

KELLOGG CO
Form 10-K
February 25, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended January 3, 2015

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Transition Period From To

Commission file number 1-4171

Kellogg Company

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of Incorporation
or organization)

38-0710690
(I.R.S. Employer Identification No.)

One Kellogg Square

Battle Creek, Michigan 49016-3599

(Address of Principal Executive Offices)

Registrant s telephone number: (269) 961-2000

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

Title of each class:
Common Stock, \$.25 par value per share

Name of each exchange on which registered:
New York Stock Exchange

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

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

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

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

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming for purposes of this computation only that the W. K. Kellogg Foundation Trust, directors and executive officers may be affiliates) as of the close of business on June 28, 2014 was approximately \$18.6 billion based on the closing price of \$64.96 for one share of common stock, as reported for the New York Stock Exchange on that date.

As of January 31, 2015, 356,571,864 shares of the common stock of the registrant were issued and outstanding.

Parts of the registrant's Proxy Statement for the Annual Meeting of Shareowners to be held on April 24, 2015 are incorporated by reference into Part III of this Report.

PART I

ITEM 1. BUSINESS

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

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

Financial Information About Segments. Information on segments is located in Note 16 within Notes to the Consolidated Financial Statements.

Principal Products. Our principal products are ready-to-eat cereals and convenience foods, such as cookies, crackers, savory snacks, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles and veggie foods. These products were, as of February 25, 2015, manufactured by us in 20 countries and marketed in more than 180 countries. Our cereal products are generally marketed under the **Kellogg's** name and are sold to the grocery trade through direct sales forces for resale to consumers. We use broker and distributor arrangements for certain products. We also generally use these, or similar arrangements, in less-developed market areas or in those market areas outside of our focus.

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

Additional information pertaining to the relative sales of our products for the years 2012 through 2014 is located in Note 16 Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

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

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

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

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

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

Trademarks and Technology. Generally, our products are marketed under trademarks we own. Our principal trademarks are our housemarks, brand names, slogans, and designs related to cereals and convenience foods manufactured and marketed by us, and we also grant licenses to third parties to use these marks on various goods. These trademarks include **Kellogg's** for cereals, convenience foods and our other products, and the brand names of certain ready-to-eat cereals, including **All-Bran**, **Apple Jacks**, **Bran Buds**, **Choco Zucaritas**, **Cocoa Krispies**, **Complete**, **Kellogg's Corn Flakes**, **Corn Pops**, **Cracklin Oat Bran**, **Crispix**, **Crunchmania**, **Crunchy Nut**, **Eggo**, **Kellogg's FiberPlus**, **Froot Loops**, **Kellogg's Frosted Flakes**, **Krave**, **Frosted Krispies**, **Frosted Mini-Wheats**, **Just Right**, **Kellogg's Low Fat Granola**, **Mueslix**, **Pops**, **Product 19**, **Kellogg's Raisin Bran**, **Raisin Bran Crunch**, **Rice Krispies**, **Rice Krispies Treats**, **Smacks/Honey**

Smacks, *Smart Start*, *Kellogg's Smorz*, *Special K*, *Special K Red Berries* and *Zucaritas* in the United States and elsewhere; *Crusli*, *Sucrilhos*, *Vector*, *Musli*, *NutriDia*, and *Choco Krispis* for cereals in Latin America; *Vector* in Canada; *Coco Pops*, *Chocos*, *Frosties*, *Fruit N Fibre*, *Kellogg's Crunchy Nut Corn Flakes*, *Krave*, *Honey Loops*, *Kellogg's Extra*, *Sustain*, *Muslix*, *Country Store*, *Ricicles*, *Smacks*, *Start*, *Pops*, *Optima* and *Tresor* for cereals in Europe; and *Cerola*, *Sultana Bran*, *Chex*, *Frosties*, *Goldies*, *Rice Bubbles*, *Nutri-Grain*, *Kellogg's Iron Man Food*, and *BeBig* for cereals in Asia and Australia. Additional trademarks are the names of certain combinations of ready-to-eat *Kellogg's* cereals, including *Fun Pak*, *Jumbo*, and *Variety*.

Other brand names include *Kellogg's* Corn Flake Crumbs; *All-Bran*, *Choco Krispis*, *Froot Loops*, *Special K*, *NutriDia*, *Kuadri-Krispis*, *Zucaritas* and *Crusli* for cereal bars, *Komplete* for biscuits; and *Kaos* for snacks in Mexico and elsewhere in Latin America; *Pop-Tarts* and *Pop-Tarts Ice Cream Shoppe* for toaster pastries; *Pop-Tarts Mini Crisps* for crackers; *Eggo*, *Eggo FiberPlus* and *Nutri-Grain* for frozen waffles and pancakes; *Rice Krispies Treats* for convenience foods; *Special K* protein shakes; *Nutri-Grain* cereal bars, *Nutri-Grain* yogurt bars, for convenience foods in the United States and elsewhere; *K-Time*, *Rice Bubbles*, *Day Dawn*, *Be Natural*, *Sunibrite* and *LCMs* for convenience foods in Asia and Australia; *Nutri-Grain* Squares, *Nutri-Grain Elevenses*, and *Rice Krispies Squares* for convenience foods in Europe; *Kashi* and *GoLean* for certain cereals, nutrition bars, and mixes; *TLC* for granola and cereal bars, crackers and cookies; *Special K* and *Vector* for meal replacement products; *Bear Naked* for granola cereal, bars and trail mix, *Pringles* for potato crisps and sticks, and *Morningstar Farms*, *Gardenburger* and *Worthington* for certain meat and egg alternatives.

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

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

The slogans *The Best To You Each Morning*, *The Original & Best*, *They're Gr-r-reat!*, *The Difference is K*, *Supercharged*, *Earn Your Stripes* and *Gotta Have My Pops*, are used in connection with our ready-to-eat cereals, along with *L Eggo my Eggo*, used in connection with our frozen waffles and pancakes, *Elfin Magic*, *Childhood Is Calling*, *The Cookies in the Passionate Purple Package*, *Uncommonly Good* and *Baked with Care* used in connection with convenience food products, *Seven Whole Grains on a Mission* used in connection with *Kashi* natural foods and *See Veggies Differently* used in connection with meat and egg alternatives and *Everything Pops With Pringles* used in connection with potato crisps are also important Kellogg trademarks.

The trademarks listed above, among others, when taken as a whole, are important to our business. Certain individual trademarks are also important to our business. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use.

We consider that, taken as a whole, the rights under our various patents, which expire from time to time, are a valuable asset, but we do not believe that our businesses are materially dependent on any single patent or group of related patents. Our activities under licenses or other franchises or concessions which we hold are similarly a valuable asset, but are not believed to be material.

Seasonality. Demand for our products has generally been approximately level throughout the year, although some of our convenience foods have a bias for stronger demand in the second half of the year due to events and holidays. We also custom-bake cookies for the Girl Scouts of the U.S.A., which are principally sold in the first quarter of the year.

Working Capital. Although terms vary around the world and by business types, in the United States we generally have required payment for goods sold eleven

or sixteen days subsequent to the date of invoice as 2% 10/net 11 or 1% 15/net 16. Receipts from goods sold, supplemented as required by borrowings, provide for our payment of dividends, repurchases of our common stock, capital expansion, and for other operating expenses and working capital needs.

Customers. Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2014, comprised principally of sales within the United States. At January 3, 2015, approximately 19% of our consolidated receivables balance and 28% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2014. During 2014, our top five customers, collectively, including Wal-Mart, accounted for approximately 33% of our consolidated net sales and approximately 47% of U.S. net sales. There has been significant worldwide consolidation in the grocery industry and we believe that this trend is likely to continue. Although the loss of any large customer for an extended length of time could negatively impact our sales and profits, we do not anticipate that this will occur to a significant extent due to the consumer demand for our products and our relationships with our customers. Our products have been generally sold through our own sales forces and through broker and distributor arrangements, and have been generally resold to consumers in retail stores, restaurants, and other food service establishments.

Backlog. For the most part, orders are filled within a few days of receipt and are subject to cancellation at any time prior to shipment. The backlog of any unfilled orders at January 3, 2015 and December 28, 2013 was not material to us.

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

Research and Development. Research to support and expand the use of our existing products and to develop new food products is carried on at the W. K. Kellogg Institute for Food and Nutrition Research in Battle Creek, Michigan, and at other locations around the world. Our expenditures for research and development were approximately (in millions): 2014-\$199; 2013-\$199; 2012-\$206.

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

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

Employees. At January 3, 2015, we had approximately 29,790 employees.

Financial Information About Geographic Areas. Information on geographic areas is located in Note 16 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

Executive Officers. The names, ages, and positions of our executive officers (as of February 25, 2015) are listed below, together with their business experience. Executive officers are elected annually by the Board of Directors.

John A. Bryant
Chairman and Chief Executive Officer

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

Ronald L. Dissinger

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Senior Vice President and Chief Financial Officer

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

Alistair D. Hirst

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Senior Vice President, Global Supply Chain

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

Samantha J. Long

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Senior Vice President, Global Human Resources

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

Paul T. Norman

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Senior Vice President, Chief Growth Officer

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

Gary H. Pilnick

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Senior Vice President, General Counsel,

Corporate Development and Secretary

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

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and as Vice President and Chief Counsel, Corporate Development and Finance at Sara Lee Corporation.

Maribeth A. Dangel

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Vice President and Corporate Controller

Ms. Dangel assumed her current position in April 2012. She joined Kellogg Company in 1997 as a manager in the tax department. In 2006, Ms. Dangel became a manager for accounting research, was promoted to director, corporate financial reporting in 2007, and was promoted to vice president, financial reporting in May 2010. Before joining the company, she was a tax manager for Price Waterhouse in Indianapolis, Indiana. Prior to that role, she worked as a tax specialist for Dow Corning Corporation in Midland, Michigan.

Availability of Reports; Website Access; Other Information. Our internet address is <http://www.kelloggcompany.com>. Through Investor Relations Financials SEC Filings on our home page, we make available free of charge our proxy statements, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, SEC Forms 3, 4 and 5 and any

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amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our reports filed with the Securities and Exchange Commission are also made available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at www.sec.gov.

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

Forward-Looking Statements. This Report contains forward-looking statements with projections concerning, among other things, the Company's global growth and efficiency program (Project K), the integration of acquired businesses, our strategy, financial principles, and plans; initiatives, improvements and growth; sales, gross margins, advertising, promotion, merchandising, brand building, operating profit, and earnings per share; innovation; investments; capital expenditures; asset write-offs and expenditures and costs related to productivity or efficiency initiatives; the impact of accounting changes and significant accounting estimates; our ability to meet interest and debt principal repayment obligations; minimum contractual obligations; future common stock repurchases or debt reduction; effective income tax rate; cash flow and core working capital improvements; interest expense; commodity and energy prices; and employee benefit plan costs and funding. Forward-looking statements include predictions of future results or activities and may contain the words expect, believe, will, can, anticipate, estimate, should, or words or phrases of similar meaning. For example, forward-looking statements are found in this Item 1 and in several sections of Management's Discussion and Analysis. Our actual results or activities may differ materially from these predictions. Our future results could be affected by a variety of factors, including the ability to implement Project K as planned, whether the expected amount of costs associated with Project K will exceed forecasts, whether the Company will be able to realize the anticipated benefits from Project K in the amounts and times expected, the ability to realize the anticipated benefits and synergies from acquired businesses in the amounts and at the times expected, the impact of competitive conditions; the effectiveness of pricing, advertising, and promotional programs; the success of innovation, renovation and new product introductions; the recoverability of the carrying value of goodwill and other intangibles; the success of productivity improvements and business transitions; commodity and energy prices; labor costs; disruptions or inefficiencies in supply chain; the availability of and interest rates on short-term and long-term financing; actual market performance of benefit plan trust investments; the levels of spending on systems initiatives, properties, business opportunities, integration of acquired businesses, and other general and administrative costs; changes in consumer behavior and preferences; the effect of U.S. and foreign economic conditions on items such as interest rates, statutory tax rates, currency conversion and availability; legal and regulatory factors including changes in food safety, advertising and labeling laws and regulations; the ultimate impact of product recalls; business disruption or other losses from war, terrorist acts, or political unrest; risks generally associated with global operations; risks from certain emerging markets; other items; and the risks and uncertainties described in Item 1A below. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them.

ITEM 1A. RISK FACTORS

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

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

In November 2013, the Company announced a global four-year efficiency and effectiveness program (Project K). The successful implementation of Project K presents significant organizational design and infrastructure challenges and in many cases will require successful negotiations with third parties, including labor organizations, suppliers, business partners, and other stakeholders. In addition, the project may not advance our business strategy as expected. As a result, we may not be able to

implement Project K as planned, including realizing, in full or in part, the anticipated benefits from our program. Events and circumstances, such as financial or strategic difficulties, delays and unexpected costs may occur that could result in our not realizing all or any of the anticipated benefits or our not realizing the anticipated benefits on our expected timetable. If we are unable to realize the anticipated savings of the program, our ability to fund other initiatives may be adversely affected. Any failure to implement Project K in accordance with our expectations could adversely affect our financial condition, results of operations and cash flows.

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

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

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

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

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

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

Multiemployer pension plans could adversely affect our business.

We participate in various multiemployer pension plans administered by labor unions representing some of our employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. Our required contributions to these funds could increase because of a shrinking contribution base as a result of the insolvency or withdrawal of other companies that currently contribute to these funds, inability or failure of withdrawing companies to pay their withdrawal liability, lower than expected returns on pension fund assets or other funding deficiencies. In the event that we withdraw from participation in one of these plans,

then applicable law could require us to make an additional lump-sum contribution to the plan, and we would have to reflect that as an expense in our consolidated statement of operations and as a liability on our consolidated balance sheet. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan's funding of vested benefits. In the ordinary course of our renegotiation of collective bargaining agreements with labor unions that maintain these plans, we may decide to discontinue participation in a plan, and in that event, we could face a withdrawal liability. Some multiemployer plans in which we participate are reported to have significant underfunded liabilities. Such underfunding could increase the size of our potential withdrawal liability.

We operate in the highly competitive food industry.

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

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

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2014, comprised principally of sales within the United States. At January 3, 2015, approximately 19% of our consolidated receivables balance and 28% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2014. During 2014, our top five customers, collectively, including Wal-Mart, accounted for approximately 33% of our consolidated net sales and approximately 47% of U.S. net sales. As the retail grocery trade continues to consolidate and mass marketers become larger, our large retail customers may seek to use their position to improve their profitability through improved efficiency, lower pricing and increased promotional programs. If we are unable to use our scale, marketing expertise, product innovation and category leadership positions to respond, our profitability or volume growth could be negatively affected. The loss of any large customer for an extended length of time could negatively impact our sales and profits.

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

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

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

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

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

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

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

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

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

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

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

Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, including any potential effects of climate change, natural disaster, fire or explosion, terrorism, pandemics, strikes, repairs or enhancements at our facilities, or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

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

Our activities or products, both in and outside of the United States, are subject to regulation by various federal, state, provincial and local laws, regulations and government agencies, including the U.S. Food and Drug Administration, U.S. Federal Trade Commission, the U.S. Departments of Agriculture, Commerce and Labor, as well as similar and other authorities outside of the United States, International Accords and Treaties and others, including voluntary regulation by other bodies. In addition, legal and regulatory systems in emerging and developing markets may be less developed, and less certain. These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of a variety of factors, including political, economic or social events. The manufacturing, marketing and distribution of food products are subject to governmental regulation that impose additional regulatory requirements. Those regulations control such matters as food quality and safety, ingredients, advertising, product or production requirements, labeling, import or export of our products or ingredients, relations with distributors and retailers, health and safety, the environment, and restrictions on the use of government programs, such as Supplemental Nutritional Assistance Program, to purchase certain of our products. We are also regulated with respect to matters such as licensing requirements, trade and pricing practices, tax, anticorruption standards, advertising and claims, and environmental matters. The need to comply with new, evolving or revised tax, environmental, food quality and safety, labeling or other laws or regulations, or new, evolving or changed interpretations or enforcement of existing laws or regulations, may have

a material adverse effect on our business and results of operations. Further, if we are found to be out of compliance with applicable laws and regulations in these areas, we could be subject to civil remedies, including fines, injunctions, termination of necessary licenses or permits, or recalls, as well as potential criminal sanctions, any of which could have a material adverse effect on our business. Even if regulatory review does not result in these types of determinations, it could potentially create negative publicity or perceptions which could harm our business or reputation.

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

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

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

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

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

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

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

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

Our success is dependent on anticipating changes in consumer preferences and on successful new product and process development and product relaunches in response to such changes. We aim to introduce products or new or improved production processes on a timely basis in order to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products and to the research, development and technology process functions of our business, we may not be successful in developing new products or our new products may not be commercially successful. Our future results and our ability to maintain or improve our competitive position will depend on our capacity to gauge the direction of our key markets and upon our ability to successfully identify, develop, manufacture, market and sell new or improved products in these changing markets.

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

Increases in the costs of postretirement medical and pension benefits may continue and negatively affect

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

We have a substantial amount of indebtedness.

We have indebtedness that is substantial in relation to our shareholders' equity. As of January 3, 2015, we had total debt of approximately \$7.4 billion and total Kellogg Company equity of \$2.8 billion.

Our substantial indebtedness could have important consequences, including:

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

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

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

requiring a substantial portion of the cash flow from operations to be dedicated to the payment of principal and interest on our debt, reducing the funds available to us for other purposes such as expansion through acquisitions, paying dividends, repurchasing shares, marketing spending and expansion of our product offerings; and

causing us to be more leveraged than some of our competitors, which may place us at a competitive disadvantage.

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

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

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

Current economic conditions globally may delay or reduce purchases by our customers and consumers. This could result in reductions in sales of our products, reduced acceptance of innovations, and increased price competition. Deterioration in economic conditions in any of the countries in which we do business could also cause slower collections on accounts receivable which may adversely impact our liquidity and financial condition. Financial institutions may be negatively impacted by economic conditions and may consolidate or cease to do business which could result in a tightening in the credit markets, a low level of liquidity in many financial markets, and increased volatility in fixed income, credit, currency and equity markets. There could be a number of effects from a financial institution credit crisis on our business, which could include

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impaired credit availability and financial stability of our customers, including our suppliers, co-manufacturers and distributors. A disruption in financial markets may also have an effect on our derivative counterparties and could also impair our banking partners on which we rely for operating cash management. Any of these events would likely harm our business, results of operations and financial condition.

An impairment of the carrying value of goodwill or other acquired intangibles could negatively affect our consolidated operating results and net worth.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying

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

As of January 3, 2015, the carrying value of intangible assets totaled approximately \$7.3 billion, of which \$5.0 billion was goodwill and \$2.3 billion represented trademarks, tradenames, and other acquired intangibles compared to total assets of \$15.1 billion and total Kellogg Company equity of \$2.8 billion.

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

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

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

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

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

We increasingly rely on information technology systems to process, transmit, and store electronic information. For example, our production and distribution facilities and inventory management utilize information technology to increase efficiencies and limit costs. Information technology systems are also integral to the reporting of our results of operations. Furthermore, a significant portion of the communications between, and storage of personal data of, our personnel, customers, consumers and suppliers depends on information technology. Our information technology systems may be vulnerable to a variety of interruptions, as a result of updating our enterprise platform or due to events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers, and other security issues. Moreover, our computer systems have been, and will likely continue to be subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber- or phishing-attacks. These events could compromise our confidential information, impede or interrupt our business operations, and may result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage. Furthermore, if a breach or other breakdown results in disclosure of confidential or personal information, we may suffer reputational, competitive and/or business harm. To date, we have not experienced a material breach of cyber security. While we have implemented administrative and technical controls and taken other preventive actions to reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems.

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

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

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

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

We are a global company and generated 39% of our 2014 and 2013 net sales, and 37% of our 2012 net sales outside the United States. We manufacture our products in 20 countries and have operations in more than 180 countries, so we are subject to risks inherent in multinational operations. Those risks include:

compliance with U.S. laws affecting operations outside of the United States, such as OFAC trade sanction regulations and Anti-Boycott regulations,

compliance with anti-corruption laws, including U.S. Foreign Corrupt Practices Act (FCPA) and U.K. Bribery Act (UKBA),

compliance with antitrust and competition laws, data privacy laws, and a variety of other local, national and multi-national regulations and laws in multiple regimes,

changes in tax laws, interpretation of tax laws and tax audit outcomes,

fluctuations in currency values, especially in emerging markets,

changes in capital controls, including currency exchange controls,

discriminatory or conflicting fiscal policies,

increased sovereign risk, such as default by or deterioration in the credit worthiness of local governments,

varying abilities to enforce intellectual property and contractual rights,

greater risk of uncollectible accounts and longer collection cycles,

design and implementation of effective control environment processes across our diverse operations and employee base, and

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

In addition, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption, expropriation and other economic or political uncertainties could interrupt and negatively affect our business operations or customer demand. We could also be adversely impacted by continued instability in the banking and governmental sectors of certain countries in the European Union or the dynamics associated with the federal and state debt and budget challenges in the United States. All of these factors could result in increased costs or decreased revenues, and could materially and adversely affect our product sales, financial condition and results

of operations.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal research and development facilities are located in Battle Creek, Michigan.

We operated, as of February 25, 2015, manufacturing plants and distribution and warehousing facilities totaling more than 35 million square feet of building

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

Outside the United States, we had, as of February 25, 2015, additional manufacturing locations, some with warehousing facilities, in Australia, Belgium, Brazil, Canada, Colombia, Ecuador, Egypt, Germany, Great Britain, India, Japan, Mexico, Poland, Russia, South Africa, South Korea, Spain, Thailand, and Venezuela.

We generally own our principal properties, including our major office facilities, although some manufacturing facilities are leased, and no owned property is subject to any major lien or other encumbrance. Distribution facilities (including related warehousing facilities) and offices of non-plant locations typically are leased. In general, we consider our facilities, taken as a whole, to be suitable, adequate, and of sufficient capacity for our current operations.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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

Information on the market for our common stock, number of shareowners and dividends is located in Note 15 within Notes to Consolidated Financial Statements.

In February 2014, the board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$1.5 billion through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow us to repurchase shares for general corporate purposes and to offset issuances for employee benefit programs.

The following table provides information with respect to purchases of common shares under programs authorized by our board of directors during the quarter ended January 3, 2015.

(millions, except per share data)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				\$
Month #1: 9/28/14-10/25/14				\$ 1,069
Month #2: 10/26/14-11/22/14				\$ 1,069
Month #3: 11/23/14-1/03/15				\$ 1,069

ITEM 6. SELECTED FINANCIAL DATA

Kellogg Company and Subsidiaries

Selected Financial Data

(millions, except per share data and number of employees)	2014	2013	2012	2011	2010
Operating trends					
Net sales	\$ 14,580	\$ 14,792	\$ 14,197	\$ 13,198	\$ 12,397
Comparable net sales (a)	14,386	14,797	14,198	13,198	12,397
Gross profit as a % of net sales	34.7%	41.3%	38.3%	39.0%	43.1%
Comparable gross profit as a % of net sales (a)	38.9%	39.3%	40.4%	42.2%	43.3%
Depreciation	494	523	444	367	370
Amortization	9	9	4	2	22
Advertising expense	1,094	1,131	1,120	1,138	1,130
Research and development expense	199	199	206	192	187
Operating profit	1,024	2,837	1,562	1,427	2,037
Comparable operating profit (a)	2,119	2,205	2,146	2,170	2,112
Operating profit as a % of net sales	7.0%	19.2%	11.0%	10.8%	16.4%
Comparable operating profit as a % of net sales (a)	14.7%	14.9%	15.1%	16.4%	17.0%
Interest expense	209	235	261	233	248
Net income attributable to Kellogg Company	632	1,807	961	866	1,287
Comparable net income attributable to Kellogg Company (a)	1,373	1,408	1,337	1,363	1,331
Average shares outstanding:					
Basic	358	363	358	362	376
Diluted	360	365	360	364	378
Per share amounts:					
Basic	1.76	4.98	2.68	2.39	3.43
Comparable basic (a)	3.83	3.88	3.73	3.76	3.54
Diluted	1.75	4.94	2.67	2.38	3.40
Comparable diluted (a)	3.81	3.85	3.72	3.74	3.52
Cash flow trends					
Net cash provided by operating activities	\$ 1,793	\$ 1,807	\$ 1,758	\$ 1,595	\$ 1,008
Capital expenditures	582	637	533	594	474
Net cash provided by operating activities reduced by capital expenditures (b)	1,211	1,170	1,225	1,001	534
Net cash used in investing activities	(573)	(641)	(3,245)	(587)	(465)
Net cash provided by (used in) financing activities	(1,063)	(1,141)	1,317	(957)	(439)
Interest coverage ratio (c)	12.6	11.6	9.9	10.9	10.1
Capital structure trends					
Total assets	\$ 15,153	\$ 15,474	\$ 15,169	\$ 11,943	\$ 11,840
Property, net	3,769	3,856	3,782	3,281	3,128
Short-term debt and current maturities of long-term debt	1,435	1,028	1,820	995	996
Long-term debt	5,935	6,330	6,082	5,037	4,908
Total Kellogg Company equity	2,789	3,545	2,404	1,796	2,151
Share price trends					
Stock price range	\$ 57-69	\$ 55-68	\$ 46-57	\$ 48-58	\$ 47-56
Cash dividends per common share	1.90	1.80	1.74	1.67	1.56
Number of employees	29,790	30,277	31,006	30,671	30,645

(a) Comparable net sales, comparable gross profit as a percentage of net sales, comparable operating profit, comparable operating profit as a percentage of net sales, comparable net income attributable to Kellogg Company, comparable basic earnings per share, and comparable diluted earnings per share are non-GAAP measures which are reconciled to the directly comparable measure in accordance with U.S. GAAP within our Management's Discussion and Analysis. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our comparable operating performance.

(b) We use this non-GAAP financial measure, which is reconciled above, to focus management and investors on the amount of cash available for debt repayment, dividend distribution, acquisition opportunities, and share repurchase.

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- (c) Interest coverage ratio is calculated based on comparable net income attributable to Kellogg Company before interest expense, comparable income taxes, depreciation and amortization, divided by interest expense.

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

Kellogg Company and Subsidiaries

RESULTS OF OPERATIONS

Business overview

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

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

We manage our operations through eight 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 16 within Notes to Consolidated Financial Statements.

We manage our Company for sustainable performance defined by our long-term annual growth targets. In February 2015 we announced a change to our long-term annual growth target for comparable net sales. Our targeted long-term annual growth for comparable net sales is now low-single-digit (1 to 3%). This target was previously 3 to 4%. Our long-term annual growth targets continue to be mid-single-digit (4 to 6%) for comparable operating profit, and high-single-digit (7 to 9%) for currency-neutral comparable diluted net earnings per share.

During 2013, we announced Project K, a four-year efficiency and effectiveness program. The program is expected to generate a significant amount of savings, once all phases are approved and implemented, that will 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. See the Restructuring and cost reduction activities section for more information.

Comparability

Comparability of certain financial measures is impacted significantly by several types of charges or benefits such as Pringles integration costs, pension and commodity mark-to-market adjustments, Project K costs, differences in shipping days, and other costs impacting comparability. To provide increased transparency and assist in understanding our comparable operating performance, we use non-GAAP financial measures within MD&A that exclude the impact of these charges or benefits.

These non-GAAP financial measures include comparable net sales, comparable gross margin, comparable gross profit, comparable SGA%, comparable operating margin, comparable operating profit, comparable income taxes, comparable effective tax rate, comparable net income attributable to Kellogg Company, comparable basic earnings per share (EPS), comparable diluted EPS, and comparable diluted EPS growth.

The currency-neutral comparable EPS and currency-neutral comparable EPS growth non-GAAP financial measures exclude the impact of foreign currency translation, in addition to Pringles integration costs, pension and commodity mark-to-market adjustments, Project K costs, differences in shipping days, and other costs impacting comparability.

The comparable net sales growth and comparable operating profit growth non-GAAP financial measures exclude the impact of acquisitions and dispositions, in addition to foreign currency translation, Pringles integration costs, pension and commodity mark-to-market adjustments, Project K costs, differences in shipping days, and other costs impacting comparability.

Financial results

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For the full year 2014, our reported net sales decreased by 1.4% and comparable net sales decreased by 2.0%. We experienced comparable net sales declines in our developed cereal businesses and our U.S. Snacks business. Comparable net sales grew in Latin America and Asia Pacific. Reported operating profit declined by 63.9% and comparable operating profit declined by 3.9%. The decline in comparable operating profit was driven by reduced sales, lower production volume and higher distribution costs. This was partially offset by discipline in overhead control and reduced incentive compensation to align with performance.

Reported diluted EPS of \$1.75 was down 64.6% compared to the prior year of \$4.94. Comparable diluted EPS of \$3.81 was down 1.0% compared to the prior year of \$3.85 and was in line with our expectations.

Reconciliation of certain non-GAAP Financial Measures

Consolidated results

(dollars in millions, except

per share data)	2014	2013	2012
Reported Net Sales	\$ 14,580	\$ 14,792	\$ 14,197
Integration costs (a)	(1)	(5)	(1)
Mark-to-market (b)			
Project K (c)	(2)		
Difference in shipping days (d)	197		
Other costs impacting comparability (e)			
Comparable net sales (f)	\$ 14,386	\$ 14,797	\$ 14,198
Reported operating profit	\$ 1,024	\$ 2,837	\$ 1,562
Integration costs (a)	(43)	(65)	(76)
Mark-to-market (b)	(784)	947	(452)
Project K (c)	(298)	(250)	(56)
Difference in shipping days (d)	36		
Other costs impacting comparability (e)	(6)		
Comparable operating profit (f)(g)	\$ 2,119	\$ 2,205	\$ 2,146
Reported income taxes	\$ 186	\$ 792	\$ 363
Integration costs (a)	(12)	(19)	(13)
Mark-to-market (b)	(271)	319	(148)
Project K (c)	(80)	(67)	(18)
Difference in shipping days (d)	11		
Other costs impacting comparability (e)	(2)		
Comparable income taxes (f)	\$ 540	\$ 559	\$ 542
Reported effective income tax rate	22.6%	30.4%	27.4%
Integration costs (a)		(0.1)	0.5
Mark-to-market (b)	(5.8)	1.9	(1.4)
Project K (c)	0.2	0.2	(0.1)
Difference in shipping days (d)			
Other costs impacting comparability (e)			
Comparable effective income tax rate (f)(h)	28.2%	28.4%	28.4%
Reported net income attributable to Kellogg Company	\$ 632	\$ 1,807	\$ 961
Integration costs (a)	(31)	(46)	(34)
Mark-to-market (b)	(513)	628	(304)
Project K (c)	(218)	(183)	(38)
Difference in shipping days (d)	25		
Other costs impacting comparability (e)	(4)		
Comparable net income attributable to Kellogg Company (f)(g)	\$ 1,373	\$ 1,408	\$ 1,337
Reported basic EPS	\$ 1.76	\$ 4.98	\$ 2.68
Integration costs (a)	(0.09)	(0.13)	(0.09)
Mark-to-market (b)	(1.43)	1.73	(0.85)
Project K (c)	(0.61)	(0.50)	(0.11)
Difference in shipping days (d)	0.07		
Other costs impacting comparability (e)	(0.01)		
Comparable basic EPS (f)	\$ 3.83	\$ 3.88	\$ 3.73
Comparable basic EPS growth (f)	(1.3)%	4.0%	(0.5)%
Reported diluted EPS	\$ 1.75	\$ 4.94	\$ 2.67
Integration costs (a)	(0.09)	(0.13)	(0.09)
Mark-to-market (b)	(1.42)	1.72	(0.85)
Project K (c)	(0.61)	(0.50)	(0.11)
Difference in shipping days (d)	0.07		
Other costs impacting comparability (e)	(0.01)		
Comparable diluted EPS (f)	\$ 3.81	\$ 3.85	\$ 3.72
Comparable diluted EPS growth (f)	(1.0)%	3.5%	(0.3)%

(a) Includes impact of integration costs associated with the Pringles acquisition.

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- (b) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold and selling, general and administrative expense. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2014, 2013, 2012 and 2011. The amounts capitalized at the end of 2013, 2012 and 2011 have been recognized in the first quarter of 2014, 2013 and 2012, respectively. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.
- (c) Costs incurred related primarily to execution of Project K, a four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. Prior periods presented have been recast to exclude all restructuring and cost reduction activities from comparable results. Previously, only costs associated with Project K were excluded from comparable results.
- (d) Difference in shipping days resulting from 53rd week of business results that occurred in the fourth quarter of 2014.
- (e) Consists of costs related to evaluation of potential acquisitions.
- (f) Comparable net sales, comparable operating profit, comparable income taxes, comparable effective income tax rate, comparable net income attributable to Kellogg Company, and comparable EPS are non-GAAP measures which are reconciled to the directly comparable measure in accordance with U.S. GAAP within this table. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our comparable operating performance.
- (g) Comparable operating profit for the years ended January 3, 2015 and December 28, 2013 includes postretirement benefit plan income of \$80 million and \$12 million, respectively. Comparable net income attributable to Kellogg Company for the years ended January 3, 2015 and December 28, 2013 includes postretirement benefit plan income of \$57 million and \$9 million, respectively.
- (h) Mark-to-market adjustments, in general, were incurred in jurisdictions with tax rates higher than our reported effective tax rate. Costs incurred related to the execution of Project K, in general, were incurred in jurisdictions with tax rates lower than our reported effective tax rate

Net sales and operating profit

2014 compared to 2013

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

(dollars in millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corp- orate	Consol- idated
2014 net sales	\$ 3,338	\$ 3,495	\$ 1,198	\$ 1,468	\$ 2,887	\$ 1,205	\$ 989	\$	\$ 14,580
2013 net sales	\$ 3,465	\$ 3,534	\$ 1,202	\$ 1,515	\$ 2,860	\$ 1,195	\$ 1,021	\$	\$ 14,792
% change 2014 vs. 2013:									
As Reported	(3.7)%	(1.1)%	(.3)%	(3.1)%	.9 %	.9 %	(3.1)%	%	(1.4)%
Acquisitions /Divestitures	%	%	(.2)%	%	%	%	(.1)%	%	(.1)%
Integration impact (a)	%	%	%	.1 %	%	%	.3 %	%	.1 %
Project K (c)	%	%	%	(.1)%	%	%	%	%	%
Difference in shipping days (d)	2.0 %	1.3 %	1.3 %	1.6 %	1.2 %	.1 %	.9 %	%	1.4 %
Foreign currency impact	%	%	%	(2.9)%	.4 %	(3.1)%	(4.9)%	%	(.8)%
Comparable growth (f)	(5.7)%	(2.4)%	(1.4)%	(1.8)%	(.7)%	3.9 %	.7 %	%	(2.0)%

(dollars in millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corp- orate	Consol- idated
2014 operating profit	\$ 491	\$ 395	\$ 266	\$ 252	\$ 240	\$ 169	\$ 45	\$ (834)	\$ 1,024
2013 operating profit	\$ 485	\$ 447	\$ 265	\$ 275	\$ 256	\$ 157	\$ 60	\$ 892	\$ 2,837
% change 2014 vs. 2013:									
As Reported	1.1 %	(11.5)%	.4 %	(8.4)%	(6.2)%	7.3 %	(24.3)%	(193.4)%	(63.9)%
Acquisitions/Divestitures	%	%	%	%	%	%	1.2 %	%	.1 %
Integration impact (a)	%	2.4 %	%	.5 %	.9 %	.6 %	3.1 %	8.0 %	1.0 %
Mark-to-market (b)	%	%	%	%	%	%	%	(203.3)%	(59.6)%
Project K (c)	8.4 %	(6.4)%	.7 %	(2.9)%	(19.3)%	(1.6)%	(13.7)%	(28.5)%	(2.7)%
Difference in shipping days (d)	3.4 %	1.2 %	1.0 %	2.4 %	1.8 %	(1.7)%	(.2)%	(12.9)%	1.6 %
Other costs impacting comparability (e)	%	%	%	%	(.1)%	%	(.2)%	(22.5)%	(.3)%
Foreign currency impact	.1 %	%	%	(3.2)%	2.7 %	1.5 %	(5.3)%	13.3 %	(.1)%
Comparable growth (f)	(10.8)%	(8.7)%	(1.3)%	(5.2)%	7.8 %	8.5 %	(9.2)%	52.5 %	(3.9)%

- (a) Includes impact of integration costs associated with the Pringles acquisition.
- (b) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold and selling, general and administrative expense. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2014, 2013, and 2012. The amounts capitalized at the end of 2013 and 2012 have been recognized in the first quarter of 2014 and 2013, respectively. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.
- (c) Costs incurred related primarily to execution of Project K, a four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. Prior periods presented have been recast to exclude all restructuring and cost reduction activities from comparable results. Previously, only costs associated with Project K were excluded from comparable results.
- (d) Difference in shipping days resulting from 53rd week of business results that occurred in the fourth quarter of 2014.
- (e) Consists of costs related to evaluation of potential acquisitions

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- (f) Comparable net sales growth and comparable operating profit growth are non-GAAP measures which are reconciled to the directly comparable measure in accordance with U.S. GAAP within this table. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our comparable operating performance.

U.S. Morning Foods

Comparable net sales for U.S. Morning Foods declined 5.7% as a result of unfavorable volume and pricing/mix. This segment consists of cereal, toaster pastries, health and wellness bars, and beverages.

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

We have launched the *See You at Breakfast* campaign and the *Open for Breakfast* digital program designed to help us connect directly with consumers

We are revitalizing the *Special K*[®] brand and are launching new products such as *Special K*[®] Gluten-free and *Special K*[®] Protein

All *Kashi Go-Lean*[®] products will be Non GMO Project Verified

All *Kashi Heart-to-Heart*[®] products will meet the USDA's Organic standard

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

Toaster pastries reported a sales decline for the year as a result of difficult comparisons due to the peanut butter innovations launched in 2013. However we did gain share for the year and introduced a new PB&J innovation in November and we expect this to improve sales results in 2015. Health and wellness bars and beverages each reported a sales decline for the year.

Comparable operating profit in U.S. Morning Foods declined 10.8% due to the unfavorable sales performance and a mid-single-digit increase in cereal brand-building investment. This was partially offset by a decrease in brand-building investment behind health and wellness bars and beverages, and continued cost discipline.

U.S. Snacks

Comparable net sales in U.S. Snacks declined 2.4% as a result of decreased volume partially offset by favorable pricing/mix. This segment consists of crackers, cereal bars, cookies, savory snacks, and fruit-flavored snacks.

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

The bars business declined due to weakness in the *Special K*[®] and *Fiber Plus*[®] brands. The issues with these brands are similar to what we have experienced in the cereal category. To address these issues we launched new products and activities in the fourth quarter of this year and will launch more new, great-tasting *Special K*[®] snack bars with new packaging and new positioning. This activity ties into the initiatives we are launching in other categories and regions around the world. This new product started to arrive in stores in late December. *Rice Krispies Treats*[®] and *Nutri-grain*[®] both reported consumption gains and gained share as a result of good core growth and innovation. We expect this segment to remain challenging into the first half of 2015.

The cookies business declined resulting in lost share. However we saw share gains from *Chips Deluxe*[®] as a result of new co-branded products. We experienced soft performance in our 100-calorie packs business throughout the year. We are migrating consumers to an expanded line of

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single-serve products, which should help to reduce the impact of the decline in 2015. We also experienced the negative impact of a SKU rationalization initiative with impacts expected to continue into early 2015.

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

Comparable operating profit in U.S. Snacks declined by 8.7% due to unfavorable sales performance and net cost inflation. This was partially offset by continued cost discipline.

U.S. Specialty

Comparable net sales in U.S. Specialty declined 1.4% as a result of decreased volume and unfavorable pricing/mix. Sales declines were the result of the negative impact of weather early in the year, supply issues with a co-packer, and an inventory de-load as a customer shifted from warehouse to direct delivery.

Comparable operating profit in U.S. Specialty declined by 1.3% due to the unfavorable sales performance. This was partially offset by cost discipline.

North America Other

Comparable net sales in North America Other (U.S. Frozen and Canada) declined 1.8% due to decreased volume and unfavorable pricing/mix. The U.S. Frozen business reported a decline due to unfavorable comparisons early in the year resulting from strong prior-year growth behind innovation activity and costs later in the year associated with the launch of new products. New *Eggo*[®] Bites and *Eggo*[®] handheld sandwiches performed well during the year. The combination of the *Eggo*[®] handheld sandwiches and good results from our *Special K*[®] handheld sandwiches resulted in a double-digit sales increase for our sandwich business during our final quarter of the year. Consumption of *Eggo*[®] waffles is improving as we have re-launched the *L Eggo My Eggo*[®] brand-building program and launched *Eggo*[®] gluten-free and a new variety of *Thick-n-Fluffy* waffles. Canada reported a slight increase in sales driven primarily by the snacks business as volumes increased at a low single-digit rate.

Comparable operating profit in North America Other declined 5.2% primarily due to unfavorable sales performance. This was partially offset by continued cost discipline.

Europe

Comparable net sales for Europe declined 0.7% as a result of flat volume and unfavorable pricing/mix. Cereal category consumption remains soft in most developed markets, similar to the cereal category in the U.S. Emerging markets reported good growth for the year in both cereal and snacks. To address the cereal category softness, we executed brand-building activities in the second half of the year and we plan to launch new products and brand-building efforts in the first quarter of 2015. New *Special K*[®] advertising has recently gone on air which addresses the recent health and wellness trends that have negatively impacted this brand.

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

Comparable operating profit in Europe improved 7.8% due to net cost deflation, including strong productivity savings, and decreased brand-building investment. This was partially offset by unfavorable sales performance.

Latin America

Latin America's comparable net sales improved 3.9% due to favorable pricing/mix which was partially offset by decreased volume. Strong price realization, primarily from Venezuela, has more than offset sales declines early in the year resulting from the volume elasticity impact of the introduction of a new food tax in Mexico. We reported growth in Venezuela, Mercosur, and the *Pringles* business as well as pricing gains in a majority of our markets. The cereal business posted good results, although we saw some competitive price promotions in Mexico which affected selected segments. The momentum of the savory snacks business continues, driven by strong commercial programs, innovation, and good execution.

Comparable operating profit in Latin America improved by 8.5% due to favorable sales performance which was partially offset by net cost inflation, increased brand-building investment to support innovation and new programs, and increased overhead investment.

Asia Pacific

Comparable net sales in Asia Pacific increased 0.7% as a result of flat volume and favorable pricing/mix. The sales increase was the result of double-digit growth in the Asian markets and high-single-digit growth in the savory snacks business across the region. This sales performance was partially offset by weakness in the Australian cereal category and our performance in South Africa as we conducted construction work early in the year and it took longer than expected to bring the plant back on line.

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Comparable operating profit in Asia Pacific declined 9.2% due to the weakness in the Australian cereal category and our performance in South Africa. This was partially offset by cost discipline.

Corporate

Comparable operating profit for Corporate improved as a result of reduced pension costs which was partially offset by increased overhead investments.

2013 compared to 2012

The following table provides an analysis of net sales and operating profit performance for 2013 versus 2012:

	U.S.							Corp-	Consol-	
(dollars in millions)	Morning Foods	U.S. Snacks	U.S. Specialty	North America	Other	Europe	Latin America	Asia Pacific	orate	idated
2013 net sales	\$ 3,465	\$ 3,534	\$ 1,202	\$ 1,515		\$ 2,860	\$ 1,195	\$ 1,021	\$	\$ 14,792
2012 net sales	\$ 3,533	\$ 3,400	\$ 1,121	\$ 1,485		\$ 2,527	\$ 1,121	\$ 1,010	\$	\$ 14,197
% change 2013 vs. 2012:										
As Reported	(1.9)%	4.0 %	7.2%	2.0 %		13.2%	6.6 %	1.1 %	%	4.2 %
Acquisitions/Divestitures (a)	%	6.9 %	3.1%	1.3 %		10.3%	3.6 %	6.4 %	%	4.6 %
Integration impact (b)	%	%	%	(.1)%		%	%	(.4)%	%	%
Foreign currency impact	%	%	%	(1.4)%		1.2%	(2.5)%	(7.9)%	%	(.7)%
Comparable growth (e)	(1.9)%	(2.9)%	4.1%	2.2 %		1.7%	5.5 %	3.0 %	%	.3 %

	U.S.							Corp-	Consol-	
(dollars in millions)	Morning Foods	U.S. Snacks	U.S. Specialty	North America	Other	Europe	Latin America	Asia Pacific	orate	idated
2013 operating profit	\$ 485	\$ 447	\$ 265	\$ 275		\$ 256	\$ 157	\$ 60	\$ 892	\$ 2,837
2012 operating profit	\$ 588	\$ 476	\$ 241	\$ 265		\$ 261	\$ 167	\$ 85	\$ (521)	\$ 1,562
% change 2013 vs. 2012:										
As Reported	(17.4)%	(6.1)%	9.9 %	3.6 %		(2.0)%	(5.8)%	(29.9)%	271.1 %	81.6 %
Acquisitions/Divestitures (a)	%	7.2 %	3.2 %	1.1 %		6.3 %	4.1 %	7.9 %	(6.3)%	3.6 %
Integration impact (b)	%	1.4 %	%	(.5)%		(3.1)%	(.1)%	(7.2)%	9.5 %	.7 %
Mark-to-market (c)	%	%	%	%		%	%	%	250.2 %	87.7 %
Project K (d)	(15.8)%	(4.6)%	(1.5)%	(1.8)%		(8.8)%	(2.2)%	(17.4)%	(44.6)%	(9.6)%
Foreign currency impact	%	%	%	(1.7)%		(.7)%	(7.2)%	(11.1)%	(.7)%	(1.4)%
Comparable growth (e)	(1.6)%	(10.1)%	8.2 %	6.5 %		4.3 %	(.4)%	(2.1)%	63.0 %	.6 %

- (a) Impact of results for the year ended December 28, 2013 and December 29, 2012 from the acquisition of Pringles and the divestiture of Navigable Foods.
- (b) Includes impact of integration costs associated with the Pringles acquisition.
- (c) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold and selling, general and administrative expense. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2013, 2012, and 2011. The amounts capitalized at the end of 2012 and 2011 have been recognized in the first quarter of 2013 and 2012, respectively. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.
- (d) Costs incurred related primarily to execution of Project K, a four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. Prior periods presented have been recast to exclude all restructuring and cost reduction activities from comparable results. Previously, only costs associated with Project K were excluded from comparable results.
- (e) Comparable net sales growth and comparable operating profit growth are non-GAAP measures which are reconciled to the directly comparable measure in accordance with U.S. GAAP within this table. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our comparable operating performance.

U.S. Morning Foods

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Comparable net sales for U.S. Morning Foods declined 1.9% as a result of unfavorable volume and flat pricing/mix. This segment consists of cereal, toaster pastries, health and wellness bars, and beverages. Cereal category growth was challenging throughout the year due to the timing of innovation, weakness in the adult segment of the portfolio and reduced retailer inventories. Despite this category performance, *Raisin Bran*[®] posted a solid consumption increase behind good innovation and advertising that resonated with consumers, and *Froot Loops*[®] posted consumption growth as a result of innovation launched during the year. Toaster pastries reported solid growth behind innovations which resulted in consumption and share gains for the year. Beverages continued to report increased consumption resulting from expanded distribution.

Comparable operating profit for U.S. Morning Foods declined due to increased commodity costs being partially offset by overhead cost containment, reduced consumer promotion investment, and the favorable impact of lapping a 2012 product recall.

U.S. Snacks

Comparable net sales in U.S. Snacks declined by 2.9% as a result of unfavorable volume which was partially offset by favorable pricing/mix. This business consists of crackers, cereal bars, cookies, savory snacks and fruit-flavored snacks. The sales decline was the result of lower shipments in crackers, cereal bars, cookies, and fruit-flavored snacks. Crackers decline was the result of *Special K Cracker Chips*[®] lapping a strong year-ago launch. This decline was partially offset with innovations by the *Cheez-it*[®] and *Town House*[®] brands. Sales declined in cereal bars across most brands. Cereal bars reported gains in *Nutri-Grain*[®] and *Rice KrispiesTreats*[®] where we invested behind innovations. Cookies sales declined for the year. This was partially driven by reductions in retailer inventories and strong competitor actions resulting in weakness across many of our brands. Savory snacks reported a solid sales increase for the year as *Pringles*[®] consumption gains continued throughout the year.

Comparable operating profit for U.S. Snacks declined due to significantly increased commodity costs, being partially offset by reduced advertising investment, reduced consumer promotion investment, and overhead cost containment.

U.S. Specialty

Comparable net sales in U.S. Specialty increased by 4.1% as a result of favorable pricing/mix and volume. Sales growth was due to strong results from innovation launches, expanded points of distribution, and pricing.

Comparable operating profit for U.S. Specialty increased due to favorable pricing, flat commodity costs, and reduced advertising investment.

North America Other

Comparable net sales in North America Other (U.S. Frozen and Canada) increased by 2.2% due to favorable pricing/mix and volume. Sales growth was the result of our U.S. Frozen business posting solid growth for the year while gaining share as a result of increased brand-building support behind innovation activity.

Comparable operating profit for North America Other increased due to favorable pricing and overhead cost containment which was partially offset by slight increases in commodity costs and increased brand-building investment.

Europe

Comparable net sales in Europe increased 1.7% for the year driven by increased volume and favorable pricing/mix. Competitive conditions in Europe remained challenging. The cereal category in the UK continued to be difficult, although new *Crunchy Nut*[®] granola contributed to sales and *Crunchy Nut*[®], *Rice Krispies*[®], and *Corn Flakes*[®] all gained share. We also posted sales growth in the Mediterranean/Middle East businesses and in Russia and were pleased with results in these developing growth regions.

Comparable operating profit in Europe improved due to reduced investment in consumer promotions and advertising along with overhead cost containment. These benefits were partially offset by increased commodity costs.

Latin America

Comparable net sales in Latin America increased 5.5% due to a strong increase in pricing/mix partially offset by a decline in volume. Latin America experienced growth in both cereal and snacks. Cereal performed very well in Venezuela and Brazil. The Snacks business growth was primarily the result of strong results from our *Pringles*[®] brand.

Comparable operating profit in Latin America's comparable operating profit declined due to the impact of a supply disruption in our Venezuela business due to the difficult operating environment and increased overhead investment. This was partially offset by favorable price realization and reduced advertising investment.

Asia Pacific

Comparable net sales in Asia Pacific grew 3.0% as a result of favorable volume partially offset by unfavorable pricing/mix. Asia Pacific's growth was driven by solid cereal performance in India, Southeast Asia, and Japan. In addition, the snacks business reported strong performance behind

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the *Pringles*[®] brand. The Australia business experienced declines in the cereal business and gains in the snacks business.

Comparable operating profit in Asia Pacific declined due to unfavorable price realization and increased overhead investment. This was partially offset by sales growth and reduced brand-building investment.

Corporate

Comparable operating profit for Corporate improved as a result of reduced pension costs incurred resulting from the combination of lower interest cost and higher expected return on assets for the plans.

Margin performance

Margin performance was as follows:

				Change vs. prior year (pts.)	
	2014	2013	2012	2014	2013
Reported gross margin (a)	34.7%	41.3%	38.3%	(6.6)	3.0
Integration costs (COGS) (b)	(.2)%	(.1)%	%	(.1)	(.1)
Mark-to-market (COGS) (c)	(3.0)%	3.4%	(1.8)%	(6.4)	5.2
Project K (COGS) (d)	(1.0)%	(1.3)%	(.3)%	.3	(1.0)
Difference in shipping days (e)	%	%	%		
Other costs impacting comparability (COGS) (f)	%	%	%		
Comparable gross margin (g)	38.9%	39.3%	40.4%	(0.4)	(1.1)
Reported SGA%	(27.7)%	(22.1)%	(27.3)%	(5.6)	5.2
Integration costs (SGA) (b)	(.1)%	(.3)%	(.5)%	.2	.2
Mark-to-market (SGA) (c)	(2.4)%	3.0%	(1.4)%	(5.4)	4.4
Project K (SGA) (d)	(1.0)%	(.4)%	(.1)%	(.6)	(.3)
Difference in shipping days (SGA) (e)	%	%	%		
Other costs impacting comparability (SGA) (f)	%	%	%		
Comparable SGA% (g)	(24.2)%	(24.4)%	(25.3)%	.2	.9
Reported operating margin	7.0%	19.2%	11.0%	(12.2)	8.2
Integration costs (b)	(.3)%	(.4)%	(.5)%	.1	.1
Mark-to-market (c)	(5.4)%	6.4%	(3.2)%	(11.8)	9.6
Project K (d)	(2.0)%	(1.7)%	(.4)%	(.3)	(1.3)
Difference in shipping days (e)	%	%	%		
Other costs impacting comparability (f)	%	%	%		
Comparable operating margin (g)	14.7%	14.9%	15.1%	(.2)	(.2)

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

(b) Includes impact of integration costs associated with the Pringles acquisition.

(c) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold and selling, general and administrative expense. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2014, 2013, 2012 and 2011. The amounts capitalized at the end of 2013, 2012 and 2011 have been recognized in the first quarter of 2014, 2013 and 2012, respectively. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.

(d) Costs incurred related primarily to execution of Project K, a four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. Prior periods presented have been recast to exclude all restructuring and cost reduction activities from comparable results. Previously, only costs associated with Project K were excluded from comparable results.

(e) Difference in shipping days resulting from 53rd week of business results that occurred in the fourth quarter of 2014.

(f) Consists of costs related to evaluation of potential acquisitions.

(g) Comparable gross margin, comparable SGA%, and comparable operating margin are non-GAAP measures which are reconciled to the directly comparable measure in accordance with U.S. GAAP within this table. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our comparable operating performance.

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

Comparable gross margin declined by 110 basis points in 2013 due to the impact of inflation, net of productivity savings, lower operating leverage due to lower sales volume, and the impact of the lower margin structure of the Pringles business. Comparable SG&A% improved by 90 basis points as a result of favorable overhead leverage and synergies resulting from the Pringles acquisition, as well as reduced investment in consumer promotions.

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

(dollars in millions)	2014	2013	2012
Reported gross profit (a)	\$ 5,063	\$ 6,103	\$ 5,434
Integration costs (primarily COGS) (b)	(23)	(20)	(3)
Mark-to-market (COGS) (c)	(438)	510	(259)
Project K (primarily COGS) (d)	(154)	(195)	(43)
Difference in shipping days (COGS) (e)	80		
Comparable gross profit (g)	\$ 5,598	\$ 5,808	\$ 5,739
Reported SGA	\$ 4,039	\$ 3,266	\$ 3,872
Integration costs (SGA) (b)	(20)	(45)	(73)
Mark-to-market (SGA) (c)	(346)	437	(193)
Project K (SGA) (d)	(144)	(55)	(13)
Difference in shipping days (SGA) (e)	(44)		
Other costs impacting comparability (SGA) (f)	(6)		
Comparable SGA (g)	\$ 3,479	\$ 3,603	\$ 3,593
Reported operating profit	\$ 1,024	\$ 2,837	\$ 1,562
Integration costs (b)	(43)	(65)	(76)
Mark-to-market (c)	(784)	947	(452)
Project K (d)	(298)	(250)	(56)
Difference in shipping days (e)	36		
Other costs impacting comparability (f)	(6)		
Comparable operating profit (g)	\$ 2,119	\$ 2,205	\$ 2,146

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

(b) Includes impact of integration costs associated with the Pringles acquisition.

(c) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold and selling, general and administrative expense. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2014, 2013, 2012 and 2011. The amounts capitalized at the end of 2013, 2012 and 2011 have been

recognized in the first quarter of 2014, 2013 and 2012, respectively. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.

- (d) Costs incurred related primarily to execution of Project K, a four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. Prior periods presented have been recast to exclude all restructuring and cost reduction activities from comparable results. Previously, only costs associated with Project K were excluded from comparable results.
- (e) Difference in shipping days resulting from 53rd week of business results that occurred in the fourth quarter of 2014.
- (f) Consists of costs related to evaluation of potential acquisitions.
- (g) Comparable gross profit, comparable SGA, and comparable operating profit are non-GAAP measures which are reconciled to the directly comparable measures in accordance with U.S. GAAP within this table. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our comparable operating performance.

Restructuring and cost reduction activities

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

Project K

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

The focus of the program 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 provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories.

We currently anticipate that the program will result in total pre-tax charges, once all phases are approved and implemented, of \$1.2 to \$1.4 billion, with after-tax cash costs, including incremental capital expenditures, estimated to be \$900 million to \$1.1 billion. Cash expenditures, after tax and including incremental capital, of approximately \$300 million have been incurred since inception of the program. Total cash expenditures, as defined, are expected to be approximately \$350 million in 2015 and the balance of \$250 to \$450 million thereafter. We currently expect the charges will consist of asset-related costs totaling \$450 to \$500 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs totaling \$425 to \$475 million which will include severance, pension and other termination benefits; and other costs totaling \$325 to \$425 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 timing and costs of these projects may change over time.

We expect annual cost savings generated from Project K will be approximately \$425 to \$475 million by 2018, with approximately two-thirds of the cost savings to be realized in cost of goods sold. We have realized approximately \$80 million of savings since the inception of the program and expect \$90 to \$100 million of savings in 2015, approximately two-thirds of which will come from cost of goods sold. Cost savings will be reinvested into the business through additional investments in advertising, in-store execution, and in the design and quality of our products. We will also invest in production capacity in developing and emerging markets, and in global category teams.

As a result of Project K, we anticipate that capital spending will be impacted at least through the end of fiscal year 2015. Our current business model assumes capital spending to be approximately 3-4% of net sales annually. Through the end of fiscal year 2015, capital spending is expected to be approximately 4-5% as a result of Project K activities.

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Due to the difference in timing between expected cash costs for the project and expected future cash savings, we anticipate funding the project through a combination of cash on hand and short-term debt.

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

We currently expect that total pre-tax charges related to Project K will impact reportable segments as

follows: U.S. Morning Foods (approximately 18%), U.S. Snacks (approximately 12%), U.S. Specialty (approximately 1%), North America Other (approximately 5%), Europe (approximately 13%), Latin America (approximately 3%), Asia-Pacific (approximately 6%), and Corporate (approximately 42%). A majority of the costs impacting Corporate relate to additional initiatives to be approved and executed in the future. When these initiatives are fully defined and approved, we will update estimated costs by reportable segment as needed.

Since inception of Project K, we have recognized charges of \$506 million that have been attributed to the program. The charges comprised of \$2 million as a reduction of revenue, \$326 million being recorded in COGS and \$178 million recorded in SGA. Total charges for Project K in 2015 are expected to be approximately \$400 to \$450 million.

All Projects

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

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

During 2012, we recorded \$56 million of costs associated with other cost reduction initiatives. The charges were comprised of \$43 million being recorded in COGS and \$13 million recorded in SGA expense.

The tables below provide the details for the charges incurred during 2014, 2013 and 2012 and program costs to date for programs currently active as of January 3, 2015.

(millions)	2014	2013	2012	Program costs to date January 3, 2015
Employee related costs	\$ 90	\$ 114	\$	\$ 197
Asset related costs	37	10	4	43
Asset impairment	21	70	17	87
Other costs	150	56	35	179
Total	\$ 298	\$ 250	\$ 56	\$ 506

(millions)	2014	2013	2012	Program costs to date January 3, 2015
U.S. Morning Foods	\$ 60	\$ 109	\$ 16	\$ 160
U.S. Snacks	57	30	10	76
U.S. Specialty	3	5	1	6
North America Other	18	11	6	27
Europe	80	27	3	99
Latin America	8	5	2	12
Asia Pacific	37	32	18	61
Corporate	35	31		65
Total	\$ 298	\$ 250	\$ 56	\$ 506

Employee related costs consisted of severance and pension charges. Asset impairments were recorded for fixed assets that were determined to be impaired and were written down to their estimated fair value. See Note 12 for more information. Asset related costs consist primarily of accelerated depreciation. Other costs incurred consist primarily of third-party incremental costs related to the development and implementation of global business capabilities.

At January 3, 2015 total exit cost reserves were \$110 million, related to severance payments and other costs of which a substantial portion will be paid in 2015 and 2016. The following table provides details for exit cost reserves.

(millions)	Employee Related Costs	Asset Impairment	Other Asset Related Costs	Other Costs	Total
Liability as of December 28, 2013	\$ 66	\$	\$	\$ 12	\$ 78

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2014 restructuring charges	90	21	37	150	298
Cash payments	(84)		(24)	(148)	(256)
Non-cash charges and other (a)	24	(21)	(13)		(10)
Liability as of January 3, 2015	\$ 96	\$	\$	\$ 14	\$ 110

(a) Employee related non-cash charges consist of pension curtailment benefit.

Foreign currency translation

The reporting currency for our financial statements is the U.S. dollar. Certain of our assets, liabilities, expenses and revenues are denominated in currencies other than the U.S. dollar, primarily in the euro, British pound, Mexican peso, Australian dollar, Canadian dollar, Venezuelan bolivar fuerte, and Russian ruble. To prepare our consolidated financial statements, we must translate those assets, liabilities, expenses and revenues into U.S. dollars at the applicable exchange rates. As a result, increases and decreases in the value of the U.S. dollar against these other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. This could have significant impact on our results if such increase or decrease in the value of the U.S. dollar is substantial.

Interest expense

Annual interest expense is illustrated in the following table. The declines in both 2014 and 2013 were primarily due to refinancing of maturing long-term debt at lower interest rates and lower interest rates on long-term debt which has effectively been converted to floating rate obligations through the use of interest rate swaps. Interest income (recorded in other income (expense), net) was (in millions), 2014-\$8; 2013-\$7; 2012-\$9. We currently expect that our 2015 gross interest expense will be approximately \$215 to \$225 million.

(dollars in millions)	2014	2013	2012	2014	Change vs. prior year	2013
Reported interest expense	\$ 209	\$ 235	\$ 261			
Amounts capitalized	5	2	2			
Gross interest expense	\$ 214	\$ 237	\$ 263	-9.7%		-9.9%

Income taxes

Our reported effective tax rates for 2014, 2013 and 2012 were 22.6%, 30.4% and 27.4% respectively. Comparable effective tax rates for 2014, 2013 and 2012 were 28.2%, 28.4%, and 28.4%, respectively. The impact of discrete adjustments on the reported effective income tax rate was a reduction of 6 percentage points for 2014, less than 1 percentage point reduction for 2013, and a reduction of 3 percentage points for 2012.

The 2014 effective income tax rate benefited from the mark-to-market loss recorded for our pension plans. The 2012 effective income tax rate benefited from the elimination of a tax liability related to certain international earnings now considered indefinitely reinvested. Refer to Note 11 within Notes to Consolidated Financial Statements for further information. Fluctuations in foreign currency exchange rates could impact the expected effective income tax rate as it is dependent upon U.S. dollar earnings of foreign subsidiaries doing business in various countries with differing statutory tax rates. Additionally, the rate could be impacted if pending uncertain tax matters, including tax positions that could be affected by planning initiatives, are resolved more or less favorably than we currently expect.

LIQUIDITY AND CAPITAL RESOURCES

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

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

As of January 3, 2015 and December 28, 2013, we had \$257 million and \$255 million, respectively, of cash and cash equivalents held in international jurisdictions which will be used to fund capital and other cash requirements of international operations. These amounts include \$68 million and \$42 million at January 3, 2015 and December 28, 2013, respectively, subject to currency exchange controls in Venezuela, limiting the total amount of cash and cash equivalents held by our foreign subsidiaries that can be repatriated at any particular point in time.

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

(dollars in millions)	2014	2013	2012
Net cash provided by (used in):			
Operating activities	\$ 1,793	\$ 1,807	\$ 1,758
Investing activities	(573)	(641)	(3,245)
Financing activities	(1,063)	(1,141)	1,317
Effect of exchange rates on cash and cash equivalents	13	(33)	(9)
Net increase (decrease) in cash and cash equivalents	\$ 170	\$ (8)	\$ (179)

Operating activities

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

Our net cash provided by operating activities for 2014 amounted to \$1,793 million, a decrease of \$14 million compared with 2013. The decrease compared to the prior year is the result of the negative impact of Project K cash requirements totaling \$256 million, partially offset by improved performance in core working capital, which includes the positive impact of a supplier financing initiative of approximately \$210 million. Our net cash provided by operating activities for 2013 amounted to \$1,807 million, an increase of \$49 million compared with 2012, reflecting improved performance in core and other working capital.

Our cash conversion cycle (defined as days of inventory, excluding inventorable mark-to-market pension costs, and trade receivables outstanding less days of trade payables outstanding, based on a trailing 12 month average) is relatively short, equating to approximately 27 days and 30 days for 2014 and

2013, respectively. Core working capital in 2014 averaged 7.6% of net sales, compared to 7.8% in both 2013 and 2012. Core working capital in 2014 showed improvements in days of inventory on hand (excluding inventorable mark-to-market pension costs) and days of trade payables outstanding which includes the positive impact of a supplier financing initiative, partially offset by higher trade receivables.

Our total pension and postretirement benefit plan funding amounted to \$53 million, \$48 million and \$51 million, in 2014, 2013 and 2012, respectively.

The Pension Protection Act (PPA), and subsequent regulations, determines defined benefit plan minimum funding requirements in the United States. We believe that we will not be required to make any contributions under PPA requirements until 2021 or beyond. Our projections concerning timing of PPA funding requirements are subject to change primarily based on general market conditions affecting trust asset performance, future discount rates based on average yields of high quality corporate bonds and our decisions regarding certain elective provisions of the PPA.

We currently project that we will make total U.S. and foreign benefit plan contributions in 2015 of approximately \$55 million. Actual 2015 contributions could be different from our current projections, as influenced by our decision to undertake discretionary funding of our benefit trusts versus other competing investment priorities, future changes in government requirements, trust asset performance, renewals of union contracts, or higher-than-expected health care claims cost experience.

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

(dollars in millions)	2014	2013	2012
Net cash provided by operating activities	\$ 1,793	\$ 1,807	\$ 1,758
Additions to properties	(582)	(637)	(533)
Cash flow	\$ 1,211	\$ 1,170	\$ 1,225
<i>year-over-year change</i>	<i>3.5%</i>	<i>(4.5)%</i>	

The increase in cash flow (as defined) in 2014 compared to 2013 was due primarily to lower capital expenditures and improved core working capital partially offset by the negative impact of Project K cash requirements. The decrease in cash flow in 2013 compared to 2012 was due primarily to higher capital expenditures.

Investing activities

Our net cash used in investing activities for 2014 amounted to \$573 million, a decrease of \$68 million compared with 2013 primarily attributable to lower capital expenditures.

Capital spending in 2014 included investments in our supply chain infrastructure, and to support capacity requirements in certain markets and products, including India and Pringles.

Net cash used in investing activities of \$641 million in 2013 decreased by \$2,604 million compared with 2012, due to the acquisition of Pringles in 2012.

Cash paid for additions to properties as a percentage of net sales has decreased to 4.0% in 2014, from 4.3% in 2013, which was an increase from 3.8% in 2012.

Financing activities

Our net cash used by financing activities was \$1,063 million and \$1,141 million for 2014 and 2013, respectively compared to net cash provided by financing activities of \$1,317 million for 2012. The use of cash in financing activities in 2014 and 2013 compared to the providing of cash from financing activities in 2012, was primarily due to the issuance of debt related to the acquisition of Pringles.

Total debt was \$7.4 billion at both year-end 2014 and 2013.

In March 2014, we redeemed \$150 million of our 4.00% U.S. Dollar Notes due 2020, \$342 million of our 3.125% U.S. Dollar Notes due 2022 and \$189 million of our 2.75% U.S. Dollar Notes due 2023. In connection with the debt redemption, we incurred \$1 million of interest expense, offset by \$8 million of accelerated gains on interest rate hedges previously recorded in accumulated other comprehensive income, and incurred

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\$5 million expense, recorded in Other Income, Expense (net), related to acceleration of fees on the redeemed debt and fees related to the tender offer.

In May 2014, we issued 500 million of seven-year 1.75% Euro Notes due 2021, using the proceeds for general corporate purposes, which included repayment of a portion of our commercial paper borrowings.

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

In February 2013, we issued \$250 million of two-year floating-rate U.S. Dollar Notes, and \$400 million of ten-year 2.75% U.S. Dollar Notes, resulting in

aggregate net proceeds after debt discount of \$645 million. The proceeds from these Notes were used for general corporate purposes, including, together with cash on hand, repayment of the \$750 million aggregate principal amount of our 4.25% U.S. Dollar Notes due March 2013.

In May 2012, we issued \$350 million of three-year 1.125% U.S. Dollar Notes, \$400 million of five-year 1.75% U.S. Dollar Notes and \$700 million of ten-year 3.125% U.S. Dollar Notes, resulting in aggregate net proceeds after debt discount of \$1.442 billion. The proceeds of these Notes were used for general corporate purposes, including financing a portion of the acquisition of Pringles.

In May 2012, we issued Cdn. \$300 million of two-year 2.10% fixed rate Canadian Dollar Notes, using the proceeds from these Notes for general corporate purposes, which included repayment of intercompany debt. This repayment resulted in cash available to be used for a portion of the acquisition of Pringles.

In December 2012, we repaid \$750 million five-year 5.125% U.S. Dollar Notes at maturity with commercial paper.

In April 2010, our board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$2.5 billion during 2010 through 2012. Under this program, we repurchased approximately 1 million shares of common stock for \$63 million during 2012.

In December 2012, our board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$300 million during 2013. In April 2013, the board of directors approved a \$1 billion share repurchase program expiring in April 2014. In February 2014, the board of directors approved a new authorization to repurchase up to \$1.5 billion in shares through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow us to repurchase shares for general corporate purposes and to offset issuances for employee benefit programs. During 2014, we purchased 11 million shares totaling \$690 million. In May 2013, we entered into an Accelerated Share Repurchase (ASR) Agreement with a financial institution counterparty and paid \$355 million for the purchase of shares during the term of the agreement which extended through August 2013. The total number of shares delivered upon settlement of the ASR was based upon the volume weighted average price of the Company's stock over the term of the agreement. Total shares purchased in 2013, including shares delivered under the ASR, amounted to approximately 9 million shares totaling \$544 million.

We paid quarterly dividends to shareholders totaling \$1.90 per share in 2014, \$1.80 per share in 2013 and \$1.74 per share in 2012. Total cash paid for dividends increased by 4.0% in 2014 and 5.0% in 2013. In February 2015, the board of directors declared a dividend of \$.49 per common share, payable on March 18, 2015 to shareholders of record at the close of business on March 6, 2015.

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

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

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

We are in compliance with all covenants as of January 3, 2015. We continue to believe that we will be able to meet our interest and principal repayment obligations and maintain our debt covenants for the foreseeable future, while still meeting our operational needs, including the pursuit of selected bolt-on acquisitions. This will be accomplished through our strong cash flow, our short-term borrowings, and our maintenance of credit facilities on a global basis.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**Off-balance sheet arrangements**

As of January 3, 2015 and December 28, 2013 we did not have any material off-balance sheet arrangements.

Contractual obligations

The following table summarizes our contractual obligations at January 3, 2015:

Contractual obligations (millions)	Total	Payments due by period					2020 and beyond
		2015	2016	2017	2018	2019	
Long-term debt:							
Principal	\$ 6,548	\$ 607	1,256	\$ 661	\$ 402	\$ 501	\$ 3,121
Interest (a)	2,018	217	203	177	169	165	1,087
Capital leases (b)	6	1	1	1	1	1	1
Operating leases (c)	721	176	157	119	90	64	115
Purchase obligations (d)	1,396	1,103	278	11	1	2	1
Uncertain tax positions (e)	9	9					
Other long-term obligations (f)	587	132	76	56	58	61	204
Total	\$ 11,285	\$ 2,245	\$ 1,971	\$ 1,025	\$ 721	\$ 794	\$ 4,529

- (a) Includes interest payments on our long-term debt and payments on our interest rate swaps. Interest calculated on our variable rate debt was forecasted using the LIBOR forward rate curve as of January 3, 2015.
- (b) The total expected cash payments on our capital leases include interest expense totaling approximately \$1 million over the periods presented above.
- (c) Operating leases represent the minimum rental commitments under non-cancelable operating leases.
- (d) Purchase obligations consist primarily of fixed commitments for raw materials to be utilized in the normal course of business and for marketing, advertising and other services. The amounts presented in the table do not include items already recorded in accounts payable or other current liabilities at year-end 2014, nor does the table reflect cash flows we are likely to incur based on our plans, but are not obligated to incur. Therefore, it should be noted that the exclusion of these items from the table could be a limitation in assessing our total future cash flows under contracts.
- (e) As of January 3, 2015, our total liability for uncertain tax positions was \$78 million, of which \$9 million is expected to be paid in the next twelve months. We are not able to reasonably estimate the timing of future cash flows related to the remaining \$69 million.
- (f) Other long-term obligations are those associated with noncurrent liabilities recorded within the Consolidated Balance Sheet at year-end 2014 and consist principally of projected commitments under deferred compensation arrangements, multiemployer plans, and supplemental employee retirement benefits. The table also includes our current estimate of minimum contributions to defined benefit pension and postretirement benefit plans through 2020 as follows: 2015-\$55; 2016-\$39; 2017-\$40; 2018-\$41; 2019-\$41; 2020-\$41.

CRITICAL ACCOUNTING ESTIMATES**Promotional expenditures**

Our promotional activities are conducted either through the retail trade or directly with consumers and include activities such as in-store displays and events, feature price discounts, consumer coupons, contests and loyalty programs. The costs of these activities are generally recognized at

the time the related revenue is recorded, which normally precedes the actual cash expenditure. The recognition of these costs therefore requires management judgment regarding the volume of promotional offers that will be redeemed by either the retail trade or consumer. These estimates are made using various techniques including historical data on performance of similar promotional programs. Differences between estimated expense and actual redemptions are normally insignificant and recognized as a change in management estimate in a subsequent period. On a full-year basis, these subsequent period adjustments represent approximately 0.3% of our company's net sales. However, our company's total promotional expenditures (including amounts classified as a revenue reduction) are significant, so it is likely our results would be materially different if different assumptions or conditions were to prevail.

Property

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

amount less than the carrying amount we determine the fair value of the asset or asset group by using comparable market data. There are inherent uncertainties associated with the judgments and estimates we use in these analyses.

At January 3, 2015, we have property, plant and equipment of \$3.8 billion, net of accumulated depreciation, on our balance sheet. Included in this amount are approximately \$79 million of idle assets.

Goodwill and other intangible assets

We perform an impairment evaluation of goodwill and intangible assets with indefinite useful lives at least annually during the fourth quarter of each year in conjunction with our annual budgeting process. Our 2012 analysis excluded goodwill and other intangible assets related to the Pringles acquisition on May 31, 2012. To comply with the requirement that all goodwill and indefinite-lived intangible assets are tested for impairment within one year of acquisition, intangible assets recognized as part of the Pringles acquisition were tested for impairment during the second quarter of 2013 in addition to the evaluation during the fourth quarter of 2013.

Goodwill impairment testing first requires a comparison between the carrying value and fair value of a reporting unit with associated goodwill. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit, which often requires allocation of shared or corporate items among reporting units. For the 2014 goodwill impairment test, the fair value of the reporting units was estimated based on market multiples. Our approach employs market multiples based on earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings for companies comparable to our reporting units. In the event the fair value determined using the market multiples approach is close to the carrying value, we may also supplement our fair value determination using discounted cash flows. Management believes the assumptions used for the impairment test are consistent with those utilized by a market participant performing similar valuations for our reporting units.

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

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

At January 3, 2015, goodwill and other intangible assets amounted to \$7.3 billion, consisting primarily of goodwill and brands associated with the 2001 acquisition of Keebler Foods Company and the 2012 acquisition of Pringles. Within this total, approximately \$2.2 billion of non-goodwill intangible assets were classified as indefinite-lived, comprised principally of Keebler and Pringles trademarks. We currently believe that the fair value of our goodwill and other intangible assets exceeds their carrying value and that those intangibles so classified will contribute indefinitely to our cash flows. The percentage of excess fair value over carrying value of the U.S. Snacks reporting unit was approximately 59% and 57% in 2014 and 2013, respectively. However, if we had used materially different assumptions, which we do not believe are reasonably possible, regarding the future performance of our business or a different market multiple in the valuation, this could have resulted in significant impairment losses. Additionally, we have \$33 million of goodwill related to our 2008 acquisition of United Bakers in Russia. The percentage of excess fair value over carrying value of the Russian reporting unit was approximately 35% in 2014 and 2013. If we used modestly different assumptions regarding sales multiples and EBITDA in the valuation, this could have resulted in an impairment loss. For example, if our projection of EBITDA margins had been lower by 400 basis points, this change in assumption may have resulted in impairment of some or all of the goodwill in the Russian reporting unit. Management will continue to monitor the situation closely.

Retirement benefits

Our company sponsors a number of U.S. and foreign defined benefit employee pension plans and also provides retiree health care and other welfare benefits in the United States and Canada. Plan funding strategies are influenced by tax regulations and asset return performance. A substantial majority of plan assets are invested in a globally diversified portfolio of equity securities with smaller holdings of debt securities and other investments. We recognize the cost of benefits provided during retirement over the employees' active working life to determine the obligations and expense related to our retiree benefit plans. Inherent in this concept is the requirement to

use various actuarial assumptions to predict and measure costs and obligations many years prior to the settlement date. Major actuarial assumptions that require significant management judgment and have a material impact on the measurement of our consolidated benefits expense and accumulated obligation include the long-term rates of return on plan assets, the health care cost trend rates, the mortality table and improvement scale, and the interest rates used to discount the obligations for our major plans, which cover employees in the United States, United Kingdom and Canada.

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

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

To conduct our annual review of the long-term rate of return on plan assets, we model expected returns over a 20-year investment horizon with respect to the specific investment mix of each of our major plans. The return assumptions used reflect a combination of rigorous historical performance analysis and forward-looking views of the financial markets including consideration of current yields on long-term bonds, price-earnings ratios of the major stock market indices, and long-term inflation. Our U.S. plan model, corresponding to approximately 69% of our trust assets globally, currently incorporates a long-term inflation assumption of 2.5% and an active management premium of 1% (net of fees) validated by historical analysis and future return expectations. Although we review our expected long-term rates of return annually, our benefit trust investment performance for one particular year does not, by itself, significantly influence our evaluation. Our expected rates of return have generally not been revised, provided these rates continue to fall within a more likely than not corridor of between the 25th and 75th percentile of expected long-term returns, as determined by our modeling process. Our assumed rate of return for U.S. plans in 2015 of 8.5% equates to approximately the 57th percentile expectation of our model. Similar methods are used for various foreign plans with invested assets, reflecting local economic conditions. Foreign trust investments represent approximately 31% of our global benefit plan assets.

Based on consolidated benefit plan assets at January 3, 2015, a 100 basis point increase or decrease in the assumed rate of return would correspondingly increase or decrease 2015 benefits expense by approximately \$60 million. For each of the three fiscal years, our actual return on plan assets exceeded (was less than) the recognized assumed return by the following amounts (in millions): 2014-\$(41); 2013-\$545; 2012 \$211.

To conduct our annual review of health care cost trend rates, we model our actual claims cost data over a five-year historical period, including an analysis of pre-65 versus post-65 age groups and other important demographic components in our covered retiree population. This data is adjusted to eliminate the impact of plan changes and other factors that would tend to distort the underlying cost inflation trends. Our initial health care cost trend rate is reviewed annually and adjusted as necessary to remain consistent with recent historical experience and our expectations regarding short-term future trends. In comparison to our actual five-year compound annual claims cost growth rate of approximately 4.71%, our initial trend rate for 2015 of 5.00% reflects the expected future impact of faster-growing claims experience for certain demographic groups within our total employee population. Our initial rate is trended downward by 0.25% per year, until the ultimate trend rate of 4.5% is reached. The ultimate trend rate is adjusted annually, as necessary, to approximate the current economic view on the rate of long-term inflation plus an appropriate health care cost premium. Based on consolidated obligations at January 3, 2015, a 100 basis point increase in the assumed health care cost trend rates would increase 2015 benefits expense by approximately \$15 million and generate an immediate loss recognition of \$169 million. A 100 basis point excess of 2015 actual health care claims cost over that calculated from the assumed trend rate would result in an experience loss of approximately \$9 million and would increase 2015 expense by \$0.4 million. Any arising health care claims cost-related experience gain or loss is recognized in the year in which they occur. The experience gain arising from recognition of 2014 claims experience was approximately \$20 million.

Assumed mortality rates of plan participants are a critical estimate in measuring the expected payments a participant will receive over their lifetime and the amount of expense we recognize. On October 27, 2014, the Society of Actuaries (SOA) published updated mortality tables and an updated improvement scale, which both reflect improved longevity. In determining the appropriate mortality assumptions as of January 3, 2015, we considered the SOA's updated mortality tables as well as other mortality information available from the Social Security Administration to develop assumptions aligned with our expectation of future improvement rates. The change to the mortality assumption increased the year-end pension and postretirement benefit obligations by \$126 million and \$33 million, respectively.

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

Based on consolidated obligations at January 3, 2015, a 25 basis point decline in the weighted-average discount rate used for benefit plan measurement purposes would increase 2015 benefits expense by approximately \$3 million and would result in an immediate loss recognition of \$263 million. All obligation-related actuarial gains and losses are recognized immediately in the year in which they occur.

Despite the previously-described rigorous policies for selecting major actuarial assumptions, we periodically experience material differences between assumed and actual experience. During 2014, we recognized a net actuarial loss of approximately \$918 million compared to a net actuarial gain of approximately \$1,097 million in 2013. Of the total net loss recognized in 2014, approximately \$911 million was related primarily to unfavorable changes in the discount rate and mortality assumptions, \$41 million was related to asset losses and \$(34) million was related to a discrete benefit resulting from certain events affecting our benefit programs. Of the \$1,097 million net gain recognized in 2013, approximately \$552 million was related to favorable changes in the discount rate, and \$545 million of asset gains.

During 2014, we made contributions in the amount of \$37 million to Kellogg's global tax-qualified pension programs. This amount was mostly non-discretionary. Additionally we contributed \$16 million to our retiree medical programs.

Income taxes

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

We recognize tax benefits associated with uncertain tax positions when, in our judgment, it is more likely than not that the positions will be sustained upon examination by a taxing authority. For tax positions that meet the more likely than not recognition threshold, we initially and subsequently measure the tax benefits as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, new or emerging legislation and tax planning. The tax position will be derecognized when it is no longer more likely than not of being sustained. Significant adjustments to our liability for unrecognized tax benefits impacting our effective tax rate are separately presented in the rate reconciliation table of Note 11 within Notes to Consolidated Financial Statements.

ACCOUNTING STANDARDS TO BE ADOPTED IN FUTURE PERIODS

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled 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. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. An entity will not restate prior periods if it uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the ASU as compared to the guidance in effect prior to the change, as well as reasons for significant changes. We will adopt the updated standard in the first quarter of 2017. We are currently evaluating the impact that implementing this

ASU will have on our financial statements and disclosures, as well as whether we will use the retrospective or modified retrospective method of adoption.

FUTURE OUTLOOK

We expect during 2015 that Project K will enable us to begin to increase investment in certain businesses and the categories in which we compete. We expect comparable net sales growth to be approximately flat; comparable gross margin to be up slightly due to net cost deflation; comparable operating profit to decline by 2 to 4 percent; and currency-neutral comparable EPS to be in a range from flat to down 2 percent.

As a result of 2014 incentive compensation being reduced to align with performance and the anticipated re-establishment of usual incentive compensation levels in 2015, we expect that increased incentive compensation will result in a 3%-4% headwind for full-year results in 2015.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our company is exposed to certain market risks, which exist as a part of our ongoing business operations. We use derivative financial and commodity instruments, where appropriate, to manage these risks. As a matter of policy, we do not engage in trading or speculative transactions. Refer to Note 12 within Notes to Consolidated Financial Statements for further information on our derivative financial and commodity instruments.

Foreign exchange risk

Our company is exposed to fluctuations in foreign currency cash flows related primarily to third-party purchases, intercompany transactions, and when applicable, nonfunctional currency denominated third-party debt. Our company is also exposed to fluctuations in the value of foreign currency investments in subsidiaries and cash flows related to repatriation of these investments. Additionally, our company is exposed to volatility in the translation of foreign currency denominated earnings to U.S. dollars. Primary exposures include the U.S. dollar versus the euro, British pound, Mexican peso, Australian dollar, Canadian dollar, Venezuelan bolivar fuerte, and Russian ruble, and in the case of inter-subsidiary transactions, the British pound versus the euro. We assess foreign currency risk based on transactional cash flows and translational volatility and may enter into forward contracts, options, and currency swaps to reduce fluctuations in long or short currency positions. Forward contracts and options are generally less than 18 months duration. Currency swap agreements may be established in conjunction with the term of underlying debt issuances.

The total notional amount of foreign currency derivative instruments at year-end 2014 was \$764 million, representing a settlement receivable of \$23 million. The total notional amount of foreign currency derivative instruments at year-end 2013 was \$517 million, representing a settlement obligation of \$1 million. All of these derivatives were hedges of anticipated transactions, translational exposure, or existing assets or liabilities, and mature within 18 months. Assuming an unfavorable 10% change in year-end exchange rates, the settlement receivable would have become a settlement obligation of \$53 million at year-end 2014 and the settlement obligation at year-end 2013 would have increased by approximately \$52 million. These unfavorable changes would generally have been offset by favorable changes in the values of the underlying exposures.

Venezuela was designated as a highly inflationary economy as of the beginning of our 2010 fiscal year. Gains and losses resulting from the translation of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. In February 2013, the Venezuelan government announced a 46.5% devaluation of the official CADIVI (now named CENCOEX) exchange rate from 4.3 bolivars to 6.3 bolivars to the U.S. dollar. Additionally, the Transaction System for Foreign Currency Denominated Securities (SITME), used between May 2010 and January 2013 to translate our Venezuelan subsidiary's financial statements to U.S. dollars, was eliminated. Accordingly, in February 2013 we began using the CENCOEX exchange rate to translate our Venezuelan subsidiary's financial statements to U.S. dollars and in 2013, we recognized a \$15 million charge as a result of the devaluation of the CENCOEX exchange rate. The CENCOEX exchange is restricted to some raw materials, finished goods, and machinery for sectors considered as national priorities, which is primarily food and medicines.

In March, 2013, the Venezuelan government announced a new auction-based currency transaction program referred to as SICAD1. SICAD1 allows entities in specific sectors to bid for U.S. dollars to be used for specified import transactions, with the minimum exchange rate to be offered being 6.3 bolivars to the U.S. dollar. As of January 3, 2015, the published SICAD1 rate offered was 12.0 bolivars to the U.S. dollar and availability of U.S. dollars at either exchange rate continues to be limited.

In January, 2014, the Venezuelan government announced the expansion of the SICAD1 auction program to prospective dividends and royalties and new profit margin controls. As our Venezuelan subsidiary declares dividends or pays royalties in the future, based on the availability of U.S. dollars exchanged under the SICAD1 program, the realized

exchange losses on payments made in U.S. dollars would be recognized in earnings. On profit margin controls, we continue to ensure we are complying with the requirements.

