KELLOGG CO
Form 10-Q
November 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(Mark One)

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

For the quarterly period ended October 1, 2016
OR

¨ 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

State of Incorporation—Delaware IRS Employer Identification No.38-0710690
One Kellogg Square, P.O. Box 3599, Battle Creek, MI 49016-3599
Registrant’s telephone number: 269-961-2000
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).
Yes x No ¨
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.
Large accelerated filer x 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 Exchange Act).
Yes ¨ No x
Common Stock outstanding as of October 29, 2016 — 350,905,165 shares

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Part I – FINANCIAL INFORMATION
Item 1. Financial Statements.
Kellogg Company and Subsidiaries
CONSOLIDATED BALANCE SHEET
(millions, except per share data)

	October 1, 2016 (unaudited)	January 2, 2016 *
Current assets		
Cash and cash equivalents	$ 346	$ 251
Accounts receivable, net	1,523	1,344
Inventories:		
Raw materials and supplies	321	315
Finished goods and materials in process	899	935
Deferred income taxes	—	227
Other prepaid assets	207	164
Total current assets	3,296	3,236
Property, net of accumulated depreciation of $5,356 and $5,236	3,558	3,621
Investments in unconsolidated entities	438	456
Goodwill	4,971	4,968
Other intangibles, net of accumulated amortization of $52 and $47	2,287	2,268
Pension	256	231
Other assets	513	471
Total assets	$ 15,319	$ 15,251
Current liabilities		
Current maturities of long-term debt	$ 1,138	$ 1,266
Notes payable	454	1,204
Accounts payable	1,986	1,907
Accrued advertising and promotion	517	447
Accrued income taxes	35	42
Accrued salaries and wages	280	325
Other current liabilities	591	548
Total current liabilities	5,001	5,739
Long-term debt	6,296	5,275
Deferred income taxes	459	685
Pension liability	928	946
Nonpension postretirement benefits	50	77
Other liabilities	385	391
Commitments and contingencies		
Equity		
Common stock, $.25 par value	105	105
Capital in excess of par value	786	745
Retained earnings	6,807	6,597
Treasury stock, at cost	(4,008)	(3,943)
Accumulated other comprehensive income (loss)	(1,505)	(1,376)
Total Kellogg Company equity	2,185	2,128
Noncontrolling interests	15	10
Total equity	2,200	2,138
Total liabilities and equity	$ 15,319	$ 15,251

* Condensed from audited financial statements.

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME
(millions, except per share data)

(Results are unaudited)	Quarter ended		Year-to-date period ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales	$3,254	$ 3,329	$9,917	$ 10,383
Cost of goods sold	1,990	2,096	6,138	6,664
Selling, general and administrative expense	854	899	2,482	2,589
Operating profit	410	334	1,297	1,130
Interest expense	58	56	343	168
Other income (expense), net	3	(6)	7	(78)
Income before income taxes	355	272	961	884
Income taxes	62	66	215	227
Earnings (loss) from unconsolidated entities	(1)	(1)	1	(3)
Net income	$292	$ 205	$747	$ 654
Net income (loss) attributable to noncontrolling interests	—	—	—	(1)
Net income attributable to Kellogg Company	$292	$ 205	$747	$ 655
Per share amounts:				
Basic	$0.83	$ 0.58	$2.13	$ 1.85
Diluted	$0.82	$ 0.58	$2.11	$ 1.84
Dividends per share	$0.52	$ 0.50	$1.52	$ 1.48
Average shares outstanding:				
Basic	350	354	350	354
Diluted	354	356	354	356
Actual shares outstanding at period end			351	354

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(millions)

	Quarter ended October 1, 2016			Year-to-date period ended October 1, 2016		
(Results are unaudited)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 292			$ 747
Other comprehensive income (loss):						
Foreign currency translation adjustments	(20)	7	(13)	(123)	20	(103)
Cash flow hedges:						
Unrealized gain (loss) on cash flow hedges	3	(1)	2	(57)	23	(34)
Reclassification to net income	—	(1)	(1)	8	(4)	4
Postretirement and postemployment benefits:						
Amount arising during the period:						
Prior service cost	—	—	—	(1)	—	(1)
Reclassification to net income:						
Net experience loss	1	—	1	3	—	3
Prior service cost	1	(1)	—	3	(1)	2
Other comprehensive income (loss)	$(15)	$ 4	$ (11)	$(167)	$ 38	$ (129)
Comprehensive income			$ 281			$ 618
Comprehensive income attributable to Kellogg Company			$ 281			$ 618

	Quarter ended October 3, 2015			Year-to-date period ended October 3, 2015		
(Results are unaudited)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 205			$ 654
Other comprehensive income (loss):						
Foreign currency translation adjustments	(88)	5	(83)	(142)	(11)	(153)
Cash flow hedges:						
Unrealized gain (loss) on cash flow hedges	7	(2)	5	11	(3)	8
Reclassification to net income	(7)	1	(6)	(14)	1	(13)
Postretirement and postemployment benefits:						
Amount arising during the period:						
Prior service credit (cost)	66	(25)	41	66	(25)	41
Reclassification to net income:						
Net experience loss	1	—	1	3	—	3
Prior service cost	2	—	2	7	(2)	5
Other comprehensive income (loss)	$(19)	$ (21)	$ (40)	$(69)	$ (40)	$ (109)
Comprehensive income			$ 165			$ 545
Net Income (loss) attributable to noncontrolling interest			—			(1)
Other comprehensive income (loss) attributable to noncontrolling interests			1			—
Comprehensive income attributable to Kellogg Company			$ 164			$ 546

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF EQUITY
(millions)

(unaudited)	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
Balance, January 3, 2015	420	$ 105	$ 678	$ 6,689	64	$ (3,470)	$ (1,213)	$ 2,789	$ 62	$ 2,851
Common stock repurchases					11	(731)		(731)		(731)
Net income				614				614		614
Acquisition of noncontrolling interest, net									7	7
VIE deconsolidation									(58)	(58)
Dividends				(700)				(700)		(700)
Other comprehensive loss							(163)	(163)	(1)	(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
Common stock repurchases					6	(426)		(426)		(426)
Net income				747				747		747
Acquisition of noncontrolling interest, net									5	5
Dividends				(533)				(533)		(533)
Other comprehensive loss							(129)	(129)		(129)
Stock compensation			45					45		45
Stock options exercised and other			(4)	(4)	(6)	361		353		353
Balance, October 1, 2016	420	$ 105	$ 786	$ 6,807	70	$ (4,008)	$ (1,505)	$ 2,185	$ 15	$ 2,200

Refer to notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
(millions)

(unaudited)	Year-to-date period ended October 1, 2016	October 3, 2015
Operating activities		
Net income	$747	$ 654
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	357	387
Postretirement benefit plan expense (benefit)	(53)	(68)
Deferred income taxes	(26)	(61)
Stock compensation	45	32
Venezuela remeasurement	11	165
Variable-interest entity impairment	—	(49)
Other	(14)	35
Postretirement benefit plan contributions	(29)	(21)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	(208)	(214)
Inventories	25	1
Accounts payable	139	162
Accrued income taxes	10	11
Accrued interest expense	53	15
Accrued and prepaid advertising and promotion	66	49
Accrued salaries and wages	(45)	(14)
All other current assets and liabilities	(57)	(115)
Net cash provided by (used in) operating activities	1,021	969
Investing activities		
Additions to properties	(376)	(389)
Acquisitions, net of cash acquired	(21)	(161)
Investments in unconsolidated entities, net proceeds	27	(456)
Other	(11)	43
Net cash provided by (used in) investing activities	(381)	(963)
Financing activities		
Net issuances (reductions) of notes payable	(749)	533
Issuances of long-term debt	2,061	672
Reductions of long-term debt	(1,230)	(604)
Net issuances of common stock	356	196
Common stock repurchases	(426)	(381)
Cash dividends	(533)	(523)
Other	—	(3)
Net cash provided by (used in) financing activities	(521)	(110)
Effect of exchange rate changes on cash and cash equivalents	(24)	(40)
Increase (decrease) in cash and cash equivalents	95	(144)
Cash and cash equivalents at beginning of period	251	443
Cash and cash equivalents at end of period	$346	$ 299

Supplemental cash flow disclosures		
Interest paid	$294	$ 154
Income taxes paid	$225	$ 290
Supplemental cash flow disclosures of non-cash investing activities:		
Additions to properties included in accounts payable*	$87	$ 110

*The Q3 2015 Consolidated Statement of Cash Flows has been revised to correctly eliminate the non-cash effect of accrued capital expenditures of $27 million from changes in Accounts payable, resulting in an increase in net cash provided by operating activities and changes in Additions to properties, resulting in a decrease in net cash used in investing activities. These revisions were not considered material to the previously issued Q3 2015 financial statements.

Refer to Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
for the quarter ended October 1, 2016 (unaudited)

Note 1 Accounting policies

Basis of presentation

The unaudited interim financial information of Kellogg Company (the Company) included in this report reflects all adjustments, all of which are of a normal and recurring nature, that management believes are necessary for a fair statement of the results of operations, comprehensive income, financial position, equity and cash flows for the periods presented. This interim information should be read in conjunction with the financial statements and accompanying footnotes within the Company's 2015 Annual Report on Form 10-K.

The condensed balance sheet information at January 2, 2016 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The results of operations for the quarterly period ended October 1, 2016 are not necessarily indicative of the results to be expected for other interim periods or the full year.

Accounts payable

The Company has agreements with certain third parties to provide accounts payable tracking systems 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 these agreements 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 these arrangements. 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 October 1, 2016, $692 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $513 million of those payment obligations to participating financial institutions. As of January 2, 2016, $524 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $425 million of those payment obligations to participating financial institutions.

New accounting standards

Improvements to employee share-based payment accounting. In March 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) as part of its simplification initiative. The Company early adopted the accounting standard update in the first quarter of 2016. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The main provisions of the ASU are as follows:

- Excess tax benefits and deficiencies for share-based payments are recorded as an adjustment of income taxes and reflected in operating cash flows after adoption of this ASU. Excess tax benefits and deficiencies were previously recorded in equity and as financing cash flows prior to adoption of this ASU.
- The guidance allows the employer to withhold up to the maximum statutory tax rates in the applicable jurisdictions without triggering liability accounting. The Company's accounting treatment of outstanding equity awards was not impacted by its adoption of this provision of the ASU.
- The guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The Company is not making this election, and will continue to account for forfeitures on an estimated basis.

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. Entities should apply the new guidance either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company early adopted the updated standard in the first quarter of 2016, on a prospective basis. The year-end 2015 balances for

current deferred tax assets and current deferred liabilities were $227 million and $9 million, respectively. Prior period balances have not been adjusted.

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. Entities should apply the new guidance on a retrospective basis. The Company adopted the updated standard in the first quarter of 2016 with no significant impact on its financial statements.

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. 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 adopted the updated standard in the first quarter of 2016 with no 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. 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 adopted the updated standard prospectively in the first quarter of 2016 with no significant impact on its financial statements.

Accounting standards to be adopted in future periods

Income Taxes. In October 2016, the FASB, as part of their simplification initiative, issued an ASU to improve the accounting for income tax consequences of intra-entity transfers of assets other than inventory. Current Generally Accepted Accounting Principles (GAAP) prohibit recognition of current and deferred income taxes for intra-entity asset transfers until the asset has been sold to an outside party, which is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The amendments in the ASU eliminate the exception, such that entities should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. That is, early adoption should be the first interim period if an entity issues interim financial statements. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the period of adoption. The Company is currently assessing the impact and timing of adoption of the ASU.

Statement of Cash Flows. In August 2016, the FASB issued an ASU to provide cash flow statement classification guidance for certain cash receipts and payments including (a) debt prepayment or extinguishment costs; (b) contingent consideration payments made after a business combination; (c) insurance settlement proceeds; (d) distributions from equity method investees; (e) beneficial interests in securitization transactions and (f) application of the predominance principle for cash receipts and payments with aspects of more than one class of cash flows. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period, in which case adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The amendments in this ASU should be applied retrospectively. The Company is currently assessing the impact and timing of adoption of the ASU.

Leases. In February 2016, the FASB issued an ASU which will require the recognition of lease assets and lease liabilities by lessees for all leases with terms greater than 12 months. The distinction between finance leases and operating leases will remain, with similar classification criteria as current GAAP to distinguish between capital and operating leases. The principal difference from current guidance is that the lease assets and lease liabilities arising from operating leases will be recognized on the Consolidated Balance Sheet. Lessor accounting remains substantially similar to current GAAP. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that implementing

this ASU will have on its financial statements and disclosures, as well as timing of implementation.
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

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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.
Revenue from contracts with customers. In May 2014, the FASB issued an ASU, as amended, 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.

Note 2 Sale of accounts receivable

In March 2016, the Company entered into an agreement (the “Receivable Sales Agreement”), to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. The Receivable Sales Agreement provides for the continuing sale of certain receivables on a revolving basis until terminated by either party; however the maximum receivables that may be sold at any time is $550 million (increased from $350 million as of April 2, 2016). During the year-to-date period ended October 1, 2016, approximately $1.0 billion of accounts receivable have been sold via this arrangement. Accounts receivable sold of $546 million remained outstanding under this arrangement as of October 1, 2016. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on sale of receivables is approximately $3 million for the year-to-date period ended October 1, 2016 and is included in Other income and expense.

In July 2016, the Company entered into a $200 million U.S. accounts receivable securitization program with a third party financial institution. In September 2016 the program was amended to increase its capacity to $400 million. Under the program, we receive cash consideration of up to $400 million and a deferred purchase price asset for the remainder of the purchase price. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. This securitization program utilizes Kellogg Funding Company (Kellogg Funding), a wholly-owned subsidiary of the Company. Kellogg Funding's sole business consists of the purchase of receivables, from its parent or other subsidiary and subsequent transfer of such receivables and related assets to financial institutions. Although Kellogg Funding is included in our consolidated

financial statements, it is a separate legal entity with separate creditors who will be entitled, upon its liquidation, to be satisfied out of Kellogg Funding assets prior to any assets or value in Kellogg Funding becoming available to the Company or its subsidiaries. The assets of Kellogg Funding are not available to pay creditors of the Company or its subsidiaries. This program expires in July 2017.

During the year-to-date period ended October 1, 2016, $341 million of accounts receivable have been sold via the accounts receivable securitization program. As of October 1, 2016, approximately $260 million of accounts receivable sold to Kellogg Funding under the securitization program remained outstanding, for which the Company

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received net cash proceeds of approximately $222 million and a deferred purchase price asset of approximately $38 million. The portion of the purchase price for the receivables which is not paid in cash by the financial institutions is a deferred purchase price asset, which is paid to Kellogg Funding as payments on the receivables are collected from customers. The deferred purchase price asset represents a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price asset is included in Other prepaid assets on the Consolidated Balance Sheet. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on sale of receivables is included in Other income and expense and is not material.

The Company has no retained interests in the receivables sold under the programs above, however the Company does have collection and administrative responsibilities for the sold receivables. The Company has not recorded any servicing assets or liabilities as of October 1, 2016 for these agreements as the fair value of these servicing arrangements as well as the fees earned were not material to the financial statements.

Additionally, from time to time certain of the Company's foreign subsidiaries will factor, without recourse, accounts receivable balances of certain customers. These transactions are accounted for as sales of the receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. No sold receivable balances under these programs were outstanding as of October 1, 2016. During the year-to-date period ended October 1, 2016, $33 million of accounts receivable have been sold via these programs. The recorded net loss on the sale of these receivables is included in Other income and expense and is not material.

Note 3 Goodwill and other intangible assets

Acquisitions

In March 2016, the Company completed the acquisition of an organic and natural snack company for $18 million, which was accounted for under the purchase method and financed with cash on hand. The assets, which primarily consist of indefinite lived brands, and liabilities are included in the Consolidated Balance Sheet as of October 1, 2016 within the North America Other segment.

In September 2016, the Company acquired a majority ownership interest in a natural, bio-organic certified breakfast company for €5 million, which was accounted for under the purchase method and financed with cash on hand. The assets, which primarily consist of indefinite lived intangible assets and goodwill, and liabilities, including non-controlling interests, are included in the Consolidated Balance Sheet as of October 1, 2016, within the Europe segment.

Joint Venture

In January 2016, the Company formed a Joint Venture with Tolaram Africa to develop snacks and breakfast foods for the West Africa market. In connection with the formation, the Company contributed the rights to indefinitely use the Company’s brands for this market and these categories, including the Pringles brand. Accordingly, the Company recorded a contribution of $5 million of intangible assets not subject to amortization with a corresponding increase in Investments in unconsolidated entities during the first quarter of 2016, which represents the value attributed to the Pringles brand for this market.

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
January 2, 2016	$ 131	$ 3,568	$ 82	$ 456	$ 431	$ 76	$ 224	$ 4,968
Additions	—	—	—	—	8	—	—	8

Currency translation adjustment	—	—	—	2	(8)	(2)	3	(5)
October 1, 2016	$ 131	$ 3,568	$ 82	$ 458	$ 431	$ 74	$ 227	$ 4,971

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Intangible assets subject to amortization
(millions)

Gross carrying amount	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
January 2, 2016	$ 8	$ 42	$ —	$ 5	$ 45	$ 6	$ 10	$ 116
Currency translation adjustment	—	—	—	—	—	—	—	—
October 1, 2016	$ 8	$ 42	$ —	$ 5	$ 45	$ 6	$ 10	$ 116
Accumulated Amortization								
January 2, 2016	$ 8	$ 16	$ —	$ 4	$ 11	$ 6	$ 2	$ 47
Amortization	—	2	—	—	2	—	1	5
October 1, 2016	$ 8	$ 18	$ —	$ 4	$ 13	$ 6	$ 3	$ 52
Intangible assets subject to amortization, net								
January 2, 2016	$ —	$ 26	$ —	$ 1	$ 34	$ —	$ 8	$ 69
Currency translation adjustment	—	—	—	—	—	—	—	—
Amortization	—	(2)	—	—	(2)	—	(1)	(5)
October 1, 2016	$ —	$ 24	$ —	$ 1	$ 32	$ —	$ 7	$ 64

For intangible assets in the preceding table, amortization was $5 million and $6 million for the year-to-date periods ended October 1, 2016 and October 3, 2015, respectively. The currently estimated aggregate annual amortization expense for full-year 2016 is approximately $7 million.

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
January 2, 2016	$ —	$1,625	$ —	$ 158	$416	$ —	$ —	$2,199
Additions	—	—	—	18	3	—	—	21
Contribution to joint venture	—	—	—	—	(5)	—	—	(5)
Currency translation adjustment	—	—	—	1	7	—	—	8
October 1, 2016	$ —	$1,625	$ —	$ 177	$421	$ —	$ —	$2,223

Note 4 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 purchase price was subject to final adjustments based on Multipro's 2015 earnings, as defined in the agreement, which was finalized during the quarter ended July 2, 2016. The final purchase price adjustment resulted in a $28 million reduction in the purchase price, which reduced the carrying amount of the investment. The acquisition of the 50% interest is accounted for under the equity method of accounting. The Purchase Option, which was recorded at cost and will be monitored for impairment through the exercise period, which is 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 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.

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Note 5 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 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 continue generating a significant amount of savings that may be invested in key strategic areas of focus for the business. Additionally, the Company expects that these savings may be used to drive future growth in the business.

The focus of the program is 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 continue 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 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. Based on current estimates and actual charges 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 will impact reportable segments as follows: U.S. Morning Foods (approximately 18%), U.S. Snacks (approximately 17%), U.S. Specialty (approximately 1%), North America Other (approximately 10%), Europe (approximately 17%), Latin America (approximately 2%), Asia-Pacific (approximately 6%), and Corporate (approximately 29%). 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 its estimated costs by reportable segment as needed.

Since the inception of Project K, the Company has recognized charges of $960 million that have been attributed to the program. The charges consist of $6 million recorded as a reduction of revenue, $583 million recorded in COGS and $371 million recorded in SGA.

Other Projects
In 2015 the Company implemented a zero-based budgeting (ZBB) program in its North America business that is expected to deliver visibility to ongoing annual savings. During 2016, ZBB was expanded to include the international segments of the business. In support of the ZBB initiative, the Company incurred pre-tax charges of approximately $4 million and $21 million during the quarter and year-to-date period ended October 1, 2016, respectively. Total charges of $33 million have been recognized since the inception of the ZBB program.

Total Projects
During the quarter ended October 1, 2016, the Company recorded total charges of $40 million across all restructuring and cost reduction activities. The charges were comprised of $12 million recorded in cost of goods sold (COGS) and $28 million recorded in selling, general and administrative (SGA) expense. During the year-to-date period ended October 1, 2016, the Company recorded total charges of $164 million across all restructuring and cost reduction activities. The charges consist of $66 million recorded in COGS and $98 million recorded in SGA expense.

During the quarter ended October 3, 2015, the Company recorded total charges of $85 million across all restructuring and cost reduction activities. The charges consist of $2 million recorded as a reduction of revenue, $57 million recorded in COGS and $26 million recorded in SGA expense. During the year-to-date period ended October 3, 2015, the Company recorded total charges of $243 million across all restructuring and cost reduction

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activities. The charges consist of $4 million recorded as a reduction of revenue, $154 million recorded in COGS and $85 million recorded in SGA expense.

The tables below provide the details for charges across all restructuring and cost reduction activities incurred during the quarter and year-to-date periods ended October 1, 2016 and October 3, 2015 and program costs to date for programs currently active as of October 1, 2016.

(millions)	Quarter ended		Year-to-date period ended		Program costs to date
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015	October 1, 2016
Employee related costs	$ 6	$ 31	$ 26	$ 64	$ 285
Asset related costs	5	15	32	62	178
Asset impairment	—	—	16	18	121
Other costs	29	39	90	99	409
Total	$ 40	$ 85	$ 164	$ 243	$ 993

(millions)	Quarter ended		Year-to-date period ended		Program costs to date
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015	October 1, 2016
U.S. Morning Foods	$ 4	$ 30	$ 13	$ 51	$ 231
U.S. Snacks	8	15	62	34	188
U.S. Specialty	1	1	4	3	15
North America Other	7	11	20	40	110
Europe	6	12	34	56	207
Latin America	2	1	6	2	22
Asia Pacific	2	2	6	10	80
Corporate	10	13	19	47	140
Total	$ 40	$ 85	$ 164	$ 243	$ 993

For the quarters ended October 1, 2016 and October 3, 2015 employee related costs consist primarily of severance benefits, asset related costs consist primarily of accelerated depreciation, and other costs consist primarily of third-party incremental costs related to the development and implementation of global business capabilities.

At October 1, 2016 total exit cost reserves were $67 million, related to severance payments and other costs of which a substantial portion will be paid out in 2016 and 2017. The following table provides details for exit cost reserves.

	Employee Related Costs	Asset Impairment	Asset Related Costs	Other Costs	Total
Liability as of January 2, 2016	$ 55	$ —	$ —	$ 33	$ 88
2016 restructuring charges	26	16	32	90	164
Cash payments	(46)	—	(14)	(91)	(151)
Non-cash charges and other	—	(16)	(18)	—	(34)
Liability as of October 1, 2016	$ 35	$ —	$ —	$ 32	$ 67

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Note 6 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. There were 3 million anti-dilutive potential common shares excluded from the reconciliation for the quarter and year-to-date periods ended October 1, 2016, respectively. There were 3 million anti dilutive potential common shares excluded from the reconciliation for the quarter and year-to-date periods ended October 3, 2015, respectively.

Quarters ended October 1, 2016 and October 3, 2015:

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Earnings per share
2016			
Basic	$ 292	350	$ 0.83
Dilutive potential common shares		4	(0.01)
Diluted	$ 292	354	$ 0.82
2015			
Basic	$ 205	354	$ 0.58
Dilutive potential common shares		2	—
Diluted	$ 205	356	$ 0.58

Year-to-date periods ended October 1, 2016 and October 3, 2015:

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Earnings per share
2016			
Basic	$ 747	350	$ 2.13
Dilutive potential common shares		4	(0.02)
Diluted	$ 747	354	$ 2.11
2015			
Basic	$ 655	354	$ 1.85
Dilutive potential common shares		2	(0.01)
Diluted	$ 655	356	$ 1.84

In February 2014, the Company's board of directors approved a share repurchase program authorizing the repurchase of up to $1.5 billion of our common stock through December 2015. In December 2015, the board of directors approved a new authorization to repurchase of up to $1.5 billion of our common stock beginning in 2016 through December 2017.

During the year-to-date period ended October 1, 2016, the Company repurchased approximately 6 million shares of common stock for a total of $426 million. During the year-to-date period ended October 3, 2015, the Company repurchased 6 million shares of common stock for a total of $381 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 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.

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Reclassifications out of AOCI for the quarter and year-to-date periods ended October 1, 2016 consisted of the following:

(millions)

Details about AOCI components	Amount reclassified from AOCI		Line item impacted within Income Statement
	Quarter ended October 1, 2016	Year-to-date period ended October 1, 2016	
(Gains) losses on cash flow hedges:			
Foreign currency exchange contracts	$ (4)	$ (11)	COGS
Foreign currency exchange contracts	(1)	(1)	SGA
Interest rate contracts	2	10	Interest expense
Commodity contracts	3	10	COGS
	$ —	$ 8	Total before tax
	(1)	(4)	Tax expense (benefit)
	$ (1)	$ 4	Net of tax
Amortization of postretirement and postemployment benefits:			
Net experience loss	$ 1	$ 3	See Note 9 for further details
Prior service cost	1	3	See Note 9 for further details
	$ 2	$ 6	Total before tax
	(1)	(1)	Tax expense (benefit)
	$ 1	$ 5	Net of tax
Total reclassifications	$ —	$ 9	Net of tax

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Reclassifications out of Accumulated Other Comprehensive Income (AOCI) for the quarter and year-to-date periods ended October 3, 2015 consisted of the following:

(millions)

Details about AOCI components	Amount reclassified from AOCI		Line item impacted within Income Statement
	Quarter ended October 3, 2015	Year-to-date period ended October 3, 2015	
(Gains) losses on cash flow hedges:			
Foreign currency exchange contracts	$(11)	$ (27)	COGS
Foreign currency exchange contracts	—	2	SGA
Interest rate contracts	1	2	Interest expense
Commodity contracts	3	9	COGS
	$(7)	$ (14)	Total before tax
	1	1	Tax expense (benefit)
	$(6)	$ (13)	Net of tax
Amortization of postretirement and postemployment benefits:			
Net experience loss	$1	$ 3	See Note 9 for further details
Prior service cost	2	7	See Note 9 for further details
	$3	$ 10	Total before tax
	—	(2)	Tax expense (benefit)
	$3	$ 8	Net of tax
Total reclassifications	$(3)	$ (5)	Net of tax

Accumulated other comprehensive income (loss) as of October 1, 2016 and January 2, 2016 consisted of the following:

(millions)	October 1, 2016	January 2, 2016
Foreign currency translation adjustments	$ (1,417)	$ (1,314)
Cash flow hedges — unrealized net gain (loss)	(70)	(39)
Postretirement and postemployment benefits:		
Net experience loss	(13)	(16)
Prior service cost	(5)	(7)
Total accumulated other comprehensive income (loss)	$ (1,505)	$ (1,376)

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 was 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. 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 (expense) in the year-to-date period ended October 3, 2015. 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-to-date

period ended October 3, 2015.

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Note 7 Debt

The following table presents the components of notes payable at October 1, 2016 and January 2, 2016:

(millions)	October 1, 2016 Principal amount	October 1, 2016 Effective interest rate (a)	January 2, 2016 Principal amount	January 2, 2016 Effective interest rate
U.S. commercial paper	$100	0.48 %	$899	0.45 %
Europe commercial paper	320	(0.15)%	261	0.01 %
Bank borrowings	34		44	
Total	$454		$1,204	

(a) Negative effective interest rates on certain borrowings in Europe are the result of efforts by the European Central Bank to stimulate the economy in the eurozone.

In the third quarter of 2016 the Company entered into interest rate swaps with notional amounts totaling approximately $1.6 billion, which effectively converted $700 million of its ten-year 4.0% U.S. Dollar Notes due 2020, $358 million of its ten-year 3.125% U.S. Dollar Notes due 2022, $211 million of its ten-year 2.75% notes due 2023 and $300 million of its ten-year 3.25% Notes due 2026 from fixed to floating rate obligations.

In August 2016, the Company terminated interest rate swaps with notional amounts totaling €600 million, which were designated as fair value hedges of its eight-year 1.00% EUR Notes due 2024. The interest rate swaps effectively converted the interest rate on the Notes from fixed to floating and the unrealized gain upon termination of $13 million will be amortized to interest rate expense over the remaining term of the Notes.

In May 2016, the Company issued €600 million (approximately $671 million USD at October 1, 2016, which reflects the discount and translation adjustments) of eight-year 1.00% Euro Notes due 2024, resulting in aggregate net proceeds after debt discount of $679 million. The proceeds from these Notes were used for general corporate purposes, including, together with cash on hand and additional commercial paper borrowings, repayment of the Company's $750 million, five-year 4.45% U.S. Dollar Notes due 2016 at maturity. The 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, as well as a change of control provision. The Notes were designated as a net investment hedge of the Company's investment in its Europe subsidiary when issued.

In the second quarter of 2016 the Company entered into interest rate swaps with notional amounts totaling approximately $958 million and €600 million which effectively converted $600 million of its 4.0% ten-year U.S. Dollar Notes due 2020, $358 million of its ten-year 3.125% U.S. Dollar Notes due 2022 and €600 million of its eight-year 1.00% Euro Notes due 2024 from fixed to floating rate obligations. The U.S. Dollar interest rate swaps were settled during the quarter for an unrealized gain of $12 million which will be amortized to interest expense over the remaining term of the related Notes.

In March 2016, the Company redeemed $475 million of its 7.45% U.S. Dollar Debentures due 2031. In connection with the debt redemption, the Company incurred $153 million of interest expense, consisting primarily of a premium on the tender offer and also including accelerated losses on pre-issuance interest rate hedges, acceleration of fees and debt discount on the redeemed debt and fees related to the tender offer.

In March 2016, the Company issued $750 million of ten-year 3.25% U.S. Dollar Notes and $650 million of thirty-year 4.5% U.S. Dollar Notes, resulting in aggregate net proceeds after debt discount of $1.382 billion. The proceeds from these Notes were used for general corporate purposes, which included repayment of a portion of the Company’s 7.45% U.S. Dollar Debentures due 2031 and a portion of its commercial paper borrowings. The 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, as well as a change of control provision.

The effective interest rates on debt obligations resulting from the Company's interest rate swaps as of October 1, 2016 were as follows: (a) five-year 1.875% U.S. Dollar Notes due 2016 – 2.01%; (b) five-year 1.75% U.S. Dollar Notes due 2017 – 1.87%; (c) seven-year 3.25% U.S. Dollar Notes due 2018 – 2.58%; (d) ten-year 4.15% U.S. Dollar Notes due 2019 – 3.54%; (e) ten-year 4.00% U.S. Dollar Notes due 2020 – 2.04%; (f) ten-year 3.125% U.S. Dollar Notes due 2022 – 1.30%; (g) ten-year 3.125% U.S. Dollar Notes due 2023 – 1.43%; (h) eight-year 1.00% Euro Notes due 2024 – 1.08% and (i) ten-year 3.25% U.S. Notes due 2026 – 3.12%.

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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. 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. The interim information below should be read in conjunction with the disclosures included within the stock compensation footnote of the Company's 2015 Annual Report on Form 10-K.

The Company classifies pre-tax stock compensation expense in COGS and SGA expense principally within its corporate operations. For the periods presented, compensation expense for all types of equity-based programs and the related income tax benefit recognized was as follows:

(millions)	Quarter ended		Year-to-date period ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Pre-tax compensation expense	$ 16	$ 12	$ 49	$ 37
Related income tax benefit	$ 6	$ 4	$ 18	$ 13

As of October 1, 2016, total stock-based compensation cost related to non-vested awards not yet recognized was $99 million and the weighted-average period over which this amount is expected to be recognized was 2 years.

Stock options

During the year-to-date periods ended October 1, 2016 and October 3, 2015, the Company granted non-qualified stock options to eligible employees as presented in the following activity tables. Terms of these grants and the Company's methods for determining grant-date fair value of the awards were consistent with that described within the stock compensation footnote in the Company's 2015 Annual Report on Form 10-K.

Year-to-date period ended October 1, 2016:

Employee and director stock options	Shares (millions)	Weighted-average exercise price	Weighted-average remaining contractual term (yrs.)	Aggregate intrinsic value (millions)
Outstanding, beginning of period	19	$ 58		
Granted	3	76		
Exercised	(6)	56		
Forfeitures and expirations	(1)	67		
Outstanding, end of period	15	$ 62	7.2	$ 226
Exercisable, end of period	8	$ 58	6.1	$ 168

Year-to-date period ended October 3, 2015:

Employee and director stock options	Shares (millions)	Weighted-average exercise price	Weighted-average remaining contractual term (yrs.)	Aggregate intrinsic value (millions)
Outstanding, beginning of period	21	$ 56		
Granted	3	64		
Exercised	(4)	53		
Forfeitures and expirations	—	—		
Outstanding, end of period	20	$ 58	7.1	$ 192
Exercisable, end of period	12	$ 55	6.0	$ 145

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The weighted-average grant date fair value of options granted was $9.44 per share and $7.20 per share for the year-to-date periods ended October 1, 2016 and October 3, 2015, respectively. The fair value was estimated using the following assumptions:

	Weighted-average expected volatility	Weighted-average expected term (years)	Weighted-average risk-free interest rate	Dividend yield
Grants within the quarter ended October 1, 2016:	17 %	6.9	1.60 %	2.60 %
Grants within the quarter ended October 3, 2015:	16 %	6.9	1.98 %	3.00 %

The total intrinsic value of options exercised was $140 million and $50 million for the year-to-date periods ended October 1, 2016 and October 3, 2015, respectively.

Performance shares

In the first quarter of 2016, 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 currency-neutral comparable operating profit growth and total shareholder return (TSR) of the Company's common stock relative to a select group of peer companies.

A Monte Carlo valuation model 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 comparable operating profit growth achievement. Compensation cost related to comparable operating profit growth performance is revised for changes in the expected outcome. The 2016 target grant currently corresponds to approximately 176,000 shares, with a grant-date fair value of $80 per share.

Based on the market price of the Company's common stock at October 1, 2016, the maximum future value that could be awarded to employees on the vesting date for all outstanding performance share awards was as follows:

(millions)	October 1, 2016
2014 Award	$ 30
2015 Award	$ 24
2016 Award	$ 27

The 2013 performance share award, payable in stock, was settled at 35% of target in February 2016 for a total dollar equivalent of $3 million.

Other stock-based awards

During the year-to-date period ended October 1, 2016, the Company granted restricted stock units and a nominal number of restricted stock awards to eligible employees as presented in the following table. Terms of these grants and the Company's method of determining grant-date fair value were consistent with that described within the stock compensation footnote in the Company's 2015 Annual Report on Form 10-K.

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Year-to-date period ended October 1, 2016:

Employee restricted stock and restricted stock units	Shares (thousands)	Weighted-average grant-date fair value
Non-vested, beginning of year	806	$ 58
Granted	589	70
Vested	(68)	56
Forfeited	(85)	62
Non-vested, end of period	1,242	$ 63

Year-to-date period ended October 3, 2015:

Employee restricted stock and restricted stock units	Shares (thousands)	Weighted-average grant-date fair value
Non-vested, beginning of year	346	$ 54
Granted	587	59
Vested	(90)	50
Forfeited	(28)	57
Non-vested, end of period	815	$ 57

Note 9 Employee benefits

The Company sponsors a number of U.S. and foreign pension plans as well as other nonpension postretirement and postemployment plans to provide various benefits for its employees. These plans are described within the footnotes to the Consolidated Financial Statements included in the Company's 2015 Annual Report on Form 10-K. Components of Company plan benefit expense for the periods presented are included in the tables below.

Pension

(millions)	Quarter ended October 1, 2016	Quarter ended October 3, 2015	Year-to-date period ended October 1, 2016	Year-to-date period ended October 3, 2015
Service cost	$25	$ 28	$74	$ 84
Interest cost	43	50	131	156
Expected return on plan assets	(87)	(100)	(266)	(300)
Amortization of unrecognized prior service cost	3	4	10	10
Recognized net loss	28	—	28	—
Total pension (income) expense	$12	$ (18)	$(23)	$ (50)

Other nonpension postretirement

(millions)	Quarter ended October 1, 2016	Quarter ended October 3, 2015	Year-to-date period ended October 1, 2016	Year-to-date period ended October 3, 2015
Service cost	$5	$ 7	$15	$ 24
Interest cost	10	11	29	36
Expected return on plan assets	(22)	(25)	(67)	(75)
Amortization of unrecognized prior service cost (credit)	(2)	(2)	(7)	(3)
Total postretirement benefit (income) expense	$(9)	$ (9)	$(30)	$ (18)

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Postemployment

(millions)	Quarter ended		Year-to-date period ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Service cost	$ 1	$ 2	$ 5	$ 5
Interest cost	1	1	3	3
Recognized net loss	1	1	3	3
Total postemployment benefit expense	$ 3	$ 4	$ 11	$ 11

During the quarter ended October 1, 2016, the Company recognized expense of $28 million related to the remeasurement of a U.S. pension plan as current year distributions exceeded service and interest costs resulting in settlement accounting for that particular plan. The amount of the remeasurement loss recognized during the quarter was due to an unfavorable change in the discount rate relative to prior year.

Company contributions to employee benefit plans are summarized as follows:

(millions)	Pension	Nonpension postretirement	Total
Quarter ended:			
October 1, 2016	$ 3	$ 3	$ 6
October 3, 2015	$ 1	$ 3	$ 4
Year-to-date period ended:			
October 1, 2016	$ 18	$ 11	$ 29
October 3, 2015	$ 11	$ 10	$ 21
Full year:			
Fiscal year 2016 (projected)	$ 28	$ 15	$ 43
Fiscal year 2015 (actual)	$ 19	$ 14	$ 33

Plan funding strategies may be modified in response to management's evaluation of tax deductibility, market conditions, and competing investment alternatives.

Note 10 Income taxes

The consolidated effective tax rate for the quarter ended October 1, 2016 was 18% as compared to the prior year's rate of 24%. For the quarter ended October 1, 2016, the effective tax rate benefited from excess tax benefits from share-based compensation totaling $16 million. See Note 1 for further discussion regarding the ASU adoption. Additionally, the effective tax rate for the quarter benefited from the completion of certain tax examinations partially offset by the establishment of a valuation allowance for certain deferred tax assets.

The consolidated effective tax rates for the year-to-date periods ended October 1, 2016 and October 3, 2015 were 22% and 26%, respectively. The current year-to-date period effective tax rate benefited from excess tax benefits from share-based compensation totaling $34 million as well as the completion of certain tax examinations.

The effective tax rate for 2015 benefited from a reduction in tax related to current year remitted and unremitted earnings and the completion of certain tax examinations.

As of October 1, 2016, the Company classified $16 million of unrecognized tax benefits as a net current liability. Management's estimate of reasonably possible changes in unrecognized tax benefits during the next twelve months consists 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.

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Following is a reconciliation of the Company's total gross unrecognized tax benefits for the year-to-date period ended October 1, 2016; $49 million of this total represents the amount that, if recognized, would affect the Company's effective income tax rate in future periods.

(millions)	
January 2, 2016	$73
Tax positions related to current year:	
Additions	6
Reductions	—
Tax positions related to prior years:	
Additions	1
Reductions	(4)
Settlements	1
Lapse in statute of limitations	(2)
October 1, 2016	$75

The accrual balance for tax-related interest was $19 million at October 1, 2016.

Note 11 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.

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 October 1, 2016 and January 2, 2016 were as follows:

(millions)	October 1, 2016	January 2, 2016
Foreign currency exchange contracts	$ 1,276	$1,210
Interest rate contracts	1,769	—
Commodity contracts	453	470
Total	$ 3,498	$1,680

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 October 1, 2016 and January 2, 2016, 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

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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 October 1, 2016 or January 2, 2016.

The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheet on a recurring basis as of October 1, 2016 and January 2, 2016:

Derivatives designated as hedging instruments

	October 1, 2016			January 2, 2016		
(millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Foreign currency exchange contracts:						
Other prepaid assets	$—	$12	$12	$—	$11	$11
Interest rate contracts:						
Other assets (a)	—	5	5	—	—	—
Total assets	$—	$17	$17	$—	$11	$11
Liabilities:						
Foreign currency exchange contracts:						
Other current liabilities	$—	$(7)	$(7)	$—	$(10)	$(10)
Interest rate contracts:						
Other liabilities (a)	—	(2)	(2)	—	—	—
Commodity contracts:						
Other current liabilities	—	(3)	(3)	—	(14)	(14)
Total liabilities	$—	$(12)	$(12)	$—	$(24)	$(24)

(a) The fair value of the related hedged portion of the Company's long-term debt, a level 2 liability, was $1.7 billion as of October 1, 2016.

Derivatives not designated as hedging instruments

	October 1, 2016			January 2, 2016		
(millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Foreign currency exchange contracts:						
Other prepaid assets	$—	$ 15	$15	$—	$ 18	$18
Commodity contracts:						
Other prepaid assets	6	—	6	4	—	4
Total assets	$6	$ 15	$21	$4	$ 18	$22
Liabilities:						
Foreign currency exchange contracts:						
Other current liabilities	$—	$ (9)	$(9)	$—	$ (6)	$(6)
Commodity contracts:						
Other current liabilities	(23)	—	(23)	$(33)	$ —	$(33)
Total liabilities	$(23)	$ (9)	$(32)	$(33)	$ (6)	$(39)

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 approximately $1.9 billion and $1.2 billion as of October 1, 2016 and January 2, 2016, respectively.

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The Company has elected not to 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 October 1, 2016 and January 2, 2016 would be adjusted as detailed in the following table:

As of October 1, 2016:

		Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Amounts Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received/ Posted	Net Amount
Total asset derivatives	$ 38	$ (6)	$ —	$ 32
Total liability derivatives	$ (44)	$ 6	$ 38	$ —

As of January 2, 2016:

		Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Amounts Presented 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	$ —

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The effect of derivative instruments on the Consolidated Statements of Income and Comprehensive Income for the quarters ended October 1, 2016 and October 3, 2015 was as follows:

Derivatives in fair value hedging relationships

(millions)	Location of gain (loss) recognized in income	Gain (loss) recognized in income (a)	
		October 1, 2016	October 3, 2015
Interest rate contracts	Interest expense	$ 6	$ 6
Total		$ 6	$ 6

(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)	
	October 1, 2016	October 3, 2015		October 1, 2016	October 3, 2015		October 1, 2016	October 3, 2015
Foreign currency exchange contracts	$ 1	$ 9	COGS	$ 4	$ 11	Other income (expense), net	$ (1)	$ —
Foreign currency exchange contracts	1	—	SGA expense	1	—	Other income (expense), net	—	—
Interest rate contracts	1	—	Interest expense	(2)	(1)	N/A	—	—
Commodity contracts	—	(2)	COGS	(3)	(3)	Other income (expense), net	—	—
Total	$ 3	$ 7		$ —	$ 7		$ (1)	$ —

(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	
	October 1, 2016	October 3, 2015
Foreign currency denominated long-term debt	$ (19)	$ (13)
Total	$ (19)	$ (13)

Derivatives not designated as hedging instruments

(millions)	Location of gain (loss) recognized in income	Gain (loss) recognized in income	
		October 1, 2016	October 3, 2015
Foreign currency exchange contracts	COGS	$ 3	$ 5
Foreign currency exchange contracts	Other income (expense), net	(1)	(3)
Commodity contracts	COGS	(14)	(47)
Commodity contracts	SGA	—	(2)
Total		$ (12)	$ (47)

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The effect of derivative instruments on the Consolidated Statements of Income and Comprehensive Income for the year-to-date periods ended October 1, 2016 and October 3, 2015 was as follows:

Derivatives in fair value hedging relationships

(millions)	Location of gain (loss) recognized in income	Gain (loss) recognized in income (a)	
		October 1, 2016	October 3, 2015
Foreign currency exchange contracts	Other income (expense), net	$ —	$ (4)
Interest rate contracts	Interest expense	15	13
Total		$ 15	$ 9

(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)	
	October 1, 2016	October 3, 2015		October 1, 2016	October 3, 2015		October 1, 2016	October 3, 2015
Foreign currency exchange contracts	$ 10	$ 28	COGS	$ 11	$ 27	Other income (expense), net	$ (2)	$ (2)
Foreign currency exchange contracts	1	(6)	SGA expense	1	(2)	Other income (expense), net	—	—
Interest rate contracts	(68)	(9)	Interest expense	(10)	(2)	N/A	—	—
Commodity contracts	—	(2)	COGS	(10)	(9)	Other income (expense), net	—	—
Total	$ (57)	$ 11		$ (8)	$ 14		$ (2)	$ (2)

(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	
	October 1, 2016	October 3, 2015
Foreign currency denominated long-term debt	$ (31)	$ 30
Foreign currency exchange contracts	(23)	—
Total	$ (54)	$ 30

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Derivatives not designated as hedging instruments

(millions)	Location of gain (loss) recognized in income	Gain (loss) recognized in income	
		October 1, 2016	October 3, 2015
Foreign currency exchange contracts	COGS	$ (7)	$ 6
Foreign currency exchange contracts	Other income (expense), net	9	4
Interest rate contracts	Interest expense	—	—
Commodity contracts	COGS	(4)	(45)
Commodity contracts	SGA	2	(1)
Total		$ —	$ (36)

During the next 12 months, the Company expects $9 million of net deferred losses reported in AOCI at October 1, 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 is at or 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 October 1, 2016 was $3 million. If the credit-risk-related contingent features were triggered as of October 1, 2016, the Company would be required to post collateral of $3 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 October 1, 2016 triggered by credit-risk-related contingent features.

2016 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 5 for more information regarding Project K.

During the year-to-date period ended October 1, 2016, long-lived assets of $26 million related to a manufacturing facility in the Company's US Snacks reportable segment, were written down to an estimated fair value of $10 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.

2015 fair value measurements on a nonrecurring basis

During the year-to-date period ended October 3, 2015, as part of Project K, 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.

During the year-to-date period ended October 3, 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 13 for more information regarding Venezuela. During the year-to-date period ended October 3, 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.

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Financial instruments

The carrying values of the Company’s short-term items, including cash, cash equivalents, accounts receivable, accounts payable, notes payable and current maturities of long-term debt approximate fair value. The fair value of the Company’s long-term debt, which are level 2 liabilities, is calculated based on broker quotes. The fair value and carrying value of the Company's long-term debt was $6,863 million and $6,296 million, respectively, as of October 1, 2016.

Counterparty credit risk concentration and collateral requirements

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. Certain counterparties represent a concentration of credit risk to the Company. If those counterparties fail to perform according to the terms of derivative contracts, this would result in a loss to the Company. As of October 1, 2016, the Company was not in a significant net asset position with any counterparties with which a master netting agreement would apply.

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. In addition, the Company is required to maintain cash margin accounts in connection with its open positions for exchange-traded commodity derivative instruments executed with the counterparty that are subject to enforceable netting agreements. As of October 1, 2016, the Company had no collateral posting requirements related to reciprocal collateralization agreements. As of October 1, 2016 the Company posted $38 million in margin deposits for exchange-traded commodity derivative instruments, which was reflected as an increase in accounts receivable, net on the Consolidated Balance Sheet.

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 25% of consolidated trade receivables at October 1, 2016.

Note 12 Contingencies

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 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. In August 2016, the Sixth Circuit Court of Appeals vacated the NLRB’s order and found that the Company’s actions were lawful. 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 October 1, 2016, the Company has not recorded a liability related to this matter as an adverse outcome is considered remote.

Note 13 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.

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

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official rate was restricted toward goods and services for industry sectors considered essential, which are primarily food, medicines and a few others. 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.
During 2015, the Company experienced an increase in the amount of time it takes to exchange bolivars for U.S. dollars through the CENCOEX exchange. Due to this reduced availability of U.S. dollars 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 was no longer able to obtain sufficient U.S. dollars on a timely basis through the CENCOEX exchange resulting in a decision to remeasure our Venezuela subsidiary's financial statements using the SIMADI rate.
In connection with the change in rates, 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).
In February 2016, the Venezuelan government announced changes to its foreign currency exchange mechanisms, including a 59% devaluation of the CENCOEX (now named DIPRO) official rate from 6.3 bolivars to 10.0 bolivars to the U.S. dollar. Additionally the SIMADI exchange rate was replaced by the DICOM exchange rate, a new floating exchange rate for non-essential imports. The DICOM exchange rate was introduced at 206 bolivars to the U.S. dollar and the Venezuelan government has reported that the DICOM exchange rate will be allowed to float to meet market needs.
The Company has evaluated all of the facts and circumstances surrounding its Venezuelan business and determined that as of October 1, 2016, the DICOM (formerly SIMADI) rate continues to be the appropriate rate to use for remeasuring its Venezuelan subsidiary’s financial statements.
As of October 1, 2016, the published DIPRO and DICOM rates offered were 10.0 and 657.9 bolivars to the U.S. dollar, respectively.
For the year-to-date periods ended October 1, 2016 and October 3, 2015, Venezuela represented less than 1% and approximately 2% of total net sales, respectively. The Company’s net monetary assets denominated in the Venezuelan bolivar were immaterial after applying the DICOM and SIMADI exchange rates as of October 1, 2016 and January 2, 2016, respectively.
The Company continues to monitor and actively manage its investment and exposure in Venezuela. The Company’s Venezuelan business does not rely heavily on imports and when items are imported, they are largely exchanged at the DIPRO 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 14 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.
The Company manages its 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. The reportable segments are discussed in greater detail below.

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

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(millions)	Quarter ended		Year-to-date period ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales				
U.S. Morning Foods	$733	$ 762	$2,227	$ 2,280
U.S. Snacks	796	795	2,431	2,484
U.S. Specialty	284	281	931	912
North America Other	402	426	1,222	1,298
Europe	594	628	1,821	1,885
Latin America	197	202	593	825
Asia Pacific	248	235	692	699
Consolidated	$3,254	$ 3,329	$9,917	$ 10,383
Operating profit				
U.S. Morning Foods	$144	$ 110	$457	$ 368
U.S. Snacks (a)	78	62	230	302
U.S. Specialty	68	63	214	200
North America Other	43	44	135	140
Europe	78	73	216	191
Latin America (b)	27	7	70	2
Asia Pacific	21	14	50	36
Total Reportable Segments	459	373	1,372	1,239
Corporate (c)	(49)	(39)	(75)	(109)
Consolidated	$410	$ 334	$1,297	$ 1,130

(a) Includes a non-cash gain of $67 million associated with the deconsolidation of a VIE during the year-to-date period ended October 3, 2015.

(b) Includes non-cash losses totaling $13 million associated with the remeasurement of the financial statements of the Company's Venezuela subsidiary during the quarter ended October 3, 2015. Includes a non-cash loss of $13 million and $115 million associated with the remeasurement of the financial statements of the Company's Venezuela subsidiary during the year-to-date periods ended October 1, 2016 and October 3, 2015, respectively.

(c) Includes mark-to-market adjustments for pension plans, commodity and foreign currency contracts totaling $(31) million and ($27) million for the quarters ended October 1, 2016 and October 3, 2015, respectively. Includes mark-to-market adjustments for pension plans, commodity and foreign currency contracts totaling ($35) million and ($59) million for the year-to-date periods ended October 1, 2016 and October 3, 2015, respectively.

Note 15 Subsequent events

In October 2016, the Company announced that it entered into an agreement to acquire Ritmo Investimentos, the controlling shareholder of Parati, a manufacturer of biscuit, powdered beverage and pasta brands in Brazil for R$1.38 billion ($424 million USD at October 1, 2016). The agreement is subject to customary closing conditions, is expected to close in the fourth quarter of 2016 and be funded through anticipated reductions in share repurchases increasing cash on hand and short term borrowings.

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KELLOGG COMPANY
PART I—FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and 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 1 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
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 14 within Notes to Consolidated Financial Statements.

We manage our Company for sustainable performance as defined by our long-range annual growth targets. Our targeted long-range 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).

Operating Margin Expansion by 2018
We have recently announced a plan to expand our currency-neutral comparable operating margin excluding Venezuela by 350 basis points during 2016 through 2018, reaching approximately 18%. This is an increase and acceleration from our previous guidance, which targeted a 17-18% currency-neutral comparable operating margin excluding Venezuela by 2020.

There are four elements to this accelerated margin expansion plan:

- Productivity and savings - In addition to annual productivity savings to offset inflation, we will expand our zero-based budgeting initiative in the U.S. and our international regions. We also are working on additional Project K initiatives. The result of these initiatives should be higher annual savings.
- Price Realization - We will establish a more formal Revenue Growth Management discipline around the world, to help us realize price in a more effective way.
- Investing for Impact - We are updating our investment model to align with today's consumer and technology in order to optimize the return on investment in our brands.
- On-Trend Foods - We are adopting a more impactful approach to renovation and innovation of our foods.

While we intend to return to growth during the execution of this initiative, we believe it is prudent to moderate our currency-neutral comparable net sales growth excluding Venezuela outlook to approximately flat. This reflects both the current industry dynamics as well as the result of some of the operating margin expansion efforts which could impact price elasticity and portfolio optimization. Nevertheless, these margin-expansion actions are expected to drive accelerated growth in currency-neutral comparable operating profit excluding Venezuela and earnings growth in 2017 and 2018.

In the third quarter our brand building declined approximately 1 point as a percent to net sales and we expect a similar level of reduction for the full year. This was driven by the evolution of the model to build brands from traditional TV media to digital and social media as well as efficiency and effectiveness benefits associated with our zero-based budgeting initiative. We remain committed to investing behind our brands and ensuring our investment has the appropriate impact and return on investment to drive profitable revenue growth.

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Guidance on operating profit margin expansion and net sales growth outlook is provided on a non-GAAP, currency-neutral comparable basis excluding Venezuela only because certain information necessary to calculate such measures on a GAAP basis is unavailable, dependent on future events outside of our control and cannot be predicted without unreasonable efforts by the Company. Please refer to the "Non-GAAP Financial Measures" section for a further discussion of our use of non-GAAP measures, including quantification of known expected adjustment items.

Non-GAAP Financial Measures

This filing includes non-GAAP financial measures that we provide to management and investors that exclude certain items that we do not consider part of on-going operations. Items excluded from our non-GAAP financial measures are discussed in the "Significant items impacting comparability" section of this filing. Our management team consistently utilizes a combination of GAAP and non-GAAP financial measures to evaluate business results, to make decisions regarding the future direction of our business, and for resource allocation decisions, including incentive compensation. As a result, we believe the presentation of both GAAP and non-GAAP financial measures provides investors with increased transparency into financial measures used by our management team and improves investors' understanding of our underlying operating performance and in their analysis of ongoing operating trends. All historic non-GAAP financial measures have been reconciled with the most directly comparable GAAP financial measures.

Non-GAAP financial measures used include comparable net sales, comparable gross margin, comparable SGA, comparable operating profit, comparable operating profit margin, comparable effective tax rate, comparable net income attributable to Kellogg Company, comparable diluted EPS, and cash flow. These non-GAAP financial measures are also evaluated for year-over-year growth and on a currency-neutral basis to evaluate the underlying growth of the business and to exclude the effect of foreign currency. 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. These non-GAAP financial measures may not be comparable to similar measures used by other companies.

- Comparable net sales: We adjust the GAAP financial measures to exclude the pre-tax effect of acquisitions, divestitures, and shipping day differences. We excluded the items which we believe may obscure trends in our underlying net sales performance. By providing this non-GAAP net sales measure, management intends to provide investors with a meaningful, consistent comparison of net sales performance for the Company and each of our reportable segments for the periods presented. Management uses this non-GAAP measure to evaluate the effectiveness of initiatives behind net sales growth, pricing realization, and the impact of mix on our business results. This non-GAAP measure is also used to make decisions regarding the future direction of our business, and for resource allocation decisions. Currency-neutral comparable net sales represents comparable net sales excluding the impact of foreign currency.

- Comparable gross profit, comparable gross margin, comparable SGA, comparable SGA%, comparable operating profit, comparable operating profit margin, comparable net income attributable to Kellogg Company, and comparable diluted EPS: We adjust the GAAP financial measures to exclude the effect of Project K and cost reduction activities, acquisitions, divestitures, integration costs, mark-to-market adjustments for pension plans, commodities and certain foreign currency contracts, costs associated with the VIE deconsolidation, costs associated with the early redemption of debt outstanding, and costs associated with the Venezuela remeasurement. We excluded the items which we believe may obscure trends in our underlying profitability. The impact of acquisitions and divestitures are not excluded from comparable diluted EPS. By providing these non-GAAP profitability measures, management intends to provide investors with a meaningful, consistent comparison of the Company's profitability measures for the periods presented.

Management uses these non-GAAP financial measures to evaluate the effectiveness of initiatives intended to improve profitability, such as Project K, ZBB and Revenue Growth Management, as well as to evaluate the impacts of inflationary pressures and decisions to invest in new initiatives within each of our segments. Currency-neutral comparable represents comparable excluding foreign currency impact.

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Comparable effective tax rate: We adjust the GAAP financial measure to exclude tax effect of Project K and cost reduction activities, integration costs, mark-to-market adjustments for pension plans, commodities and certain foreign currency contracts, costs associated with the Venezuela remeasurement, costs associated with the VIE deconsolidation, and costs associated with the early redemption of debt outstanding. We excluded the items which we believe may obscure trends in our underlying tax rate. By providing this non-GAAP measure, management intends to provide investors with a meaningful, consistent comparison of the Company's effective tax rate for the periods presented. Management uses this non-GAAP measure to monitor the effectiveness of initiatives in place to optimize our global tax rate.

- Cash flow: Defined as net cash provided by operating activities reduced by expenditures for property additions. Cash flow does not represent the residual cash flow available for discretionary expenditures. 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 once all of the Company’s business needs and obligations are met. Additionally, certain performance-based compensation includes a component of this non-GAAP measure.

These measures have not been calculated in accordance with GAAP and should not be viewed as a substitute for GAAP reporting measures.

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 to this program of $36 million and $143 million for the quarter and year-to-date periods ended October 1, 2016, respectively. We also recorded charges of $85 million and $243 million for the quarter and year-to-date periods ended October 3, 2015, respectively.

In 2015 we initiated the implementation of a zero-based budgeting (ZBB) program in our North America business. During 2016 ZBB is being expanded to include the international segments of the business. In support of the ZBB initiative, we incurred pre-tax charges of $4 million and $21 million for the quarter and year-to-date periods ended October 1, 2016.

See the Restructuring and cost reduction activities section for more information.

Acquisitions

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 quarter ended October 1, 2016 represented the final reporting period in which year-over-year comparability was impacted for this acquisition. In our European reportable segment, for the quarter ended October 1, 2016 the acquisition added $6 million in net sales and less than $1 million of operating profit (before integration costs) that impacted the comparability of our reported results. For the year-to-date period ended October 1, 2016 the acquisition added $16 million in net sales and approximately $2 million in operating profit (before integration costs) that impacted comparability of our reported results.

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 quarter ended April 2, 2016 represented the final reporting period in which year-over-year comparability was impacted for this acquisition. In our European reportable segment, the acquisition added $9 million in net sales and less than $1 million of operating profit (before integration costs) that impacted the comparability of our reported results for the

year-to-date period ended October 1, 2016.

Integration costs

We have incurred integration costs related to the integration of 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 (integration completed in 2015) as we move these businesses into the Kellogg business model. We recorded pre-tax integration costs that were approximately $2 million and $3 million for the quarter and year-to-date periods ended October 1, 2016, respectively. We also recorded integration costs of $8 million and $22 million for the quarter and year-to-date periods ended October 3, 2015, respectively.

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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. During the quarter and year-to-date periods ended October 1, 2016, we recognized a pre-tax mark-to-market charge of $28 million related to the remeasurement of a U.S. pension plan as a result of current year distributions in excess of service and interest costs. The amount of the remeasurement loss recognized during the quarter was due to an unfavorable change in the discount rate relative to prior year.
We also recorded a pre-tax mark-to-market charge of $3 million and $7 million for the quarter and year-to-date periods ended October 1, 2016, respectively. We also recorded a pre-tax mark-to-market charge of $27 million and $59 million for the quarter and year-to-date periods ended October 3, 2015, respectively.

Other costs impacting comparability
During the quarter ended April 2, 2016, we redeemed $475 million of our 7.45% U.S. Dollar Debentures due 2031. During that same quarter, in connection with the debt redemption, we incurred $153 million of interest expense, consisting primarily of a premium on the tender offer and also including accelerated losses on pre-issuance interest rate hedges, acceleration of fees and debt discount on the redeemed debt and fees related to the tender offer. Refer to Note 7 within the Notes to Consolidated Financial Statements for further information.

During the quarter ended July 4, 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 of the end of the quarter. As a result of the agreement terminations and related settlements, we recognized a gain of $6 million in Other income (expense), net during the quarter. This gain, in combination with a related $25 million charge that was recorded during the quarter ended April 4, 2015, resulted in a net loss of $19 million in Other income (expense), net for the year-to-date period ended July 4, 2015.

In connection with the deconsolidation that occurred during the quarter, 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. Refer to Note 6 within the Notes to Consolidated Financial Statements for further information.

Venezuela remeasurement
During 2015 we experienced an increase in the amount of time it takes to exchange bolivars for U.S. dollars through the DIPRO (formerly CENCOEX) exchange. Due to this reduced availability of U.S. dollars 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 DIPRO exchange resulting in a decision to remeasure our Venezuela subsidiary's financial statements using the DICOM (formerly SIMADI) rate. In connection with the change in rates, 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 in the quarter ended July 4, 2015, 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 consisted 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).

We have evaluated all of the facts and circumstances surrounding our Venezuelan business and determined that as of October 1, 2016 the DICOM rate continues to be the appropriate rate to use for remeasuring our Venezuelan subsidiary's financial statements.

Following the change to the SIMADI rate 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 and first quarter of 2016 they were recognized in the income statement at historical exchange rates resulting in an unfavorable impact. We experienced an unfavorable pre-tax impact of approximately $4 million in the year-to-date period ended October 1, 2016 and $13 million during the

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quarter and year-to-date periods ended October 3, 2015 related to the utilization of these remaining non-monetary assets.

Additionally, with the introduction of the new DICOM floating rate in February 2016 we experienced an unfavorable pre-tax impact of approximately $7 million in the year-to-date period ended October 1, 2016 related to the utilization of non-monetary assets. These non-monetary assets were recognized in the income statement at historical exchange rates and primarily impacted COGS.

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 DIPRO (formerly CENCOEX) to the DICOM (formerly SIMADI) exchange rate beginning mid-2015, the methodology we use to calculate the impact of foreign currency translation, as described above, results in certain key performance metrics that are difficult to interpret when Venezuela is included in the financial results. The impact of this change in Venezuela exchange rates on year-over-year performance metrics is anticipated to be most significant for the four quarters ended July 2, 2016. To provide additional visibility to our business performance, we have also included key performance metrics excluding our Venezuela business. We believe the use of our standard currency-neutral methodology in combination with the additional visibility provided by excluding Venezuela from our key performance metrics provides important information to more fully understand currency-neutral operating results during this four-quarter transition.

Financial results
For the quarter ended October 1, 2016, our reported net sales declined by 2.2% due to the translational impact of foreign currency and lower volume as a result of trade-inventory reductions in U.S. cereal and toaster pastries, softness in U.K. cereal, and the portfolio transitions in our U.S. Frozen and Kashi businesses. These declines were partially offset by growth in several businesses including U.S. Snacks, U.S. Specialty, Asia-Pacific and Latin America. Currency-neutral comparable net sales were down 1.0% after eliminating the impact of foreign currency, and down 1.6% excluding the impact of Venezuela.

Reported operating profit increased by 22.9%, primarily the result of reduced restructuring charges, expanded margins across all regions resulting from Project K and ZBB savings. Currency-neutral comparable operating profit increased by 6.8% after eliminating the impact of lower restructuring charges, and increased by 5.0% after excluding the favorable impact of Venezuela.

Reported operating margin for the quarter was favorable 260 basis points due to the favorable impact to brand-building investment from ZBB efficiencies, savings realized from Project K and ZBB, and lower restructuring costs, integration costs, and Venezuela remeasurement. Currency-neutral comparable operating margin was favorable 110 basis points after excluding the year-over-year impact of restructuring, integration costs, Venezuela remeasurement, and foreign currency.

Reported diluted EPS of $.82 for the quarter was up 41.4% compared to the prior year of $.58. Reported diluted EPS for the quarter was impacted favorably by lower restructuring charges, higher profit margins and a lower effective tax

rate. Currency-neutral comparable diluted EPS of $1.00 increased by 17.6% compared to prior year of $.85, ahead of our expectations, due to higher profit margins driven by ZBB savings and a lower effective tax rate mainly due to the windfall tax benefit realized from stock option exercise activity in the quarter.

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Reconciliation of certain non-GAAP Financial Measures

Consolidated results (dollars in millions, except per share data)	Quarter ended		Year-to-date period ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Reported net income attributable to Kellogg Company	$292	$205	$747	$655
Mark-to-market (pre-tax)	(31)	(27)	(35)	(59)
Project K and cost reduction activities (pre-tax)	(40)	(85)	(164)	(243)
Other costs impacting comparability (pre-tax)	—	—	(153)	48
Integration costs (pre-tax)	(1)	(7)	(1)	(19)
Venezuela remeasurement (pre-tax)	—	(13)	(11)	(165)
Income tax benefit applicable to adjustments, net*	24	36	109	115
Comparable net income attributable to Kellogg Company	$340	$301	$1,002	$978
Foreign currency impact	(16)		(179)	
Currency-neutral comparable net income attributable to Kellogg Company	$356		$1,181	
Reported diluted EPS	$0.82	$0.58	$2.11	$1.84
Mark-to-market (pre-tax)	(0.09)	(0.08)	(0.10)	(0.17)
Project K and cost reduction activities (pre-tax)	(0.11)	(0.24)	(0.46)	(0.68)
Other costs impacting comparability (pre-tax)	—	—	(0.43)	0.13
Integration costs (pre-tax)	(0.01)	(0.01)	(0.01)	(0.05)
Venezuela remeasurement (pre-tax)	—	(0.04)	(0.03)	(0.46)
Income tax benefit applicable to adjustments, net*	0.07	0.10	0.31	0.32
Comparable diluted EPS	$0.96	$0.85	$2.83	$2.75
Foreign currency impact	(0.04)		(0.50)	
Currency-neutral comparable diluted EPS	$1.00		$3.33	
Currency-neutral comparable diluted EPS growth	17.6 %	2.1 %	21.1 %	(0.3)%

* Represents the estimated income tax effect on the reconciling items, using weighted-average statutory tax rates, depending upon the applicable jurisdiction.

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

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Net sales and operating profit

The following tables provide an analysis of net sales and operating profit performance for the third quarter of 2016 versus 2015:

Quarter ended October 1, 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	$733	$796	$284	$402	$594	$197	$248	$ —	$3,254
Project K and cost reduction activities	—	—	—	—	—	—	—	—	—
Integration costs and acquisitions/divestitures	—	—	—	1	6	—	—	—	7
Differences in shipping days	—	—	—	—	—	—	—	—	—
Comparable net sales	$733	$796	$284	$401	$588	$197	$248	$ —	$3,247
Comparable net sales excluding Venezuela						$190			$3,240
Foreign currency impact	—	—	—	1	(33)	(29)	12	—	(49)
Currency-neutral comparable net sales	$733	$796	$284	$400	$621	$226	$236	$ —	$3,296
Currency-neutral comparable net sales excluding Venezuela						$200			$3,270

Quarter ended October 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	$762	$795	$281	$426	$628	$202	$235	$ —	$3,329
Project K and cost reduction activities	—	—	—	—	(2)	—	—	—	(2)
Integration costs and acquisitions/divestitures	—	—	—	—	—	—	2	—	2
Differences in shipping days	—	—	—	—	—	—	—	—	—
Comparable net sales	$762	$795	$281	$426	$630	$202	$233	$ —	$3,329
Comparable net sales excluding Venezuela						$198			$3,325

% change - 2016 vs. 2015:	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported growth	(3.8)%	0.1%	1.1%	(5.7)%	(5.4)%	(2.2)%	5.4%	—%	(2.2)%
Project K and cost reduction activities	—%	—%	—%	—%	0.3%	—%	—%	—%	0.1%
Integration costs and acquisitions/divestitures	—%	—%	—%	0.2%	0.9%	—%	(0.7)%	—%	0.2%
Differences in shipping days	—%	—%	—%	—%	—%	—%	—%	—%	—%
Comparable growth	(3.8)%	0.1%	1.1%	(5.9)%	(6.6)%	(2.2)%	6.1%	—%	(2.5)%
Comparable growth excluding Venezuela						(3.8)%			(2.6)%
Foreign currency impact	—%	—%	—%	0.3%	(5.2)%	(14.2)%	5.1%	—%	(1.5)%
Currency-neutral comparable growth	(3.8)%	0.1%	1.1%	(6.2)%	(1.4)%	12.0%	1.0%	—%	(1.0)%
						1.8%			(1.6)%

Currency-neutral comparable
growth excluding Venezuela
For more information on the reconciling items in the table above, please refer to the Significant items impacting comparability section.

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Quarter ended October 1, 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	$ 144	$ 78	$ 68	$ 43	$ 78	$ 27	$ 21	$ (49)	$ 410
Mark-to-market	—	—	—	—	—	—	—	(31)	(31)
Project K and cost reduction activities	(4)	(8)	(1)	(7)	(6)	(2)	(2)	(10)	(40)
Other costs impacting comparability	—	—	—	—	—	—	—	—	—
Integration costs and acquisitions/divestitures	—	—	—	—	—	1	—	(2)	(1)
Differences in shipping days	—	—	—	—	—	—	—	—	—
Venezuela remeasurement	—	—	—	—	—	—	—	—	—
Comparable operating profit	$ 148	$ 86	$ 69	$ 50	$ 84	$ 28	$ 23	$ (6)	$ 482
Comparable operating profit excluding Venezuela						$ 25		$ (6)	$ 479
Foreign currency impact	—	—	—	1	(8)	(9)	2	(3)	(17)
Currency-neutral comparable operating profit	$ 148	$ 86	$ 69	$ 49	$ 92	$ 37	$ 21	$ (3)	$ 499
Currency-neutral comparable operating profit excluding Venezuela						$ 28		$ (4)	$ 489

Quarter ended October 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	$ 110	$ 62	$ 63	$ 44	$ 73	$ 7	$ 14	$ (39)	$ 334
Mark-to-market	—	—	—	—	—	—	—	(27)	(27)
Project K and cost reduction activities	(30)	(15)	(1)	(11)	(12)	(1)	(2)	(13)	(85)
Other costs impacting comparability	—	—	—	—	—	—	—	—	—
Integration costs and acquisitions/divestitures	—	—	—	—	—	(2)	(4)	(1)	(7)
Differences in shipping days	—	—	—	—	—	—	—	—	—
Venezuela remeasurement	—	—	—	—	—	(13)	—	—	(13)
Comparable operating profit	$ 140	$ 77	$ 64	$ 55	$ 85	$ 23	$ 20	$ 2	$ 466
Comparable operating profit excluding Venezuela						$ 22		$ 2	$ 465
% change - 2016 vs. 2015:									
Reported growth	31.8 %	26.7%	7.8 %	(5.2)%	8.8 %	255.8%	59.2%	(28.6)%	22.9 %
Mark-to-market	— %	— %	— %						