Element</u>	<u>Change of Control</u>	<u>Death</u>	<u>Disability</u>	<u>Termination for Cause</u>	<u>Termination Without Cause</u>	<u>Voluntary Termination</u>
1) Total Cash Compensation	\$8.3	\$0.0	\$5.0	\$0.0	\$5.0	\$0.0
2) Total LTI Awards	\$9.3	\$9.3	\$9.3	\$0.0	\$9.3	\$0.0
3) Total Direct Compensation (1+2)	\$17.6	\$9.3	\$14.2	\$0.0	\$14.2	\$0.0
4) Additional Value of Stock Owned Outright	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
5) Total Benefits	\$6.1	(\$2.4)	\$2.1	-\$3.4	\$0.1	\$0.0
6) Total Direct Pay (3+4+5)	\$23.7	\$6.9	\$16.3	-\$3.4	\$14.3	\$0.0
7) Total Other	\$9.2	\$0.5	\$0.5	\$0.0	\$0.6	\$0.0
8) Total Incremental Pay (6+7)	\$32.9	\$7.4	\$16.8	-\$3.4	\$14.9	\$0.0
Total Value Realized (already accrued pay + incremental pay)	\$65.6	\$40.1	\$49.5	\$29.3	\$47.6	\$32.7

Notes:

15. Do shareholders want/need to fund this level of executive wealth accumulation?

- Competitive wealth accumulation opportunities are necessary to retain and reward top executive talent
- Caps on wealth accumulation are a short-term solution to wealth accumulation concerns. Long-term, caps are likely to create artificial executive turnover

Notes:

16. Are there better LTI vehicles to insure executive wealth accumulation and shareholder interests are aligned?

- Kellogg LTI mix is 70% stock options and 30% EPP (3-year performance plan)
- Ownership expectations reduce opportunity for options to reward primarily short-term price volatility
- EPP must consider whether the payouts are likely to be linked to an appropriate increase in shareholder value at a point in time and over time

Notes:

17. Concluding Remarks

- Wealth Accumulation, as an issue, will not go away anytime soon

- The Question of “How Much is Too Much” needs guiding principles before any consensus can be reached
 - For now, principles must be company-generated, as is the case at Kellogg
- Wealth accumulation, used selectively, may also be a strategy for rewarding and retaining top talent

Notes: