

KELLOGG CO
Form 10-K
February 24, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended January 2, 2016

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Transition Period From _____ To _____

Commission file number 1-4171

Kellogg Company

(Exact name of registrant as specified in its charter)

Delaware

38-0710690

(State or other jurisdiction of Incorporation or organization)

(I.R.S. Employer Identification No.)

One Kellogg Square
Battle Creek, Michigan 49016-3599
(Address of Principal Executive Offices)
Registrant's telephone number: (269) 961-2000

Securities registered pursuant to Section 12(b) of the Securities Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, \$.25 par value per share	New York Stock Exchange
1.750% Senior Notes due 2021	New York Stock Exchange
1.250% Senior Notes due 2025	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Act: None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ☐ No ☒

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Edgar Filing: KELLOGG CO - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming for purposes of this computation only that the W. K. Kellogg Foundation Trust, directors and executive officers may be affiliates) as of the close of business on July 4, 2015 was approximately \$17.7 billion based on the closing price of \$63.14 for one share of common stock, as reported for the New York Stock Exchange on that date.

As of January 29, 2016, 350,257,015 shares of the common stock of the registrant were issued and outstanding.

Parts of the registrant's Proxy Statement for the Annual Meeting of Shareowners to be held on April 29, 2016 are incorporated by reference into Part III of this Report.

PART I

ITEM 1. BUSINESS

The Company. Kellogg Company, founded in 1906 and incorporated in Delaware in 1922, and its subsidiaries are engaged in the manufacture and marketing of ready-to-eat cereal and convenience foods.

The address of the principal business office of Kellogg Company is One Kellogg Square, P.O. Box 3599, Battle Creek, Michigan 49016-3599. Unless otherwise specified or indicated by the context, “Kellogg,” “we,” “us” and “our” refer to Kellogg Company, its divisions and subsidiaries.

Financial Information About Segments. Information on segments is located in Note 17 within Notes to the Consolidated Financial Statements.

Principal Products. Our principal products are ready-to-eat cereals and convenience foods, such as cookies, crackers, savory snacks, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles and veggie foods. These products were, as of February 24, 2016, manufactured by us in 20 countries and marketed in more than 180 countries. Our cereal products are generally marketed under the Kellogg’s name and are sold to the grocery trade through direct sales forces for resale to consumers. We use broker and distributor arrangements for certain products. We also generally use these, or similar arrangements, in less-developed market areas or in those market areas outside of our focus.

We also market cookies, crackers, crisps, and other convenience foods, under brands such as Kellogg’s, Keebler, Cheez-It, Murray, Austin and Famous Amos, to supermarkets in the United States through a direct store-door (DSD) delivery system, although other distribution methods are also used.

Additional information pertaining to the relative sales of our products for the years 2013 through 2015 is located in Note 17 Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

Raw Materials. Agricultural commodities, including corn, wheat, potato flakes, soy bean oil, sugar and cocoa, are the principal raw materials used in our products. Cartonboard, corrugated, and plastic are the principal packaging materials used by us. We continually monitor world supplies and prices of such commodities (which include such packaging materials), as well as government trade policies. The cost of such commodities may fluctuate widely due to government policy and regulation, weather conditions, climate change or other unforeseen circumstances. Continuous efforts are made to maintain and improve the quality and supply of such commodities for purposes of our short-term and long-term requirements.

The principal ingredients in the products produced by us in the United States include corn grits, wheat and wheat derivatives, potato flakes, oats, rice, cocoa and chocolate, soybeans and soybean derivatives, various fruits, sweeteners, vegetable oils, dairy products, eggs, and other filling ingredients, which are obtained from various sources. While most of these ingredients are purchased from sources in the United States, some materials are imported due to regional availability and specification requirements.

We enter into long-term contracts for the materials described in this section and purchase these items on the open market, depending on our view of possible price fluctuations, supply levels, and our relative negotiating power. While the cost of some of these materials has, and may continue to, increase over time, we believe that we will be able to purchase an adequate supply of these items as needed. As further discussed herein under Part II, Item 7A, we also use commodity futures and options to hedge some of our costs.

Raw materials and packaging needed for internationally based operations are available in adequate supply and are sourced both locally and imported from countries other than those where used in manufacturing.

Natural gas and propane are the primary sources of energy used to power processing ovens at major domestic and international facilities, although certain locations may use oil or propane on a back-up or alternative basis. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products. As further discussed herein under Part II, Item 7A, we use over-the-counter commodity price swaps to hedge some of our natural gas costs.

Trademarks and Technology. Generally, our products are marketed under trademarks we own. Our principal trademarks are our housemarks, brand names, slogans, and designs related to cereals and convenience foods manufactured and marketed by us, and we also grant licenses to third parties to use these marks on various goods.

These trademarks include Kellogg's for cereals, convenience foods and our other products, and the brand names of certain ready-to-eat cereals, including All-Bran, Apple Jacks, Bran Buds, Choco Zucaritas, Cocoa Krispies, Complete, Kellogg's Corn Flakes, Corn Pops, Cracklin' Oat Bran, Crispix, Crunchmania, Crunchy Nut, Eggo, Kellogg's FiberPlus, Froot Loops, Kellogg's Frosted Flakes, Krave, Frosted Krispies, Frosted Mini-Wheats, Just Right, Kellogg's Low Fat Granola, Mueslix, Pops, Product 19, Kellogg's Origins, Kellogg's Raisin Bran, Raisin Bran Crunch, Rice Krispies, Rice Krispies Treats, Smacks/Honey Smacks, Smart Start, Special K, Special K Nourish, Special K Red Berries and Zucaritas in the United States and elsewhere; Sucrilhos, Krunchy Granola, Kellogg's Extra, Kellness, Musli, and Choco Krispis for cereals in Latin America; Vector in Canada; Coco Pops, Chocos, Frosties, Fruit 'N Fibre, Kellogg's Crunchy Nut Corn Flakes, Krave, Honey Loops, Kellogg's Extra, Country Store, Ricicles, Smacks, Start, Pops, Honey Bsss, Croco Copters and Tresor for cereals in Europe; and Guardian, Sultana Bran, Frosties, Rice Bubbles, Nutri-Grain, Kellogg's Iron Man Food, and Sustain for cereals in Asia and Australia. Additional trademarks are the names of certain combinations of ready-to-eat Kellogg's cereals, including Fun Pak and Variety.

Other brand names include Kellogg's Corn Flake Crumbs; All-Bran, Choco Krispis, Froot Loops, Special K, Zucaritas and Sucrilhos for cereal bars, Pop-Tarts for toaster pastries; Eggo and Nutri-Grain for frozen waffles and pancakes; Eggo and Special K for breakfast sandwiches; Rice Krispies Treats for convenience foods; Special K protein shakes; Nutri-Grain cereal bars for convenience foods in the United States and elsewhere; K-Time, Rice Bubbles, Be Natural, Sunibrite and LCMs for convenience foods in Asia and Australia; Choco Krispies, Tresor and Rice Krispies Squares for convenience foods in Europe; Kashi for certain cereals, convenience foods, frozen foods and pilaf; GoLean for cereals and nutrition bars; Special K and Vector for meal replacement products; Bear Naked for granola cereal, bars and trail mix, Pringles for potato crisps, tortilla crisps and potato sticks, and Morningstar Farms and Gardenburger for certain meat alternatives.

We also market convenience foods under trademarks and tradenames which include Keebler, Austin, Cheez-It, Chips Deluxe, Club, E. L. Fudge, Famous Amos, Fudge Shoppe, Kellogg's FiberPlus, Gripz, Jack's, Jackson's, Krispy, Mother's, Murray, Murray Sugar Free, Ready Crust, Right Bites, Sandies, Special K, Soft Batch, Simply Made, Stretch Island, Sunshine, Toasteds, Town House, Vienna Creams, Vienna Fingers and Zesta. One of our subsidiaries is also the exclusive licensee of the Carr's cracker line in the United States.

Our trademarks also include logos and depictions of certain animated characters in conjunction with our products, including Snap! Crackle! Pop! for Cocoa Krispies and Rice Krispies cereals and Rice Krispies Treats convenience foods; Tony the Tiger for Kellogg's Frosted Flakes, Zucaritas, Sucrilhos and Frosties cereals and convenience foods; Ernie Keebler for cookies, convenience foods and other products; the Hollow Tree logo for certain convenience foods; Toucan Sam for Froot Loops cereal; Dig 'Em for Smacks/Honey Smacks cereal; Sunny for Kellogg's Raisin Bran and Raisin Bran Crunch cereals, Coco the Monkey for Coco Pops cereal; Cornelius (aka Cornelio) for Kellogg's Corn Flakes; Melvin the Elephant for certain cereal and convenience foods; Chocos the Bear, Sammy the Seal (aka Smaxe the Seal) for certain cereal products and Mr. P or Julius Pringles for Pringles potato crisps, tortilla crisps and potato sticks.

The slogans The Original & Best, They're Gr-r-reat!, Show Your Stripes and Follow Your Nose, are used in connection with our ready-to-eat cereals, along with L' Eggo my Eggo, used in connection with our frozen waffles and pancakes, Childhood Is Calling, Uncommonly Good and Baked with Care used in connection with convenience food products, Seven Whole Grains on a Mission used in connection with Kashi natural foods and Just What the World Ordered used in connection with meat alternatives and You Don't just Eat'em used in connection with potato crisps are also important Kellogg trademarks.

The trademarks listed above, among others, when taken as a whole, are important to our business. Certain individual trademarks are also important to our business. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use. We consider that, taken as a whole, the rights under our various patents, which expire from time to time, are a valuable asset, but we do not believe that our businesses are materially dependent on any single patent or group of related patents. Our activities under licenses or other franchises or concessions which we hold are similarly a valuable asset, but are not believed to be material.

Seasonality. Demand for our products has generally been approximately level throughout the year, although some of our convenience foods have a bias for stronger demand in the second half of the year due to events and

holidays. We also custom-bake cookies for the Girl Scouts of the U.S.A., which are principally sold in the first quarter of the year.

Working Capital. Although terms vary around the world and by business types, in the United States we generally have required payment for goods sold eleven or sixteen days subsequent to the date of invoice as 2% 10/net 11 or 1% 15/net 16. Receipts from goods sold, supplemented as required by borrowings, provide for our payment of dividends, repurchases of our common stock, capital expansion, and for other operating expenses and working capital needs. We anticipate establishing a discrete customer program which would allow for extended customer payment terms. In connection with this program, we may enter into an agreement with one or more financial institutions to monetize these receivables resulting in the receivables being de-recognized from our consolidated balance sheet. We currently estimate that the amount of these receivables held at any time by the financial institution(s) will be approximately \$500 to \$600 million.

Customers. Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2015, comprised principally of sales within the United States. At January 2, 2016, approximately 18% of our consolidated receivables balance and 27% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2015. During 2015, our top five customers, collectively, including Wal-Mart, accounted for approximately 34% of our consolidated net sales and approximately 47% of U.S. net sales. There has been significant worldwide consolidation in the grocery industry and we believe that this trend is likely to continue. Although the loss of any large customer for an extended length of time could negatively impact our sales and profits, we do not anticipate that this will occur to a significant extent due to the consumer demand for our products and our relationships with our customers. Our products have been generally sold through our own sales forces and through broker and distributor arrangements, and have been generally resold to consumers in retail stores, restaurants, and other food service establishments.

Backlog. For the most part, orders are filled within a few days of receipt and are subject to cancellation at any time prior to shipment. The backlog of any unfilled orders at January 2, 2016 and January 3, 2015 was not material to us.

Competition. We have experienced, and expect to continue to experience, intense competition for sales of all of our principal products in our major product categories, both domestically and internationally. Our products compete with advertised and branded products of a similar nature as well as unadvertised and private label products, which are typically distributed at lower prices, and generally with other food products. Principal methods and factors of competition include new product introductions, product quality, taste, convenience, nutritional value, price, advertising and promotion.

Research and Development. Research to support and expand the use of our existing products and to develop new food products is carried on at the W. K. Kellogg Institute for Food and Nutrition Research in Battle Creek, Michigan, and at other locations around the world. Our expenditures for research and development were approximately (in millions): 2015-\$193; 2014-\$199; 2013-\$199.

Regulation. Our activities in the United States are subject to regulation by various government agencies, including the Food and Drug Administration, Federal Trade Commission and the Departments of Agriculture, Commerce and Labor, as well as voluntary regulation by other bodies. Various state and local agencies also regulate our activities. Other agencies and bodies outside of the United States, including those of the European Union and various countries, states and municipalities, also regulate our activities.

Environmental Matters. Our facilities are subject to various U.S. and foreign, federal, state, and local laws and regulations regarding the release of material into the environment and the protection of the environment in other ways. We are not a party to any material proceedings arising under these regulations. We believe that compliance with existing environmental laws and regulations will not materially affect our consolidated financial condition or our competitive position.

Employees. At January 2, 2016, we had approximately 33,577 employees.

Financial Information About Geographic Areas. Information on geographic areas is located in Note 17 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

Executive Officers. The names, ages, and positions of our executive officers (as of February 24, 2016) are listed below, together with their business experience. Executive officers are elected annually by the Board of Directors.

John A. Bryant

50

Chairman and Chief Executive Officer

Mr. Bryant has been Chairman of the Board of Kellogg Company since July 2014 and has served as a Kellogg director since July 2010. In January 2011, he was appointed President and Chief Executive Officer after having served as our Executive Vice President and Chief Operating Officer since August 2008. Mr. Bryant joined Kellogg in March 1998, and was promoted during the next eight years to a number of key financial and executive leadership roles. He was appointed Executive Vice President and Chief Financial Officer, Kellogg Company, President, Kellogg International in December 2006. In July 2007, Mr. Bryant was appointed Executive Vice President and Chief Financial Officer, Kellogg Company, President, Kellogg North America and in August 2008, he was appointed Executive Vice President, Chief Operating Officer and Chief Financial Officer. Mr. Bryant served as Chief Financial Officer through December 2009.

Ronald L. Dissinger

57

Senior Vice President and Chief Financial Officer

Mr. Dissinger was appointed Senior Vice President and Chief Financial Officer effective January 2010. Mr. Dissinger joined Kellogg in 1987 as an accounting supervisor, and during the next 14 years served in a number of key financial leadership roles, both in the United States and Australia. In 2001, he was promoted to Vice President and Chief Financial Officer, U.S. Morning Foods. In 2004, Mr. Dissinger became Vice President, Corporate Financial Planning, and CFO, Kellogg International. In 2005, he became Vice President and CFO, Kellogg Europe and CFO, Kellogg International. In 2007, Mr. Dissinger was appointed Senior Vice President and Chief Financial Officer, Kellogg North America.

Alistair D. Hirst

56

Senior Vice President, Global Supply Chain

Mr. Hirst assumed his current position in April 2012. He joined the company in 1984 as a Food Technologist at the Springs, South Africa, plant. While at the facility, he was promoted to Quality Assurance Manager and Production Manager. From 1993-2001, Mr. Hirst held numerous positions in South Africa and Australia, including Production Manager, Plant Manager, and Director, Supply Chain. In 2001, Mr. Hirst was promoted to Director, Procurement at the Manchester, England, facility and was later named European Logistics Director. In 2005, he transferred to the U.S. when promoted to Vice President, Global Procurement. In 2008, he was promoted to Senior Vice President, Snacks Supply Chain and to Senior Vice President, North America Supply Chain, in October 2011.

Samantha J. Long

48

Senior Vice President, Global Human Resources

Ms. Long assumed her current position January 1, 2013. She joined the company in 2003 as Director, Human Resources for the United Kingdom, Republic of Ireland and Middle East/Mediterranean businesses as well as the European finance, sales, human resources, research and development, information technology, communications and innovations functions. In 2006, Ms. Long transferred to the United States when she was promoted to Vice President, Human Resources, U.S. Morning Foods & Kashi. She also served as human resources business partner to the senior vice president of global human resources. From 2008 to 2013, she held the position of Vice President, Human Resources, Kellogg North America. Before joining the company, she was head of human resources for Sharp Electronics based in the United Kingdom. Prior to that role, she held a number of positions in her 15-year tenure with International Computers Limited, part of the Fujitsu family of companies.

Paul T. Norman

51

Senior Vice President, Kellogg Company
President, Kellogg North America

Mr. Norman was appointed President, Kellogg North America in May 2015. He was appointed Senior Vice President, Kellogg Company in December 2005. Mr. Norman was appointed Chief Growth Officer in October 2013 and also held the role of interim U.S. Morning Foods President from June 2014 to May 2015. Mr. Norman joined Kellogg's U.K. sales organization in 1987. From 1989 to 1996, Mr. Norman was promoted to several marketing roles in France and Canada. He was promoted to director, marketing, Kellogg de Mexico in January 1997; to Vice President, Marketing, Kellogg USA in February 1999; to President, Kellogg Canada Inc. in December 2000; and to Managing Director, United Kingdom/Republic of Ireland in February 2002. In September 2004, Mr. Norman was appointed to Vice President, Kellogg Company, and President, U.S. Morning Foods. In August 2008, Mr. Norman was promoted to President, Kellogg International.

Gary H. Pilnick

51

Vice Chairman, Corporate Development
and Chief Legal Officer

Mr. Pilnick was appointed Vice Chairman, Corporate Development and Chief Legal Officer in January 2016. In August 2003, he was appointed Senior Vice President, General Counsel and Secretary and assumed responsibility for Corporate Development in June 2004. He joined Kellogg as Vice President — Deputy General Counsel and Assistant Secretary in September 2000 and served in that position until August 2003. Before joining Kellogg, he served as Vice President and Chief Counsel of Sara Lee Branded Apparel and as Vice President and Chief Counsel, Corporate Development and Finance at Sara Lee Corporation.

Availability of Reports; Website Access; Other Information. Our internet address is <http://www.kelloggcompany.com>. Through "Investor Relations" — "Financials" — "SEC Filings" on our home page, we make available free of charge our proxy statements, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, SEC Forms 3, 4 and 5 and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our reports filed with the Securities and Exchange Commission are also made available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at www.sec.gov.

Copies of the Corporate Governance Guidelines, the Charters of the Audit, Compensation and Nominating and Governance Committees of the Board of Directors, 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) can also be found on the Kellogg Company website. Any amendments or waivers to the Global Code of Ethics applicable to the chief executive officer, chief financial officer and corporate controller can also be found in the "Investor Relations" section of the Kellogg Company website. Shareowners may also request a free copy of these documents from: Kellogg Company, P.O. Box CAMB, Battle Creek, Michigan 49016-9935 (phone: (800) 961-1413), Investor Relations Department at that same address (phone: (269) 961-2800) or investor.relations@kellogg.com.

Forward-Looking Statements. This Report contains "forward-looking statements" with projections concerning, among other things, the Company's global growth and efficiency program (Project K), the integration of acquired businesses, our strategy, zero-based budgeting, financial principles, and plans; initiatives, improvements and growth; sales, gross margins, advertising, promotion, merchandising, brand building, operating profit, and earnings per share; innovation; investments; capital expenditures; asset write-offs and expenditures and costs related to productivity or efficiency initiatives; the impact of accounting changes and significant accounting estimates; our ability to meet interest and debt principal repayment obligations; minimum contractual obligations; future common stock repurchases or debt reduction; effective income tax rate; cash flow and core working capital improvements; interest expense; commodity

and energy prices; and employee benefit plan costs and funding. Forward-looking statements include predictions of future results or activities and may contain the words “expect,” “believe,” “will,” “can,” “anticipate,” “estimate,” “project,” “sh” words or phrases of similar meaning. For example, forward-

looking statements are found in this Item 1 and in several sections of Management's Discussion and Analysis. Our actual results or activities may differ materially from these predictions. Our future results could be affected by a variety of factors, including the ability to implement Project K as planned, whether the expected amount of costs associated with Project K will exceed forecasts, whether the Company will be able to realize the anticipated benefits from Project K in the amounts and times expected, the ability to realize the anticipated benefits and synergies from acquired businesses in the amounts and at the times expected, the impact of competitive conditions; the effectiveness of pricing, advertising, and promotional programs; the success of innovation, renovation and new product introductions; the recoverability of the carrying value of goodwill and other intangibles; the success of productivity improvements and business transitions; commodity and energy prices; labor costs; disruptions or inefficiencies in supply chain; the availability of and interest rates on short-term and long-term financing; actual market performance of benefit plan trust investments; the levels of spending on systems initiatives, properties, business opportunities, integration of acquired businesses, and other general and administrative costs; changes in consumer behavior and preferences; the effect of U.S. and foreign economic conditions on items such as interest rates, statutory tax rates, currency conversion and availability; legal and regulatory factors including changes in food safety, advertising and labeling laws and regulations; the ultimate impact of product recalls; business disruption or other losses from war, terrorist acts, or political unrest; risks generally associated with global operations; risks from certain emerging markets; other items; and the risks and uncertainties described in Item 1A below. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them.

ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this Report, the following risks and uncertainties could materially adversely affect our business, financial condition and results of operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations and financial condition.

We may not realize the benefits that we expect from our global four-year efficiency and effectiveness program (Project K).

In November 2013, the Company announced a global four-year efficiency and effectiveness program (Project K). The successful implementation of Project K presents significant organizational design and infrastructure challenges and in many cases will require successful negotiations with third parties, including labor organizations, suppliers, business partners, and other stakeholders. In addition, the project may not advance our business strategy as expected. As a result, we may not be able to implement Project K as planned, including realizing, in full or in part, the anticipated benefits from our program. Events and circumstances, such as financial or strategic difficulties, delays and unexpected costs may occur that could result in our not realizing all or any of the anticipated benefits or our not realizing the anticipated benefits on our expected timetable. If we are unable to realize the anticipated savings of the program, our ability to fund other initiatives may be adversely affected. Any failure to implement Project K in accordance with our expectations could adversely affect our financial condition, results of operations and cash flows.

In addition, the complexity of Project K will require a substantial amount of management and operational resources. Our management team must successfully implement administrative and operational changes necessary to achieve the anticipated benefits of Project K. These and related demands on our resources may divert the organization's attention from existing core businesses, integrating or separating personnel and financial or other systems, have adverse effects on existing business relationships with suppliers and customers, and impact employee morale. As a result our financial condition, results of operations or cash flows may be adversely affected.

We may not realize the benefits we expect from the adoption of zero-based budgeting.

We recently adopted zero-based budgeting which presents significant organizational challenges. As a result, we may not realize all or part of the anticipated cost savings or other benefits from the initiative. Other events and circumstances, such as financial or strategic difficulties, delays or unexpected costs, may also adversely impact our ability to realize all or part of the anticipated cost savings or other benefits, or cause us not to realize the anticipated cost savings or other benefits on the expected timetable. If we are unable to realize the anticipated cost savings, our ability to fund other initiatives may be adversely affected. In addition, the initiatives may not advance our strategy as

expected. Finally, the complexity of the implementation will require a substantial amount of management and operational resources. Our management team must successfully execute the administrative and operational

changes necessary to achieve the anticipated benefits of the initiatives. These and related demands on our resources may divert the organization's attention from other business issues, have adverse effects on existing business relationships with suppliers and customers, and impact employee morale.

Any failure to implement our cost reduction, organizational design or other initiatives in accordance with our plans could adversely affect our business or financial results.

Our results may be materially and adversely impacted as a result of increases in the price of raw materials, including agricultural commodities, fuel and labor.

Agricultural commodities, including corn, wheat, soybean oil, sugar and cocoa, are the principal raw materials used in our products. Cartonboard, corrugated, and plastic are the principal packaging materials used by us. The cost of such commodities may fluctuate widely due to government policy and regulation, drought and other weather conditions (including the potential effects of climate change) or other unforeseen circumstances. To the extent that any of the foregoing factors affect the prices of such commodities and we are unable to increase our prices or adequately hedge against such changes in prices in a manner that offsets such changes, the results of our operations could be materially and adversely affected. In addition, we use derivatives to hedge price risk associated with forecasted purchases of raw materials. Our hedged price could exceed the spot price on the date of purchase, resulting in an unfavorable impact on both gross margin and net earnings.

Cereal processing ovens at major domestic and international facilities are regularly fueled by natural gas or propane, which are obtained from local utilities or other local suppliers. Short-term stand-by propane storage exists at several plants for use in case of interruption in natural gas supplies. Oil may also be used to fuel certain operations at various plants. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products. The cost of fuel may fluctuate widely due to economic and political conditions, government policy and regulation, war, or other unforeseen circumstances which could have a material adverse effect on our consolidated operating results or financial condition.

A shortage in the labor pool, failure to successfully negotiate collectively bargained agreements, or other general inflationary pressures or changes in applicable laws and regulations could increase labor cost, which could have a material adverse effect on our consolidated operating results or financial condition.

Our labor costs include the cost of providing benefits for employees. We sponsor a number of benefit plans for employees in the United States and various foreign locations, including pension, retiree health and welfare, active health care, severance and other postemployment benefits. We also participate in a number of multiemployer pension plans for certain of our manufacturing locations. Our major pension plans and U.S. retiree health and welfare plans are funded with trust assets invested in a globally diversified portfolio of equity securities with smaller holdings of bonds, real estate and other investments. The annual cost of benefits can vary significantly from year to year and is materially affected by such factors as changes in the assumed or actual rate of return on major plan assets, a change in the weighted-average discount rate used to measure obligations, the rate or trend of health care cost inflation, and the outcome of collectively-bargained wage and benefit agreements. Many of our employees are covered by collectively-bargained agreements and other employees may seek to be covered by collectively-bargained agreements. Strikes or work stoppages and interruptions could occur if we are unable to renew these agreements on satisfactory terms or enter into new agreements on satisfactory terms, which could adversely impact our operating results. The terms and conditions of existing, renegotiated or new agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency.

Multiemployer pension plans could adversely affect our business.

We participate in various "multiemployer" pension plans administered by labor unions representing some of our employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. Our required contributions to these funds could increase because of a shrinking contribution base as a result of the insolvency or withdrawal of other companies that currently contribute to these funds, inability or failure of withdrawing companies to pay their withdrawal liability, lower than expected returns on pension fund assets or other funding deficiencies. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make an additional lump-sum contribution to the plan, and we would have to reflect that as an expense in our consolidated statement of operations and as a liability on our consolidated balance

sheet. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan's funding of vested benefits. In the ordinary course of our renegotiation of collective bargaining agreements with labor unions that maintain these plans, we may decide to discontinue participation in a plan, and in that event, we could face a

withdrawal liability. Some multiemployer plans in which we participate are reported to have significant underfunded liabilities. Such underfunding could increase the size of our potential withdrawal liability.

We operate in the highly competitive food industry.

We face competition across our product lines, including ready-to-eat cereals and convenience foods, from other companies which have varying abilities to withstand changes in market conditions. Most of our competitors have substantial financial, marketing and other resources, and competition with them in our various markets and product lines could cause us to reduce prices, increase capital, marketing or other expenditures, or lose category share, any of which could have a material adverse effect on our business and financial results. Category share and growth could also be adversely impacted if we are not successful in introducing new products or in effectively assessing, changing and setting proper pricing.

We may be unable to maintain our profit margins in the face of a consolidating retail environment. In addition, the loss of one of our largest customers could negatively impact our sales and profits.

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2015, comprised principally of sales within the United States. At January 2, 2016, approximately 18% of our consolidated receivables balance and 27% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2015. During 2015, our top five customers, collectively, including Wal-Mart, accounted for approximately 34% of our consolidated net sales and approximately 47% of U.S. net sales. As the retail grocery trade continues to consolidate and retailers become larger, our large retail customers may seek to use their position to improve their profitability through improved efficiency, lower pricing, increased promotional programs funded by their suppliers and more favorable terms. If we are unable to use our scale, marketing expertise, product innovation and category leadership positions to respond, our profitability or volume growth could be negatively affected. The loss of any large customer for an extended length of time could negatively impact our sales and profits.

Our results may be negatively impacted if consumers do not maintain their favorable perception of our brands.

We have a number of iconic brands with significant value. Maintaining and continually enhancing the value of these brands is critical to the success of our business. Brand value is based in large part on consumer perceptions. Success in promoting and enhancing brand value depends in large part on our ability to provide high-quality products. Brand value could diminish significantly due to a number of factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products (whether or not valid), our failure to maintain the quality of our products, the failure of our products to deliver consistently positive consumer experiences, or the products becoming unavailable to consumers. The growing use of social and digital media by consumers, Kellogg and third parties increases the speed and extent that information or misinformation and opinions can be shared. Negative posts or comments about Kellogg, our brands or our products on social or digital media could seriously damage our brands and reputation, regardless of the information's accuracy. The harm may be immediate without affording us an opportunity for redress or correction. Brand recognition can also be impacted by the effectiveness of our advertising campaigns and marketing programs, as well as our use of social media. If we do not maintain the favorable perception of our brands, our results could be negatively impacted.

Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.

The Company is subject to taxes in the U.S. and numerous foreign jurisdictions where the Company's subsidiaries are organized. Due to economic and political conditions, tax rates in various foreign jurisdictions may be subject to significant change. The future effective tax rate could be effected by changes in mix of earnings in countries with differing statutory tax rates, changes in valuation of deferred tax asset and liabilities, or changes in tax laws or their interpretation which includes possible U.S. tax reform and contemplated changes in other countries of long-standing tax principles if finalized and adopted could have a material impact on our income tax expense and deferred tax balances.

We are also subject to regular reviews, examinations and audits by the Internal Revenue Service and other taxing authorities with respect to taxes inside and outside of the U.S. Although we believe our tax estimates are reasonable, if a taxing authority disagrees with the positions we have taken, we could face additional tax liability, including interest

and penalties. There can be no assurance that payment of such additional amounts upon final adjudication of any disputes will not have a material impact on our results of operations and financial position.

The cash we generate outside the U.S. is principally to be used to fund our international development. If the funds generated by our U.S. business are not sufficient to meet our need for cash in the U.S., we may need to repatriate a portion of our future international earnings to the U.S. Such international earnings would be subject to U.S. tax which could cause our worldwide effective tax rate to increase.

We also need to comply with new, evolving or revised tax laws and regulations. The enactment of or increases in tariffs, including value added tax, or other changes in the application of existing taxes, in markets in which we are currently active, or may be active in the future, or on specific products that we sell or with which our products compete, may have an adverse effect on our business or on our results of operations.

If our food products become adulterated, misbranded or mislabeled, we might need to recall those items and may experience product liability if consumers are injured as a result.

Selling food products involves a number of legal and other risks, including product contamination, spoilage, product tampering, allergens, or other adulteration. We may need to recall some of our products if they become adulterated or misbranded. We may also be liable if the consumption of any of our products causes injury, illness or death. A widespread product recall or market withdrawal could result in significant losses due to their costs, the destruction of product inventory, and lost sales due to the unavailability of product for a period of time. We could also suffer losses from a significant product liability judgment against us. A significant product recall or product liability case could also result in adverse publicity, damage to our reputation, and a loss of consumer confidence in our food products, which could have a material adverse effect on our business results and the value of our brands. Moreover, even if a product liability or consumer fraud claim is meritless, does not prevail or is not pursued, the negative publicity surrounding assertions against our company and our products or processes could adversely affect our reputation or brands.

We could also be adversely affected if consumers lose confidence in the safety and quality of certain food products or ingredients, or the food safety system generally. Adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying our products or cause production and delivery disruptions.

Unanticipated business disruptions could have an adverse effect on our business, financial condition and results of operations.

We manufacture and source products and materials on a global scale. We have a complex network of suppliers, owned manufacturing locations, contract manufacturer locations, distribution networks and information systems that support our ability to provide our products to our customers consistently. Our ability to make, move and sell products globally is critical to our success. Factors that are hard to predict or beyond our control, such as weather (including any potential effects of climate change), natural disasters, fires or explosions, terrorism, political unrest, health pandemics or strikes, could damage or disrupt our operations or our suppliers' or contract manufacturers' operations. If we do not effectively respond to disruptions in our operations, for example, by finding alternative suppliers or replacing capacity at key manufacturing or distribution locations, or cannot quickly repair damage to our information, production or supply systems, we may be late in delivering or unable to deliver products to our customers. If that occurs, we may lose our customers' confidence, and long-term consumer demand for our products could decline. These events could adversely affect our business, financial condition and results of operations.

Evolving tax, environmental, food quality and safety or other regulations or failure to comply with existing licensing, labeling, trade, food quality and safety and other regulations and laws could have a material adverse effect on our consolidated financial condition.

Our activities or products, both in and outside of the United States, are subject to regulation by various federal, state, provincial and local laws, regulations and government agencies, including the U.S. Food and Drug Administration, U.S. Federal Trade Commission, the U.S. Departments of Agriculture, Commerce and Labor, as well as similar and other authorities outside of the United States, International Accords and Treaties and others, including voluntary regulation by other bodies. In addition, legal and regulatory systems in emerging and developing markets may be less developed, and less certain. These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of a variety of factors, including political, economic or social events. The manufacturing, marketing and distribution of food products are subject to governmental regulation that impose additional regulatory requirements. Those regulations control such matters as food quality and safety, ingredients, advertising, product or

production requirements, labeling, import or export of our products or ingredients, relations with distributors and retailers, health and safety, the environment, and restrictions on the use of government programs, such as Supplemental Nutritional Assistance Program, to purchase certain of our products. We are also

regulated with respect to matters such as licensing requirements, trade and pricing practices, tax, anticorruption standards, advertising and claims, and environmental matters. The need to comply with new, evolving or revised tax, environmental, food quality and safety, labeling or other laws or regulations, or new, evolving or changed interpretations or enforcement of existing laws or regulations, may have a material adverse effect on our business and results of operations. Further, if we are found to be out of compliance with applicable laws and regulations in these areas, we could be subject to civil remedies, including fines, injunctions, termination of necessary licenses or permits, or recalls, as well as potential criminal sanctions, any of which could have a material adverse effect on our business. Even if regulatory review does not result in these types of determinations, it could potentially create negative publicity or perceptions which could harm our business or reputation.

Our operations face significant foreign currency exchange rate exposure and currency restrictions which could negatively impact our operating results.

We hold assets and incur liabilities, earn revenue and pay expenses in a variety of currencies other than the U.S. dollar, including the euro, British pound, Australian dollar, Canadian dollar, Mexican peso, Venezuelan bolivar fuerte and Russian ruble. Because our consolidated financial statements are presented in U.S. dollars, we must translate our assets, liabilities, revenue and expenses into U.S. dollars at then-applicable exchange rates. Consequently, changes in the value of the U.S. dollar may unpredictably and negatively affect the value of these items in our consolidated financial statements, even if their value has not changed in their original currency.

If we pursue strategic acquisitions, alliances, divestitures or joint ventures, we may not be able to successfully consummate favorable transactions or successfully integrate acquired businesses.

From time to time, we may evaluate potential acquisitions, alliances, divestitures or joint ventures that would further our strategic objectives. With respect to acquisitions, we may not be able to identify suitable candidates, consummate a transaction on terms that are favorable to us, or achieve expected returns, expected synergies and other benefits as a result of integration challenges, or may not achieve those objectives on a timely basis. Future acquisitions of foreign companies or new foreign ventures would subject us to local regulations and could potentially lead to risks related to, among other things, increased exposure to foreign exchange rate changes, government price control, repatriation of profits and liabilities relating to the U.S. Foreign Corrupt Practices Act.

With respect to proposed divestitures of assets or businesses, we may encounter difficulty in finding acquirers or alternative exit strategies on terms that are favorable to us, which could delay the accomplishment of our strategic objectives, or our divestiture activities may require us to recognize impairment charges. Companies or operations acquired or joint ventures created may not be profitable or may not achieve sales levels and profitability that justify the investments made. Our corporate development activities may present financial and operational risks, including diversion of management attention from existing core businesses, integrating or separating personnel and financial and other systems, and adverse effects on existing business relationships with suppliers and customers. Future acquisitions could also result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to certain intangible assets and increased operating expenses, which could adversely affect our results of operations and financial condition.

Potential liabilities and costs from litigation could adversely affect our business.

There is no guarantee that we will be successful in defending our self in civil, criminal or regulatory actions, including under general, commercial, employment, environmental, food quality and safety, anti-trust and trade, advertising and claims, and environmental laws and regulations, or in asserting its rights under various laws. For example, our marketing or claims could face allegations of false or deceptive advertising or other criticisms which could end up in litigation and result in potential liabilities or costs. In addition, we could incur substantial costs and fees in defending our self or in asserting our rights in these actions or meeting new legal requirements. The costs and other effects of potential and pending litigation and administrative actions against us, and new legal requirements, cannot be determined with certainty and may differ from expectations.

Our consolidated financial results and demand for our products are dependent on the successful development of new products and processes.

There are a number of trends in consumer preferences which may impact us and the industry as a whole. These include changing consumer dietary trends and the availability of substitute products.

Our success is dependent on anticipating changes in consumer preferences and on successful new product and process development and product relaunches in response to such changes. Trends within the food industry change

often, and failure to identify and react to changes in these trends could lead to, among other things, reduced demand and price reductions for our brands and products. We aim to introduce products or new or improved production processes on a timely basis in order to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products and to the research, development and technology process functions of our business, we may not be successful in developing new products or our new products may not be commercially successful. Our future results and our ability to maintain or improve our competitive position will depend on our capacity to gauge the direction of our key markets and upon our ability to successfully identify, develop, manufacture, market and sell new or improved products in these changing markets.

Our postretirement benefit-related costs and funding requirements could increase as a result of volatility in the financial markets, changes in interest rates and actuarial assumptions.

Increases in the costs of postretirement medical and pension benefits may continue and negatively affect our business as a result of increased usage of medical benefits by retired employees and medical cost inflation, the effect of potential declines in the stock and bond markets on the performance of our pension and post-retirement plan assets, potential reductions in the discount rate used to determine the present value of our benefit obligations, and changes to our investment strategy that may impact our expected return on pension and post-retirement plan assets assumptions. U.S. generally accepted accounting principles require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates, which may change based on economic conditions. The Company's accounting policy for defined benefit plans may subject earnings to volatility due to the recognition of actuarial gains and losses, particularly those due to the change in the fair value of pension and post-retirement plan assets and interest rates. In addition, funding requirements for our plans may become more significant. However, the ultimate amounts to be contributed are dependent upon, among other things, interest rates, underlying asset returns, and the impact of legislative or regulatory changes related to pension and post-retirement funding obligations.

We have a substantial amount of indebtedness.

We have indebtedness that is substantial in relation to our shareholders' equity, and we may incur additional indebtedness in the future, or enter into off-balance sheet financing, which would increase our leverage risks. As of January 2, 2016, we had total debt of approximately \$7.8 billion and total Kellogg Company equity of \$2.1 billion. Our substantial indebtedness could have important consequences, including:

- impairing the ability to access global capital markets to obtain additional financing for working capital, capital expenditures or general corporate purposes, particularly if the ratings assigned to our debt securities by rating organizations were revised downward or if a rating organization announces that our ratings are under review for a potential downgrade;

- a downgrade in our credit ratings, particularly our short-term credit rating, would likely reduce the amount of commercial paper we could issue, increase our commercial paper borrowing costs, or both;

- restricting our flexibility in responding to changing market conditions or making us more vulnerable in the event of a general downturn in economic conditions or our business;

- requiring a substantial portion of the cash flow from operations to be dedicated to the payment of principal and interest on our debt, reducing the funds available to us for other purposes such as expansion through acquisitions, paying dividends, repurchasing shares, marketing and other spending and expansion of our product offerings; and
- causing us to be more leveraged than some of our competitors, which may place us at a competitive disadvantage.

Our ability to make scheduled payments or to refinance our obligations with respect to indebtedness or incur new indebtedness will depend on our financial and operating performance, which in turn, is subject to prevailing economic conditions, the availability of, and interest rates on, short-term financing, and financial, business and other factors beyond our control.

Our performance is affected by general economic and political conditions and taxation policies.

Customer and consumer demand for our products may be impacted by recession, financial and credit market disruptions, or other economic downturns in the United States or other nations. Our results in the past have been, and in the future may continue to be, materially affected by changes in general economic and political conditions in the United States and other countries, including the interest rate environment in which we conduct business, the financial

markets through which we access capital and currency, political unrest and terrorist acts in the United States or other countries in which we carry on business.

Current economic conditions globally may delay or reduce purchases by our customers and consumers. This could result in reductions in sales of our products, reduced acceptance of innovations, and increased price competition. Deterioration in economic conditions in any of the countries in which we do business could also cause slower collections on accounts receivable which may adversely impact our liquidity and financial condition. Financial institutions may be negatively impacted by economic conditions and may consolidate or cease to do business which could result in a tightening in the credit markets, a low level of liquidity in many financial markets, and increased volatility in fixed income, credit, currency and equity markets. There could be a number of effects from a financial institution credit crisis on our business, which could include impaired credit availability and financial stability of our customers, including our suppliers, co-manufacturers and distributors. A disruption in financial markets may also have an effect on our derivative counterparties and could also impair our banking partners on which we rely for operating cash management. Any of these events would likely harm our business, results of operations and financial condition. An impairment of the carrying value of goodwill or other acquired intangibles could negatively affect our consolidated operating results and net worth.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangibles represents the fair value of trademarks, trade names, and other acquired intangibles as of the acquisition date. Goodwill and other acquired intangibles expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated by management at least annually for impairment. If carrying value exceeds current fair value, the intangible is considered impaired and is reduced to fair value via a charge to earnings. Factors which could result in an impairment include, but are not limited to: (i) reduced demand for our products; (ii) higher commodity prices; (iii) lower prices for our products or increased marketing as a result of increased competition; and (iv) significant disruptions to our operations as a result of both internal and external events. Should the value of one or more of the acquired intangibles become impaired, our consolidated earnings and net worth may be materially adversely affected.

As of January 2, 2016, the carrying value of intangible assets totaled approximately \$7.2 billion, of which \$5.0 billion was goodwill and \$2.2 billion represented trademarks, tradenames, and other acquired intangibles compared to total assets of \$15.3 billion and total Kellogg Company equity of \$2.1 billion.

We must leverage our brand value to compete against retailer brands.

In nearly all of our product categories, we face branded and price-based competition. Our products must provide higher value and/or quality to our consumers than alternatives, particularly during periods of economic uncertainty. Consumers may not buy our products if relative differences in value and/or quality between our products and retailer brands change in favor of competitors' products or if consumers perceive this type of change. If consumers prefer retailer brands, then we could lose category share or sales volumes or shift our product mix to lower margin offerings, which could have a material effect on our business and consolidated financial position and on the consolidated results of our operations and profitability.

We may not achieve our targeted cost savings and efficiencies from cost reduction initiatives.

Our success depends in part on our ability to be an efficient producer in a highly competitive industry. We have invested a significant amount in capital expenditures to improve our operational facilities. Ongoing operational issues are likely to occur when carrying out major production, procurement, or logistical changes and these, as well as any failure by us to achieve our planned cost savings and efficiencies, could have a material adverse effect on our business and consolidated financial position and on the consolidated results of our operations and profitability.

Technology failures could disrupt our operations and negatively impact our business.

We increasingly rely on information technology systems to process, transmit, and store electronic information. For example, our production and distribution facilities and inventory management utilize information technology to increase efficiencies and limit costs. Information technology systems are also integral to the reporting of our results of operations. Furthermore, a significant portion of the communications between, and storage of personal data of, our personnel, customers, consumers and suppliers depends on information technology. Our information technology systems may be vulnerable to a variety of interruptions, as a result of updating our enterprise platform or due to events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers, and other security issues. Moreover, our computer systems have been, and will likely

continue to be subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber- or phishing-attacks. These events could compromise our confidential

information, impede or interrupt our business operations, and may result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage. Furthermore, if a breach or other breakdown results in disclosure of confidential or personal information, we may suffer reputational, competitive and/or business harm. To date, we have not experienced a material breach of cyber security. While we have implemented administrative and technical controls and taken other preventive actions to reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brands.

We consider our intellectual property rights, particularly and most notably our trademarks, but also including patents, trade secrets, copyrights and licensing agreements, to be a significant and valuable aspect of our business. We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements, third party nondisclosure and assignment agreements and policing of third party misuses of our intellectual property. Our failure to obtain or adequately protect our trademarks, products, new features of our products, or our technology, or any change in law or other changes that serve to lessen or remove the current legal protections of our intellectual property, may diminish our competitiveness and could materially harm our business.

We may be unaware of intellectual property rights of others that may cover some of our technology, brands or products. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Third party claims of intellectual property infringement might also require us to enter into costly license agreements. We also may be subject to significant damages or injunctions against development and sale of certain products.

We are subject to risks generally associated with companies that operate globally.

We are a global company and generated 37% of our 2015 net sales, and 39% of our 2014 and 2013 net sales outside the United States. We manufacture our products in 20 countries and have operations in more than 180 countries, so we are subject to risks inherent in multinational operations. Those risks include:

- compliance with U.S. laws affecting operations outside of the United States, such as OFAC trade sanction regulations and Anti-Boycott regulations,
- compliance with anti-corruption laws, including U.S. Foreign Corrupt Practices Act (FCPA) and U.K. Bribery Act (UKBA),
- compliance with antitrust and competition laws, data privacy laws, and a variety of other local, national and multi-national regulations and laws in multiple regimes,
- changes in tax laws, interpretation of tax laws and tax audit outcomes,
- fluctuations or devaluations in currency values, especially in emerging markets,
- changes in capital controls, including currency exchange controls, government currency policies or other limits on our ability to import raw materials or finished product or repatriate cash from outside the United States,
- changes in local regulations and laws, the uncertainty of enforcement of remedies in foreign jurisdictions, and foreign ownership restrictions and the potential for nationalization or expropriation of property or other resources;
- discriminatory or conflicting fiscal policies,
- increased sovereign risk, such as default by or deterioration in the economies and credit worthiness of local governments,
- varying abilities to enforce intellectual property and contractual rights,
- greater risk of uncollectible accounts and longer collection cycles,
- loss of ability to manage our operations in certain markets which could result in the deconsolidation of such businesses,
- design and implementation of effective control environment processes across our diverse operations and employee base, and
-

imposition of more or new tariffs, quotas, trade barriers, and similar restrictions on our sales or regulations, taxes or policies that might negatively affect our sales.

The future results of our Venezuelan operations may be adversely affected by many factors, including our ability to take action to mitigate the effect of a further devaluation of the Venezuelan bolivar, the foreign currency exchange rate and exchange controls, other actions of the Venezuelan government and the general economic conditions in

the country, resulting from continued hyper-inflation, continued or increased labor unrest and the deteriorating macroeconomic conditions. In particular, any additional government actions, such as imposition of price restrictions that prohibit the Company from pricing its products at acceptable levels, could have a further adverse impact on our results of operations or financial condition that could become material in the future. Additionally, consumer demand for the Company's products in Venezuela may decline as a result continued inflationary price increases. These and other factors could negatively impact the Company's ability to manage our Venezuelan operations and could result in the deconsolidation of our Venezuelan business. See Note 15 for more information regarding Venezuela.

In addition, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption, expropriation and other economic or political uncertainties could interrupt and negatively affect our business operations or customer demand. The slowdown in economic growth or high unemployment in some emerging markets could constrain consumer spending, and declining consumer purchasing power could adversely impact our profitability. Continued instability in the banking and governmental sectors of certain countries in the European Union or the dynamics associated with the federal and state debt and budget challenges in the United States could adversely affect us. All of these factors could result in increased costs or decreased revenues, and could materially and adversely affect our product sales, financial condition and results of operations.

Our operations in certain emerging markets expose us to political, economic and regulatory risks.

Our growth strategy depends in part on our ability to expand our operations in emerging markets. However, some emerging markets have greater political, economic and currency volatility and greater vulnerability to infrastructure and labor disruptions than more established markets. In many countries outside of the United States, particularly those with emerging economies, it may be common for others to engage in business practices prohibited by laws and regulations with extraterritorial reach, such as the FCPA and the UKBA, or local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials, including in connection with obtaining permits or engaging in other actions necessary to do business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our reputation, financial condition and results of operations.

In addition, competition in emerging markets is increasing as our competitors grow their global operations and low cost local manufacturers expand and improve their production capacities. Our success in emerging markets is critical to our growth strategy. If we cannot successfully increase our business in emerging markets and manage associated political, economic and regulatory risks, our product sales, financial condition and results of operations could be materially and adversely affected.

Adverse changes in the global climate or extreme weather conditions could adversely affect our business or operations

Climate change is a core business issue for Kellogg to ensure the long-term health and viability of the ingredients we use in our products. As set forth in the Intergovernmental Panel on Climate Change Fifth Assessment Report, there is continuing scientific evidence, as well as concern from members of the general public, that emissions of greenhouse gases and contributing human activities have caused and will continue to cause significant changes in global temperatures and weather patterns and increase the frequency or severity of weather events, wildfires and flooding. As the pressures from climate change and global population growth lead to increased demand, the food system and global supply chain is becoming increasingly vulnerable to acute shocks, leading to increased prices and volatility, especially in the energy and commodity markets. Adverse changes such as these could:

- unfavorably impact the cost or availability of raw or packaging materials, especially if such events have a negative impact on agricultural productivity or on the supply of water;
- disrupt our ability, or the ability of our suppliers or contract manufacturers, to manufacture or distribute our products;
- disrupt the retail operations of our customers; or
- unfavorably impact the demand for, or the consumer's ability to purchase, our products.

Foreign, federal, state and local regulatory and legislative bodies have proposed various legislative and regulatory measures relating to climate change, regulating greenhouse gas emissions and energy policies. In the event that such regulation is enacted, we may experience significant increases in our costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. Lastly, consumers and customers may put an increased priority on purchasing

products that are sustainably grown and made, requiring us to incur increased costs for additional transparency, due diligence and reporting. As a result, climate change could negatively affect our business and operations

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal research and development facilities are located in Battle Creek, Michigan. We operated, as of February 24, 2016, manufacturing plants and distribution and warehousing facilities totaling more than 38 million square feet of building area in the United States and other countries. Our plants have been designed and constructed to meet our specific production requirements, and we periodically invest money for capital and technological improvements. At the time of its selection, each location was considered to be favorable, based on the location of markets, sources of raw materials, availability of suitable labor, transportation facilities, location of our other plants producing similar products, and other factors. Our manufacturing facilities in the United States include four cereal plants and warehouses located in Battle Creek, Michigan; Lancaster, Pennsylvania; Memphis, Tennessee; and Omaha, Nebraska and other plants or facilities in San Jose, California; Atlanta, Augusta, and Rome, Georgia; Chicago, Illinois; Seelyville, Indiana; Kansas City, Kansas; Florence, Louisville, and Pikeville, Kentucky; Grand Rapids and Wyoming, Michigan; Blue Anchor, New Jersey; Cary, North Carolina; Cincinnati and Zanesville, Ohio; Muncy, Pennsylvania; Jackson and Rossville, Tennessee; and Allyn, Washington.

Outside the United States, we had, as of February 24, 2016, additional manufacturing locations, some with warehousing facilities, in Australia, Belgium, Brazil, Canada, Colombia, Ecuador, Egypt, Germany, Great Britain, India, Japan, Malaysia, Mexico, Poland, Russia, South Africa, South Korea, Spain, Thailand, and Venezuela. We also have joint ventures in China, Nigeria, and Turkey which own or operate manufacturing or warehouse facilities. We generally own our principal properties, including our major office facilities, although some manufacturing facilities are leased, and no owned property is subject to any major lien or other encumbrance. Distribution facilities (including related warehousing facilities) and offices of non-plant locations typically are leased. In general, we consider our facilities, taken as a whole, to be suitable, adequate, and of sufficient capacity for our current operations.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings, claims, and governmental inspections, audits or investigations arising out of our business which cover matters such as general commercial, governmental regulations, antitrust and trade regulations, product liability, environmental, intellectual property, employment and other actions. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on our financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Information on the market for our common stock, number of shareowners and dividends is located in Note 16 within Notes to Consolidated Financial Statements.

In February 2014, the board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$1.5 billion through December 2015. In December 2015, the board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$1.5 billion beginning in January 2016 through December 2017.

The following table provides information with respect to purchases of common shares under programs authorized by our board of directors during the quarter ended January 2, 2016.

(millions, except per share data)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1: 10/04/15-10/31/15	—	—	—	\$688
Month #2: 11/01/15-11/28/15	1.8	68.68	1.8	\$563
Month #3: 11/29/15-1/02/16	3.2	70.24	3.2	\$338

ITEM 6. SELECTED FINANCIAL DATA

Kellogg Company and Subsidiaries
Selected Financial Data

(millions, except per share data and number of employees)	2015	2014	2013	2012	2011
Operating trends					
Net sales (a)	\$13,525	\$14,580	\$14,792	\$14,197	\$13,198
Gross profit as a % of net sales (a)	34.6 %	34.7 %	41.3 %	38.3 %	39.0 %
Depreciation	526	494	523	444	367
Amortization	8	9	9	4	2
Advertising expense (b)	898	1,094	1,131	1,120	1,138
Research and development expense	193	199	199	206	192
Operating profit (a)	1,091	1,024	2,837	1,562	1,427
Operating profit as a % of net sales (a)	8.1 %	7.0 %	19.2 %	11.0 %	10.8 %
Interest expense	227	209	235	261	233
Net income attributable to Kellogg Company (a)	614	632	1,807	961	866
Average shares outstanding:					
Basic	354	358	363	358	362
Diluted	356	360	365	360	364
Per share amounts:					
Basic	1.74	1.76	4.98	2.68	2.39
Diluted (a)	1.72	1.75	4.94	2.67	2.38
Cash flow trends					
Net cash provided by operating activities	\$1,691	\$1,793	\$1,807	\$1,758	\$1,595
Capital expenditures	553	582	637	533	594
Net cash provided by operating activities reduced by capital expenditures (c)	1,138	1,211	1,170	1,225	1,001
Net cash used in investing activities	(1,127)	(573)	(641)	(3,245)	(587)
Net cash provided by (used in) financing activities	(706)	(1,063)	(1,141)	1,317	(957)
Interest coverage ratio (d)	6.8	7.3	14.3	7.8	7.7
Capital structure trends					
Total assets	\$15,265	\$15,153	\$15,474	\$15,169	\$11,943
Property, net	3,621	3,769	3,856	3,782	3,281
Short-term debt and current maturities of long-term debt	2,470	1,435	1,028	1,820	995
Long-term debt	5,289	5,935	6,330	6,082	5,037
Total Kellogg Company equity	2,128	2,789	3,545	2,404	1,796
Share price trends					
Stock price range	\$61-74	\$57-69	\$55-68	\$46-57	\$48-58
Cash dividends per common share	1.98	1.90	1.80	1.74	1.67
Number of employees	33,577	29,818	30,277	31,006	30,671

(a) Non-GAAP currency-neutral comparable definitions of these metrics are reconciled to the directly comparable measure in accordance with U.S. GAAP within our Management's Discussion and Analysis. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our underlying operating performance.

(b) Advertising and consumer promotions are included in total brand-building, a measure that we use to determine the level of investment we make to support our brands. Advertising has declined in 2015 as a result of foreign currency translation as well as the implementation of efficiency and effectiveness programs including a shift in investments to non-advertising consumer promotion programs. Total brand-building investment has declined in

2015 approximately 50 basis points as a percentage of net sales. Our brand building is down including shifts of investment into other areas such as food, the evolving shift in media investment from TV to digital, and efficiency and effectiveness benefits. Our zero-based budgeting initiative may identify additional efficiency and effectiveness opportunities in brand building as we proceed through 2016. We may choose to reinvest these savings back into brand building or other areas such as food reformulation or capacity to drive revenue growth. We remain committed to invest in our brands at an industry-leading level to maintain the strength of our many recognizable brands in the marketplace.

- (c) We use this non-GAAP financial measure, which is reconciled above, to focus management and investors on the amount of cash available for debt repayment, dividend distribution, acquisition opportunities, and share repurchase.
- (d) Interest coverage ratio is calculated based on net income attributable to Kellogg Company before interest expense, income taxes, depreciation and amortization, divided by interest expense.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Kellogg Company and Subsidiaries

RESULTS OF OPERATIONS

Business overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand Kellogg Company, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8 of this report.

For more than 100 years, consumers have counted on Kellogg for great-tasting, high-quality and nutritious foods. Kellogg is the world's leading producer of cereal, second largest producer of cookies and crackers, and a leading producer of savory snacks and frozen foods. Additional product offerings include toaster pastries, cereal bars, fruit-flavored snacks and veggie foods. Kellogg products are manufactured and marketed globally.

Segments and growth targets

During Q1 2015, we established a new Kashi operating segment in order to optimize future growth potential of this business. This operating segment is included in the North America Other reportable segment. Including this new operating segment, we manage our operations through nine operating segments that are based on product category or geographic location. These operating segments are evaluated for similarity with regards to economic characteristics, products, production processes, types or classes of customers, distribution methods and regulatory environments to determine if they can be aggregated into reportable segments. We report results of operations in the following reportable segments: U.S. Morning Foods; U.S. Snacks; U.S. Specialty; North America Other; Europe; Latin America; and Asia Pacific. The reportable segments are discussed in greater detail in Note 17 within Notes to Consolidated Financial Statements.

We manage our Company for sustainable performance defined by our long-term annual growth targets. Our targeted long-term annual growth is low-single-digit (1 to 3%) for currency-neutral comparable net sales, mid-single-digit (4 to 6%) for currency-neutral comparable operating profit, and high-single-digit (7 to 9%) for currency-neutral comparable diluted net earnings per share (EPS).

Significant items impacting comparability

Project K and cost reduction activities

During 2013, we announced Project K, a four-year efficiency and effectiveness program. The program is expected to generate a significant amount of savings that may be invested in key strategic areas of focus for the business. We expect that this investment will drive future growth in revenues, gross margin, operating profit, and cash flow. We recorded pre-tax charges related primarily to Project K of \$311 million in 2015, \$298 million in 2014, and \$250 million in 2013.

In 2015 we initiated the implementation of a zero-based budgeting (ZBB) program in our North America business. In support of the ZBB initiative, we incurred pre-tax charges of approximately \$12 million in 2015. See the Restructuring and cost reduction activities section for more information.

Acquisitions and dispositions

In September 2015, we completed the acquisition of Mass Foods, Egypt's leading cereal company for \$46 million, or \$44 million net of cash and cash equivalents acquired. The acquisition added \$4 million in incremental net sales to our reported results in the European reportable segment for 2015. The acquisition added less than \$1 million of

incremental operating profit (before transaction and integration costs) to our reported results for 2015.

In January 2015, we completed the acquisition of a majority interest in Bisco Misr, the number one packaged biscuits company in Egypt for \$125 million, or \$117 million net of cash and cash equivalents acquired. The acquisition added \$54 million in incremental net sales to our reported results in the European reportable segment for 2015. The acquisition added \$4 million of incremental operating profit (before transaction and integration costs) to our reported results for 2015.

During the quarter ended September 27, 2014, we entered into an agreement to sell our vegan and vegetarian canned-meat substitute business unit under the Loma Linda brand to Atlantic Natural Foods (ANF), LLC of Nashville, N.C. The disposition negatively impacted reported net sales in the U.S. Specialty reportable segment by approximately \$9 million in 2015.

Integration and transaction costs

We have incurred integration and transaction costs related to the 2015 acquisitions of Bisco Misr and Mass Foods, the 2015 entry into a joint venture with Tolaram Africa, and the 2012 acquisition of Pringles as we move these businesses into the Kellogg business model. We recorded pre-tax integration and transaction costs of \$30 million in 2015. We also recorded pre-tax integration costs of \$43 million and \$65 million in 2014 and 2013, respectively.

Mark-to-market accounting for pension plans, commodities and certain foreign currency contracts

We recognize mark-to-market adjustments for pension plans, commodity contracts, and certain foreign currency contracts as incurred. Actuarial gains/losses for pension plans are recognized in the year they occur. Changes between contract and market prices for commodities contracts and certain foreign currency contracts result in gains/losses that are recognized in the quarter they occur. We recorded pre-tax mark-to-market charges of \$446 million, \$784 million, and a benefit of \$947 million for 2015, 2014, and 2013, respectively.

Other costs impacting comparability

In 2015, a series of previously executed agreements between Kellogg's and a third party variable interest entity (VIE) were terminated resulting in our determination that we were no longer the primary beneficiary of the VIE.

Accordingly, we deconsolidated the financial statements of the VIE. As a result of the agreement terminations and related settlements, we recognized a loss of \$19 million in Other income (expense), net.

In connection with the deconsolidation, we derecognized all assets and liabilities of the VIE, including an allocation of a portion of goodwill from the U.S. Snacks operating segment, resulting in a \$67 million non-cash gain, which was recorded within operating profit.

During 2014 we incurred \$6 million of costs related to the evaluation of potential acquisitions.

Venezuela remeasurement and long-lived asset impairment

While we continue to qualify for participation in CENCOEX at the official rate, there has been a continued reduction in the level of U.S. dollars available to exchange, in part due to recent declines in the price of oil and the overall decline of the macroeconomic environment within the country. We have experienced an increase in the amount of time it takes to exchange bolivars for U.S. dollars through the CENCOEX exchange during the year. Given this economic backdrop, and upon review of U.S. dollar cash needs in our Venezuela operations as of the quarter ended July 4, 2015, we concluded that we were no longer able to obtain sufficient U.S. dollars on a timely basis through the CENCOEX exchange to support our Venezuela operations resulting in a decision to remeasure our Venezuela subsidiary's financial statements using the SIMADI rate. We have evaluated all of the facts and circumstances surrounding our Venezuelan business and determined that as of January 2, 2016 the SIMADI rate continues to be the appropriate rate to use for remeasuring our Venezuelan subsidiary's financial statements.

In connection with the change from the CENCOEX rate to the SIMADI rate that occurred in the quarter ended July 4, 2015, we evaluated the carrying value of our non-monetary assets for impairment and lower of cost or market adjustments. As a result of moving from the CENCOEX official rate to the SIMADI rate, we recorded pre-tax charges totaling \$152 million, including \$112 million in the Latin America operating segment and \$40 million in the Corporate operating segment. Of the total charges, \$100 million was recorded in COGS, \$3 million was recorded in SGA, and \$49 million was recorded in Other income (expense), net. These charges consist of \$47 million related to

the remeasurement of net monetary assets denominated in Venezuelan bolivar at the SIMADI exchange rate (recorded in Other income (expense), net), \$56 million related to reducing inventory to the lower of cost or market (recorded in COGS) and \$49 million related to the impairment of long-lived assets in Venezuela (recorded primarily in COGS).

As expected, after moving to the SIMADI rate, our Venezuelan subsidiary utilized assets that continued to be remeasured at historical exchange rates. This resulted in an additional unfavorable impact of \$17 million in the Latin America operating segment, including an impact to COGS of \$12 million and SGA of \$5 million. The total 2015 impact of moving from the CENCOEX official rate to the SIMADI rate was \$169 million on a pre-tax basis, or approximately \$.42 on a fully-diluted EPS basis.

As of January 2, 2016, certain non-monetary assets related to our Venezuelan subsidiary continue to be remeasured at historical exchange rates. As these assets are utilized by our Venezuelan subsidiary during the first half of 2016 they will be recognized in the income statement at historical exchange rates resulting in an unfavorable impact of approximately \$4 million.

Shipping day differences

The Company's fiscal year normally ends on the Saturday closest to December 31 and as a result, a 53rd week is added approximately every sixth year. The Company's 2014 fiscal year ended on January 3, 2015, and included a 53rd week. While quarters normally consist of 13-week periods, the fourth quarter of 2014 included a 14th week. For comparability, the impact of the 53rd week is excluded from our comparable results. The impact of the fourth quarter 2014 53rd week was \$197 million for net sales, \$36 million for operating profit and \$.07 on a fully-diluted EPS basis.

Foreign currency translation and the impact of Venezuela

We evaluate the operating results of our business on a currency-neutral basis. We determine currency-neutral operating results by dividing or multiplying, as appropriate, the current-period local currency operating results by the currency exchange rates used to translate our financial statements in the comparable prior-year period to determine what the current period U.S. dollar operating results would have been if the currency exchange rate had not changed from the comparable prior-year period.

As a result of our decision to change the exchange rate that we use to remeasure our Venezuela subsidiary from CENCOEX to the SIMADI exchange rate beginning mid-2015, the methodology we use to calculate the impact of foreign currency translation, as described above, results in certain year-over-year growth rates that require additional commentary. We believe that the use of our standard currency-neutral methodology in combination with the additional commentary provides important information to more fully understand our currency-neutral operating results.

Our 2015 guidance that was maintained consistently throughout the year reflected an expectation of being approximately flat for currency-neutral comparable net sales and a decline of 2% to 4% for currency-neutral comparable operating profit. Within this guidance, Venezuela was expected to contribute approximately 1% of growth for both currency-neutral comparable net sales and currency-neutral comparable operating profit. In the second half of 2015, the Venezuela business experienced significant unplanned inflation that impacted both currency-neutral comparable net sales and operating profit that was much larger than anticipated in the guidance. To provide increased visibility into how we have delivered against our 2015 guidance, the commentary below provides both currency-neutral comparable results, which include the entire impact of Venezuela, as well as an adjusted measure that excludes the impact of Venezuela.

For the quarter ended January 2, 2016, Latin America currency-neutral comparable net sales and operating profit growth were 45.3% and 46.2% respectively. Excluding Venezuela, Latin America currency-neutral comparable net sales and operating profit growth would have been approximately 1.4% and 2.0%, respectively.

For the year-to-date period ended January 2, 2016, Latin America currency-neutral comparable net sales and operating profit growth were 24.6% and 15.4% respectively. Excluding Venezuela, Latin America currency-neutral comparable net sales and operating profit growth would have been approximately 1.3% and a decline of 3.4%, respectively.

For the quarter ended January 2, 2016, Kellogg Consolidated currency-neutral comparable net sales and operating profit growth was 4.2% and 2.8%, respectively. Excluding Venezuela, Kellogg Consolidated currency-neutral comparable net sales and operating profit growth would have been approximately 0.4% and 0.3%, respectively.

For the year-to-date period ended January 2, 2016, Kellogg Consolidated currency-neutral comparable net sales and operating profit growth was 1.2% and a decline of 2.3%, respectively. Excluding Venezuela, Kellogg Consolidated currency-neutral comparable net sales and operating profit would have declined by 0.8% and 3.6%, respectively.

Non-GAAP Measures

Comparability of certain financial measures is affected significantly by several types of financial impacts such as foreign currency translation, integration and transaction costs, mark-to-market adjustments for pension plans,

commodities and certain foreign currency contracts, Project K costs, costs associated with the Venezuela remeasurement and long-lived asset impairment, costs associated with the VIE deconsolidation, differences in shipping days, acquisitions, dispositions, and other costs impacting comparability. To provide increased transparency and assist in understanding our comparable operating performance, we use non-GAAP financial measures within MD&A that exclude these financial impacts.

Non-GAAP financial measures used include comparable net sales, currency-neutral comparable net sales, comparable net sales growth, currency-neutral comparable net sales growth, comparable gross margin, currency-neutral comparable gross margin, comparable gross profit, currency-neutral comparable gross profit, comparable SGA%, currency-neutral comparable SGA%, comparable operating margin, currency-neutral comparable operating margin, comparable operating profit, currency-neutral comparable operating profit, comparable operating profit growth, currency-neutral comparable operating profit growth, comparable income taxes, currency-neutral comparable income taxes, comparable effective tax rate, currency-neutral comparable effective tax rate, comparable net income attributable to Kellogg Company, currency-neutral comparable net income attributable to Kellogg Company, comparable diluted EPS, currency-neutral comparable diluted EPS, comparable diluted EPS growth, and currency-neutral comparable diluted EPS growth.

Financial results

For the full year 2015, our reported net sales decreased by 7.2% due to the negative impact of foreign currency translation and shipping day differences from the 53rd week that was recognized in the prior year. Currency-neutral comparable net sales increased by 1.2%, which was better than our expectations, and includes the benefit of pricing taken in Venezuela to offset cost inflation. We experienced currency-neutral comparable net sales growth in Latin America, which was driven primarily by pricing taken in Venezuela. We also experienced currency-neutral comparable net sales growth in Asia-Pacific, U. S. Specialty and the Canadian business which is included in the North America Other reportable segment.

Reported operating profit increased by 6.6% primarily due to the favorable year-over-year change in the pension mark-to-market which was partially offset by the negative impact of foreign currency translation, the impact of remeasuring our Venezuela business using the SIMADI rate in the second quarter of 2015, and the impact of resetting incentive compensation levels. Currency-neutral comparable operating profit declined by 2.3%, at the high end of our expectations, due to the resetting of incentive compensation levels which impacted results by approximately 3%. The 1% growth excluding the effect of resetting incentive compensation levels was the result of sales growth and a 50 basis point reduction in brand-building investment as a percentage of net sales. Our brand building is down including shifts of investment into other areas such as food, the evolving shift in media investment from TV to digital, and efficiency and effectiveness benefits. Our zero-based budgeting initiative may identify additional efficiency and effectiveness opportunities in brand building as we proceed through 2016. We may choose to reinvest these savings back into brand building or other areas such as food reformulation or capacity to drive revenue growth. We remain committed to invest in our brands at an industry-leading level to maintain the strength of our many recognizable brands in the marketplace.

Reported diluted EPS of \$1.72 was down 1.7% compared to the prior year of \$1.75. Reported diluted EPS was impacted negatively by Project K costs (\$.64), mark-to-market accounting (\$.84), the remeasurement of the Venezuelan business using the SIMADI rate (\$.42), foreign currency translation (\$.28), and integration costs (\$.06), and was impacted positively by a VIE deconsolidation (\$.14) and acquisitions (\$.01). Currency-neutral comparable diluted EPS of \$3.81 was flat compared to prior year of \$3.81, in line with our expectations.

Reconciliation of certain non-GAAP Financial Measures

Consolidated results (dollars in millions, except per share data)	2015		2014	
Reported net income attributable to Kellogg Company	\$614		\$632	
Mark-to-market	(298)	)	(513))
Project K and cost reduction activities	(229)	)	(218))
VIE deconsolidation and other costs impacting comparability	50		(4))
Integration and transaction costs	(22)	)	(31))
Acquisitions/divestitures	5		—	
Shipping day differences	—		25	
Venezuela remeasurement	(149))	—	
Comparable net income attributable to Kellogg Company	\$1,257		\$1,373	
Foreign currency impact	(100))	—	
Currency neutral comparable net income attributable to Kellogg Company	\$1,357		\$1,373	
Reported diluted EPS	\$1.72		\$1.75	
Mark-to-market	(0.84)	)	(1.42))
Project K and cost reduction activities	(0.64)	)	(0.61))
VIE deconsolidation and other costs impacting comparability	0.14		(0.01))
Integration and transaction costs	(0.06)	)	(0.09))
Acquisitions/divestitures	0.01		—	
Shipping day differences	—		0.07	
Venezuela remeasurement	(0.42))	—	
Comparable diluted EPS	\$3.53		\$3.81	
Foreign currency impact	(0.28))	—	
Currency neutral comparable diluted EPS	\$3.81		\$3.81	
Currency neutral comparable diluted EPS growth	—		%	
For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.				

Consolidated results (dollars in millions, except per share data)	2014		2013	
Reported net income attributable to Kellogg Company	\$632		\$1,807	
Mark-to-market	(513)	)	628	
Project K and cost reduction activities	(218)	)	(183))
VIE deconsolidation and other costs impacting comparability	(4))	—	
Integration and transaction costs	(31)	)	(46))
Acquisitions/divestitures	—		2	
Shipping day differences	25		—	
Venezuela remeasurement	—		(11))
Comparable net income attributable to Kellogg Company	\$1,373		\$1,417	
Foreign currency impact	(2))	—	
Currency neutral comparable net income attributable to Kellogg Company	\$1,375		\$1,417	
Reported diluted EPS	\$1.75		\$4.94	
Mark-to-market	(1.42)	)	1.72	
Project K and cost reduction activities	(0.61)	)	(0.50))
VIE deconsolidation and other costs impacting comparability	(0.01))	—	
Integration and transaction costs	(0.09)	)	(0.13))
Acquisitions/divestitures	—		0.01	
Shipping day differences	0.07		—	
Venezuela remeasurement	—		(0.03))
Comparable diluted EPS	\$3.81		\$3.87	

Edgar Filing: KELLOGG CO - Form 10-K

Foreign currency impact	(0.01)	—
Currency neutral comparable diluted EPS	\$3.82		\$3.87
Currency neutral comparable diluted EPS growth	(1.3)%	

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

Net sales and operating profit
2015 compared to 2014

The following tables provide an analysis of net sales and operating profit performance for 2015 versus 2014:

Year ended January 2, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Net Sales	\$2,992	\$3,234	\$1,181	\$1,687	\$2,497	\$1,015	\$919	\$—	\$13,525
Project K and cost reduction activities	—	—	—	(2)	(2)	—	—	—	(4)
Integration and transaction costs	—	—	—	—	—	—	(1)	—	(1)
Acquisitions/divestitures	—	—	—	—	58	—	—	—	58
Differences in shipping days	—	—	—	—	(3)	—	—	—	(3)
Comparable Net Sales	\$2,992	\$3,234	\$1,181	\$1,689	\$2,444	\$1,015	\$920	\$—	\$13,475
Foreign currency impact	—	—	—	(86)	(376)	(486)	(121)	—	(1,069)
Currency-Neutral Comparable Net Sales	\$2,992	\$3,234	\$1,181	\$1,775	\$2,820	\$1,501	\$1,041	\$—	\$14,544

Year ended January 3, 2015

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Net Sales	\$3,108	\$3,329	\$1,198	\$1,864	\$2,869	\$1,205	\$1,007	\$—	\$14,580
Project K and cost reduction activities	—	—	—	(1)	—	(1)	—	—	(2)
Integration and transaction costs	—	—	—	—	—	—	(1)	—	(1)
Acquisitions/divestitures	—	—	9	—	—	—	—	—	9
Differences in shipping days	66	44	16	30	32	1	8	—	197
Comparable Net Sales	\$3,042	\$3,285	\$1,173	\$1,835	\$2,837	\$1,205	\$1,000	\$—	\$14,377
Foreign currency impact	—	—	—	—	—	—	—	—	—
Currency-Neutral Comparable Net Sales	\$3,042	\$3,285	\$1,173	\$1,835	\$2,837	\$1,205	\$1,000	\$—	\$14,377

% change - 2015 vs. 2014:

As Reported	(3.7)%	(2.9)%	(1.4)%	(9.5)%	(13.0)%	(15.8)%	(8.8)%	—%	(7.2)%
Project K and cost reduction activities	—	%	—	%	—	%	(0.1)%	—	%
Integration and transaction costs	—	%	—	%	—	%	—	%	(0.1)%
Acquisitions/divestitures	—	%	—	%	(0.8)%	—	%	2.0	%
Differences in shipping days	(2.1)%	(1.3)%	(1.3)%	(1.5)%	(1.1)%	—	%	(0.8)%	—%
Comparable growth	(1.6)%	(1.6)%	0.7	%	(8.0)%	(13.8)%	(15.8)%	(7.9)%	—%
Foreign currency impact	—	%	—	%	—	%	(4.8)%	(13.2)%	(40.4)%
Currency-Neutral Comparable growth	(1.6)%	(1.6)%	0.7	%	(3.2)%	(0.6)%	24.6	%	4.0
								%	—%
									1.2
									%

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

Edgar Filing: KELLOGG CO - Form 10-K

Year ended January 2, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Operating Profit	\$474	\$385	\$260	\$178	\$247	\$9	\$54	\$(516)	\$1,091
Mark-to-market	—	—	—	—	—	—	—	(446)	(446)
Project K and cost reduction activities	(58)	(50)	(5)	(63)	(74)	(4)	(13)	(56)	(323)
Other costs impacting comparability	—	67	—	—	—	—	—	—	67
Integration and transaction costs	—	—	—	—	(11)	(3)	(14)	(2)	(30)
Acquisitions/divestitures	—	—	—	—	4	—	—	—	4
Differences in shipping days	—	—	—	—	—	—	—	—	—
Venezuela remeasurement	—	—	—	—	—	(119)	—	(1)	(120)
Comparable Operating Profit	\$532	\$368	\$265	\$241	\$328	\$135	\$81	\$(11)	\$1,939
Foreign currency impact	2	—	—	(15)	(29)	(72)	(13)	(5)	(132)
Currency-Neutral Comparable Operating Profit	\$530	\$368	\$265	\$256	\$357	\$207	\$94	\$(6)	\$2,071

Year ended January 3, 2015

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Operating Profit	\$479	\$364	\$266	\$295	\$232	\$169	\$53	\$(834)	\$1,024
Mark-to-market	—	—	—	—	—	—	—	(784)	(784)
Project K and cost reduction activities	(60)	(57)	(3)	(18)	(80)	(8)	(37)	(35)	(298)
Other costs impacting comparability	—	—	—	—	—	—	—	(6)	(6)
Integration and transaction costs	—	—	—	—	(36)	—	(7)	—	(43)
Acquisitions/divestitures	—	—	—	—	—	—	—	—	—
Differences in shipping days	19	6	3	8	6	(3)	—	(3)	36
Venezuela remeasurement	—	—	—	—	—	—	—	—	—
Comparable Operating Profit	\$520	\$415	\$266	\$305	\$342	\$180	\$97	\$(6)	\$2,119
Foreign currency impact	—	—	—	—	—	—	—	—	—
Currency-Neutral Comparable Operating Profit	\$520	\$415	\$266	\$305	\$342	\$180	\$97	\$(6)	\$2,119

% change - 2015 vs. 2014:

Edgar Filing: KELLOGG CO - Form 10-K

As Reported	(0.9	)%	5.9	%	(2.4	)%	(39.8)	%	6.7	%	(94.8)	%	1.7	%	38.1	%	6.6	%
Mark-to-market	—	%	—	%	—	%	—	%	—	%	—	%	—	%	78.5	%	21.6	%
Project K and cost reduction activities	0.4	%	2.6	%	(0.6	)%	(16.5)	%	3.7	%	(2.2)	)%	26.6	%	(50.3)	)%	(3.3))%
Other costs impacting comparability	—	%	15.8	%	—	%	—	%	0.1	%	—	%	0.1	%	51.8	%	3.4	%
Integration and transaction costs	—	%	(0.1)	)%	—	%	—	%	7.3	%	(1.4)	)%	(9.1)	)%	(10.0)	)%	0.3	%
Acquisitions/divestitures	—	%	—	%	—	%	—	%	1.3	%	—	%	—	%	—	%	0.2	%
Differences in shipping days	(3.7	)%	(1.1)	)%	(1.0)	)%	(2.0)	)%	(1.7)	)%	0.2	%	0.3	%	50.2	%	(1.4))%
Venezuela remeasurement	—	%	—	%	—	%	—	%	—	%	(66.5)	)%	—	%	(15.1)	)%	(5.7))%
Comparable growth	2.4	%	(11.3)	)%	(0.8)	)%	(21.3)	)%	(4.0)	)%	(24.9)	)%	(16.2)	)%	(67.0)	)%	(8.5))%
Foreign currency impact	0.3	%	—	%	—	%	(5.2)	)%	(8.3)	)%	(40.3)	)%	(12.5)	)%	(62.9)	)%	(6.2))%
Currency-Neutral Comparable growth	2.1	%	(11.3)	)%	(0.8)	)%	(16.1)	)%	4.3	%	15.4	%	(3.7)	)%	(4.1)	)%	(2.3))%

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

U.S. Morning Foods

Currency-neutral comparable net sales declined 1.6% as a result of unfavorable volume and pricing/mix. This segment consists of cereal, toaster pastries, health and wellness bars, and beverages.

We saw a lot of improvement across the year in the Morning Foods business. We invested where we needed

to and worked hard to improve the fundamentals by improving our brand building and the new products we launched. We also invested in our foods and put fun back in the box with Avengers® and Disney Frozen®-themed cereals.

Our cereal business reported a decline for the full year, although we continued to reflect improving trends throughout the year, and we reported consumption growth and share gains in the fourth quarter as our business continues to improve ahead of category trends. Our six core cereals in combination (Special K®, Raisin Bran®, Frosted Flakes®, Mini-Wheats®, Froot Loops®, and Rice Krispies®) gained share and increased consumption for the year, with even stronger growth in both share and consumption in the fourth quarter. Special K® posted consumption growth and share gains for the year and even stronger results for the fourth quarter driven primarily by the renovation work we completed on Special K® Red Berries. The good growth we saw all year on Raisin Bran® was the result of great advertising and the introduction of Raisin Bran® with Cranberries.

We expect to continue driving sales in 2016 with the introduction of new products like Special K® Nourish, a cereal with positive nutrition and ingredients the consumer can see, and the food includes fruits, nuts and on-trend grains like quinoa. Initial response on this innovation has been encouraging. In addition, we're launching Mini-Wheats® Harvest Delights, Smorz®, and Disney Dory®-themed cereal.

Toaster pastries reported a slight sales decline for the year. Health and wellness bars and beverages each reported a sales decline.

Currency-neutral comparable operating profit increased 2.1% due to improved gross margins resulting from lower input costs and Project K savings as well as lower brand-building investment. This was partially offset by the sales performance, increased distribution costs, and resetting of incentive compensation levels.

U.S. Snacks

Currency-neutral comparable net sales declined 1.6% as a result of decreased volume which was partially offset by favorable pricing/mix. This segment consists of crackers, cereal bars, cookies, savory snacks, and fruit-flavored snacks.

Crackers posted a sales decline as consumption declined across several of our products, while consumption increased for our Big 3 brands in combination (Cheez-It®, Town House®, and Club®). The consumption decline was due primarily to weakness in Special K® Cracker Chips during the first half of the year and full-year weakness in Special K® Popcorn Chips. The Special K® Cracker Chips products we restaged earlier this year posted consumption growth for the past two quarters as a result of improvements in packaging and food. We expect the impact of the remaining skus to lessen as we progress through 2016. The consumption increase for our Big 3 brands was primarily the result of strong consumption and share gains in Cheez-It® due to the Cheez-It® Grooves and Cheez-It® Extra Toasty innovations.

The bars business declined due to weakness in the Special K® and Fiber Plus® brands. The performance of our Special K bars has improved in the second half of the year as a result of new products and renovation that occurred early in the year and good results from Special K® Chewy Nut bars that were launched in mid-2015. Rice Krispies Treats® reported double-digit consumption gains and gained share as a result of good core growth and innovation.

The cookies business consumption declined for the year resulting in lost share, although we have seen improving trends over the second half of 2015 as a result of good performance in Chips Deluxe®, Fudge Shoppe®, and Famous Amos® due to expanded distribution, new products, and increased in-store activity. We have great brands in the category and we have some exciting new introductions planned for 2016. We are also going to give the brands new support in 2016, including the relaunch of advertising featuring the Keebler® Elves.

Savory snacks reported low-single-digit growth as a result of consumption growth due to core products and innovations. The Pringles® business had a good year including strength in the on-the-go segment. As we enter the new year we are adding new capacity and we have good plans; as a result, we look forward to a strong 2016.

Currency-neutral comparable operating profit declined by 11.3% due to unfavorable sales performance and the resetting of incentive compensation levels.

U.S. Specialty

25

Currency-neutral comparable net sales increased 0.7% as a result of favorable pricing/mix which was partially offset by decreased volume. Sales growth was reported in the Convenience and Vending channels, partially offset by a slight decline in Foodservice partially due to the exit of some unprofitable business early in the year.

Currency-neutral comparable operating profit declined by 0.8% due to the resetting of incentive compensation levels which more than offset the favorable sales performance.

North America Other

Currency-neutral comparable net sales declined 3.2% due to decreased volume and unfavorable pricing/mix.

The U.S. Frozen business reported a net sales decline due to the impact from egg prices, network improvements, and a decision to draw down inventories due to changes in packaging from boxes to bags for our veggie foods business. The packaging conversion is going well, but we expect sales to continue to be impacted in the first quarter of 2016 and for performance to improve over the balance of the year. The Eggo® hand-held sandwiches posted double-digit consumption growth and share gains for the year.

The Canada business reported a broad-based net sales increase across several categories for the year. For 2016, the Canadian team is planning introductions of new products and improved support, much like the rest of the North American region.

Kashi reported a double-digit net sales decline although the business continues to experience stabilized distribution and sequential improvement across the last two quarters in part due to the impact of the introduction of new products in the second half of 2015. Bear Naked® Granola posted double-digit consumption growth for the year. We expect continued improvement in 2016 due to further improvement in distribution and the impact of a focus on new products high in protein from plants.

Currency-neutral comparable operating profit declined 16.1% primarily due to unfavorable sales performance in the U.S. Frozen and Kashi businesses, net cost inflation including transactional currency expense in the Canadian business and increased material costs in the U.S. Frozen business, and the resetting of incentive compensation levels.

Europe
Currency-neutral comparable net sales declined 0.6% as a result of relatively flat volume and unfavorable pricing/mix.

The Pringles® business posted strong, double-digit net sales growth as a result of good promotions, innovations and distribution gains throughout the year. Both the base business and the launch of Pringles® Tortilla in the UK and Germany contributed. We have some exciting activity planned for Pringles® in 2016 as well, including soccer-themed activity planned to coincide with the Euros soccer tournament in the summer and the continued roll-out of Pringles® Tortilla in the region.

The wholesome snacks business posted growth in the second half of the year. This was due to better results in the UK driven in part by Disney®-branded snacks, mini biscuits, Crunchy Nut®, and Rice Krispies Squares®. In addition, the Russian business did well. We also have new foods coming across the region in 2016.

The Cereal business in Europe declined due to challenges in the category in many of the countries. However, we improved our plans for Special K® and Crunchy Nut® in the UK, saw good performance from Extra® in Italy, and invested behind Kellogg's®-branded granola in Germany. Also, we recently launched the Ancient Legends® brands in the region. These are great products, which include on-trend ingredients like spelt, apples, sultanas, and chia seeds. We are also applying learnings from our US cereal business including the renovation of Special K® Red Berries, the launch of Special K® Nourish, and we're also adding more fun in the box.

Currency-neutral comparable operating profit improved 4.3% due to net cost deflation and strong savings, including savings from Project K.

Latin America

Currency-neutral comparable net sales improved 24.6% due to favorable volume and pricing/mix, including the impact of pricing actions in Venezuela. Excluding Venezuela, currency-neutral comparable net sales would have grown 1.3%.

We experienced volume growth in several of our markets, including Mexico. We also realized strong price realization in Venezuela as a result of pricing actions taken to offset cost inflation. Cereal sales in the region increased and we have held or gained share in most of the region. These share gains have been driven by children's and family brands and the introduction of Kellogg-branded granolas and muesli products.

Sales in the snacks business also increased driven by innovation and go-to-market activity. The Pringles® business continued to perform well and we have launched Pringles® Tortilla in the region.

Our focus on high-frequency stores continues to drive results. We've seen results in Convenience and mini-Super stores in Mexico, and in smaller stores in Colombia. We have also had success driving sales growth through packaging initiatives designed to drive affordability and accessibility in various areas of the business.

Currency-neutral comparable operating profit improved by 15.4% due to favorable price realization which was partially offset by net cost inflation. Excluding Venezuela, currency neutral comparable operating profit declined 3.4% as sales growth and margin expansion were more than offset by increased investment in brand-building and business capabilities.

Asia Pacific

Currency-neutral comparable net sales increased 4.0% as a result of increased volume which was partially offset by unfavorable pricing/mix. Unfavorable pricing/mix was primarily the result of country mix.

The sales increase was the result of double-digit growth in the Asian markets, double-digit growth in Sub-Saharan Africa, and mid-single-digit growth in the savory snacks business across the region. The growth in Asia included double-digit sales growth in Japan driven by the continued growth of the granola category and the impact of new packaging as well as double-digit growth in Korea and Southeast Asia. The savory snacks business reported broad-based sales growth and share gains due to innovation and gains in distribution.

This sales performance was partially offset by weakness in the Australian cereal category. However, the granola and muesli segments are growing well and we have a plan to address the weakness in the overall Australian business in 2016. We are also applying lessons learned in our US business to our Australia business.

Currency-neutral comparable operating profit declined 3.7% as our investment of Project K savings into emerging markets in the region behind brand investments and capabilities more than offset the favorable sales performance.

Corporate

Currency-neutral comparable operating profit declined due to the resetting of incentive compensation levels which was partially offset by reduced pension costs.

Edgar Filing: KELLOGG CO - Form 10-K

2014 compared to 2013

The following tables provide an analysis of net sales and operating profit performance for 2014 versus 2013:

Year ended January 3, 2015

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Net Sales	\$3,108	\$3,329	\$1,198	\$1,864	\$2,869	\$1,205	\$1,007	\$—	\$14,580
Project K and cost reduction activities	—	—	—	(1)	—	(1)	—	—	(2)
Integration and transaction costs	—	—	—	—	—	—	(1)	—	(1)
Acquisitions/divestitures	—	—	—	—	—	—	—	—	—
Differences in shipping days	66	44	16	30	32	1	8	—	197
Comparable Net Sales	\$3,042	\$3,285	\$1,182	\$1,835	\$2,837	\$1,205	\$1,000	\$—	\$14,386
Foreign currency impact	—	—	—	(43)	16	(37)	(50)	—	(114)
Currency-Neutral Comparable Net Sales	\$3,042	\$3,285	\$1,182	\$1,878	\$2,821	\$1,242	\$1,050	\$—	\$14,500

Year ended December 28, 2013

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Net Sales	\$3,195	\$3,379	\$1,202	\$1,940	\$2,843	\$1,195	\$1,038	\$—	\$14,792
Project K and cost reduction activities	—	—	—	—	—	—	—	—	—
Integration and transaction costs	—	—	—	(1)	—	—	(4)	—	(5)
Acquisitions/divestitures	—	—	5	—	—	—	1	—	6
Differences in shipping days	—	—	—	—	—	—	—	—	—
Comparable Net Sales	\$3,195	\$3,379	\$1,197	\$1,941	\$2,843	\$1,195	\$1,041	\$—	\$14,791
Foreign currency impact	—	—	—	—	—	—	—	—	—
Currency-Neutral Comparable Net Sales	\$3,195	\$3,379	\$1,197	\$1,941	\$2,843	\$1,195	\$1,041	\$—	\$14,791

% change - 2014 vs. 2013:

As Reported	(2.7)%	(1.5)%	(0.3)%	(3.9)%	0.9 %	0.9 %	(3.0)%	—%	(1.4)%
Project K and cost reduction activities	— %	— %	— %	— %	— %	— %	— %	—%	— %
Integration and transaction costs	— %	— %	— %	— %	— %	— %	0.3 %	—%	0.1 %
Acquisitions/divestitures	— %	— %	(0.4)%	— %	— %	— %	(0.1)%	—%	(0.1)%
Differences in shipping days	2.1 %	1.3 %	1.3 %	1.5 %	1.1 %	0.1 %	0.8 %	—%	1.3 %
Comparable growth	(4.8)%	(2.8)%	(1.2)%	(5.4)%	(0.2)%	0.8 %	(4.0)%	—%	(2.7)%
Foreign currency impact	— %	— %	— %	(2.2)%	0.6 %	(3.1)%	(4.8)%	—%	(0.7)%
Currency-Neutral Comparable growth	(4.8)%	(2.8)%	(1.2)%	(3.2)%	(0.8)%	3.9 %	0.8 %	—%	(2.0)%

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

Edgar Filing: KELLOGG CO - Form 10-K

Year ended January 3, 2015

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Operating Profit	\$479	\$364	\$266	\$295	\$232	\$169	\$53	\$(834)	\$1,024
Mark-to-market	—	—	—	—	—	—	—	(784)	(784)
Project K and cost reduction activities	(60)	(57)	(3)	(18)	(80)	(8)	(37)	(35)	(298)
Other costs impacting comparability	—	—	—	—	—	—	—	(6)	(6)
Integration and transaction costs	—	—	—	—	(36)	—	(7)	—	(43)
Acquisitions/divestitures	—	—	—	—	—	—	—	—	—
Differences in shipping days	19	6	3	8	6	(3)	—	(3)	36
Venezuela remeasurement	—	—	—	—	—	—	—	—	—
Comparable Operating Profit	\$520	\$415	\$266	\$305	\$342	\$180	\$97	\$(6)	\$2,119
Foreign currency impact	—	—	—	(9)	9	(4)	(6)	2	(8)
Currency-Neutral Comparable Operating Profit	\$520	\$415	\$266	\$314	\$333	\$184	\$103	\$(8)	\$2,127

Year ended December 28, 2013

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Operating Profit	\$469	\$424	\$265	\$314	\$249	\$157	\$67	\$892	\$2,837
Mark-to-market	—	—	—	—	—	—	—	947	947
Project K and cost reduction activities	(109)	(30)	(5)	(11)	(27)	(5)	(32)	(31)	(250)
Other costs impacting comparability	—	—	—	—	—	—	—	—	—
Integration and transaction costs	—	(12)	—	(1)	(34)	(1)	(11)	(6)	(65)
Acquisitions/divestitures	—	—	—	—	—	—	(1)	—	(1)
Differences in shipping days	—	—	—	—	—	—	—	—	—
Venezuela remeasurement	—	—	—	—	—	(6)	—	—	(6)
Comparable Operating Profit	\$578	\$466	\$270	\$326	\$310	\$169	\$111	\$(18)	\$2,212
Foreign currency impact	—	—	—	—	—	—	—	—	—
Currency-Neutral Comparable Operating Profit	\$578	\$466	\$270	\$326	\$310	\$169	\$111	\$(18)	\$2,212

% change - 2014 vs. 2013:

Edgar Filing: KELLOGG CO - Form 10-K

As Reported	2.1	%	(14.2)%	0.4	%	(6.0)%	(7.0)%	7.3	%	(19.6)%	(193.4)%	(63.9)%
Mark-to-market	—	%	—	%	—	%	—	%	—	%	(203.1)%	(59.6)%
Project K and cost reduction activities	8.7	%	(6.9)%	0.9	%	(2.3)%	(19.9)%	(1.6)%	(11.2)%	(30.1)%	(2.8)%	
Other costs impacting comparability	—	%	—	%	—	%	(0.1)%	—	%	(0.2)%	(22.0)%	(0.2)%
Integration and transaction costs	—	%	2.4	%	—	%	0.4	%	0.9	%	0.6	%
Acquisitions/divestitures	—	%	—	%	—	%	—	%	—	%	1.1	%
Differences in shipping days	3.3	%	1.2	%	1.0	%	2.4	%	1.9	%	(1.8)%	(0.3)%
Venezuela remeasurement	—	%	—	%	—	%	—	%	3.8	%	—	%
Comparable growth	(9.9)%	(10.9)%	(1.5)%	(6.5)%	10.2	%	6.3	%	(12.2)%	66.9	%	(4.2)%
Foreign currency impact	0.1	%	—	%	—	%	(2.7)%	2.8	%	(2.7)%	(4.9)%	12.9
Currency-Neutral Comparable growth	(10.0)%	(10.9)%	(1.5)%	(3.8)%	7.4	%	9.0	%	(7.3)%	54.0	%	(3.8)%

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

U.S. Morning Foods

Currency-neutral comparable net sales declined 4.8% as a result of unfavorable volume and pricing/mix. This segment consists of cereal, toaster pastries, health and wellness bars, and beverages.

The cereal category continued to decline through the year despite our continued investments behind category-building programs that started early in the year. Much of our decline in the cereal category has come from Special K®. We experienced weakness in Special K® as it faced headwinds from evolving consumer trends regarding weight management. As a result, we changed the positioning of the brand from a focus on dieting to weight wellness. This focus will stress the role that Special K® plays in a healthy lifestyle. We have begun the execution of this new positioning for the overall cereal business through the following initiatives:

- We have launched the See You at Breakfast campaign and the Open for Breakfast digital program designed to help us connect directly with consumers
- We are revitalizing the Special K® brand and are launching new products such as Special K® Gluten-free and Special K® Protein

We expect that these actions will have a positive impact on the performance of the Special K®, and on the cereal business as a whole. Our plan for investment is long-term and the levels, content, and effectiveness of the support will evolve, and increase over time.

Toaster pastries reported a sales decline for the year as a result of difficult comparisons due to the peanut butter innovations launched in 2013. However we did gain share for the year and introduced a new PB&J innovation in November and we expect this to improve sales results. Health and wellness bars and beverages each reported a sales decline for the year.

Currency-neutral comparable operating profit declined 10.0% due to the unfavorable sales performance and a mid-single-digit increase in cereal brand-building investment. This was partially offset by a decrease in brand-building investment behind health and wellness bars and beverages, and continued cost discipline.

U.S. Snacks

Currency-neutral comparable net sales declined 2.8% as a result of decreased volume partially offset by favorable pricing/mix. This segment consists of crackers, cereal bars, cookies, savory snacks, and fruit-flavored snacks.

Crackers posted a slight sales increase and gained share as a result of the continued success of Cheez-It® innovations and core products in the Town House®, and Club® brands due to brand-building support and sales execution. Cheez-It®, Town House®, and Club® all reported solid consumption and share gains. The gains in these three brands have been offset by weakness in Special K® Cracker Chips due to similar consumer trends that we have experienced in the cereal category. We have addressed this weakness by launching completely restaged Cracker Chips with new flavors, better flavor and texture profiles, improved packaging, and new positioning. This new product started to arrive in stores in late 2014.

The bars business declined due to weakness in the Special K® and Fiber Plus® brands. The issues with these brands are similar to what we have experienced in the cereal category. To address these issues we launched new products and activities in the fourth quarter of this year and will launch more new, great-tasting Special K® snack bars with new packaging and new positioning. This activity ties into the initiatives we are launching in other categories and regions

around the world. This new product started to arrive in stores in late December. Rice Krispies Treats® and Nutri-grain® both reported consumption gains and gained share as a result of good core growth and innovation.

The cookies business declined resulting in lost share. However we saw share gains from Chips Deluxe® as a result of new co-branded products. We experienced soft performance in our 100-calorie packs business throughout the year. We are migrating consumers to an expanded line of single-serve products, which should help to reduce the impact of the decline. We also experienced the negative impact of a SKU rationalization initiative.

Savory snacks reported mid-single-digit sales growth and held share for the year behind the performance of the core business, Grab 'n Go, and the new Pringle® Tortilla product.

Currency-neutral comparable operating profit declined by 10.9% due to unfavorable sales performance and net cost inflation. This was partially offset by continued cost discipline.

U.S. Specialty

Currency-neutral comparable net sales declined 1.2% as a result of decreased volume and unfavorable pricing/mix. Sales declines were the result of the negative impact of weather early in the year, supply issues with a co-packer, and an inventory de-load as a customer shifted from warehouse to direct delivery.

Currency-neutral comparable operating profit declined by 1.5% due to the unfavorable sales performance. This was partially offset by cost discipline.

North America Other

Currency-neutral comparable net sales declined 3.2% due to decreased volume and unfavorable pricing/mix.

The U.S. Frozen business reported a decline due to unfavorable comparisons early in the year resulting from strong prior-year growth behind innovation activity and costs later in the year associated with the launch of new products. New Eggo® Bites and Eggo® handheld sandwiches performed well during the year. The combination of the Eggo® handheld sandwiches and good results from our Special K® handheld sandwiches resulted in a double-digit sales increase for our sandwich business during our final quarter of the year. Consumption of Eggo® waffles is improving as we have re-launched the L'Eggo My Eggo® brand-building program and launched Eggo® gluten-free and a new variety of Thick-n-Fluffy waffles.

Canada reported a slight increase in sales driven primarily by the snacks business as volumes increased at a low single-digit rate.

Kashi reported a decline in sales as we continued to experience softness in the cereal category. We have identified areas of focus for Kashi® which is a great brand in a category that is on trend. We have begun the execution of this new positioning through the following initiatives:

- ▲ All Kashi Go-Lean® products will be Non GMO Project Verified
- ▲ All Kashi Heart-to-Heart® products will meet the USDA's Organic standard

We expect that these initiatives will have a positive impact on the performance of Kashi®.

Currency-neutral comparable operating profit declined 3.8% primarily due to unfavorable sales performance. This was partially offset by continued cost discipline.

Europe

Currency-neutral comparable net sales declined 0.8% as a result of flat volume and unfavorable pricing/mix. Cereal category consumption remains soft in most developed markets, similar to the cereal category in the U.S. Emerging markets reported good growth for the year in both cereal and snacks. To address the cereal category softness, we executed brand-building activities in the second half of the year. New Special K® advertising has recently gone on air which addresses the recent health and wellness trends that have negatively impacted this brand.

Savory snacks performed well throughout the year, with the final quarter of 2014 reporting the highest sales since we acquired the business. New products are launching, including Pringles® Tortilla, and we have more capacity coming

on-line mid-year.

Currency-neutral comparable operating profit improved 7.4% due to net cost deflation, including strong productivity savings, and decreased brand-building investment. This was partially offset by unfavorable sales performance.

Latin America

Currency-neutral comparable net sales improved 3.9% due to favorable pricing/mix which was partially offset by decreased volume. Strong price realization, primarily from Venezuela, has more than offset sales declines early in the year resulting from the volume elasticity impact of the introduction of a new food tax in Mexico. We reported growth in Venezuela, Mercosur, and the Pringles business as well as pricing gains in a majority of our markets. The

cereal business posted good results, although we saw some competitive price promotions in Mexico which affected selected segments. The momentum of the savory snacks business continues, driven by strong commercial programs, innovation, and good execution.

Currency-neutral comparable operating profit improved by 9.0% due to favorable sales performance which was partially offset by net cost inflation, increased brand-building investment to support innovation and new programs, and increased overhead investment.

Asia Pacific

Currency-neutral comparable net sales increased 0.8% as a result of flat volume and favorable pricing/mix. The sales increase was the result of double-digit growth in the Asian markets and high-single-digit growth in the savory snacks business across the region. This sales performance was partially offset by weakness in the Australian cereal category and our performance in South Africa as we conducted construction work early in the year and it took longer than expected to bring the plant back on line.

Currency-neutral comparable operating profit declined 7.3% due to the weakness in the Australian cereal category and our performance in South Africa. This was partially offset by cost discipline.

Corporate

Currency-neutral comparable operating profit improved as a result of reduced pension costs which was partially offset by increased overhead investments.

Margin performance

2015 versus 2014 margin performance was as follows:

	2015	2014	Change vs. prior year (pts.)
Reported gross margin (a)	34.6	% 34.7	% (0.1)
Mark-to-market (COGS)	(2.2	)% (3.0	)% 0.8
Project K and cost reduction activities (COGS)	(1.4	)% (1.0	)% (0.4)
VIE deconsolidation and other costs impacting comparability (COGS)	—	% —	% —
Integration and transaction costs (COGS)	(0.1	)% (0.2	)% 0.1
Acquisitions/divestitures (COGS)	(0.1	)% —	% (0.1)
Shipping day differences (COGS)	—	% —	% —
Venezuela remeasurement (COGS)	(0.8	)% —	% (0.8)
Comparable gross margin	39.2	% 38.9	% 0.3
Foreign currency impact	0.4	% —	% 0.4
Currency neutral comparable gross margin	38.8	% 38.9	% (0.1)
Reported SGA%	(26.5	)% (27.7	)% 1.2
Mark-to-market (SGA)	(1.1	)% (2.4	)% 1.3
Project K and cost reduction activities (SGA)	(1.0	)% (1.0)% —
VIE deconsolidation and other costs impacting comparability (SGA)	0.5	% —	% 0.5
Integration and transactions costs (SGA)	(0.1	)% (0.1)% —
Acquisitions/divestitures (SGA)	0.1	% —	% 0.1
Shipping day differences (SGA)	—	% —	% —
Venezuela remeasurement (SGA)	(0.1	)% —	% (0.1)
Comparable SGA%	(24.8	)% (24.2	)% (0.6)
Foreign currency impact	(0.2	)% —	% (0.2)
Currency neutral comparable SGA%	(24.6	)% (24.2	)% (0.4)
Reported operating margin	8.1	% 7.0	% 1.1
Mark-to-market	(3.3	)% (5.4	)% 2.1
Project K and cost reduction activities	(2.4	)% (2.0	)% (0.4)
VIE deconsolidation and other costs impacting comparability	0.5	% —	% 0.5
Integration and transactions costs	(0.2	)% (0.3	)% 0.1
Acquisitions/divestitures	—	% —	% —
Shipping day differences	—	% —	% —
Venezuela remeasurement	(0.9	)% —	% (0.9)
Comparable operating margin	14.4	% 14.7	% (0.3)
Foreign currency impact	0.2	% —	% 0.2
Currency neutral comparable operating margin	14.2	% 14.7	% (0.5)

For information on the reconciling items in the table above, please refer to the Significant items impacting comparability section.

(a)Reported gross margin as a percentage of net sales. Gross margin is equal to net sales less cost of goods sold.

Currency-neutral comparable gross margin declined by 10 basis points in 2015 due to the impact of Venezuela. Excluding the impact of Venezuela, currency-neutral comparable gross margin would have increased by 20 basis points as a result of productivity savings, Project K savings, and deflation in commodities and packaging which was partially offset by higher distribution costs and investment in our foods such as the launch of granolas and mueslis across the globe and the renovation of existing foods such as Special K®.

Currency-neutral comparable SG&A% was worse by 40 basis points as a result of resetting incentive compensation, reinvestment of Project K savings into sales capabilities including adding sales representatives, and re-establishing the Kashi business unit which was partially offset by improvements resulting from efficiency and effectiveness programs as well as decreased brand building investment.

Our 2015 and 2014 comparable gross profit, comparable SGA, and comparable operating profit measures are reconciled to the directly comparable U.S. GAAP measures as follows:

(dollars in millions)	2015	2014	
Reported gross profit (a)	\$4,681	\$5,063	
Mark-to-market (COGS)	(296	) (438)
Project K and cost reduction activities (COGS)	(195	) (154)
VIE deconsolidation and other costs impacting comparability (COGS)	—	—	
Integration and transaction costs (COGS)	(15	) (23)
Acquisitions/divestitures (COGS)	12	—	
Shipping day differences (COGS)	—	80	
Venezuela remeasurement (COGS)	(112) —	
Comparable gross profit	\$5,287	\$5,598	
Foreign currency impact	(355) —	
Currency neutral comparable gross profit	\$5,642	\$5,598	
Reported SGA	\$3,590	\$4,039	
Mark-to-market (SGA)	(150	) (346)
Project K and cost reduction activities (SGA)	(128	) (144)
VIE deconsolidation and other costs impacting comparability (SGA)	67	(6)
Integration and transaction costs (SGA)	(15	) (20)
Acquisitions/divestitures (SGA)	(8) —	
Shipping day differences (SGA)	—	(44)
Venezuela remeasurement (SGA)	(8) —	
Comparable SGA	\$3,348	\$3,479	
Foreign currency impact	223	—	
Currency neutral comparable SGA	\$3,571	\$3,479	
Reported operating profit	\$1,091	\$1,024	
Mark-to-market	(446	) (784)
Project K and cost reduction activities	(323	) (298)
VIE deconsolidation and other costs impacting comparability	67	(6)
Integration and transaction costs	(30	) (43)
Acquisitions/divestitures	4	—	
Shipping day differences	—	36	
Venezuela remeasurement	(120) —	
Comparable	\$1,939	\$2,119	
Foreign currency impact	(132) —	
Currency neutral comparable operating profit	\$2,071	\$2,119	

For more information on the reconciling items in the table above, please refer to the Significant items impacting comparability section.

(a)Gross profit is equal to net sales less cost of goods sold.

2014 versus 2013 margin performance was as follows:

	2014	2013	Change vs. prior year (pts.)	
Reported gross margin (a)	34.7	% 41.3	% (6.6)
Mark-to-market (COGS)	(3.0	)% 3.4	% (6.4)
Project K and cost reduction activities (COGS)	(1.0	)% (1.3	)% 0.3	
VIE deconsolidation and other costs impacting comparability (COGS)	—	% —	% —	
Integration and transaction costs (COGS)	(0.2	)% (0.1	)% (0.1)
Acquisitions/divestitures (COGS)	—	% —	% —	
Shipping day differences (COGS)	—	% —	% —	
Venezuela remeasurement (COGS)	—	% —	% —	
Comparable gross margin	38.9	% 39.3	% (0.4)
Foreign currency impact	—	% —	% —	
Currency neutral comparable gross margin	38.9	% 39.3	% (0.4)
Reported SGA%	(27.7	)% (22.1	)% (5.6)
Mark-to-market (SGA)	(2.4	)% 3.0	% (5.4)
Project K and cost reduction activities (SGA)	(1.0	)% (0.4	)% (0.6)
VIE deconsolidation and other costs impacting comparability (SGA)	—	% —	% —	
Integration and transactions costs (SGA)	(0.1	)% (0.3	)% 0.2	
Acquisitions/divestitures (SGA)	—	% —	% —	
Shipping day differences (SGA)	—	% —	% —	
Venezuela remeasurement (SGA)	—	% —	% —	
Comparable SGA%	(24.2	)% (24.4	)% 0.2	
Foreign currency impact	—	% —	% —	
Currency neutral comparable SGA%	(24.2	)% (24.4	)% 0.2	
Reported operating margin	7.0	% 19.2	% (12.2)
Mark-to-market	(5.4	)% 6.4	% (11.8)
Project K and cost reduction activities	(2.0	)% (1.7	)% (0.3)
VIE deconsolidation and other costs impacting comparability	—	% —	% —	
Integration and transactions costs	(0.3	)% (0.4	)% 0.1	
Acquisitions/divestitures	—	% —	% —	
Shipping day differences	—	% —	% —	
Venezuela remeasurement	—	% —	% —	
Comparable operating margin	14.7	% 14.9	% (0.2)
Foreign currency impact	—	% —	% —	
Currency neutral comparable operating margin	14.7	% 14.9	% (0.2)

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

Currency-neutral comparable gross margin declined by 40 basis points in 2014 due to the impact of inflation, net of productivity savings, and lower production volume resulting from soft sales performance. Currency-neutral comparable SG&A% improved by 20 basis points as a result of continued discipline in overhead control.

Our 2014 and 2013 comparable gross profit, comparable SGA, and comparable operating profit measures are reconciled to the directly comparable U.S. GAAP measures as follows:

(dollars in millions)	2014	2013	
Reported gross profit (a)	\$5,063	\$6,103	
Mark-to-market (COGS)	(438	) 510	
Project K and cost reduction activities (COGS)	(154	) (195)
VIE deconsolidation and other costs impacting comparability (COGS)	—	—	
Integration and transaction costs (COGS)	(23	) (20)
Acquisitions/divestitures (COGS)	—	(1)
Shipping day differences (COGS)	80	—	
Venezuela remeasurement (COGS)	—	(4)
Comparable gross profit	\$5,598	\$5,813	
Foreign currency impact	(36) —	
Currency neutral comparable gross profit	\$5,634	\$5,813	
Reported SGA	\$4,039	\$3,266	
Mark-to-market (SGA)	(346	) 437	
Project K and cost reduction activities (SGA)	(144	) (55)
VIE deconsolidation and other costs impacting comparability (SGA)	(6) —	
Integration and transaction costs (SGA)	(20	) (45)
Acquisitions/divestitures (SGA)	—	—	
Shipping day differences (SGA)	(44) —	
Venezuela remeasurement (SGA)	—	(2)
Comparable SGA	\$3,479	\$3,601	
Foreign currency impact	28	—	
Currency neutral comparable SGA	\$3,507	\$3,601	
Reported operating profit	\$1,024	\$2,837	
Mark-to-market	(784	) 947	
Project K and cost reduction activities	(298	) (250)
VIE deconsolidation and other costs impacting comparability	(6) —	
Integration and transaction costs	(43	) (65)
Acquisitions/divestitures	—	(1)
Shipping day differences	36	—	
Venezuela remeasurement	—	(6)
Comparable	\$2,119	\$2,212	
Foreign currency impact	(8) —	
Currency neutral comparable operating profit	\$2,127	\$2,212	

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

Restructuring and cost reduction activities

We view our continued spending on restructuring and cost reduction activities as part of our ongoing operating principles to provide greater visibility in achieving our long-term profit growth targets. Initiatives undertaken are

currently expected to recover cash implementation costs within a five-year period of completion. Upon completion (or as each major stage is completed in the case of multi-year programs), the project begins to deliver cash savings and/or reduced depreciation.

Project K

Project K, a four-year efficiency and effectiveness program, was announced in November 2013, and is expected to generate a significant amount of savings that may be invested in key strategic areas of focus for the business. We expect that this investment will drive future growth in revenues, gross margin, operating profit, and cash flow.

The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories.

We currently anticipate that Project K will result in total pre-tax charges, once all phases are approved and implemented, of \$1.2 to \$1.4 billion, with after-tax cash costs, including incremental capital investments, estimated to be \$900 million to \$1.1 billion. Cash expenditures of approximately \$625 million have been incurred through the end of fiscal year 2015. Total cash expenditures, as defined, are expected to be approximately \$150 million for 2016 and the balance of \$125 to \$325 million thereafter. Total charges for Project K in 2016 are expected to be approximately \$175 to \$200 million.

We expect annual cost savings generated from Project K will be approximately \$425 to \$475 million by 2018, with approximately two-thirds of the cost savings to be realized in cost of goods sold. We have realized approximately \$180 million of annual savings through the end of 2015. We expect approximately \$100 million of incremental savings in 2016, approximately 75 to 80 percent of which will come from cost of goods sold. Cost savings will be utilized to increase margins and drive sales growth through additional investments in advertising, in-store execution, sales capabilities, including adding sales representatives, re-establishing the Kashi business unit, and in the design and quality of our products. We will also invest in production capacity in developing and emerging markets, and in global category teams.

As a result of Project K, capital spending levels were increased to 4% of net sales during both 2014 and 2015. Our on-going business model assumes capital spending to be approximately 3-4% of net sales annually.

Thus far, we have funded much of the cash requirements for Project K through our supplier financing initiative. Due to the difference in timing between expected cash costs for the project and expected future cash savings, we anticipate funding the project through a combination of cash on hand and short-term debt.

We also expect that the project will have an impact on our consolidated effective income tax rate during the execution of the project due to the timing of charges being taken in different tax jurisdictions. The impact of this project on our consolidated effective income tax rate will be excluded from the comparable income tax rate that will be disclosed on a quarterly basis.

Refer to Note 4 within Notes to Consolidated Financial Statements for further information related to Project K and other restructuring activities.

Other Projects

In 2015 we initiated the implementation of a zero-based budgeting (ZBB) program in our North America business. This ZBB program is expected to deliver visibility to \$100 million in annual savings in North America during 2016. We will begin to expand ZBB into our international businesses during 2016 with modest savings expected in certain locations in 2016. We expect increased savings to be realized in our international businesses in 2017 and beyond. In support of the ZBB initiative, we incurred pre-tax charges of approximately \$12 million in 2015. We anticipate that ZBB will result in cumulative pre-tax charges of approximately \$25 to \$50 million through 2016 which will consist primarily of the design and implementation of business capabilities.

Foreign currency translation

The reporting currency for our financial statements is the U.S. dollar. Certain of our assets, liabilities, expenses and revenues are denominated in currencies other than the U.S. dollar, primarily in the euro, British pound, Mexican peso, Australian dollar, Canadian dollar, Venezuelan bolivar fuerte, and Russian ruble. To prepare our consolidated

financial statements, we must translate those assets, liabilities, expenses and revenues into U.S. dollars at the applicable exchange rates. As a result, increases and decreases in the value of the U.S. dollar against these other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. This could have significant impact on our results if such increase or decrease in the value of the U.S. dollar is substantial.

Interest expense

Annual interest expense is illustrated in the following table. The increase in 2015 was primarily due to a higher average level of long-term debt and to higher interest rates, partially resulting from lower levels of debt swapped to a variable rate. The decline in 2014 was primarily due to refinancing of maturing long-term debt at lower interest rates and lower interest rates on long-term debt which has effectively been converted to floating rate obligations through the use of interest rate swaps. Interest income (recorded in other income (expense), net) was (in millions), 2015-\$4; 2014-\$8; 2013-\$7. We currently expect that our 2016 gross interest expense will be approximately \$235 to \$245 million.

(dollars in millions)				Change vs. prior year	
	2015	2014	2013	2015	2014
Reported interest expense	\$227	\$209	\$235		
Amounts capitalized	4	5	2		
Gross interest expense	\$231	\$214	\$237	7.9%	(9.7)%

Income taxes

Our reported effective tax rates for 2015, 2014 and 2013 were 20.6%, 22.6% and 30.4% respectively. Comparable effective tax rates for 2015, 2014 and 2013 were 25.6%, 28.2%, and 28.4%, respectively.

The 2015 and 2014 effective income tax rates benefited from the mark-to-market loss recorded for our pension plans. Refer to Note 12 within Notes to Consolidated Financial Statements for further information. Fluctuations in foreign currency exchange rates could impact the expected effective income tax rate as it is dependent upon U.S. dollar earnings of foreign subsidiaries doing business in various countries with differing statutory tax rates. Additionally, the rate could be impacted if pending uncertain tax matters, including tax positions that could be affected by planning initiatives, are resolved more or less favorably than we currently expect.

The following table provides a reconciliation of as reported to currency-neutral comparable income taxes and effective income tax rate for 2015 and 2014.

Consolidated results (dollars in millions, except per share data)	2015		2014	
Reported income taxes	\$159		\$186	
Mark-to-market	(148)	)	(271))
Project K and cost reduction activities	(94)	)	(80))
VIE deconsolidation and other costs impacting comparability	(2)	)	(2))
Integration and transaction costs	(8)	)	(12))
Acquisitions/divestitures	(1))	—	
Shipping day differences	—		11	
Venezuela remeasurement	(20))	—	
Comparable income taxes	\$432		\$540	
Foreign currency impact	(19))	—	
Currency neutral comparable income taxes	\$451		\$540	
Reported effective income tax rate	20.6	%	22.6	%
Mark-to-market	(4.6)	)	(5.8))
Project K and cost reduction activities	(0.8)	)	0.2	
VIE deconsolidation and other costs impact comparability	(0.9))	—	
Integration and transaction costs	—		—	
Acquisitions/divestitures	(0.2))	—	
Shipping day differences	—		—	
Venezuela remeasurement	1.5		—	
Comparable effective income tax rate	25.6	%	28.2	%
Foreign currency impact	0.7		—	
Currency neutral comparable effective income tax rate	24.9	%	28.2	%

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

The following table provides a reconciliation of as reported to currency-neutral comparable income taxes and effective income tax rate for 2014 and 2013.

Consolidated results (dollars in millions, except per share data)	2014		2013	
Reported income taxes	\$186		\$792	
Mark-to-market	(271)	)	319	
Project K and cost reduction activities	(80)	)	(67))
VIE deconsolidation and other costs impacting comparability	(2))	—	
Integration and transaction costs	(12)	)	(19))
Acquisitions/divestitures	—		—	
Shipping day differences	11		—	
Venezuela remeasurement	—		(4))
Comparable income taxes	\$540		\$563	
Foreign currency impact	(3))	—	
Currency neutral comparable income taxes	\$543		\$563	
Reported effective income tax rate	22.6	%	30.4	%
Mark-to-market	(5.8)	)	1.9	
Project K and cost reduction activities	0.2		0.2	
VIE deconsolidation and other costs impact comparability	—		—	
Integration and transaction costs	—		(0.1))
Acquisitions/divestitures	—		—	
Shipping day differences	—		—	
Venezuela remeasurement	—		—	
Comparable effective income tax rate	28.2	%	28.4	%
Foreign currency impact	—		—	
Currency neutral comparable effective income tax rate	28.2	%	28.4	%

For more information on reconciling items in the table above, please refer to the Significant items impacting comparability section.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is operating cash flows supplemented by borrowings for major acquisitions and other significant transactions. Our cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating and investing needs.

We have historically reported negative working capital primarily as the result of our focus to improve core working capital by reducing our levels of trade receivables and inventory while extending the timing of payment of our trade payables. In addition, we have a substantial amount of indebtedness which results in current maturities of long-term debt and notes payable which can have a significant impact on working capital as a result of the timing of these required payments. These factors, coupled with the use of our ongoing cash flows from operations to service our debt obligations, pay dividends, fund acquisition opportunities, and repurchase our common stock, reduce our working capital amounts. We had negative working capital of \$2.5 billion and \$1.0 billion as of January 2, 2016 and January 3, 2015, respectively.

We believe that our operating cash flows, together with our credit facilities and other available debt financing, will be adequate to meet our operating, investing and financing needs in the foreseeable future. However, there can be no assurance that volatility and/or disruption in the global capital and credit markets will not impair our ability to access these markets on terms acceptable to us, or at all.

As of January 2, 2016 and January 3, 2015, we had \$231 million and \$257 million, respectively, of cash and cash equivalents held in international jurisdictions which will be used to fund capital and other cash requirements of international operations. These amounts include \$2 million and \$68 million at January 2, 2016 and January 3, 2015, respectively, subject to currency exchange controls in Venezuela, limiting the total amount of cash and cash

equivalents held by our foreign subsidiaries that can be repatriated at any particular point in time.

The following table sets forth a summary of our cash flows:

(dollars in millions)	2015	2014	2013
Net cash provided by (used in):			
Operating activities	\$1,691	\$1,793	\$1,807
Investing activities	(1,127)	) (573	) (641
Financing activities	(706)	) (1,063	) (1,141
Effect of exchange rates on cash and cash equivalents	(50)	) 13	(33
Net increase (decrease) in cash and cash equivalents	\$(192	) \$170	\$(8

Operating activities

The principal source of our operating cash flows is net earnings, meaning cash receipts from the sale of our products, net of costs to manufacture and market our products.

Our net cash provided by operating activities for 2015 amounted to \$1,691 million, a decrease of \$102 million compared with 2014. The decrease compared to the prior year is the result of the negative year over year impact of accounts receivable mitigated somewhat by the incremental cash flow benefit from the supplier financing initiative of approximately \$210 million. Our net cash provided by operating activities for 2014 amounted to \$1,793 million, a decrease of \$14 million compared with 2013, due primarily to the negative incremental impact of Project K cash requirements mitigated somewhat by the positive impact from the supplier financing initiative of approximately \$210 million.

After-tax cash payments related to Project K were \$192 million in 2015, \$187 million in 2014, and \$18 million in 2013.

Our cash conversion cycle (defined as days of inventory, excluding inventorable mark-to-market pension costs, and trade receivables outstanding less days of trade payables outstanding, based on a trailing 12 month average) is relatively short, equating to approximately 14 days and 27 days for 2015 and 2014, respectively. Core working capital in 2015 averaged 6.2% of net sales, compared to 7.6% in 2014 and 7.8% in 2013. In 2015, both our cash conversion cycle and core working capital showed improvements in days of trade payables outstanding which includes the positive impact of a supplier financing initiative. Days of trade receivables and inventory on hand increased slightly from 2014 to 2015.

Our total pension and postretirement benefit plan funding amounted to \$33 million, \$53 million and \$48 million, in 2015, 2014 and 2013, respectively.

The Pension Protection Act (PPA), and subsequent regulations, determines defined benefit plan minimum funding requirements in the United States. We believe that we will not be required to make any contributions under PPA requirements until 2021 or beyond. Our projections concerning timing of PPA funding requirements are subject to change primarily based on general market conditions affecting trust asset performance, future discount rates based on average yields of high quality corporate bonds and our decisions regarding certain elective provisions of the PPA. We currently project that we will make total U.S. and foreign benefit plan contributions in 2016 of approximately \$43 million. Actual 2016 contributions could be different from our current projections, as influenced by our decision to undertake discretionary funding of our benefit trusts versus other competing investment priorities, future changes in government requirements, trust asset performance, renewals of union contracts, or higher-than-expected health care claims cost experience.

We measure cash flow as net cash provided by operating activities reduced by expenditures for property additions. We use this non-GAAP financial measure of cash flow to focus management and investors on the amount of cash available for debt repayment, dividend distributions, acquisition opportunities, and share repurchases. Our cash flow metric is reconciled to the most comparable GAAP measure, as follows:

(dollars in millions)	2015	2014	2013
Net cash provided by operating activities	\$1,691	\$1,793	\$1,807
Additions to properties	(553	) (582	) (637
Cash flow	\$1,138	\$1,211	\$1,170
year-over-year change	(6.0	)% 3.5	%

The decrease in cash flow (as defined) in 2015 compared to 2014 was due primarily to the unfavorable year over year impact of accounts receivable mitigated somewhat by the favorable year over year impact of trade payables as a result of the supplier financing initiative. The increase in cash flow in 2014 compared to 2013 was due primarily to lower capital expenditures and improved core working capital partially offset by the negative impact of Project K cash requirements.

Investing activities

Our net cash used in investing activities for 2015 amounted to \$1,127 million, an increase of \$554 million compared with 2014. In 2015, we acquired, for \$445 million, a 50% interest in Multipro Singapore Pte. Ltd., a leading distributor of a variety of food products in Nigeria and Ghana, and an option to purchase a minority interest in an affiliated food manufacturer. In addition to our joint venture investment in 2015, we also acquired Mass Foods and a majority interest in Bisco Misr.

Capital spending in 2015 included investments in our supply chain infrastructure, and to support capacity requirements in certain markets and products, including Pringles in Asia-Pacific.

Net cash used in investing activities of \$573 million in 2014 decreased \$68 million compared with 2013.

Cash paid for additions to properties as a percentage of net sales increased to 4.1% in 2015, from 4.0% in 2014, which was a decrease from 4.3% in 2013.

Financing activities

Our net cash used by financing activities was \$706 million, \$1,063 million and \$1,141 million for 2015, 2014 and 2013, respectively. The use of cash in financing activities compared to the prior year declined due primarily to net proceeds from notes payable of \$374 million in 2015 versus \$89 million in 2014.

Total debt was \$7.8 billion and \$7.4 billion at year-end 2015 and 2014, respectively.

In May 2015, we repaid our \$350 million 1.125% U.S. Dollar Notes due 2015 at maturity.

In February 2015, we repaid our floating-rate \$250 million U.S. Dollar Notes due 2015 at maturity and in March 2015, we issued €600 million of ten-year 1.25% Euro Notes due 2025.

In March 2014, we redeemed \$150 million of our 4.00% U.S. Dollar Notes due 2020, \$342 million of our 3.125% U.S. Dollar Notes due 2022 and \$189 million of our 2.75% U.S. Dollar Notes due 2023. In connection with the debt redemption, we incurred \$1 million of interest expense, offset by \$8 million of accelerated gains on interest rate hedges previously recorded in accumulated other comprehensive income, and incurred \$5 million expense, recorded in Other Income, Expense (net), related to acceleration of fees on the redeemed debt and fees related to the tender offer. In May 2014, we issued €500 million of seven-year 1.75% Euro Notes due 2021, using the proceeds for general corporate purposes, which included repayment of a portion of our commercial paper borrowings.

In May 2014, we issued Cdn. \$300 million of three-year 2.05% Canadian Dollar Notes due 2017, using the proceeds, together with cash on hand, to repay our Cdn. \$300 million, 2.10% Notes due May 2014 at maturity.

In February 2013, we issued \$250 million of two-year floating-rate U.S. Dollar Notes, and \$400 million of ten-year 2.75% U.S. Dollar Notes, resulting in aggregate net proceeds after debt discount of \$645 million. The proceeds from these Notes were used for general corporate purposes, including, together with cash on hand, repayment of the \$750 million aggregate principal amount of our 4.25% U.S. Dollar Notes due March 2013.

In April 2013, the board of directors approved a \$1 billion share repurchase program expiring in April 2014. In February 2014, the board of directors approved a new authorization to repurchase up to \$1.5 billion in shares through December 2015. In December 2015, the board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$1.5 billion beginning in 2016 through December 2017.

During 2015, we purchased 11 million shares totaling \$731 million. During 2014, we purchased 11 million shares totaling \$690 million. In May 2013, we entered into an Accelerated Share Repurchase (ASR) Agreement with a financial institution counterparty and paid \$355 million for the purchase of shares during the term of the agreement which extended through August 2013. The total number of shares delivered upon settlement of the ASR was based upon the volume weighted average price of the Company's stock over the term of the agreement. Total shares

purchased in 2013, including shares delivered under the ASR, amounted to approximately 9 million shares totaling \$544 million.

We paid quarterly dividends to shareholders totaling \$1.98 per share in 2015, \$1.90 per share in 2014 and \$1.80 per share in 2013. Total cash paid for dividends increased by 3.0% in 2015 and 4.0% in 2014. In February 2016, the board of directors declared a dividend of \$.50 per common share, payable on March 15, 2016 to shareholders of record at the close of business on March 1, 2016.

In February 2014, we entered into an unsecured Five-Year Credit Agreement to replace the existing unsecured Four-Year Credit Agreement, which would have expired in March 2015. The Five-Year Credit Agreement allows us to borrow, on a revolving credit basis, up to \$2.0 billion.

Our long-term debt agreements contain customary covenants that limit Kellogg Company and some of its subsidiaries from incurring certain liens or from entering into certain sale and lease-back transactions. Some agreements also contain change in control provisions. However, they do not contain acceleration of maturity clauses that are dependent on credit ratings. A change in our credit ratings could limit our access to the U.S. short-term debt market and/or increase the cost of refinancing long-term debt in the future. However, even under these circumstances, we would continue to have access to our Five-Year Credit Agreement, which expires in February 2019. This source of liquidity is unused and available on an unsecured basis, although we do not currently plan to use it.

We monitor the financial strength of our third-party financial institutions, including those that hold our cash and cash equivalents as well as those who serve as counterparties to our credit facilities, our derivative financial instruments, and other arrangements.

We are in compliance with all covenants as of January 2, 2016. We continue to believe that we will be able to meet our interest and principal repayment obligations and maintain our debt covenants for the foreseeable future, while still meeting our operational needs, including the pursuit of selected bolt-on acquisitions. This will be accomplished through our strong cash flow, our short-term borrowings, and our maintenance of credit facilities on a global basis. We anticipate establishing a discrete customer program which would allow for extended customer payment terms. In connection with this program, we may enter into an agreement with one or more financial institutions to monetize these receivables resulting in the receivables being de-recognized from our consolidated balance sheet. We currently estimate that the amount of these receivables held at any time by the financial institution(s) will be approximately \$500 to \$600 million.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Off-balance sheet arrangements

As of January 2, 2016 and January 3, 2015 we did not have any material off-balance sheet arrangements.

Contractual obligations

The following table summarizes our contractual obligations at January 2, 2016:

Contractual obligations (millions)	Payments due by period						
	Total	2016	2017	2018	2019	2020	2021 and beyond
Long-term debt:							
Principal	\$6,517	\$1,262	627	\$407	\$506	\$851	\$2,864
Interest (a)	1,837	217	188	178	161	151	942
Capital leases (b)	5	2	1	1	—	—	1
Operating leases (c)	672	171	152	119	81	62	87
Purchase obligations (d)	1,135	951	113	46	13	11	1
Uncertain tax positions (e)	13	13	—	—	—	—	—
Other long-term obligations (f)	732	101	53	51	53	124	350
Total	\$10,911	\$2,717	\$1,134	\$802	\$814	\$1,199	\$4,245

(a) Includes interest payments on our long-term debt and payments on our interest rate swaps. Interest calculated on our variable rate debt was forecasted using the LIBOR forward rate curve as of January 2, 2016.

- (b) The total expected cash payments on our capital leases include interest expense totaling less than \$1 million over the periods presented above.
- (c) Operating leases represent the minimum rental commitments under non-cancelable operating leases.

Purchase obligations consist primarily of fixed commitments for raw materials to be utilized in the normal course of business and for marketing, advertising and other services. The amounts presented in the table do not include items already recorded in accounts payable or other current liabilities at year-end 2015, nor does the table reflect cash flows we are likely to incur based on our plans, but are not obligated to incur. Therefore, it should be noted that the exclusion of these items from the table could be a limitation in assessing our total future cash flows under contracts.

As of January 2, 2016, our total liability for uncertain tax positions was \$73 million, of which \$13 million is expected to be paid in the next twelve months. We are not able to reasonably estimate the timing of future cash flows related to the remaining \$60 million.

Other long-term obligations are those associated with noncurrent liabilities recorded within the Consolidated Balance Sheet at year-end 2015 and consist principally of projected commitments under deferred compensation arrangements, multiemployer plans, and supplemental employee retirement benefits. The table also includes our current estimate of minimum contributions to defined benefit pension and postretirement benefit plans through 2021 as follows: 2016-\$43; 2017-\$34; 2018-\$34; 2019-\$34; 2020-\$103; 2021-\$190.

CRITICAL ACCOUNTING ESTIMATES

Promotional expenditures

Our promotional activities are conducted either through the retail trade or directly with consumers and include activities such as in-store displays and events, feature price discounts, consumer coupons, contests and loyalty programs. The costs of these activities are generally recognized at the time the related revenue is recorded, which normally precedes the actual cash expenditure. The recognition of these costs therefore requires management judgment regarding the volume of promotional offers that will be redeemed by either the retail trade or consumer. These estimates are made using various techniques including historical data on performance of similar promotional programs. Differences between estimated expense and actual redemptions are normally insignificant and recognized as a change in management estimate in a subsequent period. On a full-year basis, these subsequent period adjustments represent approximately 0.4% of our company's net sales. However, our company's total promotional expenditures (including amounts classified as a revenue reduction) are significant, so it is likely our results would be materially different if different assumptions or conditions were to prevail.

Property

Long-lived assets such as property, plant and equipment are tested for impairment when conditions indicate that the carrying value may not be recoverable. Management evaluates several conditions, including, but not limited to, the following: a significant decrease in the market price of an asset or an asset group; a significant adverse change in the extent or manner in which a long-lived asset is being used, including an extended period of idleness; and a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. For assets to be held and used, we project the expected future undiscounted cash flows generated by the long-lived asset or asset group over the remaining useful life of the primary asset. If the cash flow analysis yields an amount less than the carrying amount we determine the fair value of the asset or asset group by using comparable market data. There are inherent uncertainties associated with the judgments and estimates we use in these analyses.

At January 2, 2016, we have property, plant and equipment of \$3.6 billion, net of accumulated depreciation, on our balance sheet. Included in this amount are approximately \$51 million of idle assets.

Goodwill and other intangible assets

We perform an impairment evaluation of goodwill and intangible assets with indefinite useful lives at least annually during the fourth quarter of each year in conjunction with our annual budgeting process.

Goodwill impairment testing first requires a comparison between the carrying value and fair value of a reporting unit with associated goodwill. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit, which often requires allocation of shared or corporate items among reporting units. For the 2015 goodwill impairment test, the fair value of the reporting units was estimated based on market multiples. Our approach employs market multiples based on earnings before interest, taxes, depreciation and amortization (EBITDA) and

earnings for companies comparable to our reporting units. In the event the fair value determined using the market multiples approach is close to the carrying value, we may also supplement our fair value determination using discounted cash flows. Management believes the assumptions used for the impairment test are consistent with those utilized by a market participant performing similar valuations for our reporting units.

Similarly, impairment testing of indefinite-lived intangible assets requires a comparison of carrying value to fair value of that particular asset. Fair values of non-goodwill intangible assets are based primarily on projections of future cash flows to be generated from that asset. For instance, cash flows related to a particular trademark would be based on a projected royalty stream attributable to branded product sales discounted at rates consistent with rates used by market participants. These estimates are made using various inputs including historical data, current and anticipated market conditions, management plans, and market comparables.

We also evaluate the useful life over which a non-goodwill intangible asset with a finite life is expected to contribute directly or indirectly to our cash flows. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

At January 2, 2016, goodwill and other intangible assets amounted to \$7.2 billion, consisting primarily of goodwill and brands associated with the 2001 acquisition of Keebler Foods Company and the 2012 acquisition of Pringles. Within this total, approximately \$2.2 billion of non-goodwill intangible assets were classified as indefinite-lived, comprised principally of Keebler and Pringles trademarks. We currently believe that the fair value of our goodwill and other intangible assets exceeds their carrying value and that those intangibles so classified will contribute indefinitely to our cash flows. The percentage of excess fair value over carrying value of the U.S. Snacks reporting unit was approximately 43% and 59% in 2015 and 2014, respectively. However, if we had used materially different assumptions, which we do not believe are reasonably possible, regarding the future performance of our business or a different market multiple in the valuation, this could have resulted in significant impairment losses. Additionally, we have \$25 million of goodwill related to our 2008 acquisition of United Bakers in Russia. Fair value of the intangibles for this business exceeded carrying value in 2015. If we used modestly different assumptions regarding sales multiples and EBITDA in the valuation, this could have resulted in an impairment loss. Management will continue to monitor the situation closely.

Retirement benefits

Our company sponsors a number of U.S. and foreign defined benefit employee pension plans and also provides retiree health care and other welfare benefits in the United States and Canada. Plan funding strategies are influenced by tax regulations and asset return performance. A substantial majority of plan assets are invested in a globally diversified portfolio of equity securities with smaller holdings of debt securities and other investments. We recognize the cost of benefits provided during retirement over the employees' active working life to determine the obligations and expense related to our retiree benefit plans. Inherent in this concept is the requirement to use various actuarial assumptions to predict and measure costs and obligations many years prior to the settlement date. Major actuarial assumptions that require significant management judgment and have a material impact on the measurement of our consolidated benefits expense and accumulated obligation include the long-term rates of return on plan assets, the health care cost trend rates, the mortality table and improvement scale, and the interest rates used to discount the obligations for our major plans, which cover employees in the United States, United Kingdom and Canada.

Our expense recognition policy for pension and nonpension postretirement benefits is to immediately recognize actuarial gains and losses in our operating results in the year in which they occur. Actuarial gains and losses are recognized annually as of our measurement date, which is our fiscal year-end, or when remeasurement is otherwise required under generally accepted accounting principles.

Additionally, for purposes of calculating the expected return on plan assets related to pension and nonpension postretirement benefits we use the fair value of plan assets.

To conduct our annual review of the long-term rate of return on plan assets, we model expected returns over a 20-year investment horizon with respect to the specific investment mix of each of our major plans. The return assumptions used reflect a combination of rigorous historical performance analysis and forward-looking views of the financial markets including consideration of current yields on long-term bonds, price-earnings ratios of the major stock market indices, and long-term inflation. Our U.S. plan model, corresponding to approximately 68% of our trust assets globally, currently incorporates a long-term inflation assumption of 2.5% and an active management premium of 1% (net of fees) validated by historical analysis and future return expectations. Although we review our expected long-term rates of return annually, our benefit trust investment performance for one particular year does not, by itself, significantly influence our evaluation. Our expected rates of return have generally not been revised, provided these rates continue to fall within a "more likely than not" corridor of between the 25th and 75th percentile of expected long-term returns, as determined by our modeling process. Our assumed rate of return for U.S. plans in 2016 of 8.5%

equates to approximately the 57th percentile expectation of our model. Similar methods are used for various foreign plans with invested assets, reflecting local economic conditions. Foreign trust investments represent approximately 32% of our global benefit plan assets.

Based on consolidated benefit plan assets at January 2, 2016, a 100 basis point increase or decrease in the assumed rate of return would correspondingly increase or decrease 2016 benefits expense by approximately

\$55 million. For each of the three fiscal years, our actual return on plan assets exceeded (was less than) the recognized assumed return by the following amounts (in millions): 2015-\$(666); 2014-\$(41); 2013-\$545.

To conduct our annual review of health care cost trend rates, we model our actual claims cost data over a five-year historical period, including an analysis of pre-65 versus post-65 age groups and other important demographic components in our covered retiree population. This data is adjusted to eliminate the impact of plan changes and other factors that would tend to distort the underlying cost inflation trends. Our initial health care cost trend rate is reviewed annually and adjusted as necessary to remain consistent with recent historical experience and our expectations regarding short-term future trends. In comparison to our actual five-year compound annual claims cost growth rate of approximately 4.95%, our initial trend rate for 2016 of 5.00% reflects the expected future impact of faster-growing claims experience for certain demographic groups within our total employee population. Our initial rate is trended downward by 0.25% per year, until the ultimate trend rate of 4.5% is reached. The ultimate trend rate is adjusted annually, as necessary, to approximate the current economic view on the rate of long-term inflation plus an appropriate health care cost premium. Based on consolidated obligations at January 2, 2016, a 100 basis point increase in the assumed health care cost trend rates would increase 2016 benefits expense by approximately \$4 million and generate an immediate loss recognition of \$89 million. A 100 basis point excess of 2016 actual health care claims cost over that calculated from the assumed trend rate would result in an experience loss of approximately \$4 million and would increase 2016 expense by \$0.2 million. Any arising health care claims cost-related experience gain or loss is recognized in the year in which they occur. The experience loss arising from recognition of 2015 claims experience was approximately \$3 million.

Assumed mortality rates of plan participants are a critical estimate in measuring the expected payments a participant will receive over their lifetime and the amount of expense we recognize. At the end of 2014, we revised our mortality assumption after considering the Society of Actuaries' (SOA) updated mortality tables and improvement scale, as well as other mortality information available from the Social Security Administration to develop assumptions aligned with our expectation of future improvement rates. In determining the appropriate mortality assumptions as of January 2, 2016, we considered the SOA's 2015 updated improvement scale and believe our assumption remains appropriate.

To conduct our annual review of discount rates, we selected the discount rate based on a cash-flow matching analysis using Willis Towers Watson's proprietary RATE:Link tool and projections of the future benefit payments constituting the projected benefit obligation for the plans. RATE:Link establishes the uniform discount rate that produces the same present value of the estimated future benefit payments, as is generated by discounting each year's benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 40th to 90th percentile of U.S. high quality bonds. A similar methodology is applied in Canada and Europe, except the smaller bond markets imply that yields between the 10th and 90th percentiles are preferable. We use a December 31 measurement date for our defined benefit plans. Accordingly, we select discount rates to measure our benefit obligations that are consistent with market indices during December of each year.

Based on consolidated obligations at January 2, 2016, a 25 basis point decline in the weighted-average discount rate used for benefit plan measurement purposes would decrease 2016 benefits expense by approximately \$2 million and would result in an immediate loss recognition of \$222 million. All obligation-related actuarial gains and losses are recognized immediately in the year in which they occur.

Despite the previously-described rigorous policies for selecting major actuarial assumptions, we periodically experience material differences between assumed and actual experience. During 2015, we recognized a net actuarial loss of approximately \$418 million compared to a net actuarial loss of approximately \$918 million in 2014. Of the total net loss recognized in 2015, approximately \$(245) million was related primarily to favorable changes in the discount rate and other assumptions and \$666 million was related to asset losses and \$(3) million was related to a discrete benefit resulting from certain events affecting our benefit programs. Of the \$918 million net loss recognized in 2014, approximately \$911 million was related to unfavorable changes in the discount rate and mortality assumptions, and \$41 million was related to asset losses, and \$(34) million was related to a discrete benefit resulting from certain events affecting our benefit programs.

During 2015, we made contributions in the amount of \$19 million to Kellogg's global tax-qualified pension programs. This amount was mostly non-discretionary. Additionally we contributed \$14 million to our retiree medical programs.

Income taxes

Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we operate. The calculation of our income tax provision and deferred income tax assets and liabilities is complex and requires the use of estimates and judgment. Income taxes are provided on the portion of foreign earnings that is expected to be remitted to and taxable in the United States.

We recognize tax benefits associated with uncertain tax positions when, in our judgment, it is more likely than not that the positions will be sustained upon examination by a taxing authority. For tax positions that meet the more likely than not recognition threshold, we initially and subsequently measure the tax benefits as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, new or emerging legislation and tax planning. The tax position will be derecognized when it is no longer more likely than not of being sustained. Significant adjustments to our liability for unrecognized tax benefits impacting our effective tax rate are separately presented in the rate reconciliation table of Note 12 within Notes to Consolidated Financial Statements.

ACCOUNTING STANDARDS TO BE ADOPTED IN FUTURE PERIODS

Recognition and measurement of financial assets and liabilities. In January 2016, the FASB issued an ASU which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption can be elected for all financial statements of fiscal years and interim periods that have not yet been issued or that have not yet been made available for issuance. Entities should apply the update by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We will adopt the updated standard in the first quarter of 2018. We do not expect the adoption of this guidance to have a significant impact on our financial statements.

Balance sheet classification of deferred taxes. In November 2015, the FASB issued an ASU to simplify the presentation of deferred income taxes. The ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Entities should apply the new guidance either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. We are currently evaluating when we will adopt the updated standard and whether to use the prospective or retrospective method. Our year-end 2015 balance for current deferred tax assets and liabilities was \$227 and \$9 million, respectively. Please see Note 12 for more information on our deferred tax assets and liabilities.

Simplifying the accounting for measurement-period adjustments. In September 2015, the FASB issued an ASU to simplify the accounting for measurement-period adjustments for items in a business combination. The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Entities should apply the new guidance prospectively to adjustments to provisional amounts that occur after the effective date of the ASU with earlier application permitted for financial statements that have not been issued. We will adopt the updated standard in the first quarter of 2016. We do not expect the adoption of this guidance to have a significant impact on our financial statements.

Simplifying the presentation of debt issuance costs. In April 2015, the FASB issued an ASU to simplify the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Entities should apply the new guidance on a retrospective basis. We will adopt the updated standard in the first quarter of 2016. We do not expect the adoption of this guidance to have a

significant impact on our financial statements.

Customer's accounting for fees paid in a cloud computing arrangement. In April 2015, the FASB issued an ASU to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Entities should apply the new guidance either; 1) prospectively to all arrangements entered into or

materially modified after the effective date or 2) retrospectively. We will adopt the updated standard prospectively in the first quarter of 2016. We do not expect the adoption of this guidance to have a significant impact on our financial statements.

Revenue from contracts with customers. In May 2014, the FASB issued an ASU which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. When the ASU was originally issued it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption was not permitted. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The updated standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original effective date. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. An entity will not restate prior periods if it uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the ASU as compared to the guidance in effect prior to the change, as well as reasons for significant changes. We will adopt the updated standard in the first quarter of 2018. We are currently evaluating the impact that implementing this ASU will have on our financial statements and disclosures, as well as whether we will use the retrospective or modified retrospective method of adoption.

FUTURE OUTLOOK

We expect during 2016 that Project K and zero-based budgeting savings will enable us to continue to invest in our businesses, our foods, and the categories in which we compete. We expect currency-neutral comparable net sales growth to be in the range of 1 to 3 percent. While our original 2016 guidance always included pricing to cover the impact of inflation in Venezuela, our latest outlook includes more pricing to offset inflation. While it is difficult to predict pricing actions that will be required in Venezuela, it is possible that currency-neutral comparable net sales growth could exceed our guidance range due to Venezuela.

We also expect currency-neutral comparable gross margin to be up slightly due to deflation resulting from material costs, savings from Project K and zero-based budgeting. This expectation for currency-neutral comparable gross margin excludes the impact of highly inflationary economies. Finally, we expect currency-neutral comparable operating profit growth in the range of 4 to 6 percent and currency-neutral comparable EPS to increase in the range of 6 to 8 percent.

We expect that full-year operating cash flow will be approximately \$1.1 billion, including capital spending in the range of 4 to 5 percent of net sales. This capital spending expectation reflects much lower capital spending for Project K, but increased capital spending to support growth in our Pringles business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our company is exposed to certain market risks, which exist as a part of our ongoing business operations. We use derivative financial and commodity instruments, where appropriate, to manage these risks. As a matter of policy, we do not engage in trading or speculative transactions. Refer to Note 13 within Notes to Consolidated Financial Statements for further information on our derivative financial and commodity instruments.

Foreign exchange risk

Our company is exposed to fluctuations in foreign currency cash flows related primarily to third-party purchases, intercompany transactions, and when applicable, nonfunctional currency denominated third-party debt. Our company is also exposed to fluctuations in the value of foreign currency investments in subsidiaries and cash flows related to repatriation of these investments. Additionally, our company is exposed to volatility in the translation of foreign currency denominated earnings to U.S. dollars. Primary exposures include the U.S. dollar versus the euro, British pound, Mexican peso, Australian dollar, Canadian dollar, Venezuelan bolivar fuerte, and Russian ruble, and

in the case of inter-subsidary transactions, the British pound versus the euro. We assess foreign currency risk based on transactional cash flows and translational volatility and may enter into forward contracts, options, and currency swaps to reduce fluctuations in long or short currency positions. Forward contracts and options are generally less than 18 months duration. Currency swap agreements may be established in conjunction with the term of underlying debt issuances.

The total notional amount of foreign currency derivative instruments at year-end 2015 was \$1.2 billion, representing a settlement receivable of \$13 million. The total notional amount of foreign currency derivative instruments at year-end 2014 was \$764 million, representing a settlement receivable of \$23 million. All of these derivatives were hedges of anticipated transactions, translational exposure, or existing assets or liabilities, and mature within 18 months.

Assuming an unfavorable 10% change in year-end exchange rates, the settlement receivable would have become a settlement obligation of \$77 million at year-end 2015 and the settlement receivable at year-end 2014 would have become a settlement obligation of \$53 million. These unfavorable changes would generally have been offset by favorable changes in the values of the underlying exposures.

Venezuela is considered a highly inflationary economy. As such, the functional currency for our operations in Venezuela is the U.S. dollar, which in turn, requires bolivar denominated monetary assets and liabilities to be remeasured into U.S. dollars using an exchange rate at which such balances could be settled as of the balance sheet date. In addition, revenues and expenses are recorded in U.S. dollars at an appropriate rate on the date of the transaction. Gains and losses resulting from the remeasurement of the bolivar denominated monetary assets and liabilities are recorded in earnings.

During 2015 we have experienced an increase in the amount of time it takes to exchange bolivars for U.S. dollars through the CENCOEX exchange. Given this economic backdrop, and upon review of current U.S. dollar cash needs in our Venezuela operations as of the quarter ended July 4, 2015, we concluded that we are no longer able to obtain sufficient U.S. dollars on a timely basis through the CENCOEX exchange to support our Venezuela operations, resulting in a decision to remeasure our Venezuela subsidiary's financial statements using the SIMADI rate. Please refer to Note 15 for more information regarding our operations in Venezuela and our change in foreign exchange rates.

As of July 4, 2015, certain non-monetary assets related to our Venezuelan subsidiary continued to be remeasured at historical exchange rates. As these assets were utilized by our Venezuelan subsidiary during the second half of 2015 they were recognized in the income statement at historical exchange rates resulting in an unfavorable impact. During 2015, we recognized expense related to the utilization of a portion of these non-monetary assets, resulting in an unfavorable impact of approximately \$17 million. We expect an additional unfavorable impact of approximately \$4 million in 2016 related to the utilization of these remaining non-monetary assets. Including these impacts, the total impact of moving from the CENCOEX official rate to the SIMADI rate is anticipated to be \$173 million, on a pre-tax basis, with \$169 million recognized in 2015, or approximately \$.42 on a fully-diluted EPS basis, plus an additional \$4 million expected to be recognized in 2016.

In February 2016, the Venezuelan government announced a 59% devaluation of the CENCOEX official rate from 6.3 bolivars to 10.0 bolivars to the U.S. dollar. Additionally the SICAD exchange rate was eliminated. These changes are not expected to have a material impact on our results as we are currently using the SIMADI rate to remeasure our Venezuelan subsidiary's financial statements.

Interest rate risk

Our company is exposed to interest rate volatility with regard to future issuances of fixed rate debt and existing and future issuances of variable rate debt. Primary exposures include movements in U.S. Treasury rates, London Interbank Offered Rates (LIBOR), and commercial paper rates. We periodically use interest rate swaps and forward interest rate contracts to reduce interest rate volatility and funding costs associated with certain debt issues, and to achieve a

desired proportion of variable versus fixed rate debt, based on current and projected market conditions. During 2014, we entered into forward starting interest swaps with notional amounts totaling €500 million, as a hedge against interest rate volatility associated with a forecasted issuance of fixed rate debt to be used for general corporate purposes. These swaps were designated as cash flow hedges. During 2015 these forward starting interest swaps were settled and additional forward starting interest rate swaps with a notional amount totaling €600 million were entered into and were designated as cash flow hedges. These forward starting interest rate swaps were settled in March 2015, upon the issuance of fixed rate debt. A resulting aggregate loss of \$12 million was recorded in accumulated other comprehensive income (loss) and will be amortized as interest expense over the life

of the related fixed rate debt. Refer to Note 7 within Notes to Consolidated Financial Statements for further information related to the fixed rate debt issuance.

During 2015 we entered into new interest rate swaps with notional amounts totaling approximately \$2.0 billion that were designated as fair value hedges of certain U.S. Dollar Notes. Additionally during 2015 we terminated interest rate swaps with notional amounts totaling approximately \$4.3 billion which were previously designated as fair value hedges of certain U.S. Dollar Notes. Refer to Note 7 within Notes to Consolidated Financial Statements.

There were no outstanding interest rate swaps as of year-end 2015. The total notional amount of interest rate swaps at year-end 2014 was \$3 billion, representing a settlement obligation of \$12 million. As there were no interest rate swaps or variable rate debt outstanding at year-end 2015, changes in interest rates would have no impact to annual interest expense. Assuming average variable rate debt levels during the year, a one percentage point increase in interest rates would have increased interest expense by approximately \$36 million at year-end 2014.

Price risk

Our company is exposed to price fluctuations primarily as a result of anticipated purchases of raw and packaging materials, fuel, and energy. Primary exposures include corn, wheat, potato flakes, soybean oil, sugar, cocoa, cartonboard, natural gas, and diesel fuel. We have historically used the combination of long-term contracts with suppliers, and exchange-traded futures and option contracts to reduce price fluctuations in a desired percentage of forecasted raw material purchases over a duration of generally less than 18 months.

The total notional amount of commodity derivative instruments at year-end 2015 was \$470 million, representing a settlement obligation of approximately \$43 million. The total notional amount of commodity derivative instruments at year-end 2014 was \$492 million, representing a settlement obligation of approximately \$56 million. Assuming a 10% decrease in year-end commodity prices, the settlement obligation would have increased by approximately \$27 million at year-end 2015, and \$31 million at year-end 2014, generally offset by a reduction in the cost of the underlying commodity purchases.

In addition to the commodity derivative instruments discussed above, we use long-term contracts with suppliers to manage a portion of the price exposure associated with future purchases of certain raw materials, including rice, sugar, cartonboard, and corrugated boxes. It should be noted the exclusion of these contracts from the analysis above could be a limitation in assessing the net market risk of our company.

Reciprocal collateralization agreements

In some instances we have reciprocal collateralization agreements with counterparties regarding fair value positions in excess of certain thresholds. These agreements call for the posting of collateral in the form of cash, treasury securities or letters of credit if a net liability position to us or our counterparties exceeds a certain amount. As of January 2, 2016 and January 3, 2015, we had no collateral posting requirements related to reciprocal collateralization agreements. As of January 2, 2016 and January 3, 2015, we posted \$51 million and \$50 million, respectively, in margin deposits for exchange-traded commodity derivative instruments, which was reflected as an increase in accounts receivable, net on the Consolidated Balance Sheet.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share data)	2015	2014	2013
Net sales	\$13,525	\$14,580	\$14,792
Cost of goods sold	8,844	9,517	8,689
Selling, general and administrative expense	3,590	4,039	3,266
Operating profit	\$1,091	\$1,024	\$2,837
Interest expense	227	209	235
Other income (expense), net	(91	) 10	4
Income before income taxes	773	825	2,606
Income taxes	159	186	792
Earnings (loss) from unconsolidated entities	—	(6	) (6
Net income	\$614	\$633	\$1,808
Net income (loss) attributable to noncontrolling interests	—	1	1
Net income attributable to Kellogg Company	\$614	\$632	\$1,807
Per share amounts:			
Basic	\$1.74	\$1.76	\$4.98
Diluted	\$1.72	\$1.75	\$4.94
Dividends per share	\$1.98	\$1.90	\$1.80

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions)	2015			2014			2013		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			\$ 614			\$ 633			\$ 1,808
Other comprehensive income:									
Foreign currency translation adjustments	\$(170)	\$(26)	(196)	\$(231)	\$(32)	(263)	\$(24)	\$—	(24)
Cash flow hedges:									
Unrealized gain (loss) on cash flow hedges	8	(3)	5	(35)	18	(17)	11	(1)	10
Reclassification to net income	(23)	3	(20)	(10)	2	(8)	(6)	—	(6)
Postretirement and postemployment benefits:									
Amounts arising during the period:									
Net experience gain (loss)	—	—	—	(8)	3	(5)	17	(6)	11
Prior service credit (cost)	63	(24)	39	10	(3)	7	9	(2)	7
Reclassification to net income:									
Net experience loss	3	(1)	2	3	(1)	2	5	(2)	3
Prior service cost	9	(3)	6	10	(3)	7	13	(4)	9
Other comprehensive income (loss)	\$(110)	\$(54)	\$(164)	\$(261)	\$(16)	\$(277)	\$ 25	\$(15)	\$ 10
Comprehensive income			\$ 450			\$ 356			\$ 1,818
Net income (loss) attributable to noncontrolling interests			—			1			1
Other comprehensive income (loss) attributable to noncontrolling interests			(1)			—			—
Comprehensive income attributable to Kellogg Company			\$ 451			\$ 355			\$ 1,817

Refer to notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
CONSOLIDATED BALANCE SHEET

(millions, except share data)	2015	2014
Current assets		
Cash and cash equivalents	\$251	\$443
Accounts receivable, net	1,344	1,276
Inventories	1,250	1,279
Other current assets	391	342
Total current assets	3,236	3,340
Property, net	3,621	3,769
Goodwill	4,968	4,971
Other intangibles, net	2,268	2,295
Investment in unconsolidated entities	456	1
Other assets	716	777
Total assets	\$15,265	\$15,153
Current liabilities		
Current maturities of long-term debt	\$1,266	\$607
Notes payable	1,204	828
Accounts payable	1,907	1,528
Other current liabilities	1,362	1,401
Total current liabilities	5,739	4,364
Long-term debt	5,289	5,935
Deferred income taxes	685	726
Pension liability	946	777
Other liabilities	468	500
Commitments and contingencies	—	—
Equity		
Common stock, \$.25 par value, 1,000,000,000 shares authorized	105	105
Issued: 420,315,589 shares in 2015 and 420,125,937 shares in 2014		
Capital in excess of par value	745	678
Retained earnings	6,597	6,689
Treasury stock, at cost	(3,943	) (3,470
70,291,514 shares in 2015 and 64,123,181 shares in 2014)
Accumulated other comprehensive income (loss)	(1,376	) (1,213
Total Kellogg Company equity	2,128	2,789
Noncontrolling interests	10	62
Total equity	2,138	2,851
Total liabilities and equity	\$15,265	\$15,153
Refer to Notes to Consolidated Financial Statements.		

Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF EQUITY

(millions)	Common stock shares	Common stock amount	Capital in excess of par value	Retained earnings	Treasury stock shares	Treasury stock amount	Accumulated other comprehensive income (loss)	Total Kellogg Company equity	Non- controlling interests	Total equity	Total comprehensive income (loss)
Balance, December 29, 2012	420	\$ 105	\$ 573	\$ 5,615	58	\$(2,943)	\$ (946)	\$ 2,404	\$ 61	\$ 2,465	\$ 1,021
Common stock repurchases					9	(544)		(544)		(544)	
Net income (loss)				1,807				1,807	1	1,808	1,808
Dividends				(653)				(653)		(653)	
Other comprehensive income							10	10		10	10
Stock compensation			28					28		28	
Stock options exercised and other			25	(20)	(10)	488		493		493	
Balance, December 28, 2013	420	\$ 105	\$ 626	\$ 6,749	57	\$(2,999)	\$ (936)	\$ 3,545	\$ 62	\$ 3,607	\$ 1,818
Common stock repurchases					11	(690)		(690)		(690)	
Net income (loss)				632				632	1	633	633
Dividends				(680)				(680)	(1)	(681)	
Other comprehensive loss							(277)	(277)		(277)	(277)
Stock compensation			29					29		29	
Stock options exercised and other			23	(12)	(4)	219		230		230	
Balance, January 3, 2015	420	\$ 105	\$ 678	\$ 6,689	64	\$(3,470)	\$ (1,213)	\$ 2,789	\$ 62	\$ 2,851	\$ 356
Common stock repurchases					11	(731)		(731)		(731)	
Net income (loss)				614				614		614	614
Acquisition of noncontrolling interest									7	7	
VIE deconsolidation									(58)	(58)	
Dividends				(700)				(700)		(700)	
Other comprehensive loss							(163)	(163)	(1)	(164)	(164)
Stock compensation			51					51		51	
Stock options exercised and other	—		16	(6)	(5)	258		268		268	
Balance, January 2, 2016	420	\$ 105	\$ 745	\$ 6,597	70	\$(3,943)	\$ (1,376)	\$ 2,128	\$ 10	\$ 2,138	\$ 450

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2015	2014	2013
Operating activities			
Net income	\$614	\$633	\$1,808
Adjustments to reconcile net income to operating cash flows:			
Depreciation and amortization	534	503	532
Postretirement benefit plan (income) expense	320	803	(1,078)
Deferred income taxes	(169)	(254)	317
Stock compensation	51	37	34
Venezuela remeasurement	169	—	15
VIE deconsolidation	(49)	—	—
Other	(13)	(125)	(15)
Postretirement benefit plan contributions	(33)	(53)	(48)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	(127)	131	(50)
Inventories	(42)	(30)	112
Accounts payable	427	96	31
Accrued income taxes	29	87	4
Accrued interest expense	5	(2)	(9)
Accrued and prepaid advertising, promotion and trade allowances	7	(21)	(32)
Accrued salaries and wages	20	(7)	61
All other current assets and liabilities	(52)	(5)	125
Net cash provided by (used in) operating activities	\$1,691	\$1,793	\$1,807
Investing activities			
Additions to properties	\$(553)	\$(582)	\$(637)
Acquisitions, net of cash acquired	(161)	—	—
Investments in unconsolidated entities	(456)	(6)	(6)
Other	43	15	2
Net cash provided by (used in) investing activities	\$(1,127)	\$(573)	\$(641)
Financing activities			
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	443	183	(524)
Issuances of notes payable, with maturities greater than 90 days	214	1,030	640
Reductions of notes payable, with maturities greater than 90 days	(283)	(1,124)	(442)
Issuances of long-term debt	696	952	645
Reductions of long-term debt	(606)	(960)	(762)
Net issuances of common stock	261	217	475
Common stock repurchases	(731)	(690)	(544)
Cash dividends	(700)	(680)	(653)
Other	—	9	24
Net cash provided by (used in) financing activities	\$(706)	\$(1,063)	\$(1,141)
Effect of exchange rate changes on cash and cash equivalents	(50)	13	(33)
Increase (decrease) in cash and cash equivalents	\$(192)	\$170	\$(8)
Cash and cash equivalents at beginning of period	443	273	281
Cash and cash equivalents at end of period	\$251	\$443	\$273

Supplemental cash flow disclosures:

Edgar Filing: KELLOGG CO - Form 10-K

Interest paid	\$228	\$209	\$234
Income taxes paid	\$337	\$414	\$426
Supplemental cash flow disclosures of non-cash investing activities:			
Additions to properties included in accounts payable	\$147	\$136	\$135

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1
ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of the Kellogg Company, those of the subsidiaries that it controls due to ownership of a majority voting interest and the accounts of the variable interest entities (VIEs) of which Kellogg Company is the primary beneficiary (Kellogg or the Company). The Company continually evaluates its involvement with VIEs to determine whether it has variable interests and is the primary beneficiary of the VIE. When these criteria are met, the Company is required to consolidate the VIE. The Company's share of earnings or losses of nonconsolidated affiliates is included in its consolidated operating results using the equity method of accounting when it is able to exercise significant influence over the operating and financial decisions of the affiliate. The Company uses the cost method of accounting if it is not able to exercise significant influence over the operating and financial decisions of the affiliate. Intercompany balances and transactions are eliminated. The Company's fiscal year normally ends on the Saturday closest to December 31 and as a result, a 53rd week is added approximately every sixth year. The Company's 2015 and 2013 fiscal years each contained 52 weeks and ended on January 2, 2016 and December 28, 2013, respectively. The Company's 2014 fiscal year ended on January 3, 2015, and included a 53rd week. While quarters normally consist of 13-week periods, the fourth quarter of fiscal 2014 included a 14th week.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

Cash and cash equivalents

Highly liquid investments with remaining stated maturities of three months or less when purchased are considered cash equivalents and recorded at cost.

Accounts receivable

Accounts receivable consists principally of trade receivables, which are recorded at the invoiced amount, net of allowances for doubtful accounts and prompt payment discounts. Trade receivables do not bear interest. The allowance for doubtful accounts represents management's estimate of the amount of probable credit losses in existing accounts receivable, as determined from a review of past due balances and other specific account data. Account balances are written off against the allowance when management determines the receivable is uncollectible. The Company does not have off-balance sheet credit exposure related to its customers.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined on an average cost basis.

Property

The Company's property consists mainly of plants and equipment used for manufacturing activities. These assets are recorded at cost and depreciated over estimated useful lives using straight-line methods for financial reporting and accelerated methods, where permitted, for tax reporting. Major property categories are depreciated over various periods as follows (in years): manufacturing machinery and equipment 5-30; office equipment 4-5; computer equipment and capitalized software 3-7; building components 15-25; building structures 30-50. Cost includes interest associated with significant capital projects. Plant and equipment are reviewed for impairment when conditions indicate that the carrying value may not be recoverable. Such conditions include an extended period of idleness or a plan of disposal. Assets to be disposed of at a future date are depreciated over the remaining period of use. Assets to be sold are written down to realizable value at the time the assets are being actively marketed for sale and a sale is expected to occur within one year. As of year-end 2015 and 2014, the carrying value of assets held for sale was insignificant.

Goodwill and other intangible assets

Goodwill and indefinite-lived intangibles are not amortized, but are tested at least annually for impairment of value and whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. An intangible asset with a finite life is amortized on a straight-line basis over the estimated useful life.

For the goodwill impairment test, the fair value of the reporting units are estimated based on market multiples. This approach employs market multiples based on earnings before interest, taxes, depreciation and amortization and earnings for companies that are comparable to the Company's reporting units. In the event the fair value determined using the market multiple approach is close to carrying value, the Company may supplement the fair value determination using discounted cash flows. The assumptions used for the impairment test are consistent with those utilized by a market participant performing similar valuations for the Company's reporting units.

Similarly, impairment testing of other intangible assets requires a comparison of carrying value to fair value of that particular asset. Fair values of non-goodwill intangible assets are based primarily on projections of future cash flows to be generated from that asset. For instance, cash flows related to a particular trademark would be based on a projected royalty stream attributable to branded product sales, discounted at rates consistent with rates used by market participants.

These estimates are made using various inputs including historical data, current and anticipated market conditions, management plans, and market comparables.

Accounts payable

Beginning in 2014, the Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to monitor and, if elected, sell payment obligations from the Company to designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to sell one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into this agreement is to capture overall supplier savings, in the form of payment terms or vendor funding, created by facilitating suppliers' ability to sell payment obligations, while providing them with greater working capital flexibility. We have no economic interest in the sale of these suppliers' receivables and no direct financial relationship with the financial institutions concerning these services. The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to sell amounts under this arrangement. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by this agreement for those payment obligations that have been sold by suppliers. As of January 2, 2016, \$501 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold \$407 million of those payment obligations to participating financial institutions. As of January 3, 2015, \$236 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold \$184 million of those payment obligations to participating financial institutions.

Revenue recognition

The Company recognizes sales upon delivery of its products to customers. Revenue, which includes shipping and handling charges billed to the customer, is reported net of applicable provisions for discounts, returns, allowances, and various government withholding taxes. Methodologies for determining these provisions are dependent on local customer pricing and promotional practices, which range from contractually fixed percentage price reductions to reimbursement based on actual occurrence or performance. Where applicable, future reimbursements are estimated based on a combination of historical patterns and future expectations regarding specific in-market product performance.

Advertising and promotion

The Company expenses production costs of advertising the first time the advertising takes place. Advertising expense is classified in selling, general and administrative (SGA) expense.

The Company classifies promotional payments to its customers, the cost of consumer coupons, and other cash redemption offers in net sales. The cost of promotional package inserts is recorded in cost of goods sold (COGS).

Other types of consumer promotional expenditures are recorded in SGA expense.

Research and development

The costs of research and development (R&D) are expensed as incurred and are classified in SGA expense. R&D includes expenditures for new product and process innovation, as well as significant technological improvements to existing products and processes. The Company's R&D expenditures primarily consist of internal salaries, wages, consulting, and supplies attributable to time spent on R&D activities. Other costs include depreciation and

maintenance of research facilities and equipment, including assets at manufacturing locations that are temporarily engaged in pilot plant activities.

Stock-based compensation

The Company uses stock-based compensation, including stock options, restricted stock, restricted stock units, and executive performance shares, to provide long-term performance incentives for its global workforce.

The Company classifies pre-tax stock compensation expense principally in SGA expense within its corporate operations. Expense attributable to awards of equity instruments is recorded in capital in excess of par value in the Consolidated Balance Sheet.

Certain of the Company's stock-based compensation plans contain provisions that accelerate vesting of awards upon retirement, disability, or death of eligible employees and directors. 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, the Company recognizes compensation cost 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.

The Company recognizes compensation cost for stock option awards that have a graded vesting schedule on a straight-line basis over the requisite service period for the entire award.

Corporate income tax benefits realized upon exercise or vesting of an award in excess of that previously recognized in earnings ("windfall tax benefit") is recorded in other financing activities in the Consolidated Statement of Cash Flows. Realized windfall tax benefits are credited to capital in excess of par value in the Consolidated Balance Sheet.

Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The Company currently has sufficient cumulative windfall tax benefits to absorb arising shortfalls, such that earnings were not affected during the periods presented. Correspondingly, the Company includes the impact of pro forma deferred tax assets (i.e., the "as if" windfall or shortfall) for purposes of determining assumed proceeds in the treasury stock calculation of diluted earnings per share.

Income taxes

The Company recognizes uncertain tax positions based on a benefit recognition model. Provided that the tax position is deemed more likely than not of being sustained, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company classifies income tax-related interest and penalties as interest expense and SGA expense, respectively, on the Consolidated Statement of Income. The current portion of the Company's unrecognized tax benefits is presented in the Consolidated Balance Sheet in other current assets and other current liabilities, and the amounts expected to be settled after one year are recorded in other assets and other liabilities.

Income taxes are provided on the portion of foreign earnings that is expected to be remitted to and taxable in the United States.

Derivative Instruments

The fair value of derivative instruments is recorded in other current assets, other assets, other current liabilities or other liabilities. Gains and losses representing either hedge ineffectiveness, hedge components excluded from the assessment of effectiveness, or hedges of translational exposure are recorded in the Consolidated Statement of Income in other income (expense), net (OIE). In the Consolidated Statement of Cash Flows, settlements of cash flow and fair value hedges are classified as an operating activity; settlements of all other derivative instruments, including instruments for which hedge accounting has been discontinued, are classified consistent with the nature of the instrument.

Cash flow hedges. Qualifying derivatives are accounted for as cash flow hedges when the hedged item is a forecasted transaction. Gains and losses on these instruments are recorded in other comprehensive income until the underlying transaction is recorded in earnings. When the hedged item is realized, gains or losses are reclassified from accumulated other comprehensive income (loss) (AOCI) to the Consolidated Statement of Income on the same line item as the underlying transaction.

Fair value hedges. Qualifying derivatives are accounted for as fair value hedges when the hedged item is a recognized asset, liability, or firm commitment. Gains and losses on these instruments are recorded in earnings, offsetting gains and losses on the hedged item.

Net investment hedges. Qualifying derivative and nonderivative financial instruments are accounted for as net investment hedges when the hedged item is a nonfunctional currency investment in a subsidiary. Gains and losses on these instruments are included in foreign currency translation adjustments in AOCI.

Derivatives not designated for hedge accounting. Gains and losses on these instruments are recorded in the Consolidated Statement of Income, on the same line item as the underlying hedged item.

Other contracts. The Company periodically enters into foreign currency forward contracts and options to reduce volatility in the translation of foreign currency earnings to U.S. dollars. Gains and losses on these instruments are recorded in OIE, generally reducing the exposure to translation volatility during a full-year period.

Foreign currency exchange risk. The Company is exposed to fluctuations in foreign currency cash flows related primarily to third-party purchases, intercompany transactions and when applicable, nonfunctional currency denominated third-party debt. The Company is also exposed to fluctuations in the value of foreign currency investments in subsidiaries and cash flows related to repatriation of these investments. Additionally, the Company is exposed to volatility in the translation of foreign currency denominated earnings to U.S. dollars. Management assesses foreign currency risk based on transactional cash flows and translational volatility and may enter into forward contracts, options, and currency swaps to reduce fluctuations in long or short currency positions.

Forward contracts and options are generally less than 18 months duration. Currency swap agreements are established in conjunction with the term of underlying debt issues.

For foreign currency cash flow and fair value hedges, the assessment of effectiveness is generally based on changes in spot rates. Changes in time value are reported in OIE.

Interest rate risk. The Company is exposed to interest rate volatility with regard to future issuances of fixed rate debt and existing and future issuances of variable rate debt. The Company periodically uses interest rate swaps, including forward-starting swaps, to reduce interest rate volatility and funding costs associated with certain debt issues, and to achieve a desired proportion of variable versus fixed rate debt, based on current and projected market conditions. Fixed-to-variable interest rate swaps are accounted for as fair value hedges and the assessment of effectiveness is based on changes in the fair value of the underlying debt, using incremental borrowing rates currently available on loans with similar terms and maturities.

Price risk. The Company is exposed to price fluctuations primarily as a result of anticipated purchases of raw and packaging materials, fuel, and energy. The Company has historically used the combination of long-term contracts with suppliers, and exchange-traded futures and option contracts to reduce price fluctuations in a desired percentage of forecasted raw material purchases over a duration of generally less than 18 months.

Certain commodity contracts are accounted for as cash flow hedges, while others are marked to market through earnings. The assessment of effectiveness for exchange-traded instruments is based on changes in futures prices. The assessment of effectiveness for over-the-counter transactions is based on changes in designated indices.

Pension benefits, nonpension postretirement and postemployment benefits

The Company sponsors a number of U.S. and foreign plans to provide pension, health care, and other welfare benefits to retired employees, as well as salary continuance, severance, and long-term disability to former or inactive employees.

The recognition of benefit expense is based on actuarial assumptions, such as discount rate, long-term rate of compensation increase, long-term rate of return on plan assets and health care cost trend rate, and is reported in COGS and SGA expense on the Consolidated Statement of Income.

Postemployment benefits. The Company recognizes an obligation for postemployment benefit plans that vest or accumulate with service. Obligations associated with the Company's postemployment benefit plans, which are unfunded, are included in other current liabilities and other liabilities on the Consolidated Balance Sheet. All gains and losses are recognized over the average remaining service period of active plan participants.

Postemployment benefits that do not vest or accumulate with service or benefits to employees in excess of those specified in the respective plans are expensed as incurred.

Pension and nonpension postretirement benefits. The Company recognizes actuarial gains and losses in operating results in the year in which they occur. Experience gains and losses are recognized annually as of the measurement date, which is the Company's fiscal year-end, or when remeasurement is otherwise required under generally accepted accounting principles. The Company uses the fair value of plan assets to calculate the expected return on plan assets. Reportable segments are allocated service cost and amortization of prior service cost. All other components of pension and postretirement benefit expense, including interest cost, expected return on assets, and experience gains and losses are considered unallocated corporate costs and are not included in the measure of reportable segment operating results. See Note 17 for more information on reportable segments.

Management reviews the Company's expected long-term rates of return annually; however, the benefit trust investment performance for one particular year does not, by itself, significantly influence this evaluation. The expected rates of return are generally not revised provided these rates fall between the 25th and 75th percentile of expected long-term returns, as determined by the Company's modeling process.

For defined benefit pension and postretirement plans, the Company records the net overfunded or underfunded position as a pension asset or pension liability on the Consolidated Balance Sheet.

New accounting standards

Practical expedient for the measurement date of an employer's defined benefit obligation and plan assets. In April 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to provide a practical expedient for the measurement date of an employer's defined benefit obligation and plan assets. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently to all plans from year to year. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Entities should apply the new guidance on a prospective basis. The Company early adopted the updated standard when measuring the fair value of plan assets at the end of its 2015 fiscal year with no impact to the Consolidated Financial Statements.

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. In July 2013, the FASB issued an ASU which provides guidance on financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is expected to eliminate diversity in practice resulting from lack of previously existing guidance. It applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. The Company adopted the revised guidance in 2014 with no significant impact to the Consolidated Financial Statements.

Accounting standards to be adopted in future periods

Recognition and measurement of financial assets and liabilities. In January 2016, the FASB issued an ASU which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption can be elected for all financial statements of fiscal years and interim periods that have not yet been issued or that have not yet been made available for issuance. Entities should apply the update by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company will adopt the updated standard in the first quarter of 2018. The Company does not expect the adoption of this guidance to have a significant impact on its financial statements.

Balance sheet classification of deferred taxes. In November 2015, the FASB issued an ASU to simplify the presentation of deferred income taxes. The ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The ASU is effective for fiscal years, and interim periods

within those years, beginning after December 15, 2016. Entities should apply the new guidance either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. The Company is currently evaluating when it will adopt the updated standard and whether to use the prospective or retrospective method. The year-end 2015 balance for current deferred tax assets and liabilities was

\$227 million and \$(9) million, respectively. Please see Note 12 for more information on the Company's deferred tax assets and liabilities.

Simplifying the accounting for measurement-period adjustments. In September 2015, the FASB issued an ASU to simplify the accounting for measurement-period adjustments for items in a business combination. The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Entities should apply the new guidance prospectively to adjustments to provisional amounts that occur after the effective date of the ASU with earlier application permitted for financial statements that have not been issued. The Company will adopt the updated standard in the first quarter of 2016. The Company does not expect the adoption of this guidance to have a significant impact on its financial statements.

Simplifying the presentation of debt issuance costs. In April 2015, the FASB issued an ASU to simplify the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Entities should apply the new guidance on a retrospective basis. The Company will adopt the updated standard in the first quarter of 2016. The Company does not expect the adoption of this guidance to have a significant impact on its financial statements.

Customer's accounting for fees paid in a cloud computing arrangement. In April 2015, the FASB issued an ASU to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Entities should apply the new guidance either; 1) prospectively to all arrangements entered into or materially modified after the effective date or 2) retrospectively. The Company will adopt the updated standard prospectively in the first quarter of 2016. The Company does not expect the adoption of this guidance to have a significant impact on its financial statements.

Revenue from contracts with customers. In May 2014, the FASB issued an ASU which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. When the ASU was originally issued it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption was not permitted. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The updated standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original effective date. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. An entity will not restate prior periods if it uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the ASU as compared to the guidance in effect prior to the change, as well as reasons for significant changes. The Company will adopt the updated standard in the first quarter of 2018. The Company is currently evaluating the impact that implementing this ASU will have on its financial statements and disclosures, as well as whether it will use the retrospective or modified retrospective method

of adoption.

60

NOTE 2

GOODWILL AND OTHER INTANGIBLE ASSETS

Bisco Misr and Mass Foods acquisitions

In January 2015, the Company completed its acquisition of a majority interest in Bisco Misr, the number one packaged biscuits company in Egypt, for \$125 million, or \$117 million net of cash and cash equivalents acquired. In October 2015, the Company acquired additional ownership in Bisco Misr through payment of \$13 million to non-controlling interests, which is reported as financing activity on the Consolidated Statement of Cash Flows. As of January 2, 2016, the Company owns greater than 95% of Bisco Misr outstanding shares.

In September 2015, the Company completed the acquisition of Mass Foods, Egypt's leading cereal company, for \$46 million, or \$44 million, net of cash and cash equivalents acquired, subject to certain purchase price adjustments.

The acquisitions were accounted for under the purchase method and were financed through cash on hand. The assets and liabilities of Bisco Misr and Mass Foods are included in the Consolidated Balance Sheet as of January 2, 2016 and the results of their operations subsequent to the acquisition date, which are immaterial, are included in the Consolidated Statement of Income within the Europe operating segment. In addition, the pro-forma effect of these acquisitions, if the acquisitions had been completed at the beginning of 2014, would have been immaterial.

The acquired assets and assumed liabilities include the following:

(millions)	January 18, 2015	
Current assets	\$21	
Property	90	
Goodwill	81	
Intangible assets and other	46	
Current liabilities	(24)
Other non current liabilities, primarily deferred taxes	(33)
Non-controlling interests	(20)
	\$161	

Goodwill, which is not expected to be deductible for statutory tax purposes, is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded primarily reflects the value of providing an established platform to leverage the Company's existing brands in the markets served by Bisco Misr and Mass Foods as well as any intangible assets that do not qualify for separate recognition. The allocation of purchase price for Bisco Misr was finalized in the 4th quarter of 2015. The allocation of the purchase price of Mass Foods is subject to revision when appraisals are finalized, which is expected to occur no later than the third quarter of 2016.

Changes in the carrying amount of goodwill are presented in the following table.

Changes in the
carrying amount of
goodwill

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
December 28, 2013*	\$131	\$3,589	\$82	\$470	\$452	\$89	\$238	\$5,051
Currency translation adjustment	—	—	—	(5	) (63	) (6	) (6	) (80
January 3, 2015*	\$131	\$3,589	\$82	\$465	\$389	\$83	\$232	\$4,971
Additions	—	—	—	—	81	—	—	81
VIE deconsolidation	—	(21	) —	—	—	—	—	(21
Currency translation adjustment	—	—	—	(9	) (39	) (7	) (8	) (63
January 2, 2016	\$131	\$3,568	\$82	\$456	\$431	\$76	\$224	\$4,968

* In conjunction with the establishment of the Kashi operating segment, included within the North America Other reportable segment, certain intangible assets were reallocated. All prior period balances were updated to conform with current presentation.

Intangible assets
subject to amortization

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
Gross carrying amount								
December 28, 2013	\$8	\$65	\$—	\$5	\$42	\$6	\$10	\$136
Currency translation adjustment	—	—	—	—	(4	) —	—	(4
January 3, 2015	\$8	\$65	\$—	\$5	\$38	\$6	\$10	\$132
Additions	—	—	—	—	9	—	—	9
VIE deconsolidation	—	(23	) —	—	—	—	—	(23
Currency translation adjustment	—	—	—	—	(2	) —	—	(2
January 2, 2016	\$8	\$42	\$—	\$5	\$45	\$6	\$10	\$116

Accumulated
Amortization

December 28, 2013	\$8	\$11	\$—	\$4	\$4	\$6	\$1	\$34
Amortization	—	5	—	—	3	—	1	9
January 3, 2015	\$8	\$16	\$—	\$4	\$7	\$6	\$2	\$43
VIE deconsolidation	—	(4	) —	—	—	—	—	(4
Amortization (a)	—	4	—	—	4	—	—	8
January 2, 2016	\$8	\$16	\$—	\$4	\$11	\$6	\$2	\$47

Intangible assets
subject to
amortization, net

December 28, 2013	\$—	\$54	\$—	\$1	\$38	\$—	\$9	\$102
-------------------	-----	------	-----	-----	------	-----	-----	-------

Edgar Filing: KELLOGG CO - Form 10-K

Amortization	—	(5	)	—	—	(3	)	—	(1	)	(9)
Currency translation adjustment	—	—	—	—	—	(4	)	—	—	—	(4)
January 3, 2015	\$—	\$49	\$—	\$1	\$31	\$—	\$8	\$89				
Additions	—	—	—	—	9	—	—	9				
VIE deconsolidation	—	(19	)	—	—	—	—	(19)			
Amortization (a)	—	(4	)	—	—	(4	)	—	—	—	(8)
Currency translation adjustment	—	—	—	—	—	(2	)	—	—	—	(2)
January 2, 2016	\$—	\$26	\$—	\$1	\$34	\$—	\$8	\$69				

(a) The currently estimated aggregate amortization expense for each of the next five succeeding fiscal periods is approximately \$7 million per year.

Intangible assets not
subject to amortization

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
December 28, 2013*	\$—	\$1,625	\$—	\$158	\$482	\$—	\$—	\$2,265
Currency translation adjustment	—	—	—	—	(59)	—	—	(59)
January 3, 2015*	\$—	\$1,625	\$—	\$158	\$423	\$—	\$—	\$2,206
Additions	—	—	—	—	36	—	—	36
Currency translation adjustment	—	—	—	—	(43)	—	—	(43)
January 2, 2016	\$—	\$1,625	\$—	\$158	\$416	\$—	\$—	\$2,199

* In conjunction with the establishment of the Kashi operating segment, included within the North America Other reportable segment, certain intangible assets were reallocated. All prior period balances were updated to conform with current presentation.

NOTE 3

INVESTMENTS IN UNCONSOLIDATED ENTITIES

In September 2015, the Company acquired, for \$445 million, a 50% interest in Multipro Singapore Pte. Ltd. (Multipro), a leading distributor of a variety of food products in Nigeria and Ghana and also obtained an option to acquire 24.5% of an affiliated food manufacturing entity under common ownership based on a fixed multiple of future earnings as defined in the agreement (Purchase Option). The amount paid, which was financed with cash on hand and commercial paper borrowings, is subject to purchase price adjustments, including the finalization of Multipro's 2015 earnings as defined in the agreement.

The amount attributable to the Purchase Option of \$77 million was recorded at cost and will be monitored for impairment through the exercise period. The Purchase Option becomes exercisable upon the earlier of the entity achieving a minimum level of earnings as defined in the agreement, in which case the Company has a one year exercise period, or 2020. The remaining \$368 million paid for the 50% interest in Multipro is accounted for under the equity method of accounting.

The difference between the amount paid for Multipro and the underlying equity in net assets is primarily attributable to intangible assets, a portion of which will be amortized in future periods, and goodwill.

Summarized combined financial information for the Company's investments in unconsolidated entities is as follows (on a 100% basis):

Statement of Operations

(since time of investment in millions)

	Period ended January 2, 2016
Net sales	\$289
Gross profit	\$44
Income before income taxes	\$12
Net income	\$5

Balance sheets

	January 2, 2016
Current assets	\$78
Non-current assets	\$57
Current liabilities	\$(81)
Non-current liabilities	\$(25)

NOTE 4

RESTRUCTURING AND COST REDUCTION ACTIVITIES

The Company views its continued spending on restructuring and cost reduction activities as part of its ongoing operating principles to provide greater visibility in achieving its long-term profit growth targets. Initiatives undertaken are currently expected to recover cash implementation costs within a 5-year period of completion. Upon completion (or as each major stage is completed in the case of multi-year programs), the project begins to deliver cash savings and/or reduced depreciation.

Project K

Project K, a four-year efficiency and effectiveness program, was announced in November 2013 and is expected to generate a significant amount of savings that will be invested in key strategic areas of focus for the business. The Company expects that this investment will drive future growth in revenues, gross margin, operating profit, and cash flow.

The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories.

The Company currently anticipates that the program will result in total pre-tax charges, once all phases are approved and implemented, of \$1.2 to \$1.4 billion, with after-tax cash costs, including incremental capital

expenditures, estimated to be \$900 million to \$1.1 billion. Based on current estimates and actual charges incurred to date, the Company expects the total project charges will consist of asset-related costs totaling \$400 to \$450 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs totaling \$400 to \$450 million which will include severance, pension and other termination benefits; and other costs totaling \$400 to \$500 million which will consist primarily of charges related to the design and implementation of global business capabilities. A significant portion of other costs are the result of the implementation of global business service centers which are intended to simplify and standardize business support processes.

The Company currently expects that total pre-tax charges related to Project K will impact reportable segments as follows: U.S. Morning Foods (approximately 18%), U.S. Snacks (approximately 13%), U.S. Specialty (approximately 1%), North America Other (approximately 10%), Europe (approximately 17%), Latin America (approximately 2%), Asia-Pacific (approximately 6%), and Corporate (approximately 33%). Certain costs impacting Corporate relate to additional initiatives to be approved and executed in the future. When these initiatives are fully defined and approved, the Company will update estimated costs by reportable segment as needed.

Since inception of Project K, the Company has recognized charges of \$817 million that have been attributed to the program. The charges were comprised of \$6 million being recorded as a reduction of revenue, \$517 million being recorded in COGS and \$294 million recorded in SGA.

Other Projects

In 2015 we initiated the implementation of a zero-based budgeting (ZBB) program in our North America business that is expected to deliver visibility to ongoing annual savings. In support of the ZBB initiative, we incurred pre-tax charges of approximately \$12 million in 2015.

All Projects

During 2015, the Company recorded \$323 million of charges associated with all cost reduction initiatives. The charges were comprised of \$4 million being recorded as a reduction of revenue, \$191 million being recorded in COGS and \$128 million recorded in SGA expense.

During 2014, the Company recorded \$298 million of charges associated with all cost reduction initiatives. The charges were comprised of \$2 million being recorded as a reduction of revenue, \$152 million being recorded in COGS and \$144 million recorded in SGA expense.

The Company recorded \$250 million of costs in 2013 associated with cost reduction initiatives. The charges were comprised of \$195 million being recorded in COGS and \$55 million recorded in SGA expense.

The tables below provide the details for the charges incurred during 2015, 2014 and 2013 and program costs to date for all programs currently active as of January 2, 2016.

(millions)	2015	2014	2013	Program costs to date January 2, 2016
Employee related costs	\$62	\$90	\$114	\$259
Asset related costs	103	37	10	146
Asset impairment	18	21	70	105
Other costs	140	150	56	319
Total	\$323	\$298	\$250	\$829

(millions)	2015	2014	2013	Program costs to date January 2, 2016
U.S. Morning Foods	\$58	\$60	\$109	\$218
U.S. Snacks	50	57	30	126
U.S. Specialty	5	3	5	11
North America Other	63	18	11	90
Europe	74	80	27	173
Latin America	4	8	5	16
Asia Pacific	13	37	32	74
Corporate	56	35	31	121
Total	\$323	\$298	\$250	\$829

Employee related costs consisted of severance and pension charges. Asset impairments were recorded for fixed assets that were determined to be impaired and were written down to their estimated fair value. See Note 13 for more information. Asset related costs consist primarily of accelerated depreciation. Other costs incurred consist primarily of third-party incremental costs related to the development and implementation of global business capabilities.

At January 2, 2016 total project reserves were \$88 million, related to severance payments and other costs of which a substantial portion will be paid in 2016 and 2017. The following table provides details for exit cost reserves.

(millions)	Employee Related Costs	Asset Impairment	Asset Related Costs	Other Costs	Total
Liability as of December 28, 2013	\$66	\$—	\$—	\$12	\$78
2014 restructuring charges	90	21	37	150	298
Cash payments	(84)	) —	(24)	) (148)	) (256)
Non-cash charges and other	24	(21)	) (13)	) —	(10)
Liability as of January 3, 2015	\$96	\$—	\$—	\$14	\$110
2015 restructuring charges	62	18	103	140	323
Cash payments	(116)	) —	(34)	) (121)	) (271)
Non-cash charges and other	13	(18)	) (69)	) —	(74)
Liability as of January 2, 2016	\$55	\$—	\$—	\$33	\$88

NOTE 5

EQUITY

Earnings per share

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

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Earnings per share
2015			
Basic	\$614	354	\$1.74
Dilutive potential common shares		2	(0.02)
Diluted	\$614	356	\$1.72
2014			
Basic	\$632	358	\$1.76
Dilutive potential common shares		2	(0.01)
Diluted	\$632	360	\$1.75
2013			
Basic	\$1,807	363	\$4.98
Dilutive potential common shares		2	(0.04)
Diluted	\$1,807	365	\$4.94

The total number of anti-dilutive potential common shares excluded from the reconciliation for each period was (in millions): 2015-2.7; 2014-5.0; 2013-5.0.

Stock transactions

The Company issues shares to employees and directors under various equity-based compensation and stock purchase programs, as further discussed in Note 8. The number of shares issued during the periods presented was (in millions): 2015-5; 2014-4; 2013-10. The Company issued shares totaling less than one million in each of the years presented under Kellogg Direct™, a direct stock purchase and dividend reinvestment plan for U.S. shareholders.

In April 2013, the Company's board of directors approved an authorization to repurchase up to \$1 billion in shares through April 2014. In February 2014, the Company's board of directors approved a new authorization to repurchase up to \$1.5 billion in shares through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow the Company to repurchase shares to offset issuances for employee benefit programs. In December 2015, the Company's board of directors approved an authorization to repurchase up to \$1.5 billion in shares beginning in 2016 through December 2017.

In May 2013, the Company entered into an Accelerated Share Repurchase (ASR) Agreement with a financial institution counterparty and paid \$355 million for the repurchase of shares during the term of the Agreement which extended through August 2013. During the second quarter of 2013, 4.9 million shares were initially delivered to the Company and accounted for as a reduction to Kellogg Company equity. The transaction was completed during the third quarter, at which time the Company received 0.6 million additional shares. The total number of shares delivered upon settlement of the ASR was based upon the volume weighted average price of the Company's stock over the term of the agreement.

During 2015, the Company repurchased 11 million shares of common stock for a total of \$731 million. During 2014, the Company repurchased 11 million shares of common stock for a total of \$690 million. During 2013, the Company repurchased 9 million shares of common stock at a total cost of \$544 million.

Comprehensive income

Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by or distributions to shareholders. Other comprehensive income for all years presented consists of foreign currency translation adjustments, fair value adjustments associated with cash flow hedges and adjustments for net experience losses and prior service cost related to employee benefit plans. During the year ended January 2, 2016, the Company amended a U.S. postretirement health plan as well as a U.S. pension plan. As a result of the U.S. postretirement health plan amendment, a prior service credit was recognized in other comprehensive income with an offsetting reduction in the accumulated postretirement benefit obligation. The U.S. pension plan amendment increased the Company's pension benefit obligation with an offsetting increase in prior service costs in other comprehensive income. See Notes 9 and 10 for further details.

	2015			2014			2013		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			\$ 614			\$ 633			\$1,808
Other comprehensive income:									
Foreign currency translation adjustments	\$(170)	\$(26)	\$(196)	\$(231)	\$(32)	\$(263)	\$(24)	—	(24)
Cash flow hedges:									
Unrealized gain (loss) on cash flow hedges	8	(3)	5	(35)	18	(17)	11	(1)	10
Reclassification to net income	(23)	3	(20)	(10)	2	(8)	(6)	—	(6)
Postretirement and postemployment benefits:									
Amounts arising during the period:									
Net experience gain (loss)	—	—	—	(8)	3	(5)	17	(6)	11
Prior service credit (cost)	63	(24)	39	10	(3)	7	9	(2)	7
Reclassification to net income:									
Net experience loss	3	(1)	2	3	(1)	2	5	(2)	3
Prior service cost	9	(3)	6	10	(3)	7	13	(4)	9
Other comprehensive income (loss)	\$(110)	\$(54)	\$(164)	\$(261)	\$(16)	\$(277)	\$25	\$(15)	\$10
Comprehensive income			\$ 450			\$ 356			\$1,818
Net income (loss) attributable to noncontrolling interests			—			1			1
Other comprehensive income (loss) attributable to noncontrolling interests			(1)			—			—
Comprehensive income attributable to Kellogg Company			\$ 451			\$ 355			\$1,817

Reclassifications out of Accumulated Other Comprehensive Income (AOCI) for the year ended January 2, 2016 and January 3, 2015, consisted of the following:

Details about AOCI Components (millions)	Amount reclassified from AOCI			Line item impacted within Income Statement
	2015	2014	2013	
Gains and losses on cash flow hedges:				
Foreign currency exchange contracts	\$(40	) \$(5	) \$(10	) COGS
Foreign currency exchange contracts	2	(3	) (2	) SGA
Interest rate contracts	3	(9	) (4	) Interest expense
Commodity contracts	12	7	10	COGS
	\$(23	) \$(10	) \$(6	) Total before tax
	3	2	—	Tax (expense) benefit
	\$(20	) \$(8	) \$(6	) Net of tax
Amortization of postretirement and postemployment benefits:				
Net experience loss	\$3	\$3	\$5	(a)
Prior service cost	9	10	13	(a)
	\$12	\$13	\$18	Total before tax
	(4	) (4	) (6	) Tax (expense) benefit
	\$8	\$9	\$12	Net of tax
Total reclassifications	\$(12	) \$1	\$6	Net of tax

(a) See Note 9 and Note 10 for further details.

Accumulated other comprehensive income (loss) as of January 2, 2016 and January 3, 2015 consisted of the following:

(millions)	January 2, 2016	January 3, 2015	
Foreign currency translation adjustments	\$(1,314	) \$(1,119)
Cash flow hedges — unrealized net gain (loss)	(39	) (24)
Postretirement and postemployment benefits:			
Net experience loss	(16	) (18)
Prior service cost	(7	) (52)
Total accumulated other comprehensive income (loss)	\$(1,376	) \$(1,213)

Noncontrolling interests

In December 2012, the Company entered into a series of agreements with a third party including a subordinated loan (VIE Loan) of \$44 million which is convertible into approximately 85% of the equity of the entity (VIE). Due to this convertible subordinated loan and other agreements, the Company determined that the entity was a variable interest entity, the Company was the primary beneficiary and the Company consolidated the financial statements of the VIE in the U.S. Snacks operating segment. During 2015, the 2012 Agreements were terminated and the VIE Loan, including related accrued interest and other receivables, were settled, resulting in a charge of \$19 million, which was recorded as Other income (expenses) in the year ended January 2, 2016. Upon termination of the 2012 Agreements, the Company was no longer considered the primary beneficiary of the VIE, the VIE was deconsolidated, and the Company derecognized all assets and liabilities of the VIE, including an allocation of a portion of goodwill from the U.S. Snacks operating segment, resulting in a \$67 million non-cash gain, which was recorded within SGA expense for the year ended January 2, 2016.

NOTE 6

LEASES AND OTHER COMMITMENTS

The Company's leases are generally for equipment and warehouse space. Rent expense on all operating leases was (in millions): 2015-\$189; 2014-\$183; 2013-\$174. During 2015, 2014 and 2013, the Company entered into less than \$1 million in capital lease agreements.

At January 2, 2016, future minimum annual lease commitments under non-cancelable operating and capital leases were as follows:

(millions)	Operating leases	Capital leases
2016	\$171	\$2
2017	152	1
2018	119	1
2019	81	—
2020	62	—
2021 and beyond	87	1
Total minimum payments	\$672	\$5
Amount representing interest		—
Obligations under capital leases		5
Obligations due within one year		(2)
Long-term obligations under capital leases		\$3

The Company has provided various standard indemnifications in agreements to sell and purchase business assets and lease facilities over the past several years, related primarily to pre-existing tax, environmental, and employee benefit obligations. Certain of these indemnifications are limited by agreement in either amount and/or term and others are unlimited. The Company has also provided various “hold harmless” provisions within certain service type agreements. Because the Company is not currently aware of any actual exposures associated with these indemnifications, management is unable to estimate the maximum potential future payments to be made. At January 2, 2016, the Company had not recorded any liability related to these indemnifications.

NOTE 7

DEBT

The following table presents the components of notes payable at year end January 2, 2016 and January 3, 2015:

(millions)	2015		2014		
	Principal amount	Effective interest rate	Principal amount	Effective interest rate	
U.S. commercial paper	\$899	0.45	% \$681	0.36	%
Europe commercial paper	261	0.01	96	0.09	
Bank borrowings	44		51		
Total	\$1,204		\$828		

The following table presents the components of long-term debt at year end January 2, 2016 and January 3, 2015:

(millions)	2015	2014
(a) 7.45% U.S. Dollar Debentures due 2031	\$1,090	\$1,090
(b) 1.25% Euro Notes due 2025	651	—
(c) 2.75% U.S. Dollar Notes due 2023	210	210
(d) 3.125% U.S. Dollar Notes due 2022	369	357
(e) 1.75% Euro Notes due 2021	541	597
(f) 4.0% U.S. Dollar Notes due 2020	861	842
(g) 4.15% U.S. Dollar Notes due 2019	514	497
(h) 3.25% U.S. Dollar Notes due 2018	412	410
(i) 2.05% Canadian Dollar Notes due 2017	217	259
(j) 1.75% U.S. Dollar Notes due 2017	400	396
(k) 1.875% U.S. Dollar Notes due 2016	502	504
(l) 4.45% U.S. Dollar Notes due 2016	753	760
(m) 1.125% U.S. Dollar Notes due 2015	—	350
(n) Floating-rate U.S. Dollar Notes due 2015	—	250
Other	35	20
	6,555	6,542
Less current maturities	(1,266)	(607)
Balance at year end	\$5,289	\$5,935

(a) In March 2001, the Company issued long-term debt instruments, primarily to finance the acquisition of Keebler Foods Company, of which \$1.1 billion of thirty-year 7.45% Debentures remain outstanding. The effective interest rate on the Debentures, reflecting issuance discount and hedge settlement, was 7.54%. The Debentures contain standard events of default and covenants, and can be redeemed in whole or in part by the Company at any time at prices determined under a formula (but not less than 100% of the principal amount plus unpaid interest to the redemption date).

(b) In March 2015, the Company issued €600 million (approximately \$651 million at January 2, 2016, which reflects the discount and translation adjustments) of ten-year 1.25% Euro Notes due 2025, using the proceeds from these Notes for general corporate purposes, which included repayment of a portion of the Company's commercial paper borrowings. The effective interest rate on the Notes, reflecting issuance discount and hedge settlement, was 2.07%. The Notes were designated as a net investment hedge of the Company's investment in its Europe subsidiary when issued.

(c) In February 2013, the Company issued \$400 million of ten-year 2.75% U.S. Dollar Notes, using net proceeds from these Notes for general corporate purposes, including, together with cash on hand, to repay a portion of the Company's \$750 million 4.25% U.S. Dollar Notes that matured in March 2013. The effective interest rate on these Notes, reflecting issuance discount and hedge settlement, was 2.74%. In March 2014, the Company redeemed \$189 million of the Notes. In connection with the debt redemption, the Company reduced interest expense by \$10 million, including \$1 million of accelerated gains on interest rate swaps previously recorded in accumulated other comprehensive income, and incurred \$2 million expense, recorded in Other Income, Expense (net), related to acceleration of fees on the redeemed debt and fees related to the tender offer.

(d) In May 2012, the Company issued \$700 million of ten-year 3.125% U.S. Dollar Notes, using net proceeds from these Notes for general corporate purposes, including financing a portion of the acquisition of Pringles. The effective interest rate on these Notes, reflecting issuance discount and interest rate swaps, was 2.69% at January 2, 2016. In March 2014, the Company redeemed \$342 million of the Notes. In connection with the debt redemption, the Company reduced interest expense by \$2 million and incurred \$2 million expense, recorded in Other Income, Expense (net), related to acceleration of fees on the redeemed debt and fees related to the tender offer. The Company entered into interest rate swaps in 2013 and 2014 with notional amounts totaling \$200 million and \$158 million, respectively, which effectively converted these Notes from a fixed rate to a floating rate obligation. These

derivative instruments were designated as fair value hedges of the debt obligation. During 2015, the Company entered into and terminated a series of interest rate swaps and as of January 2, 2016 had terminated all interest rate swaps. The \$13 million gain on termination at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes. The fair value adjustment for the interest rate swaps was \$1 million, at January 3, 2015, recorded as an increase in the hedged debt balance.

In May 2014, the Company issued €500 million (approximately \$541 million at January 2, 2016, which reflects the discount and translation adjustments) of seven-year 1.75% Euro Notes due 2021, using the proceeds from these Notes for general corporate purposes, which included repayment of a portion of the Company's commercial paper borrowings. The effective interest rate on the Notes, reflecting issuance discount and hedge settlement, was 2.18% . The Notes were designated as a net investment hedge of the Company's investment in its Europe subsidiary when issued.

In December 2010, the Company issued \$1.0 billion of ten-year 4.0% fixed rate U.S. Dollar Notes, using net proceeds from these Notes for incremental pension and postretirement benefit plan contributions and to retire a portion of its commercial paper. The effective interest rate on these Notes, reflecting issuance discount, hedge settlement and interest rate swaps, was 2.98% at January 2, 2016. In March 2014, the Company redeemed \$150 million of the Notes. In connection with the debt redemption, the Company incurred \$12 million of interest expense offset by \$7 million of accelerated gains on interest rate swaps previously recorded in accumulated other comprehensive income, and incurred \$1 million expense, recorded in Other Income, Expense (net), related to acceleration of fees on the redeemed debt and fees related to the tender offer. The Company entered into interest rate swaps in 2013 and 2014 with notional amounts totaling \$400 million and \$300 million , respectively, which effectively converted a portion of these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. During 2015, the Company entered into and terminated a series of interest rate swaps and as of January 2, 2016 had terminated all interest rate swaps. The \$14 million gain on termination at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes. The fair value adjustment for the interest rate swaps was \$3 million, at January 3, 2015, and was recorded as a decrease in the hedged debt balance.

- In November 2009, the Company issued \$500 million of ten-year 4.15% fixed rate U.S. Dollar Notes, using net proceeds from these Notes to retire a portion of its 6.6% U.S. Dollar Notes due 2011. The effective interest rate on these Notes, reflecting issuance discount, hedge settlement and interest rate swaps was 3.52% at January 2, 2016. In 2012, the Company entered into interest rate swaps which effectively converted these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. During 2015, the Company entered into and terminated a series of interest rate swaps and as of January 2, 2016 had terminated all interest rate swaps. The \$15 million gain on termination at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes. The fair value adjustment for the interest rate swaps was \$2 million at January 3, 2015, and was recorded as a decrease in the hedged debt balance.
- (g) In May 2011, the Company issued \$400 million of seven-year 3.25% fixed rate U.S. Dollar Notes, using net proceeds from these Notes for general corporate purposes including repayment of a portion of its commercial paper. The effective interest rate on these Notes, reflecting issuance discount, hedge settlement and interest rate swaps, was 2.52% at January 2, 2016. In 2011, the Company entered into interest rate swaps which effectively converted these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. During 2013, the Company terminated all of the interest rate swaps and subsequently entered into interest rate swaps which effectively converted these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. During 2015, the Company terminated all interest rate swaps, and the resulting unamortized gain of \$12 million at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes. The fair value adjustment for the interest rate swaps was \$3 million at January 3, 2015, and was recorded as a decrease in the hedged debt balance.
- (h) In May 2014, the Company issued Cdn. \$300 million (approximately \$217 million USD at January 2, 2016, which reflects the discount and translation adjustments) of three-year 2.05% Canadian Dollar Notes due 2017, using the proceeds from these Notes, together with cash on hand, to repay the Company's Cdn. \$300 million, 2.10% Notes due 2014 at maturity. The effective interest rate on the Notes, reflecting issuance discount and hedge settlement, was 2.10% .
- (i) In May 2012, the Company issued \$400 million of five-year 1.75% U.S. Dollar Notes, using net proceeds from these Notes for general corporate purposes, including financing a portion of the acquisition of Pringles. The effective interest rate on these Notes, reflecting issuance discount and interest rate swaps, was 1.71% at January 2, 2016. In 2013, the Company entered into interest rate swaps with notional amounts totaling \$400 million, which effectively converted the Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. During 2015, the Company terminated all interest rate swaps, and the resulting unamortized gain of \$1 million at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes. The fair value adjustment for the interest rate swaps was \$3 million, at January 3, 2015, and was recorded as a decrease in the hedged debt balance.
- (j) In November 2011, the Company issued \$500 million of five-year 1.875% fixed rate U.S. Dollar Notes, using net proceeds from these Notes for general corporate purposes including repayment of a portion of its commercial paper. The effective interest rate on these Notes, reflecting issuance discount, hedge settlement and interest rate swaps was 1.63% at January 2, 2016. In 2012, the Company entered into interest rate swaps which effectively converted these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. In 2013, the Company terminated all of the interest rate swaps and subsequently entered into interest rate swaps which effectively converted these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. In 2014, the Company terminated all of the interest rate swaps. The unamortized gain of \$2 million at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes.
- (k) In May 2009, the Company issued \$750 million of seven-year 4.45% fixed rate U.S. Dollar Notes, using net proceeds from these Notes to retire a portion of its commercial paper. The effective interest rate on these Notes, reflecting issuance discount, hedge settlement and interest rate swaps was 4.10% at January 2, 2016. The Company

entered into interest rate swaps in 2011 and 2012 with notional amounts totaling \$200 million and \$550 million, respectively, which effectively converted these Notes from a fixed rate to a floating rate obligation. These derivative instruments were designated as fair value hedges of the debt obligation. In 2013, the Company terminated all of the interest rate swaps. The unamortized gain of \$3 million at January 2, 2016 will be amortized to interest expense over the remaining term of the Notes.

- (m) In May 2012, the Company issued \$350 million of three-year 1.125% U.S. Dollar Notes, using net proceeds from these Notes for general corporate purposes, including financing a portion of the acquisition of Pringles. The effective interest rate on these Notes, reflecting issuance discount, was 1.16%. The Company redeemed these Notes in May 2015.

- (n) In February 2013, the Company issued \$250 million of floating-rate U.S. Dollar Notes bearing interest at LIBOR plus 0.23% due February 2015. The proceeds from these Notes were used for general corporate purposes, including, together with cash on hand, to repay a portion the Company's \$750 million 4.25% U.S. Dollar Notes that matured in March 2013. The Company redeemed these Notes in February 2015.

All of the Company's Notes contain customary covenants that limit the ability of the Company and its restricted subsidiaries (as defined) to incur certain liens or enter into certain sale and lease-back transactions and also contain a change of control provision.

The Company and two of its subsidiaries (the Issuers) maintain a program under which the Issuers may issue euro-commercial paper notes up to a maximum aggregate amount outstanding at any time of \$750 million or its equivalent in alternative currencies. The notes may have maturities ranging up to 364 days and will be senior unsecured obligations of the applicable Issuer. Notes issued by subsidiary Issuers will be guaranteed by the Company. The notes may be issued at a discount or may bear fixed or floating rate interest or a coupon calculated by reference to an index or formula. There was \$261 million and \$96 million outstanding under this program as of January 2, 2016 and January 3, 2015, respectively.

At January 2, 2016, the Company had \$2.3 billion of short-term lines of credit, virtually all of which were unused and available for borrowing on an unsecured basis. These lines were comprised principally of an unsecured Five-Year Credit Agreement, which the Company entered into in February 2014 and expires in 2019, replacing the Company's unsecured Four-year Credit Agreement, which would have expired in March 2015. The Five-Year Credit Agreement

allows the Company to borrow, on a revolving credit basis, up to \$2.0 billion, which includes the ability to obtain letters of credit in an aggregate stated amount up to \$75 million and swingline loans in aggregate principal amounts up to \$200 million in U.S. Dollars and \$400 million in Euros. The agreement contains customary covenants and warranties, including specified restrictions on indebtedness, liens and a specified interest coverage ratio. If an event of default occurs, then, to the extent permitted, the administrative agent may terminate the commitments under the credit facility, accelerate any outstanding loans under the agreement, and demand the deposit of cash collateral equal to the lender's letter of credit exposure plus interest.

The Company was in compliance with all covenants as of January 2, 2016.

Scheduled principal repayments on long-term debt are (in millions): 2016–\$1,262; 2017–\$627; 2018–\$407; 2019–\$506; 2020–\$851; 2021 and beyond–\$2,864.

Interest expense capitalized as part of the construction cost of fixed assets was (in millions): 2015–\$4; 2014–\$5; 2013–\$2.

NOTE 8

STOCK COMPENSATION

The Company uses various equity-based compensation programs to provide long-term performance incentives for its global workforce. Currently, these incentives consist principally of stock options, restricted stock units and, to a lesser extent, executive performance shares and restricted stock grants. During 2015, the Company changed the mix of equity compensation, awarding an increasing number of restricted stock units and fewer stock option awards. The Company also sponsors a discounted stock purchase plan in the United States and matching-grant programs in several international locations. Additionally, the Company awards restricted stock to its outside directors. These awards are administered through several plans, as described within this Note.

The 2013 Long-Term Incentive Plan (2013 Plan), approved by shareholders in 2013, permits awards to employees and officers in the form of incentive and non-qualified stock options, performance units, restricted stock or restricted stock units, and stock appreciation rights. The 2013 Plan, which replaced the 2009 Long-Term Incentive Plan (2009 Plan), authorizes the issuance of a total of (a) 22 million shares; plus (b) the total number of shares remaining available for future grants under the 2009 Plan. The total number of shares remaining available for issuance under the 2013 Plan will be reduced by two shares for each share issued pursuant to an award under the 2013 Plan other than a stock option or stock appreciation right, or potentially issuable pursuant to an outstanding award other than a stock option or stock appreciation right, which will in each case reduce the total number of shares remaining by one share for each share issued. The 2013 Plan includes several limitations on awards or payments to individual participants. Options granted under the 2013 and 2009 Plans generally vest over three years. At January 2, 2016, there were 16 million remaining authorized, but unissued, shares under the 2013 Plan.

The Non-Employee Director Stock Plan (2009 Director Plan) was approved by shareholders in 2009 and allows each eligible non-employee director to receive shares of the Company's common stock annually. The number of shares granted pursuant to each annual award will be determined by the Nominating and Governance Committee of the Board of Directors. The 2009 Director Plan, which replaced the 2000 Non-Employee Director Stock Plan (2000 Director Plan), reserves 500,000 shares for issuance, plus the total number of shares as to which awards granted under the 2009 Director Plan or the 2000 Director Plans expire or are forfeited, terminated or settled in cash. Under both the 2009 and 2000 Director Plans, shares (other than stock 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 the 2009 Director Plan, awards were as follows (number of shares): 2015-26,877; 2014-23,890; 2013-26,504.

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 95% of the fair market value of the stock on the 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. At January 2, 2016, there were approximately 0.3 million remaining authorized, but unissued, shares under this plan. Shares were purchased by employees under this plan as follows (approximate number of shares): 2015–73,000; 2014–75,000; 2013–85,000. Options granted to employees to purchase discounted stock

under this plan are included in the option activity tables within this note.

Additionally, an international subsidiary of the Company maintains 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 equal number of shares purchased by employees as follows (approximate number of shares): 2015—48,000; 2014—58,000; 2013—58,000.

Compensation expense for all types of equity-based programs and the related income tax benefit recognized were as follows:

(millions)	2015	2014	2013
Pre-tax compensation expense	\$55	\$41	\$38
Related income tax benefit	\$20	\$15	\$14

As of January 2, 2016, total stock-based compensation cost related to non-vested awards not yet recognized was \$62 million and the weighted-average period over which this amount is expected to be recognized was 2 years.

Cash flows realized upon exercise or vesting of stock-based awards in the periods presented are included in the following table. Tax benefits realized upon exercise or vesting of stock-based awards generally represent the tax benefit of the difference between the exercise price and the strike price of the option.

Cash used by the Company to settle equity instruments granted under stock-based awards was insignificant.

(millions)	2015	2014	2013
Total cash received from option exercises and similar instruments	\$261	\$217	\$475

Tax benefits realized upon exercise or vesting of stock-based awards:

Windfall benefits classified as financing cash flow	\$14	\$11	\$24
---	------	------	------

Shares used to satisfy stock-based awards are normally issued out of treasury stock, although management is authorized to issue new shares to the extent permitted by respective plan provisions. Refer to Note 5 for information on shares issued during the periods presented to employees and directors under various long-term incentive plans and share repurchases under the Company's stock repurchase authorizations. The Company does not currently have a policy of repurchasing a specified number of shares issued under employee benefit programs during any particular time period.

Stock options

During the periods presented, non-qualified stock options were granted to eligible employees under the 2013 and 2009 Plans with exercise prices equal to the fair market value of the Company's stock on the grant date, a contractual term of ten years, and a three-year graded vesting period.

Management estimates the fair value of each annual stock option award on the date of grant using a lattice-based option valuation model. Composite assumptions are presented in the following table. Weighted-average values are disclosed for certain inputs which incorporate a range of assumptions. Expected volatilities are based principally on historical volatility of the Company's stock, and to a lesser extent, on implied volatilities from traded options on the Company's stock. Historical volatility corresponds to the contractual term of the options granted. The Company uses historical data to estimate option exercise and employee termination within the valuation models; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options granted are expected to be outstanding; the weighted-average expected term for all employee groups is presented in the following table. The risk-free rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock option valuation model

assumptions for grants within the year ended:	2015	2014	2013
Weighted-average expected volatility	16.00	% 15.00	% 15.00
Weighted-average expected term (years)	6.87	7.34	7.44
Weighted-average risk-free interest rate	1.98	% 2.35	% 1.49
Dividend yield	3.00	% 3.00	% 2.90

Weighted-average fair value of options granted	\$7.21	\$6.70	\$5.92
--	--------	--------	--------

74

A summary of option activity for the year ended January 2, 2016 is presented in the following table:

Employee and director stock options	Shares (millions)	Weighted-average exercise price	Weighted-average remaining contractual term (yrs.)	Aggregate intrinsic value (millions)
Outstanding, beginning of year	21	\$56		
Granted	3	64		
Exercised	(5	) 53		
Forfeitures and expirations	—	60		
Outstanding, end of year	19	\$58	6.9	\$264
Exercisable, end of year	10	\$55	5.9	\$180

Additionally, option activity for the comparable prior year periods is presented in the following table:

(millions, except per share data)	2014	2013
Outstanding, beginning of year	20	25
Granted	6	6
Exercised	(4	) (10
Forfeitures and expirations	(1	) (1
Outstanding, end of year	21	20
Exercisable, end of year	10	9
Weighted-average exercise price:		
Outstanding, beginning of year	\$54	\$50
Granted	60	60
Exercised	50	48
Forfeitures and expirations	58	55
Outstanding, end of year	\$56	\$54
Exercisable, end of year	\$53	\$50

The total intrinsic value of options exercised during the periods presented was (in millions): 2015—\$65; 2014—\$56; 2013—\$139.

Other stock-based awards

During the periods presented, other stock-based awards consisted principally of executive performance shares and restricted stock granted under the 2013 and 2009 Plans.

In the first quarter of 2015, the Company granted performance shares to a limited number of senior executive-level employees, which entitle these employees to receive a specified number of shares of the Company's common stock upon vesting. The number of shares earned could range between 0 and 200% of the target amount depending upon performance achieved over the three year vesting period. The performance conditions of the award include three-year cumulative operating cash flow (CCF) and total shareholder return (TSR) of the Company's common stock relative to a select group of peer companies.

A Monte Carlo valuation was used to determine the fair value of the awards. The TSR performance metric is a market condition. Therefore, compensation cost of the TSR condition is fixed at the measurement date and is not revised based on actual performance. The TSR metric was valued as a multiplier of possible levels of CCF achievement. Compensation cost related to CCF performance is revised for changes in the expected outcome. The 2015 target grant currently corresponds to approximately 172,000 shares, with a grant-date fair value of \$58 per share.

In 2014 and 2013, the Company made performance share awards to a limited number of senior executive-level employees, which entitles these employees to receive a specified number of shares of the Company's common stock on the vesting date, provided cumulative three-year targets are achieved. The cumulative three-year targets involved operating profit and comparable net sales growth. Management estimates the fair value of performance share awards based on the market price of the underlying stock on the date of grant, reduced by the present value of estimated dividends foregone during the performance period. The 2014 and 2013 target grants (as revised for non-vested

forfeitures and other adjustments) currently correspond to approximately 202,000 and 185,000 shares, respectively, with a grant-date fair value of \$54 and \$54 per share. The actual number of shares issued on the vesting date could range from 0 to 200% of target, depending on actual performance achieved.

Based on the market price of the Company's common stock at year-end 2015, the maximum future value that could be awarded on the vesting date was (in millions): 2015 award—\$25; 2014 award—\$29; and 2013 award—\$27. The 2012 performance share award, payable in stock, was settled at 35% of target in February 2015 for a total dollar equivalent of \$3 million.

The Company also grants restricted stock and restricted stock units to eligible employees under the 2013 Plan.

Restrictions with respect to sale or transferability generally lapse after three years and, in the case of restricted stock, the grantee is normally entitled to receive shareholder dividends during the vesting period. Management estimates the fair value of restricted stock grants based on the market price of the underlying stock on the date of grant. A summary of restricted stock and restricted stock unit activity for the year ended January 2, 2016, is presented in the following table:

Employee restricted stock and restricted stock units	Shares (thousands)	Weighted- average grant-date fair value
Non-vested, beginning of year	346	\$54
Granted	617	59
Vested	(113)	) 50
Forfeited	(44)	) 58
Non-vested, end of year	806	\$57

Additionally, restricted stock and restricted stock unit activity for 2014 and 2013 is presented in the following table:

Employee restricted stock and restricted stock units	2014	2013
Shares (in thousands):		
Non-vested, beginning of year	318	316
Granted	114	139
Vested	(65)	) (117)
Forfeited	(21)	) (20)
Non-vested, end of year	346	318
Weighted-average exercise price:		
Non-vested, beginning of year	\$52	\$50
Granted	56	52
Vested	51	51
Forfeited	53	47
Non-vested, end of year	\$54	\$52

The total fair value of restricted stock and restricted stock units vesting in the periods presented was (in millions): 2015—\$7; 2014—\$4; 2013—\$6.

NOTE 9

PENSION BENEFITS

The Company sponsors a number of U.S. and foreign pension plans to provide retirement benefits for its employees. The majority of these plans are funded or unfunded defined benefit plans, although the Company does participate in a limited number of multiemployer or other defined contribution plans for certain employee groups. See Note 11 for more information regarding the Company's participation in multiemployer plans. Defined benefits for salaried employees are generally based on salary and years of service, while union employee benefits are generally a negotiated amount for each year of service. Beginning in 2015, the Company used a December 31 measurement date for these plans and, when necessary, adjusts for plan contributions and significant events between December 31 and its fiscal year-end.

Obligations and funded status

The aggregate change in projected benefit obligation, plan assets, and funded status is presented in the following tables.

(millions)	2015	2014	
Change in projected benefit obligation			
Beginning of year	\$5,570	\$4,888	
Service cost	114	106	
Interest cost	206	225	
Plan participants' contributions	2	2	
Amendments	25	4	
Actuarial (gain)loss	(191	) 754	
Benefits paid	(262	) (281)
Curtailment and special termination benefits	(2) —	
Other	4	3	
Foreign currency adjustments	(150	) (131)
End of year	\$5,316	\$5,570	
Change in plan assets			
Fair value beginning of year	\$5,028	\$5,014	
Actual return on plan assets	(102	) 390	
Employer contributions	19	37	
Plan participants' contributions	2	2	
Benefits paid	(235	) (261)
Other	4	3	
Foreign currency adjustments	(132	) (157)
Fair value end of year	\$4,584	\$5,028	
Funded status	\$(732	) \$(542)
Amounts recognized in the Consolidated Balance Sheet consist of			
Other assets	\$231	\$250	
Other current liabilities	(17	) (15)
Other liabilities	(946	) (777)
Net amount recognized	\$(732	) \$(542)

Amounts recognized in accumulated other comprehensive income consist of

Prior service cost	\$67	\$59
Net amount recognized	\$67	\$59

The accumulated benefit obligation for all defined benefit pension plans was \$4.9 billion and \$5.1 billion at January 2, 2016 and January 3, 2015, respectively. Information for pension plans with accumulated benefit obligations in excess of plan assets were:

(millions)	2015	2014
Projected benefit obligation	\$3,769	\$3,958
Accumulated benefit obligation	\$3,574	\$3,683
Fair value of plan assets	\$2,835	\$3,179

Expense

The components of pension expense are presented in the following table. Pension expense for defined contribution plans relates to certain foreign-based defined contribution plans and multiemployer plans in the United States in which the Company participates on behalf of certain unionized workforces.

(millions)	2015	2014	2013
Service cost	\$114	\$106	\$133
Interest cost	206	225	203
Expected return on plan assets	(399)	) (415	) (359)
Amortization of unrecognized prior service cost	13	14	16
Recognized net (gain)loss	303	782	(854)
Curtailment and special termination benefits	(1)	) 4	34
Pension (income)expense:			
Defined benefit plans	236	716	(827)
Defined contribution plans	40	36	35
Total	\$276	\$752	\$(792)

The estimated prior service cost for defined benefit pension plans that will be amortized from accumulated other comprehensive income into pension expense over the next fiscal year is approximately \$13 million.

The Company and certain of its subsidiaries sponsor 401(k) or similar savings plans for active employees. Expense related to these plans was (in millions): 2015 – \$40 million; 2014 – \$43 million; 2013 – \$41 million. These amounts are not included in the preceding expense table. Company contributions to these savings plans approximate annual expense. Company contributions to multiemployer and other defined contribution pension plans approximate the amount of annual expense presented in the preceding table.

Assumptions

The worldwide weighted-average actuarial assumptions used to determine benefit obligations were:

	2015	2014	2013
Discount rate	4.1	% 3.9	% 4.7
Long-term rate of compensation increase	3.9	% 4.0	% 4.1

The worldwide weighted-average actuarial assumptions used to determine annual net periodic benefit cost were:

	2015	2014	2013
Discount rate	3.9	% 4.7	% 4.1
Long-term rate of compensation increase	4.0	% 4.1	% 4.1
Long-term rate of return on plan assets	8.3	% 8.5	% 8.5

To determine the overall expected long-term rate of return on plan assets, the Company models expected returns over a 20-year investment horizon with respect to the specific investment mix of its major plans. The return assumptions used reflect a combination of rigorous historical performance analysis and forward-looking views of the financial markets including consideration of current yields on long-term bonds, price-earnings ratios of the major stock market indices, and long-term inflation. The U.S. model, which corresponds to approximately 68% of consolidated pension and other postretirement benefit plan assets, incorporates a long-term inflation assumption of 2.5% and an active management premium of 1% (net of fees) validated by historical analysis. Similar methods are used for various foreign plans with invested assets, reflecting local economic conditions. The expected rate of return for 2015 of 8.5% equated to approximately the 57th percentile expectation. Refer to Note 1.

At the end of 2014, the Company revised their mortality assumption after considering the Society of Actuaries' (SOA) updated mortality tables and improvement scale, as well as other mortality information available from the Social Security Administration to develop assumptions aligned with the Company's expectation of future improvement rates. In determining the appropriate mortality assumptions as of January 2, 2016, the Company considered the SOA's 2015 updated improvement scale and believes its assumption is appropriate.

To conduct the annual review of discount rates, the Company selected the discount rate based on a cash-flow matching analysis using Towers Watson's proprietary RATE:Link tool and projections of the future benefit payments that constitute the projected benefit obligation for the plans. RATE:Link establishes the uniform discount rate that produces the same present value of the estimated future benefit payments, as is generated by discounting each

year's benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 40th to 90th percentile of U.S. high quality bonds. A similar methodology is applied in Canada and Europe, except the smaller bond markets imply that yields between the 10th and 90th percentiles are preferable. The measurement dates for the defined benefit plans are consistent with the Company's fiscal year end. Accordingly, the Company selected discount rates to measure the benefit obligations consistent with market indices at year-end.

Beginning in 2016, the Company will change the method used to estimate the service and interest costs for pension and postretirement benefits. The new method utilizes a full yield curve approach to estimate service and interest costs by applying specific spot rates along the yield curve used to determine the benefit obligation of relevant projected cash outflows. Historically, the Company utilized a single weighted-average discount rate applied to projected cash outflows. The Company made the change to provide a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rate on the yield curve. The change does not impact the measurement of the plan's obligations. The Company has accounted for this change as a change in accounting estimate.

Plan assets

The Company categorized Plan assets within a three level fair value hierarchy described as follows:

Investments stated at fair value as determined by quoted market prices (Level 1) include:

Cash and cash equivalents: Value based on cost, which approximates fair value.

Corporate stock, common: Value based on the last sales price on the primary exchange.

Investments stated at estimated fair value using significant observable inputs (Level 2) include:

Cash and cash equivalents: Institutional short-term investment vehicles valued daily.

Mutual funds: Valued at the net asset value of shares held by the Plan at year end.

Collective trusts: Value based on the net asset value of units held at year end.

Bonds: Value based on matrices or models from pricing vendors.

Limited partnerships: Value based on the ending net capital account balance at year end.

Investments stated at estimated fair value using significant unobservable inputs (Level 3) include:

Real estate: Value based on the net asset value of units held at year end. The fair value of real estate holdings is based on market data including earnings capitalization, discounted cash flow analysis, comparable sales transactions or a combination of these methods.

Buy-in annuity contracts: Value based on the calculated pension benefit obligation covered by the non-participating annuity contracts at year-end.

Bonds: Value based on matrices or models from brokerage firms. A limited number of the investments are in default.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company's practice regarding the timing of transfers between levels is to measure transfers in at the beginning of the month and transfers out at the end of the month. For the year ended January 2, 2016, the Company had no transfers between Levels 1 and 2.

The fair value of Plan assets as of January 2, 2016 summarized by level within the fair value hierarchy are as follows:

(millions)	Total Level 1	Total Level 2	Total Level 3	Total
Cash and cash equivalents	\$83	\$8	\$—	\$91
Corporate stock, common:				
Domestic	608	—	—	608
International	109	—	—	109
Mutual funds:				
International equity	—	441	—	441
Collective trusts:				
Domestic equity	—	411	—	411
International equity	—	1,130	—	1,130
Eurozone sovereign debt	—	10	—	10
Other international debt	—	368	—	368
Limited partnerships	—	455	—	455
Bonds, corporate	—	419	—	419
Bonds, government	—	157	—	157
Bonds, other	—	49	—	49
Buy-in annuity contract	—	—	135	135
Real estate	—	—	135	135
Other	—	60	6	66
Total	\$800	\$3,508	\$276	\$4,584

The fair value of Plan assets at January 3, 2015 are summarized as follows:

(millions)	Total Level 1	Total Level 2	Total Level 3	Total
Cash and cash equivalents	\$47	\$44	\$—	\$91
Corporate stock, common:				
Domestic	556	—	—	556
International	161	—	—	161
Mutual funds:				
International equity	—	393	—	393
International debt	—	—	—	—
Collective trusts:				
Domestic equity	—	594	—	594
International equity	—	1,261	—	1,261
Eurozone sovereign debt	—	11	—	11
Other international debt	—	534	—	534
Limited partnerships	—	475	—	475
Bonds, corporate	—	519	—	519
Bonds, government	—	172	—	172
Bonds, other	—	59	—	59
Real estate	—	—	130	130
Other	—	64	8	72
Total	\$764	\$4,126	\$138	\$5,028

There were no unfunded commitments to purchase investments at January 2, 2016 or January 3, 2015.

The Company's investment strategy for its major defined benefit plans is to maintain a diversified portfolio of asset classes with the primary goal of meeting long-term cash requirements as they become due. Assets are invested in a prudent manner to maintain the security of funds while maximizing returns within the Plan's investment policy. The

investment policy specifies the type of investment vehicles appropriate for the Plan, asset allocation guidelines, criteria for the selection of investment managers, procedures to monitor overall investment performance as well as investment manager performance. It also provides guidelines enabling Plan fiduciaries to fulfill their responsibilities.

The current weighted-average target asset allocation reflected by this strategy is: equity securities—66%; debt securities—21%; real estate and other—13%. Investment in Company common stock represented 1.4% and 1.3% of consolidated plan assets at January 2, 2016 and January 3, 2015, respectively. Plan funding strategies are influenced by tax regulations and funding requirements. The Company currently expects to contribute approximately \$28 million to its defined benefit pension plans during 2016.

Level 3 gains and losses

Changes in the fair value of the Plan's Level 3 assets are summarized as follows:

(millions)	Bonds, corporate	Real estate	Buy-in Annuity Contract	Other	Total	
December 28, 2013	\$1	\$125	—	\$8	\$134	
Sales	(1	) (1	) —	—	(2)
Realized and unrealized gain	—	23	—	—	23	
Currency translation	—	(17	) —	—	(17)
January 3, 2015	\$—	\$130	\$—	\$8	\$138	
Sales	—	(5	) —	(3	) (8)
Purchases	—	—	135	3	138	
Realized and unrealized gain	—	16	—	(1	) 15	
Currency translation	—	(6	) —	(1	) (7)
January 2, 2016	\$—	\$135	\$135	\$6	\$276	

The net change in Level 3 assets includes a gain attributable to the change in unrealized holding gains or losses related to Level 3 assets held at January 2, 2016 and January 3, 2015 totaling \$15 million and \$23 million, respectively.

Benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions): 2016—\$416; 2017—\$238; 2018—\$243; 2019—\$254; 2020—\$265; 2021 to 2025—\$1,501.

NOTE 10

NONPENSION POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

Postretirement

The Company sponsors a number of plans to provide health care and other welfare benefits to retired employees in the United States and Canada, who have met certain age and service requirements. The majority of these plans are funded or unfunded defined benefit plans, although the Company does participate in a limited number of multiemployer or other defined contribution plans for certain employee groups. The Company contributes to voluntary employee benefit association (VEBA) trusts to fund certain U.S. retiree health and welfare benefit obligations. Beginning in 2015, the Company used a December 31 measurement date for these plans and, when necessary, adjusts for plan contributions and significant events between December 31 and its fiscal year-end.

Obligations and funded status

The aggregate change in accumulated postretirement benefit obligation, plan assets, and funded status is presented in the following tables.

(millions)	2015	2014	
Change in accumulated benefit obligation			
Beginning of year	\$1,288	\$1,202	
Service cost	29	28	
Interest cost	48	55	
Actuarial (gain) loss	(53	) 116	
Benefits paid	(57	) (62)
Curtailments	—	(28)
Amendments	(84	) (18)
Foreign currency adjustments	(8	) (5)
End of year	\$1,163	\$1,288	
Change in plan assets			
Fair value beginning of year	\$1,204	\$1,178	
Actual return on plan assets	(65	) 81	
Employer contributions	14	16	
Benefits paid	(69	) (71)
Fair value end of year	\$1,084	\$1,204	
Funded status	\$(79	) \$(84)
Amounts recognized in the Consolidated Balance Sheet consist of			
Other non-current assets	\$—	\$—	
Other current liabilities	(2	) (2)
Other liabilities	(77	) (82)
Net amount recognized	\$(79	) \$(84)
Amounts recognized in accumulated other comprehensive income consist of			
Prior service credit	(95	) (16)
Net amount recognized	\$(95	) \$(16)

Expense

Components of postretirement benefit expense (income) were:

(millions)	2015	2014	2013	
Service cost	\$29	\$28	\$34	
Interest cost	48	55	50	
Expected return on plan assets	(100	) (98	) (86)
Amortization of unrecognized prior service credit	(5	) (3	) (3)
Recognized net (gain) loss	112	133	(247)
Curtailment	—	(28	) 1	
Postretirement benefit expense:				
Defined benefit plans	84	87	(251)
Defined contribution plans	14	14	13	
Total	\$98	\$101	\$(238)

The estimated prior service credit that will be amortized from accumulated other comprehensive income into nonpension postretirement benefit expense over the next fiscal year is expected to be approximately \$9 million.

Assumptions

The weighted-average actuarial assumptions used to determine benefit obligations were:

	2015	2014	2013	
Discount rate	4.2	% 4.0	% 4.8	%

Edgar Filing: KELLOGG CO - Form 10-K

The weighted-average actuarial assumptions used to determine annual net periodic benefit cost were:

	2015		2014		2013	
Discount rate	4.0	%	4.8	%	3.9	%
Long-term rate of return on plan assets	8.5	%	8.5	%	8.5	%

82

The Company determines the overall discount rate and expected long-term rate of return on VEBA trust obligations and assets in the same manner as that described for pension trusts in Note 9.

The assumed health care cost trend rate is 5.0% for 2016, decreasing gradually to 4.5% by the year 2018 and remaining at that level thereafter. These trend rates reflect the Company's historical experience and management's expectations regarding future trends. A one percentage point change in assumed health care cost trend rates would have the following effects:

(millions)	One percentage point increase	One percentage point decrease	
Effect on total of service and interest cost components	\$4	\$(3)
Effect on postretirement benefit obligation	89	(72)

Plan assets

The fair value of Plan assets as of January 2, 2016 summarized by level within fair value hierarchy described in Note 9, are as follows:

(millions)	Total Level 1	Total Level 2	Total Level 3	Total
Cash and cash equivalents	\$9	\$13	\$—	\$22
Corporate stock, common:				
Domestic	195	—	—	195
International	5	—	—	5
Mutual funds:				
Domestic equity	—	52	—	52
International equity	—	111	—	111
Domestic debt	—	54	—	54
Collective trusts:				
Domestic equity	—	150	—	150
International equity	—	148	—	148
Limited partnerships	—	166	—	166
Bonds, corporate	—	120	—	120
Bonds, government	—	48	—	48
Bonds, other	—	12	—	12
Other	—	1	—	1
Total	\$209	\$875	\$—	\$1,084

The fair value of Plan assets at January 3, 2015 are summarized as follows:

(millions)	Total Level 1	Total Level 2	Total Level 3	Total
Cash and cash equivalents	\$6	\$27	\$—	\$33
Corporate stock, common:				
Domestic	214	—	—	214
International	17	—	—	17
Mutual funds:				
Domestic equity	—	153	—	153
International equity	—	120	—	120
Domestic debt	—	63	—	63
Collective trusts:				
Domestic equity	—	53	—	53
International equity	—	164	—	164
Limited partnerships	—	174	—	174
Bonds, corporate	—	141	—	141

Edgar Filing: KELLOGG CO - Form 10-K

Bonds, government	—	54	—	54
Bonds, other	—	17	—	17
Other	—	1	—	1
Total	\$237	\$967	\$—	\$1,204

83

The Company's asset investment strategy for its VEBA trusts is consistent with that described for its pension trusts in Note 9. The current target asset allocation is 75% equity securities and 25% debt securities. The Company currently expects to contribute approximately \$15 million to its VEBA trusts during 2016.

There were no Level 3 assets during 2015 and 2014.

Postemployment

Under certain conditions, the Company provides benefits to former or inactive employees, including salary continuance, severance, and long-term disability, in the United States and several foreign locations. The Company's postemployment benefit plans are unfunded. Actuarial assumptions used are generally consistent with those presented for pension benefits in Note 9. The aggregate change in accumulated postemployment benefit obligation and the net amount recognized were:

(millions)	2015	2014
Change in accumulated benefit obligation		
Beginning of year	\$104	\$87
Service cost	7	7
Interest cost	4	4
Actuarial (gain)loss	—	8
Benefits paid	(6	) (9
Amendments	—	8
Foreign currency adjustments	(1	) (1
End of year	\$108	\$104
Funded status	\$(108	) \$(104
Amounts recognized in the Consolidated Balance Sheet consist of		
Other current liabilities	\$(8	) \$(8
Other liabilities	(100	) (96
Net amount recognized	\$(108	) \$(104
Amounts recognized in accumulated other comprehensive income consist of		
Net prior service cost	\$6	\$7
Net experience loss	27	30
Net amount recognized	\$33	\$37

Components of postemployment benefit expense were:

(millions)	2015	2014	2013
Service cost	\$7	\$7	\$7
Interest cost	4	4	3
Amortization of unrecognized prior service cost	1	—	—
Recognized net loss	3	3	5
Postemployment benefit expense	\$15	\$14	\$15

The estimated net experience loss and net prior service cost that will be amortized from accumulated other comprehensive income into postemployment benefit expense over the next fiscal year is \$3 million and \$1 million, respectively.

Benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(millions)	Postretirement	Postemployment
2016	\$71	\$9
2017	72	8
2018	73	8
2019	73	8
2020	74	8
2021-2025	390	42

NOTE 11

MULTIEMPLOYER PENSION AND POSTRETIREMENT PLANS

The Company contributes to multiemployer defined contribution pension and postretirement benefit plans under the terms of collective-bargaining agreements that cover certain unionized employee groups in the United States. Contributions to these plans are included in total pension and postretirement benefit expense as reported in Note 9 and Note 10, respectively.

Pension benefits

The risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers.

The Company's participation in multiemployer pension plans for the year ended January 2, 2016, is outlined in the table below. The "EIN/PN" column provides the Employer Identification Number (EIN) and the three-digit plan number (PN). The most recent Pension Protection Act (PPA) zone status available for 2015 and 2014 is for the plan year-ends as indicated below. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent percent and 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, the Company may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last column lists the expiration date(s) of the collective-bargaining agreement(s) (CBA) to which the plans are subject.

Pension trust fund	EIN/PN	PPA Zone Status		FIP/RP Status	Contributions (millions)			Surcharge Imposed	Expiration Date of CBA
		2015	2014		2015	2014	2013		
Bakery and Confectionary Union and Industry International Pension Fund (a)	52-6118572 / 001	Red - 12/31/2015	Red - 12/31/2014	Implemented	\$5.1	\$5.4	\$5.2	Yes	7/31/2016 to 10/31/2017
Central States, Southeast and Southwest Areas Pension Fund (b)	36-6044243 / 001	Red - 12/31/2015	Red - 12/31/2014	Implemented	4.8	4.5	4.5	Yes	4/30/2016 to 7/31/2019
Western Conference of Teamsters Pension Trust (c)	91-6145047 / 001	Green - 12/31/2015	Green - 12/31/2014	NA	1.6	1.6	1.5	No	1/31/2018 to 10/31/2018
Hagerstown Motor Carriers and Teamsters Pension Fund	52-6045424 / 001	Red - 6/30/2016	Red - 6/30/2015	Implemented	0.5	0.5	0.5	No	9/28/2019
Local 734 Pension Plan	51-6040136 / 001	Red - 4/30/2016	Red - 4/30/2015	Implemented	0.3	0.3	0.3	Yes	4/1/2019

Edgar Filing: KELLOGG CO - Form 10-K

Twin Cities Bakery Drivers Pension Plan	41-6172265 / 001	Green - 12/31/2015	Green - 12/31/2014	NA	0.2	0.2	0.2	Yes	5/31/2018
Upstate New York Bakery Drivers and Industry Pension Fund	15-0612437 / 001	Green - 6/30/2015	Green - 6/30/2014	NA	0.2	0.2	0.1	No	9/10/2017
Other Plans					2.0	2.0	2.2		
Total contributions:					\$14.7	\$14.7	\$14.5		

- (a) The Company is party to multiple CBAs requiring contributions to this fund, each with its own expiration date. Over 70 percent of the Company's participants in this fund are covered by a single CBA that expires on 4/30/2017.
- (b) The Company is party to multiple CBAs requiring contributions to this fund, each with its own expiration date. Over 40 percent of the Company's participants in this fund are covered by a single CBA that expires on 9/30/2018.
- (c) The Company is party to multiple CBAs requiring contributions to this fund, each with its own expiration date. Over 40 percent of the Company's participants in this fund are covered by a single CBA that expires on 3/24/2018.

The Company was listed in the Forms 5500 of the following plans as of the following plan year ends as providing more than 5 percent of total contributions:

Pension trust fund	Contributions to the plan exceeded more than 5% of total contributions (as of the Plan's year end)
Hagerstown Motor Carriers and Teamsters Pension Fund	6/30/2014, 6/30/2013 and 6/30/2012
Local 734 Pension Plan	4/30/2015, 4/30/2014 and 4/30/2013
Twin Cities Bakery Drivers Pension Plan	12/31/2014, 12/31/2013 and 12/31/2012
Upstate New York Bakery Drivers and Industry Pension Fund	6/30/15, 6/30/2014 and 6/30/2013

At the date the Company's financial statements were issued, certain Forms 5500 were not available for the plan years ending in 2015.

In addition to regular contributions, the Company could be obligated to pay additional amounts, known as a withdrawal liability, if a multiemployer pension plan has unfunded vested benefits and the Company decreases or ceases participation in that plan. The Company has recognized net estimated withdrawal expense related to curtailment and special termination benefits associated with the Company's withdrawal from certain multiemployer plans aggregating (in millions): 2015 – \$(2); 2014 – \$0; 2013 – \$0.

Postretirement benefits

Multiemployer postretirement benefit plans provide health care and other welfare benefits to active and retired employees who have met certain age and service requirements. Contributions to multiemployer postretirement benefit plans were (in millions): 2015 – \$14; 2014 – \$14; 2013 – \$13.

NOTE 12

INCOME TAXES

The components of income before income taxes and the provision for income taxes were as follows:

(millions)	2015	2014	2013
Income before income taxes			
United States	\$551	\$502	\$2,102
Foreign	222	323	504
	773	825	2,606
Income taxes			
Currently payable			
Federal	212	301	302
State	42	36	68
Foreign	74	103	105
	328	440	475
Deferred			
Federal	(136	) (186	) 331
State	(14	) (14	) (2
Foreign	(19	) (54	) (12
	(169	) (254	) 317
Total income taxes	\$159	\$186	\$792

The difference between the U.S. federal statutory tax rate and the Company's effective income tax rate was:

	2015		2014		2013	
U.S. statutory income tax rate	35.0		35.0	%	35.0	%
Foreign rates varying from 35%	(9.6	)	(7.9	)	(3.5)
State income taxes, net of federal benefit	2.3		1.7		1.7	
Cost (benefit) of remitted and unremitted foreign earnings	(4.4	)	(0.1	)	(0.4)
U.S. deduction for qualified production activities	(2.3	)	(2.8	)	(0.9)
Statutory rate changes, deferred tax impact	(0.8	)	(0.4	)	(0.5)
VIE deconsolidation	(2.3)	—		—	
Venezuela remeasurement	5.0		—		—	
Other	(2.3	)	(2.9	)	(1.0)
Effective income tax rate	20.6	%	22.6	%	30.4	%

As presented in the preceding table, the Company's 2015 consolidated effective tax rate was 20.6%, as compared to 22.6% in 2014 and 30.4% in 2013.

The 2015 effective income tax rate benefited due to mark-to-market loss adjustments to the Company's pension plans in primarily higher tax jurisdictions. This results in a greater percentage of total income being generated in lower tax jurisdictions and permanent tax differences in the U.S. having a higher percentage impact on the tax rate. In addition, the tax rate benefited from a reduction in tax related to current year remitted and unremitted earnings. The VIE deconsolidation, described in Note 5, included a \$67 million non-cash non-taxable gain which positively impacted the tax rate. During 2015, the Company recorded pre-tax charges of \$112 million in the Latin America operating segment due to the devaluation of the Venezuelan currency which had no associated tax benefit. As of January 2, 2016 substantially all foreign earnings were considered permanently invested. Accumulated foreign earnings of approximately \$2.0 billion, primarily in Europe, were considered indefinitely reinvested. Due to the varying tax laws around the world and fluctuation in foreign exchange rates, it is not practicable to determine the unrecognized deferred tax liability on these earnings because the actual tax liability, if any, would be dependent on circumstances existing when a repatriation, sale, or liquidation occurs.

The 2014 effective income tax rate benefited due to mark-to-market loss adjustments to the Company's pension plans in primarily higher tax jurisdictions. This results in a greater percentage of total income being generated in lower tax jurisdictions and permanent tax differences in the U.S. having a higher percentage impact on the tax rate. As of January 3, 2015, the Company recorded a deferred tax liability of \$1 million related to \$23 million of foreign earnings not considered indefinitely reinvested. Accumulated foreign earnings of approximately \$2.2 billion, primarily in Europe, were considered indefinitely reinvested. Due to varying tax laws around the world and fluctuations in foreign exchange rates, it is not practicable to determine the unrecognized deferred tax liability on these earnings because the actual tax liability, if any, would be dependent on circumstances existing when a repatriation, sale or liquidation occurs.

The 2013 effective income tax rate was negatively impacted by income generated from mark-to-market adjustments for the Company's pension plans that was generally incurred in jurisdictions with tax rates higher than the effective income tax rate. As of December 28, 2013, the Company recorded a deferred tax liability of \$2 million related to \$24 million of foreign earnings not considered indefinitely reinvested. Accumulated foreign earnings of approximately \$2.2 billion, primarily in Europe and Mexico, were considered indefinitely reinvested. Due to varying tax laws around the world and fluctuations in foreign exchange rates, it is not practicable to determine the unrecognized deferred tax liability on these earnings because the actual tax liability, if any, would be dependent on circumstances existing when a repatriation, sale or liquidation occurs.

Management monitors the Company's ability to utilize certain future tax deductions, operating losses and tax credit carryforwards, prior to expiration. Changes resulting from management's assessment will result in impacts to deferred tax assets and the corresponding impacts on the effective income tax rate. Valuation allowances were recorded to

reduce deferred tax assets to an amount that will, more likely than not, be realized in the future. The total tax benefit of carryforwards at year-end 2015 and 2014 were \$55 million and \$54 million, respectively, with related valuation allowances at year-end 2015 and 2014 of \$45 million and \$39 million, respectively. Of the total carryforwards at year-end 2015, substantially all will expire after 2019.

The following table provides an analysis of the Company's deferred tax assets and liabilities as of year-end 2015 and 2014. Deferred tax assets on employee benefits increased in 2015 due to lower asset returns and discount rate decreases associated with the Company's pension and postretirement plans.

	Deferred tax assets		Deferred tax liabilities	
(millions)	2015	2014	2015	2014
U.S. state income taxes	\$13	\$10	\$43	\$49
Advertising and promotion-related	15	21	—	—
Wages and payroll taxes	21	36	—	—
Inventory valuation	31	—	—	—
Employee benefits	366	305	—	—
Operating loss and credit carryforwards	55	54	—	—
Hedging transactions	43	48	—	—
Depreciation and asset disposals	—	—	345	352
Trademarks and other intangibles	—	—	576	555
Deferred compensation	35	35	—	—
Stock options	42	38	—	—
Unremitted foreign earnings	—	—	—	1
Other	86	84	—	—
	707	631	964	957
Less valuation allowance	(63	) (51) —	—
Total deferred taxes	\$644	\$580	\$964	\$957
Net deferred tax asset (liability)	\$(320	) \$(377)	
Classified in balance sheet as:				
Other current assets	\$227	\$184		
Other current liabilities	(9	) (10)	
Other assets	147	175		
Other liabilities	(685	) (726)	
Net deferred tax asset (liability)	\$(320	) \$(377)	

The change in valuation allowance reducing deferred tax assets was:

(millions)	2015	2014	2013
Balance at beginning of year	\$51	\$61	\$59
Additions charged to income tax expense	23	9	17
Reductions credited to income tax expense	(7	) (3	) (3
Other (a)	—	—	(10
Currency translation adjustments	(4	) (16	) (2
Balance at end of year	\$63	\$51	\$61

(a) Reduction due to the disposition of a business resulting in deferred tax asset and valuation allowance being eliminated.

Uncertain tax positions

The Company is subject to federal income taxes in the U.S. as well as various state, local, and foreign jurisdictions. The Company's 2015 provision for U.S. federal income taxes represents approximately 50% of the Company's consolidated income tax provision. The Company was chosen to participate in the Internal Revenue Service (IRS) Compliance Assurance Program (CAP) beginning with the 2008 tax year. As a result, with limited exceptions, the Company is no longer subject to U.S. federal examinations by the IRS for years prior to 2015. The Company is under examination for income and non-income tax filings in various state and foreign jurisdictions.

As of January 2, 2016, the Company has classified \$13 million of unrecognized tax benefits as a current liability. Management's estimate of reasonably possible changes in unrecognized tax benefits during the next twelve months is comprised of the current liability balance expected to be settled within one year, offset by approximately \$8 million of projected additions related primarily to ongoing intercompany transfer pricing activity. Management is currently unaware of any issues under review that could result in significant additional payments, accruals, or other material deviation in this estimate.

Following is a reconciliation of the Company's total gross unrecognized tax benefits as of the years ended January 2, 2016, January 3, 2015 and December 28, 2013. For the 2015 year, approximately \$48 million represents the amount that, if recognized, would affect the Company's effective income tax rate in future periods.

(millions)	2015	2014	2013
Balance at beginning of year	\$78	\$79	\$80
Tax positions related to current year:			
Additions	8	7	9
Tax positions related to prior years:			
Additions	9	10	17
Reductions	(12)	(12)	(13)
Settlements	(10)	(2)	(14)
Lapses in statutes of limitation	—	(4)	—
Balance at end of year	\$73	\$78	\$79

For the year ended January 2, 2016, the Company paid tax-related interest totaling \$3 million reducing the accrual balance to \$17 million at year end. For the year ended January 3, 2015, the Company recognized an increase of \$3 million of tax-related interest resulting in an accrual balance of \$20 million at January 3, 2015. For the year ended December 28, 2013, the Company recognized an increase of \$4 million of tax-related interest and payments of \$6 million, resulting in an accrual balance of approximately \$17 million accrued at December 28, 2013.

NOTE 13

DERIVATIVE INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company is exposed to certain market risks such as changes in interest rates, foreign currency exchange rates, and commodity prices, which exist as a part of its ongoing business operations. Management uses derivative financial and commodity instruments, including futures, options, and swaps, where appropriate, to manage these risks. Instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract.

The Company designates derivatives as cash flow hedges, fair value hedges, net investment hedges, and uses other contracts to reduce volatility in interest rates, foreign currency and commodities. As a matter of policy, the Company does not engage in trading or speculative hedging transactions.

Total notional amounts of the Company's derivative instruments as of January 2, 2016 and January 3, 2015 were as follows:

(millions)	2015	2014
Foreign currency exchange contracts	\$1,210	\$764
Interest rate contracts	—	2,958
Commodity contracts	470	492
Total	\$1,680	\$4,214

Following is a description of each category in the fair value hierarchy and the financial assets and liabilities of the Company that were included in each category at January 2, 2016 and January 3, 2015, measured on a recurring basis. Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market. For the Company, level 1 financial assets and liabilities consist primarily of commodity derivative contracts.

Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. For the Company, level 2 financial assets and liabilities consist of interest rate swaps and over-the-counter commodity and currency contracts.

The Company's calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve. Over-the-counter commodity derivatives are valued using an income approach based on the commodity index prices less the contract rate multiplied by the notional

amount. Foreign currency contracts are valued using an income approach based on forward rates less the contract rate multiplied by the notional amount. The Company's calculation of the fair value of level 2 financial assets and liabilities takes into consideration the risk of nonperformance, including counterparty credit risk.

Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Company did not have any level 3 financial assets or liabilities as of January 2, 2016 or January 3, 2015.

The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheet on a recurring basis as of January 2, 2016 and January 3, 2015:

Derivatives designated as hedging instruments:

	2015			2014		
(millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Foreign currency exchange contracts:						
Other current assets	\$—	\$11	\$11	\$—	\$29	\$29
Interest rate contracts (a):						
Other assets	—	—	—	—	7	7
Total assets	\$—	\$11	\$11	\$—	\$36	\$36
Liabilities:						
Foreign currency exchange contracts:						
Other current liabilities	\$—	\$(10)	\$(10)	\$—	\$(6)	\$(6)
Interest rate contracts:						
Other current liabilities	—	—	—	—	(3)	(3)
Other liabilities	—	—	—	—	(16)	(16)
Commodity contracts:						
Other current liabilities	—	(14)	(14)	—	(12)	(12)
Other liabilities	—	—	—	—	(11)	(11)
Total liabilities	\$—	\$(24)	\$(24)	\$—	\$(48)	\$(48)

(a) The fair value of the related hedged portion of the Company's long-term debt, a level 2 liability, was \$2.5 billion as of January 3, 2015.

Derivatives not designated as hedging instruments:

	2015			2014		
(millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Foreign currency exchange contracts:						
Other current assets	\$—	\$18	\$18	\$—	\$—	\$—
Commodity contracts:						
Other current assets	4	—	4	7	—	7
Total assets	\$4	\$18	\$22	\$7	\$—	\$7
Liabilities:						
Foreign currency exchange contracts:						
Other current liabilities	\$—	(6)	\$(6)	\$—	\$—	\$—
Commodity contracts:						
Other current liabilities	(33)	—	(33)	(36)	—	(36)

Edgar Filing: KELLOGG CO - Form 10-K

Other liabilities	—	—	—	(4)	—	(4)			
Total liabilities	\$(33)	\$(6)	\$(39)	\$(40)	\$—	\$(40)

The Company has designated a portion of its outstanding foreign currency denominated long-term debt as a net investment hedge of a portion of the Company's investment in its subsidiaries foreign currency denominated net

assets. The carrying value of this debt was \$1.2 billion and \$600 million as of January 2, 2016 and January 3, 2015, respectively.

The Company has elected to not offset the fair values of derivative assets and liabilities executed with the same counterparty that are generally subject to enforceable netting agreements. However, if the Company were to offset and record the asset and liability balances of derivatives on a net basis, the amounts presented in the Consolidated Balance Sheet as of January 2, 2016 and January 3, 2015 would be adjusted as detailed in the following table:

As of January 2, 2016:

	Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received/ Posted	Net Amount
Total asset derivatives	\$33		\$(12)	\$—	\$21
Total liability derivatives	\$(63	)	\$12	\$51	\$—

As of January 3, 2015:

	Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received/ Posted	Net Amount
Total asset derivatives	\$43		\$(29)	\$—	\$14
Total liability derivatives	\$(88	)	\$29	\$50	\$(9)

The effect of derivative instruments on the Consolidated Statement of Income for the years ended January 2, 2016 and January 3, 2015 were as follows:

Derivatives in fair value hedging relationships

(millions)	Location of gain (loss) recognized in income	Gain (loss) recognized in income (a)	
		2015	2014
Foreign currency exchange contracts	OIE	\$(4	) \$3
Interest rate contracts	Interest expense	20	17
Total		\$16	\$20

(a) Includes the ineffective portion and amount excluded from effectiveness testing.

Derivatives in cash flow hedging relationships

(millions)	Gain (loss) recognized in AOCI		Location of gain (loss) reclassified from AOCI	Gain (Loss) reclassified from AOCI into income		Location of gain (loss) recognized in income (a)	Gain (loss) recognized in income (a)	
	2015	2014		2015	2014		2015	2014
Foreign currency exchange contracts	\$26	\$34	COGS	\$40	\$5	OIE	\$(3	) \$(4
Foreign currency exchange contracts	(6	) 4	SGA expense	(2	) 3	OIE	—	—
Interest rate contracts	(9	) (69	) Interest expense	(3	) 9	N/A	—	—
Commodity contracts	(3	) (4	) COGS	(12	) (7	) OIE	—	—
Total	\$8	\$(35	)	\$23	\$10		\$(3	) \$(4

(a) Includes the ineffective portion and amount excluded from effectiveness testing.

Derivatives and non-derivatives in net investment hedging relationships

(millions)	Gain (loss) recognized in AOCI	
	2015	2014
Foreign currency denominated long-term debt	\$70	\$86
Total	\$70	\$86

Derivatives not designated as hedging instruments

(millions)	Location of gain (loss) recognized in income	Gain (loss) recognized in income	
		2015	2014
Foreign currency exchange contracts	COGS	\$16	\$—
Foreign currency exchange contracts	OIE	8	1
Interest rate contracts	Interest expense	—	(4
Commodity contracts	COGS	(63	) (73
Commodity contracts	SGA	(5	) (5
Total		\$(44	) \$(81

During the next 12 months, the Company expects \$14 million of net deferred losses reported in accumulated other comprehensive income (AOCI) at January 2, 2016 to be reclassified to income, assuming market rates remain constant through contract maturities.

Certain of the Company's derivative instruments contain provisions requiring the Company to post collateral on those derivative instruments that are in a liability position if the Company's credit rating falls below BB+ (S&P), or Baa1

(Moody's). The fair value of all derivative instruments with credit-risk-related contingent features in a liability position on January 2, 2016 was \$14 million. If the credit-risk-related contingent features were triggered as of January 2, 2016, the Company would be required to post collateral of \$14 million. In addition, certain derivative instruments contain provisions that would be triggered in the event the Company defaults on its debt agreements. There were no collateral posting requirements as of January 2, 2016 triggered by credit-risk-related contingent features.

Other fair value measurements

2015 Fair Value Measurements on a Nonrecurring Basis

As part of Project K the Company will be consolidating the usage of and disposing certain long-lived assets, including manufacturing facilities and Corporate owned assets over the term of the program. See Note 4 for more information regarding Project K.

During 2015, long-lived assets of \$31 million related to a manufacturing facility in the Company's North America Other reportable segment, were written down to an estimated fair value of \$13 million due to Project K activities. The Company's calculation of the fair value of these long-lived assets is based on level 3 inputs, including market comparables, market trends and the condition of the assets.

Additionally during 2015, the Company moved from the CENCOEX foreign currency official exchange rate to the SIMADI foreign currency exchange rate for purposes of remeasuring the financial statements of its Venezuelan subsidiary. In connection with this change in foreign currency exchange rates, the Company also evaluated the carrying value of the long lived assets related to its Venezuelan subsidiary. See Note 15 for more information regarding Venezuela. During 2015, long-lived assets with a carrying value of \$51 million were written down to an estimated fair value of \$2 million. The Company's calculation of the fair value of these long-lived assets is based on level 3 inputs, including market comparables, market trends and the condition of the assets.

2014 Fair Value Measurements on a Nonrecurring Basis

During 2014, long-lived assets of \$24 million, related to a manufacturing facility in the Company's U.S. Snacks segment, were written down to an estimated fair value of \$3 million due to Project K activities. The Company's calculation of the fair value of long-lived assets is based on Level 3 inputs, including market comparables, market trends and the condition of the assets.

Financial instruments

The carrying values of the Company's short-term items, including cash, cash equivalents, accounts receivable, accounts payable and notes payable approximate fair value. The fair value of the Company's long-term debt, which are level 2 liabilities, is calculated based on broker quotes and was as follows at January 2, 2016:

(millions)	Fair Value	Carrying Value
Current maturities of long-term debt	\$1,266	\$1,266
Long-term debt	5,635	5,289
Total	\$6,901	\$6,555

Counterparty credit risk concentration

The Company is exposed to credit loss in the event of nonperformance by counterparties on derivative financial and commodity contracts. Management believes a concentration of credit risk with respect to derivative counterparties is limited due to the credit ratings and use of master netting and reciprocal collateralization agreements with the counterparties and the use of exchange-traded commodity contracts.

Master netting agreements apply in situations where the Company executes multiple contracts with the same counterparty. If these counterparties fail to perform according to the terms of derivative contracts, this could result in a loss to the Company. As of January 2, 2016, there were no counterparties that represented a significant concentration of credit risk to the Company.

For certain derivative contracts, reciprocal collateralization agreements with counterparties call for the posting of collateral in the form of cash, treasury securities or letters of credit if a fair value loss position to the Company or its counterparties exceeds a certain amount. As of January 2, 2016, the Company had no collateral posting requirements related to reciprocal collateralization agreements. As of January 2, 2016, the Company posted \$51 million in margin deposits for exchange-traded commodity derivative instruments, which was reflected as an increase in accounts receivable, net.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. However, the Company conducts a disproportionate amount of business with a small number of large multinational grocery retailers, with the five largest accounts encompassing approximately 29% of

consolidated trade receivables at January 2, 2016.

93

Refer to Note 1 for disclosures regarding the Company's accounting policies for derivative instruments.

NOTE 14
CONTINGENCIES

The Company is subject to various legal proceedings, claims, and governmental inspections or investigations in the ordinary course of business covering matters such as general commercial, governmental regulations, antitrust and trade regulations, product liability, environmental, intellectual property, workers' compensation, employment and other actions. These matters are subject to uncertainty and the outcome is not predictable with assurance. The Company uses a combination of insurance and self-insurance for a number of risks, including workers' compensation, general liability, automobile liability and product liability.

The Company has established accruals for certain matters where losses are deemed probable and reasonably estimable. There are other claims and legal proceedings pending against the Company for which accruals have not been established. It is reasonably possible that some of these matters could result in an unfavorable judgment against the Company and could require payment of claims in amounts that cannot be estimated at January 2, 2016. Based upon current information, management does not expect any of the claims or legal proceedings pending against the Company to have a material impact on the Company's consolidated financial statements.

In connection with the Company's previous labor negotiations with the union representing the work-force at its Memphis, TN cereal production facility, the National Labor Relations Board (NLRB) filed a complaint alleging unfair labor practices under the National Labor Relations Act in March 2014. In July 2014, a U.S. District Court judge ruled that the Memphis employees were entitled to return to work while the underlying litigation continues and employees have subsequently returned to work. In August 2014, an NLRB Administrative Law Judge dismissed the complaint that initiated the underlying litigation. In May 2015, the NLRB reversed the decision of the Administrative Law Judge in favor of the union. The Company is appealing this decision and the case continues. This litigation is not expected to have a material effect on the production or distribution of products from the Memphis, TN facility or a material financial impact on the Company. As of January 2, 2016, the Company has not recorded a liability related to this matter as an adverse outcome is not considered probable. The Company will continue to evaluate the likelihood of potential outcomes for this case as the litigation continues.

NOTE 15
VENEZUELA

Venezuela is considered a highly inflationary economy. As such, the functional currency for the Company's operations in Venezuela is the U.S. dollar, which in turn, requires bolivar denominated monetary assets and liabilities to be remeasured into U.S. dollars using an exchange rate at which such balances could be settled as of the balance sheet date. In addition, revenues and expenses are recorded in U.S. dollars at an appropriate rate on the date of the transaction. Gains and losses resulting from the remeasurement of the bolivar denominated monetary assets and liabilities are recorded in earnings.

In February 2013, the Venezuelan government announced a 46.5% devaluation of the official CADIVI (now named CENCOEX) exchange rate from 4.3 bolivars to 6.3 bolivars to the U.S. dollar. Additionally, the Transaction System for Foreign Currency Denominated Securities (SITME), used between May 2010 and January 2013 to translate the Company's Venezuelan subsidiary's financial statements to U.S. dollars, was eliminated. Accordingly, in February 2013 the Company began using the CENCOEX exchange rate to translate the Company's Venezuelan subsidiary's financial statements to U.S. dollars and in 2013, the Company recognized a \$15 million charge as a result of the devaluation of the CENCOEX exchange rate.

From February 2013 through July 4, 2015, the Company used the CENCOEX official rate, which was 6.3 bolivars to the U.S. dollar, to remeasure its Venezuelan subsidiary's financial statements to U.S. dollars. The CENCOEX official rate is presently restricted toward goods and services for industry sectors considered essential, which are primarily

food, medicines and a few others and was still 6.3 bolivars to the U.S. dollar at January 2, 2016.

During 2013, the Venezuelan government announced a complementary currency exchange system, SICAD, followed by the establishment of another floating rate exchange system (referred to as SICAD II) during 2014. In February 2015, the Venezuelan government announced the addition of a new foreign currency exchange system referred to as the Marginal Currency System, or SIMADI, along with the merger of the SICAD II system with SICAD.

As of January 2, 2016, the published SICAD and SIMADI rates offered were 13.5 and 200.0 bolivars to the U.S. dollar, respectively.

The Company continues to manufacture and sell products in Venezuela as well as import limited raw materials, packaging and spare parts, where the Company has a history of successfully exchanging bolivars for U.S. dollars to pay certain vendors as required under the terms of the related purchasing arrangements. While the Company continues to qualify for participation in CENCOEX at the official rate, there has been a continued reduction in the level of U.S. dollars available to exchange, in part due to recent declines in the price of oil and the overall decline of the macroeconomic environment within the country. During 2015, the Company has experienced an increase in the amount of time it takes to exchange bolivars for U.S. dollars through the CENCOEX exchange. Given this economic backdrop, and upon review of U.S. dollar cash needs in the Company's Venezuela operations as of the quarter ended July 4, 2015, the Company concluded that it is no longer able to obtain sufficient U.S. dollars on a timely basis through the CENCOEX exchange to support its Venezuela operations resulting in a decision to remeasure our Venezuela subsidiary's financial statements using the SIMADI rate. The Company has evaluated all of the facts and circumstances surrounding its Venezuelan business and determined that as of January 2, 2016, the SIMADI rate continues to be the appropriate rate to use for remeasuring its Venezuelan subsidiary's financial statements.

In connection with the change in rates on July 4, 2015, the Company evaluated the carrying value of its non-monetary assets for impairment and lower of cost or market adjustments. As a result of moving from the CENCOEX official rate to the SIMADI rate, the Company recorded pre-tax charges totaling \$152 million in the quarter ended July 4, 2015. Of the total charges, \$100 million was recorded in COGS, \$3 million was recorded in SGA, and \$49 million was recorded in Other income (expense), net. These charges consist of \$47 million related to the remeasurement of net monetary assets denominated in Venezuelan bolivar at the SIMADI exchange rate (recorded in Other income (expense), net), \$56 million related to reducing inventory to the lower of cost or market (recorded in COGS) and \$49 million related to the impairment of long-lived assets in Venezuela (recorded primarily in COGS).

For the year ended January 2, 2016, Venezuela represented approximately 2% of total net sales as the CENCOEX official rate was used to remeasure the Venezuelan subsidiary's income statement through July 4, 2015. As of January 2, 2016, the Company's net monetary assets denominated in the Venezuelan bolivar were immaterial after applying the SIMADI exchange rate. As of January 3, 2015 the Company's net monetary assets denominated in the Venezuelan bolivar were approximately \$100 million using the CENCOEX official rate.

The Company continues to monitor and actively manage its investment and exposures in Venezuela. The Company's Venezuelan business does not rely heavily on imports and when items are imported, they are largely exchanged at the CENCOEX official rate however, the Company considers it reasonably possible to utilize alternate exchange mechanisms in the future. The Company is continuing to take actions to further reduce its reliance on imports in order to run its operations without the need for U.S. dollars, including the elimination of imported ingredients where possible and developing a local supply for parts and materials. Less than 2% of the total raw material needs of the Company's Venezuela operations are imported. The Company will continue to monitor local conditions and its ability to obtain U.S. dollars through the various exchange mechanisms available to determine the appropriate rate for remeasurement.

NOTE 16

QUARTERLY FINANCIAL DATA (unaudited)

	Net sales		Gross profit	
(millions)	2015	2014	2015	2014
First	\$3,556	\$3,742	\$1,245	\$1,504
Second	3,498	3,685	1,241	1,411
Third	3,329	3,639	1,233	1,292
Fourth	3,142	3,514	962	856
	\$13,525	\$14,580	\$4,681	\$5,063

(millions)	Net income attributable to Kellogg Company		Per share amounts			
	2015	2014	2015		2014	
			Basic	Diluted	Basic	Diluted
First	\$227	\$406	\$0.64	\$0.64	\$1.13	\$1.12
Second	223	295	0.63	0.63	0.82	0.82
Third	205	224	0.58	0.58	0.63	0.62
Fourth	(41	) (293	) (0.12	) (0.12	) (0.82	) (0.82
	\$614	\$632				

The principal market for trading Kellogg shares is the New York Stock Exchange (NYSE). At January 2, 2016, the closing price (on the NYSE) was \$72.27 and there were 35,704 shareholders of record.

Dividends paid per share and the quarterly price ranges on the NYSE during the last two years were:

	Dividend per share	Stock price	
		High	Low
2015 — Quarter			
First	\$0.49	\$69.84	\$61.97
Second	0.49	66.38	61.31
Third	0.50	69.77	62.74
Fourth	0.50	73.51	66.03
	\$1.98		
2014 — Quarter			
First	\$0.46	\$62.13	\$56.90
Second	0.46	69.39	62.62
Third	0.49	66.41	59.83
Fourth	0.49	67.24	59.70
	\$1.90		

During 2015, the Company recorded the following charges / (gains) in operating profit:

(millions)	2015 First	Second	Third	Fourth	Full Year
Restructuring and cost reduction charges	\$68	\$90	\$85	\$80	\$323
(Gains) / losses on mark-to-market adjustments	67	(35	) 27	387	446
	\$135	\$55	\$112	\$467	\$769

During 2014, the Company recorded the following charges / (gains) in operating profit:

(millions)	2014 First	Second	Third	Fourth	Full Year
Restructuring and cost reduction charges	\$54	\$78	\$92	\$74	\$298
(Gains) / losses on mark-to-market adjustments	(116	) 12	66	822	784
	\$(62	) \$90	\$158	\$896	\$1,082

NOTE 17

REPORTABLE SEGMENTS

Kellogg Company is the world's leading producer of cereal, second largest producer of cookies and crackers and a leading producer of savory snacks and frozen foods. Additional product offerings include toaster pastries, cereal bars, fruit-flavored snacks and veggie foods. Kellogg products are manufactured and marketed globally. Principal markets for these products include the United States and United Kingdom.

Beginning in the first quarter of 2015, a new Kashi operating segment was established in order to optimize future growth potential of this business. This operating segment is included in the North America Other reportable segment. Previously, results of Kashi were included within the U.S. Morning Foods, U.S. Snacks, and the U.S.

Frozen operating segments. Goodwill was reallocated between operating segments on a relative fair value basis. In conjunction with the reallocation of goodwill, an impairment analysis was performed. No impairment of the operating segments was noted. Reportable segment results of prior periods have been recast to conform to the current presentation. The Company currently has the following reportable segments: U.S. Morning Foods; U.S. Snacks; U.S. Specialty; North America Other; Europe; Latin America; and Asia Pacific.

The Company manages its operations through 9 operating segments that are based on product category or geographic location. These operating segments are evaluated for similarity with regards to economic characteristics, products, production processes, types or classes of customers, distribution methods and regulatory environments to determine if they can be aggregated into reportable segments. The reportable segments are discussed in greater detail below.

The U.S. Morning Foods operating segment includes cereal, toaster pastries, health and wellness bars, and beverages.

U.S. Snacks includes cookies, crackers, cereal bars, savory snacks and fruit-flavored snacks.

U.S. Specialty primarily represents food away from home channels, including food service, convenience, vending, Girl Scouts and food manufacturing. The food service business is mostly non-commercial, serving institutions such as schools and hospitals. The convenience business includes traditional convenience stores as well as alternate retailing outlets.

North America Other includes the U.S. Frozen, Kashi and Canada operating segments. As these operating segments are not considered economically similar enough to aggregate with other operating segments and are immaterial for separate disclosure, they have been grouped together as a single reportable segment.

The 3 remaining reportable segments are based on geographic location — Europe which consists principally of European countries; Latin America which consists of Central and South America and includes Mexico; and Asia Pacific which consists of Sub-Saharan Africa, Australia and other Asian and Pacific markets.

The measurement of reportable segment results is based on segment operating profit which is generally consistent with the presentation of operating profit in the Consolidated Statement of Income. Intercompany transactions between operating segments were insignificant in all periods presented.

(millions)	2015	2014	2013
Net sales			
U.S. Morning Foods	\$2,992	\$3,108	\$3,195
U.S. Snacks	3,234	3,329	3,379
U.S. Specialty	1,181	1,198	1,202
North America Other	1,687	1,864	1,940
Europe	2,497	2,869	2,843
Latin America	1,015	1,205	1,195
Asia Pacific	919	1,007	1,038
Consolidated	\$13,525	\$14,580	\$14,792
Operating profit			
U.S. Morning Foods	\$474	\$479	\$469
U.S. Snacks	385	364	424
U.S. Specialty	260	266	265
North America Other	178	295	314
Europe	247	232	249
Latin America	9	169	157
Asia Pacific	54	53	67
Total Reportable Segments	1,607	1,858	1,945
Corporate	(516	) (834	) 892
Consolidated	\$1,091	\$1,024	\$2,837
Depreciation and amortization (a)			
U.S. Morning Foods	\$123	\$136	\$181
U.S. Snacks	135	166	144
U.S. Specialty	11	10	8
North America Other	74	32	30
Europe	120	92	84
Latin America	28	32	29
Asia Pacific	29	31	40
Total Reportable Segments	520	499	516
Corporate	14	4	16
Consolidated	\$534	\$503	\$532

(a) Includes asset impairment charges as discussed in Note 13.

Certain items such as interest expense and income taxes, while not included in the measure of reportable segment operating results, are regularly reviewed by Management for the Company's internationally-based reportable segments as shown below.

(millions)	2015	2014	2013
Interest expense			
North America Other	\$5	\$6	\$6
Europe	5	5	6
Latin America	5	3	1
Asia Pacific	2	1	3
Corporate	210	194	219
Consolidated	\$227	\$209	\$235
Income taxes			
Europe	\$10	\$(3	) \$4
Latin America	34	42	35
Asia Pacific	—	(1	) 6

Edgar Filing: KELLOGG CO - Form 10-K

Corporate & North America	115	148	747
Consolidated	\$159	\$186	\$792

Management reviews balance sheet information, including total assets, based on geography. For all North American-based operating segments, balance sheet information is reviewed by Management in total and not on an individual operating segment basis.

(millions)	2015	2014	2013
Total assets			
North America	\$ 10,363	\$ 10,489	\$ 10,643
Europe	3,742	2,893	3,007
Latin America	587	905	1,052
Asia Pacific	1,106	1,111	1,049
Corporate	1,198	1,796	2,583
Elimination entries	(1,731	) (2,041	) (2,860
Consolidated	\$ 15,265	\$ 15,153	\$ 15,474
Additions to long-lived assets			
North America	\$ 342	\$ 295	\$ 296
Europe	110	129	182
Latin America	23	31	70
Asia Pacific	76	120	85
Corporate	2	7	4
Consolidated	\$ 553	\$ 582	\$ 637

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2015, 2014, and 2013, comprised principally of sales within the United States.

Supplemental geographic information is provided below for net sales to external customers and long-lived assets:

(millions)	2015	2014	2013
Net sales			
United States	\$ 8,560	\$ 8,876	\$ 9,060
All other countries	4,965	5,704	5,732
Consolidated	\$ 13,525	\$ 14,580	\$ 14,792
Long-lived assets			
United States	\$ 2,220	\$ 2,283	\$ 2,343
All other countries	1,401	1,486	1,513
Consolidated	\$ 3,621	\$ 3,769	\$ 3,856

Supplemental product information is provided below for net sales to external customers:

(millions)	2015	2014	2013
Cereal	\$ 5,871	\$ 6,570	\$ 6,753
Snacks	6,698	7,002	7,011
Frozen	956	1,008	1,028
Consolidated	\$ 13,525	\$ 14,580	\$ 14,792

NOTE 18

SUPPLEMENTAL FINANCIAL STATEMENT DATA

Consolidated Statement of Income (millions)	2015	2014	2013
Research and development expense	\$ 193	\$ 199	\$ 199
Advertising expense	\$ 898	\$ 1,094	\$ 1,131

Advertising and consumer promotions are included in total brand-building, a measure that the Company uses to determine the level of investment it makes to support its brands. Advertising has declined in 2015 as a result of foreign currency translation as well as the implementation of efficiency and effectiveness programs including a shift in investments to non-advertising consumer promotion programs. Total brand-building investment has declined in 2015 approximately 50 basis points as a percentage of net sales. Brand building is down including shifts of

investment into other areas such as food, the evolving shift in media investment from TV to digital, and efficiency and effectiveness benefits.

Consolidated Balance Sheet (millions)	2015	2014	
Trade receivables	\$1,169	\$1,101	
Allowance for doubtful accounts	(8)	(7))
Refundable income taxes	27	16	
Other receivables	156	166	
Accounts receivable, net	\$1,344	\$1,276	
Raw materials and supplies	\$315	\$327	
Finished goods and materials in process	935	952	
Inventories	\$1,250	\$1,279	
Deferred income taxes	\$227	\$184	
Other prepaid assets	164	158	
Other current assets	\$391	\$342	
Land	\$142	\$105	
Buildings	2,076	2,154	
Machinery and equipment	5,617	6,017	
Capitalized software	328	327	
Construction in progress	694	692	
Accumulated depreciation	(5,236)	(5,526))
Property, net	\$3,621	\$3,769	
Other intangibles	\$2,315	\$2,338	
Accumulated amortization	(47)	(43))
Other intangibles, net	\$2,268	\$2,295	
Pension	\$231	\$250	
Other	485	527	
Other assets	\$716	\$777	
Accrued income taxes	\$42	\$39	
Accrued salaries and wages	325	320	
Accrued advertising and promotion	447	446	
Other	548	596	
Other current liabilities	\$1,362	\$1,401	
Nonpension postretirement benefits	\$77	\$82	
Other	391	418	
Other liabilities	\$468	\$500	

Allowance for doubtful accounts (millions)	2015	2014	2013
Balance at beginning of year	\$7	\$5	\$6
Additions charged to expense	4	6	2
Doubtful accounts charged to reserve	(3)	(4)	(3)
Balance at end of year	\$8	\$7	\$5

Management's Responsibility for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and related notes. We believe that the consolidated financial statements present the Company's financial position and results of operations in conformity with accounting principles that are generally accepted in the United States, using our best estimates and judgments as required.

The independent registered public accounting firm audits the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and provides an objective,

independent review of the fairness of reported operating results and financial position.

The board of directors of the Company has an Audit Committee composed of five non-management Directors. The Committee meets regularly with management, internal auditors, and the independent registered public accounting firm to review accounting, internal control, auditing and financial reporting matters.

Formal policies and procedures, including an active Ethics and Business Conduct program, support the internal controls and are designed to ensure employees adhere to the highest standards of personal and professional

integrity. We have a rigorous internal audit program that independently evaluates the adequacy and effectiveness of these internal controls.

Management's Report on Internal Control over Financial Reporting

Management is responsible for designing, maintaining and evaluating adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in Internal Control — Integrated Framework (2013), management concluded that our internal control over financial reporting was effective as of January 2, 2016. The effectiveness of our internal control over financial reporting as of January 2, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which follows.

/s/ John A. Bryant
John A. Bryant
Chairman and Chief Executive Officer

/s/ Ronald L. Dissinger
Ronald L. Dissinger
Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Kellogg Company

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Kellogg Company and its subsidiaries at January 2, 2016 and January 3, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan
February 24, 2016

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure under Rules 13a-15(e) and 15d-15(e). Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurance of achieving the desired control objectives.

As of January 2, 2016, management carried out an evaluation under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report of management's assessment of the design and effectiveness of our internal control over financial reporting as part of this Annual Report on Form 10-K. The independent registered public accounting firm of PricewaterhouseCoopers LLP also attested to, and reported on, the effectiveness of our internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in our 2015 financial statements in Item 8 of this Report under the captions entitled "Management's Report on Internal Control over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

(c) During the third quarter of 2014, we went live with the first phase of our Global Business Services (GBS) initiative, in conjunction with Project K, which includes the reorganization and relocation of certain financial and operational service processes, internal to the organization. This initiative is expected to continue through 2016 and will impact the design of our control framework. During the transition to GBS, we have put additional controls in place to monitor and maintain appropriate internal controls impacting financial reporting.

There have been no other changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors — Refer to the information in our Proxy Statement to be filed with the Securities and Exchange Commission for the Annual Meeting of Shareowners to be held on April 29, 2016 (the "Proxy Statement"), under the caption "Proposal 1 — Election of Directors," which information is incorporated herein by reference.

Identification and Members of Audit Committee; Audit Committee Financial Expert — Refer to the information in the Proxy Statement under the caption "Board and Committee Membership," which information is incorporated herein by reference.

Executive Officers of the Registrant — Refer to "Executive Officers" under Item 1 of this Report.

For information concerning Section 16(a) of the Securities Exchange Act of 1934 — Refer to the information under the caption "Security Ownership — Section 16(a) Beneficial Ownership Reporting Compliance" of the Proxy Statement, which information is incorporated herein by reference.

Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller —We have adopted a Global Code of Ethics which applies to our chief executive officer, chief financial officer, corporate controller and all our other employees, and which can be found at www.kelloggcompany.com. Any amendments or waivers to the Global Code of Ethics applicable to our chief executive officer, chief financial officer or corporate controller may also be found at www.kelloggcompany.com.

ITEM 11. EXECUTIVE COMPENSATION

Refer to the information under the captions “2015 Director Compensation and Benefits,” “Compensation Discussion and Analysis,” “Executive Compensation,” “Retirement and Non-Qualified Defined Contribution and Deferred Compensation Plans,” and “Potential Post-Employment Payments” of the Proxy Statement, which is incorporated herein by reference. See also the information under the caption “Compensation Committee Report” of the Proxy Statement, which information is incorporated herein by reference; however, such information is only “furnished” hereunder and not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Refer to the information under the captions “Security Ownership — Five Percent Holders” and “Security Ownership — Officer and Director Stock Ownership” of the Proxy Statement, which information is incorporated herein by reference. Securities Authorized for Issuance Under Equity Compensation Plans

(millions, except per share data)	Number of securities to be issued upon exercise of outstanding options, warrants and rights as of January 2, 2016 (a)	Weighted-average exercise price of outstanding options, warrants and rights as of January 2, 2016 (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) as of January 2, 2016 (c)*)
Plan category			
Equity compensation plans approved by security holders	20.5	\$58	16.4
Equity compensation plans not approved by security holders	—	NA	0.3
Total	20.5	\$58	16.7

* The total number of shares remaining available for issuance under the 2013 Long-term Incentive Plan will be reduced by two shares for each share issued pursuant to an award other than a stock option or stock appreciation right, or potentially issuable pursuant to an outstanding award other than a stock option or stock appreciation right, which will in each case reduce the total number of shares remaining by one share for each share issued.

Three plans are considered “Equity compensation plans not approved by security holders.” The Kellogg Share Incentive Plan, which was adopted in 2002 and is available to most U.K. employees of specified Kellogg Company subsidiaries; a similar plan, which is available to employees in the Republic of Ireland; and the Deferred Compensation Plan for Non-Employee Directors, which was adopted in 1986 and amended in 1993 and 2002.

Under the Kellogg Share Incentive Plan, eligible U.K. employees may contribute up to 1,500 Pounds Sterling annually to the plan through payroll deductions. The trustees of the plan use those contributions to buy shares of our common stock at fair market value on the open market, with Kellogg matching those contributions on a 1:1 basis. Shares must be withdrawn from the plan when employees cease employment. Under current law, eligible employees generally receive certain income and other tax benefits if those shares are held in the plan for a specified number of

years. A similar plan is also available to employees in the Republic of Ireland. As these plans are open market plans with no set overall maximum, no amounts for these plans are included in the above table. However, approximately 48,000 shares were purchased by eligible employees under the Kellogg Share Incentive Plan, the plan for the Republic of Ireland and other similar predecessor plans during 2015, with approximately an additional 48,000 shares being provided as matched shares.

The Deferred Compensation Plan for Non-Employee Directors was amended and restated during 2013. Under the Deferred Compensation Plan for Non-Employee Directors, non-employee Directors may elect to defer all or part of their compensation (other than expense reimbursement) into units which are credited to their accounts. The units have a value equal to the fair market value of a share of our common stock on the appropriate date, with dividend

equivalents being earned on the whole units in non-employee Directors' accounts. Units must be paid in shares of our common stock, either in a lump sum or in up to ten annual installments, with the installments to begin as soon as practicable after the non-employee Director's service as a Director terminates. No more than 300,000 shares are authorized for use under this plan, of which approximately 1,000 had been issued as of January 2, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
Refer to the information under the captions "Corporate Governance — Director Independence" and "Related Person Transactions" of the Proxy Statement, which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Refer to the information under the captions "Proposal 3 — Ratification of PricewaterhouseCoopers LLP — Fees Paid to Independent Registered Public Accounting Firm" and "Proposal 3 — Ratification of PricewaterhouseCoopers LLP — Preapproval Policies and Procedures" of the Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The Consolidated Financial Statements and related Notes, together with Management's Report on Internal Control over Financial Reporting, and the Report thereon of PricewaterhouseCoopers LLP dated February 24, 2016, are included herein in Part II, Item 8.

(a) 1. Consolidated Financial Statements

Consolidated Statement of Income for the years ended January 2, 2016, January 3, 2015 and December 28, 2013.

Consolidated Statement of Comprehensive Income for the years ended January 2, 2016, January 3, 2015 and December 28, 2013.

Consolidated Balance Sheet at January 2, 2016 and January 3, 2015.

Consolidated Statement of Equity for the years ended January 2, 2016, January 3, 2015 and December 28, 2013.

Consolidated Statement of Cash Flows for the years ended January 2, 2016, January 3, 2015 and December 28, 2013.

Notes to Consolidated Financial Statements.

Management's Report on Internal Control over Financial Reporting.

Report of Independent Registered Public Accounting Firm.

(a) 2. Consolidated Financial Statement Schedule

All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

(a) 3. Exhibits required to be filed by Item 601 of Regulation S-K

The information called for by this Item is incorporated herein by reference from the Exhibit Index included in this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 24th day of February, 2016.

KELLOGG COMPANY

By: /s/ John A. Bryant
 John A. Bryant
 Chairman and Chief Executive Officer

Edgar Filing: KELLOGG CO - Form 10-K

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ John A. Bryant John A. Bryant	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2016
/s/ Ronald L. Dissinger Ronald L. Dissinger	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 24, 2016
* Stephanie A. Burns	Director	February 24, 2016
* John T. Dillon	Director	February 24, 2016
* Gordon Gund	Director	February 24, 2016
* Zachary Gund	Director	February 24, 2016
* James M. Jenness	Director	February 24, 2016
* Ann McLaughlin Korologos	Director	February 24, 2016
* Donald R. Knauss	Director	February 24, 2016
* Mary Laschinger	Director	February 24, 2016
* Cynthia H. Milligan	Director	February 24, 2016
* La June Montgomery Tabron	Director	February 24, 2016
* Rogelio M. Rebolledo	Director	February 24, 2016
* 	Director	February 24, 2016

Carolyn M. Tastad

*

Noel R. Wallace

Director

February 24, 2016

* By: /s/ Gary H. Pilnick
Gary H. Pilnick

Attorney-in-fact

February 24,
2016

EXHIBIT INDEX

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
2.01	Amended and Restated Transaction Agreement between us and The Procter & Gamble Company, incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K dated May 31, 2012, Commission file number 1-4171.	IBRF
3.01	Amended Restated Certificate of Incorporation of Kellogg Company, incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-8, file number 333-56536.	IBRF
3.02	Bylaws of Kellogg Company, as amended, incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated February 23, 2016, Commission file number 1-4171.	IBRF
4.01	Indenture and Supplemental Indenture dated March 15 and March 29, 2001, respectively, between Kellogg Company and BNY Midwest Trust Company, including the form of 7.45% Debentures due 2031, incorporated by reference to Exhibit 4.01 and 4.02 to our Quarterly Report on Form 10-Q for the quarter ending March 31, 2001, Commission file number 1-4171.	IBRF
4.02	Form of Indenture between Kellogg Company and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-3, Commission file number 333-159303.	IBRF
4.03	Officers' Certificate of Kellogg Company (with form of Kellogg Company 4.450% Senior Note Due May 30, 2016), incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated May 18, 2009, Commission file number 1-4171.	IBRF
4.04	Officers' Certificate of Kellogg Company (with form of Kellogg Company 4.150% Senior Note Due 2019), incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated November 16, 2009, Commission file number 1-4171.	IBRF
4.05		IBRF

Officers' Certificate of Kellogg Company (with form of Kellogg Company 4.000% Senior Note Due 2020), incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated December 8, 2010, Commission file number 1-4171.

4.06

Officers' Certificate of Kellogg Company (with form of Kellogg Company 3.25% Senior Note Due 2018), incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated May 15, 2011, Commission file number 1-4171.

IBRF

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
4.07	Officers' Certificate of Kellogg Company (with form of Kellogg Company 1.875% Senior Note Due 2016), incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated November 17, 2011, Commission file number 1-4171.	IBRF
4.08	Officers' Certificate of Kellogg Company (with form of 1.125% Senior Note due 2015, 1.750% Senior Note due 2017 and 3.125% Senior Note due 2022), incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated May 17, 2012, Commission file number 1-4171.	IBRF
4.09	Indenture, dated as of May 22, 2012, between Kellogg Canada Inc., Kellogg Company, and BNY Trust Company of Canada and The Bank of New York Mellon Trustee Company, N.A., as trustees, incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated May 22, 2012, commission file number 1-4171.	IBRF
4.10	First Supplemental Indenture, dated as of May 22, 2012, between Kellogg Canada, Inc., Kellogg Company, and BNY Trust Company of Canada and The Bank of New York Mellon Trustee Company, N.A., as trustees incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated May 22, 2012, Commission file number 1-4171.	IBRF
4.11	Officer's Certificate of Kellogg Company (with form of Floating Rate Senior Notes due 2015 and 2.750% Senior Notes due 2023), incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated February 14, 2013, Commission file number 1-4171.	IBRF
4.12	Second Supplemental Indenture dated as of May 22, 2014, between Kellogg Canada Inc., Kellogg Company, and BNY Trust Company of Canada and The Bank of New York Mellon Trustee Company, N.A., as trustees, incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated May 22, 2014, commission file number 1-4171.	IBRF
4.13	Officer's Certificate of Kellogg Company (with form of 1.250% Senior Notes due 2025), incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated March 9, 2015, Commission file number 1-4171.	IBRF
10.01	Kellogg Company Excess Benefit Retirement Plan, incorporated by reference to Exhibit 10.01 to our	IBRF

Edgar Filing: KELLOGG CO - Form 10-K

10.02	Annual Report on Form 10-K for the fiscal year ended December 31, 1983, Commission file number 1-4171.* Kellogg Company Supplemental Retirement Plan, incorporated by reference to Exhibit 10.05 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1990, Commission file number 1-4171.*	IBRF
10.03	Kellogg Company Supplemental Savings and Investment Plan, as amended and restated as of January 1, 2003, incorporated by reference to Exhibit 10.03 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2002, Commission file number 1-4171.*	IBRF

Edgar Filing: KELLOGG CO - Form 10-K

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
10.04	Kellogg Company International Retirement Plan, incorporated by reference to Exhibit 10.05 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1997, Commission file number 1-4171.*	IBRF
10.05	Kellogg Company Executive Survivor Income Plan, incorporated by reference to Exhibit 10.06 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1985, Commission file number 1-4171.*	IBRF
10.06	Kellogg Company Key Executive Benefits Plan, incorporated by reference to Exhibit 10.09 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1991, Commission file number 1-4171.*	IBRF
10.07	Kellogg Company Key Employee Long Term Incentive Plan, incorporated by reference to Exhibit 10.6 to our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, Commission file number 1-4171.*	IBRF
10.08	Kellogg Company Senior Executive Officer Performance Bonus Plan, incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1995, Commission file number 1-4171.*	IBRF
10.09	Kellogg Company 2000 Non-Employee Director Stock Plan, incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, Commission file number 1-4171.*	IBRF
10.10	Kellogg Company Bonus Replacement Stock Option Plan, incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1997, Commission file number 1-4171.*	IBRF
10.11	Kellogg Company Executive Compensation Deferral Plan incorporated by reference to Exhibit 10.13 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1997, Commission file number 1-4171.*	IBRF
10.12	Employment Letter between us and James M. Jenness, incorporated by reference to Exhibit 10.18 to our Annual Report in Form 10-K for the fiscal year ended January 1, 2005, Commission file number 1-4171.*	IBRF
10.13	Agreement between us and other executives, incorporated by reference to Exhibit 10.05 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, Commission file number 1-4171.*	IBRF
10.14	Stock Option Agreement between us and James Jenness, incorporated by reference to Exhibit 4.4 to our	IBRF

Registration Statement on Form S-8, file number
333-56536.*

Edgar Filing: KELLOGG CO - Form 10-K

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
10.15	Kellogg Company 2002 Employee Stock Purchase Plan, as amended and restated as of January 1, 2008, incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, Commission file number 1-4171.*	IBRF
10.16	Kellogg Company 1993 Employee Stock Ownership Plan, incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, Commission file number 1-4171.*	IBRF
10.17	Kellogg Company 2003 Long-Term Incentive Plan, as amended and restated as of December 8, 2006, incorporated by reference to Exhibit 10. to our Annual Report on Form 10-K for the fiscal year ended December 30, 2006, Commission file number 1-4171.*	IBRF
10.18	Kellogg Company Severance Plan, incorporated by reference to Exhibit 10. of our Annual Report on Form 10-K for the fiscal year ended December 28, 2002, Commission file number 1-4171.*	IBRF
10.19	Form of Non-Qualified Option Agreement for Senior Executives under 2003 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the fiscal period ended September 25, 2004, Commission file number 1-4171.*	IBRF
10.20	Form of Restricted Stock Grant Award under 2003 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the fiscal period ended September 25, 2004, Commission file number 1-4171.*	IBRF
10.21	Form of Non-Qualified Option Agreement for Non-Employee Director under 2000 Non-Employee Director Stock Plan, incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the fiscal period ended September 25, 2004, Commission file number 1-4171.*	IBRF
10.22	First Amendment to the Key Executive Benefits Plan, incorporated by reference to Exhibit 10.39 of our Annual Report in Form 10-K for our fiscal year ended January 1, 2005, Commission file number 1-4171.*	IBRF
10.23	Restricted Stock Grant/Non-Compete Agreement between us and John Bryant, incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended April 2, 2005, Commission file number 1-4171 (the "2005 Q1 Form 10-Q").*	IBRF

Edgar Filing: KELLOGG CO - Form 10-K

10.24	Executive Survivor Income Plan, incorporated by reference to Exhibit 10.42 of our Annual Report in Form 10-K for our fiscal year ended December 31, 2005, Commission file number 1-4171.*	IBRF
10.25	Agreement between us and James M. Jenness, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated October 20, 2006, Commission file number 1-4171.*	IBRF

Edgar Filing: KELLOGG CO - Form 10-K

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
10.26	Letter Agreement between us and John A. Bryant, dated July 23, 2007, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated July 23, 2007, Commission file number 1-4171.*	IBRF
10.27	Agreement between us and James M. Jenness, dated February 22, 2008, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated February 22, 2008, Commission file number 1-4171.*	IBRF
10.28	Form of Amendment to Form of Agreement between us and certain executives, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated December 18, 2008, Commission file number 1-4171.*	IBRF
10.29	Amendment to Letter Agreement between us and John A. Bryant, dated December 18, 2008, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated December 18, 2008, Commission file number 1-4171.*	IBRF
10.30	Form of Restricted Stock Grant Award under 2003 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated December 18, 2008, Commission file number 1-4171.*	IBRF
10.31	Form of Option Terms and Conditions for SVP Executive Officers under 2003 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated February 20, 2009, Commission file number 1-4171.*	IBRF
10.32	Kellogg Company 2009 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8 dated April 27, 2009, Commission file number 333-158824.*	IBRF
10.33	Kellogg Company 2009 Non-Employee Director Stock Plan, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8 dated April 27, 2009, Commission file number 333-158826.*	IBRF
10.34	Form of Option Terms and Conditions under 2009 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated February 25, 2011, Commission file number 1-4171.	IBRF
10.35	Letter Agreement between us and Gary Pilnick, dated May 20, 2008, incorporated by reference to Exhibit 10.54 to our Annual Report on Form 10-K for the fiscal year ended January 1, 2011, commission file number	IBRF

1-4171.*

10.36

Kellogg Company Senior Executive Annual Incentive Plan, incorporated by reference to Appendix A of our Board of Directors' proxy statement for the annual meeting of shareholders held on April 29, 2011.*

IBRF

10.37

2012-2014 Executive Performance Plan, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated February 23, 2012, Commission file number 1-4171.*

IBRF

Edgar Filing: KELLOGG CO - Form 10-K

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
10.38	Form of Option Terms and Conditions, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated February 23, 2012, Commission file number 1-4171.*	IBRF
10.39	Form of Restricted Stock Terms and Conditions, incorporated by reference to Exhibit 10.45 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, Commission file number 1-4171.*	IBRF
10.40	Form of Restricted Stock Unit Terms and Conditions, incorporated by reference to Exhibit 10.45 to our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, Commission file number 1-4171.*	IBRF
10.41	2013-2015 Executive Performance Plan, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated February 27, 2013, Commission file number 1-4171.*	IBRF
10.42	Kellogg Company 2013 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8, file number 333-188222.*	IBRF
10.43	Kellogg Company Pringles Savings and Investment Plan, incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-8, file number 333-189638.*	IBRF
10.44	Amendment Number 1. to the Kellogg Company Pringles Savings and Investment Plan, incorporated by reference to Exhibit 4.4 to our Registration Statement on Form S-8, file number 333-189638.*	IBRF
10.45	Kellogg Company Deferred Compensation Plan for Non-Employee Directors, incorporated by reference to Exhibit 10.49 to our Annual Report on Form 10-K dated February 24, 2014, Commission file number 1-4171.*	IBRF
10.46	Kellogg Company Executive Compensation Deferral Plan, incorporated by reference to Exhibit 10.50 to our Annual Report on Form 10-K dated February 24, 2014, Commission file number 1-4171.*	IBRF
10.47	2014-2016 Executive Performance Plan, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated February 27, 2014, Commission file number 1-4171.*	IBRF
10.48	Five-Year Credit Agreement dated as of February 28, 2014 with JPMorgan Chase Bank, N.A., as Administrative Agent, Barclays Capital, as Syndication	IBRF

Agent, BNP Paribas, Cooperatieve Centrale
Raiffeisen-Boerenleenbank B.A., “Rabobank Nederland”,
New York Branch and Wells Fargo Bank, N.A., as
Documentation Agents, J.P. Morgan Securities LLC,
Barclays Capital, BNP Paribas Securities Corp.,
Cooperatieve Centrale Raiffeisen-Boerenleenbank
B.A., “Rabobank Nederland”, New York Branch and
Wells Fargo Securities, LLC, as Joint Lead Arrangers
and Joint Bookrunners, incorporated by reference to
Exhibit 4.1 to our Current Report on Form 8-K dated
March 4, 2014, Commission file number 1-4171.

Edgar Filing: KELLOGG CO - Form 10-K

Exhibit No.	Description	Electronic(E), Paper(P) or Incorp. By Ref.(IBRF)
10.49	Kellogg Company Change of Control Severance Policy for Key Executives, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated December 11, 2014.*	IBRF
10.50	Amendment to Change of Control between the Company and John Bryant, dated December 5, 2014, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated December 11, 2014.*	IBRF
10.51	2015-2017 Executive Performance Plan, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated February 24, 2015, Commission file number 1-4171.*	IBRF
10.52	Form of Option Terms and Conditions, incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated February 24, 2015, Commission file number 1-4171.*	IBRF
10.53	2016-2018 Executive Performance Plan, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated February 23, 2016, Commission file number 1-4171.*	IBRF
10.54	Form of Option Terms and Conditions, incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated February 23, 2016, Commission file number 1-4171.*	IBRF
21.01	Domestic and Foreign Subsidiaries of Kellogg.	E
23.01	Consent of Independent Registered Public Accounting Firm.	E
24.01	Powers of Attorney authorizing Gary H. Pilnick to execute our Annual Report on Form 10-K for the fiscal year ended January 3, 2015, on behalf of the Board of Directors, and each of them.	E
31.1	Rule 13a-14(a)/15d-14(a) Certification by John A. Bryant.	E
31.2	Rule 13a-14(a)/15d-14(a) Certification by Ronald L. Dissinger.	E
32.1	Section 1350 Certification by John A. Bryant.	E
32.2	Section 1350 Certification by Ronald L. Dissinger.	E
101.INS	XBRL Instance Document	E
101.SCH	XBRL Taxonomy Extension Schema Document	E
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	E
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	E

Edgar Filing: KELLOGG CO - Form 10-K

101.LAB	XBRL Taxonomy Extension Label Linkbase Document	E
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	E

* A management contract or compensatory plan required to be filed with this Report.

We agree to furnish to the Securities and Exchange Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Kellogg and our subsidiaries and any of our unconsolidated subsidiaries for which Financial Statements are required to be filed.

We will furnish any of our shareowners a copy of any of the above Exhibits not included herein upon the written request of such shareowner and the payment to Kellogg of the reasonable expenses incurred in furnishing such copy or copies.