In February 2014, the Venezuelan government announced plans to launch a third foreign exchange mechanism, known as SICAD2, which became operational on March 24, 2014. SICAD2 relies on U.S. dollar cash and U.S. dollar denominated bonds offered by the Venezuelan Central Bank, PDVSA (the national oil and gas company) and private companies. The Venezuelan government has allowed that all industry sectors will be able to access SICAD2 and indicated that its use will not be restricted as to purpose. As of January 3, 2015, the published SICAD2 rate was 51.0 bolivars to the U.S. dollar.

In February 2015, the Venezuelan government announced plans to launch a new foreign exchange mechanism, known as SIMADI, which is expected to become operational in 2015. The SIMADI exchange mechanism, which will replace SICAD2, has been reported to be an open market in which rates will be determined based on supply and demand.

In light of the current difficult macroeconomic environment in Venezuela, we continue to monitor and actively manage our investment and exposures in Venezuela. Our Venezuelan business does not rely heavily on imports and when items are imported, they are largely exchanged at the CENCOEX rate. As of January 3, 2015 we translated our Venezuelan subsidiary's financial statements to U.S. dollars using the CENCOEX exchange rate. We will continue to monitor local conditions, our continued ability to obtain U.S. dollars at the CENCOEX exchange rate, and the use, if applicable, of the SICAD1, SICAD2 or SIMADI, once operational, mechanisms to determine the appropriate rate for translation. For fiscal year 2014, Venezuela represented approximately 2% of total net sales and 3% of total comparable operating profit. As of January 3, 2015, our net monetary assets denominated in the Venezuelan bolivar were approximately \$100 million in U.S. dollars applying the CENCOEX exchange rate. If the CENCOEX exchange rate were to devalue further or if the currently less favorable SICAD1 exchange rate were extended to apply to a greater portion of our net monetary assets in Venezuela, we would recognize a devaluation charge in earnings. The potential unfavorable fully diluted EPS impact of adopting the SICAD1 exchange rate, at the current rate of 12.0 bolivars to the U.S. dollar, would be approximately \$.12 for the revaluation of our net monetary assets denominated in the Venezuelan bolivar at January 3, 2015 and approximately \$.06 for the translation of forecasted after-tax operating profit during 2015. The potential unfavorable fully diluted EPS impact of adopting the SICAD2 exchange rate, at the current rate of 51.0 bolivars to the U.S. dollar, would be approximately \$.21 for the revaluation of our net monetary assets denominated in the Venezuelan bolivar at January 3, 2015 and approximately \$.12 for the translation of forecasted after-tax operating profit during 2015. We continue to monitor the currency developments in Venezuela and take protective measures against currency devaluation which may include converting monetary assets into non-monetary assets which we can use in our business.

Interest rate risk

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

In 2014 and prior years we entered into interest rate swaps in connection with certain U.S. Dollar Notes. Refer to disclosures contained in Note 6 within Notes to Consolidated Financial Statements. During 2014, we entered into forward starting interest swaps with notional amounts totaling 500 million (approximately \$600 million USD as of January 3, 2015), as a hedge against interest rate volatility associated with a forecasted issuance of fixed rate debt to be used for general corporate purposes. These swaps were designated as cash flow hedges.

The total notional amount of interest rate swaps at year-end 2014 was \$3 billion, representing a settlement obligation of \$12 million. The total notional amount of interest rate swaps at year-end 2013 was \$2.4 billion, representing a settlement obligation of \$59 million. Assuming average variable rate debt levels during the year, a one percentage point increase in interest rates would have increased interest expense by approximately \$36 million at year-end 2014 and \$35 million at year-end 2013.

Price risk

Our company is exposed to price fluctuations primarily as a result of anticipated purchases of raw and packaging materials, fuel, and energy. Primary exposures include corn, wheat, soybean oil, sugar, cocoa, cartonboard, natural gas, and diesel fuel. We have historically used the combination of long-term contracts with suppliers, and exchange-traded futures and option contracts to reduce price fluctuations in a desired percentage of forecasted raw material purchases over a duration of generally less than 18 months. During 2006, we entered into two separate 10-year over-the-counter commodity swap transactions to reduce fluctuations in the price of natural gas used principally in our manufacturing

processes. The notional amount of the swaps totaled \$42 million as of January 3, 2015 and equates to approximately 50% of our North America manufacturing needs over the remaining hedge period. At year-end December 28, 2013 the notional amount was \$63 million.

The total notional amount of commodity derivative instruments at year-end 2014, including the North America natural gas swaps, was \$492 million, representing a settlement obligation of approximately \$56 million. The total notional amount of commodity derivative instruments at year-end 2013, including the natural gas swaps, was \$361 million, representing a settlement obligation of approximately \$32 million. Assuming a 10% decrease in year-end commodity prices, the settlement obligation would have increased by approximately \$31 million at year-end 2014, and \$18 million at year-end 2013, generally offset by a reduction in the cost of the underlying commodity purchases.

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

Reciprocal collateralization agreements

In some instances we have reciprocal collateralization agreements with counterparties regarding fair value positions in excess of certain thresholds. These agreements call for the posting of collateral in the form of cash, treasury securities or letters of credit if a net liability position to us or our counterparties exceeds a certain amount. As of January 3, 2015, we had no collateral posting requirements related to reciprocal collateralization agreements. As of December 28, 2013, we had posted collateral of \$9 million in the form of cash, which was reflected as an increase in accounts receivable, net on the Consolidated Balance Sheet. As of January 3, 2015, and December 28, 2013, we posted \$50 million and \$12 million, respectively, in margin deposits for exchange-traded commodity derivative instruments, which was reflected as an increase in accounts receivable, net on the Consolidated Balance Sheet.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share data)	2014	2013	2012
Net sales	\$ 14,580	\$ 14,792	\$ 14,197
Cost of goods sold	9,517	8,689	8,763
Selling, general and administrative expense	4,039	3,266	3,872
Operating profit	\$ 1,024	\$ 2,837	\$ 1,562
Interest expense	209	235	261
Other income (expense), net	10	4	24
Income before income taxes	825	2,606	1,325
Income taxes	186	792	363
Earnings (loss) from joint ventures	(6)	(6)	(1)
Net income	\$ 633	\$ 1,808	\$ 961
Net income (loss) attributable to noncontrolling interests	1	1	
Net income attributable to Kellogg Company	\$ 632	\$ 1,807	\$ 961
Per share amounts:			
Basic	\$ 1.76	\$ 4.98	\$ 2.68
Diluted	\$ 1.75	\$ 4.94	\$ 2.67
Dividends per share	\$ 1.90	\$ 1.80	\$ 1.74

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions)	2014			2013			2012		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			\$ 633			\$ 1,808			\$ 961
Other comprehensive income:									
Foreign currency translation adjustments	\$ (231)	\$ (32)	(263)	\$ (24)	\$	(24)	\$ 64	\$	64
Cash flow hedges:									
Unrealized gain (loss) on cash flow hedges	(35)	18	(17)	11	(1)	10	(5)	2	(3)
Reclassification to net income	(10)	2	(8)	(6)		(6)	14	(5)	9
Postretirement and postemployment benefits:									
Amounts arising during the period:									
Net experience gain (loss)	(8)	3	(5)	17	(6)	11	(7)	3	(4)
Prior service credit (cost)	10	(3)	7	9	(2)	7	(26)	9	(17)
Reclassification to net income:									
Net experience loss	3	(1)	2	5	(2)	3	5	(2)	3
Prior service cost	10	(3)	7	13	(4)	9	12	(4)	8
Other comprehensive income (loss)	\$ (261)	\$ (16)	\$ (277)	\$ 25	\$ (15)	\$ 10	\$ 57	\$ 3	\$ 60
Comprehensive income			\$ 356			\$ 1,818			\$ 1,021

Refer to notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED BALANCE SHEET

(millions, except share data)	2014	2013
Current assets		
Cash and cash equivalents	\$ 443	\$ 273
Accounts receivable, net	1,276	1,424
Inventories	1,279	1,248
Other current assets	342	322
Total current assets	3,340	3,267
Property, net	3,769	3,856
Goodwill	4,971	5,051
Other intangibles, net	2,295	2,367
Other assets	778	933
Total assets	\$ 15,153	\$ 15,474
Current liabilities		
Current maturities of long-term debt	\$ 607	\$ 289
Notes payable	828	739
Accounts payable	1,528	1,432
Other current liabilities	1,401	1,375
Total current liabilities	4,364	3,835
Long-term debt	5,935	6,330
Deferred income taxes	726	928
Pension liability	777	277
Other liabilities	500	497
Commitments and contingencies		
Equity		
Common stock, \$.25 par value, 1,000,000,000 shares authorized		
Issued: 420,125,937 shares in 2014 and 419,923,540 shares in 2013	105	105
Capital in excess of par value	678	626
Retained earnings	6,689	6,749
Treasury stock, at cost		
64,123,181 shares in 2014 and 57,121,760 shares in 2013	(3,470)	(2,999)
Accumulated other comprehensive income (loss)	(1,213)	(936)
Total Kellogg Company equity	2,789	3,545
Noncontrolling interests	62	62
Total equity	2,851	3,607
Total liabilities and equity	\$ 15,153	\$ 15,474

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF EQUITY

(millions)	Common stock		Capital in excess of	Retained	Treasury stock		Accumulated other comprehensive	Total Kellogg Company	Non-controlling	Total	Total comprehensive
	shares	amount	par value	earnings	shares	amount	income (loss)	equity	interests	equity	income (loss)
Balance, December 31, 2011	419	\$ 105	\$ 522	\$ 5,305	62	\$ (3,130)	\$ (1,006)	\$ 1,796	\$ 2	\$ 1,798	
Common stock repurchases					1	(63)		(63)		(63)	
Acquisition of noncontrolling interest									59	59	
Net income (loss)				961				961		961	961
Dividends				(622)				(622)		(622)	
Other comprehensive income							60	60		60	60
Stock compensation			36					36		36	
Stock options exercised and other	1		15	(29)	(5)	250		236		236	
Balance, December 29, 2012	420	\$ 105	\$ 573	\$ 5,615	58	\$ (2,943)	\$ (946)	\$ 2,404	\$ 61	\$ 2,465	\$ 1,021
Common stock repurchases					9	(544)		(544)		(544)	
Net income (loss)				1,807				1,807	1	1,808	1,808
Dividends				(653)				(653)		(653)	
Other comprehensive income							10	10		10	10
Stock compensation			28					28		28	
Stock options exercised and other			25	(20)	(10)	488		493		493	
Balance, December 28, 2013	420	\$ 105	\$ 626	\$ 6,749	57	\$ (2,999)	\$ (936)	\$ 3,545	\$ 62	\$ 3,607	\$ 1,818
Common stock repurchases					11	(690)		(690)		(690)	
Net income (loss)				632				632	1	633	633
Dividends				(680)				(680)	(1)	(681)	
Other comprehensive loss							(277)	(277)		(277)	(277)
Stock compensation			29					29		29	
Stock options exercised and other			23	(12)	(4)	219		230		230	
Balance, January 3, 2015	420	\$ 105	\$ 678	\$ 6,689	64	\$ (3,470)	\$ (1,213)	\$ 2,789	\$ 62	\$ 2,851	\$ 356

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2014	2013	2012
Operating activities			
Net income	\$ 633	\$ 1,808	\$ 961
Adjustments to reconcile net income to operating cash flows:			
Depreciation and amortization	503	532	448
Postretirement benefit plan (income) expense	803	(1,078)	419
Deferred income taxes	(254)	317	(159)
Other	(88)	25	(21)
Postretirement benefit plan contributions	(53)	(48)	(51)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	131	(46)	(65)
Inventories	(30)	116	(80)
Accounts payable	96	30	208
Accrued income taxes	87	4	25
Accrued interest expense	(2)	(9)	(1)
Accrued and prepaid advertising, promotion and trade allowances	(21)	(30)	97
Accrued salaries and wages	(7)	61	15
All other current assets and liabilities	(5)	125	(38)
Net cash provided by (used in) operating activities	\$ 1,793	\$ 1,807	\$ 1,758
Investing activities			
Additions to properties	\$ (582)	\$ (637)	\$ (533)
Acquisitions, net of cash acquired			(2,668)
Other	9	(4)	(44)
Net cash provided by (used in) investing activities	\$ (573)	\$ (641)	\$ (3,245)
Financing activities			
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	\$ 183	\$ (524)	\$ 779
Issuances of notes payable, with maturities greater than 90 days	1,030	640	724
Reductions of notes payable, with maturities greater than 90 days	(1,124)	(442)	(707)
Issuances of long-term debt	952	645	1,727
Reductions of long-term debt	(960)	(762)	(750)
Net issuances of common stock	217	475	229
Common stock repurchases	(690)	(544)	(63)
Cash dividends	(680)	(653)	(622)
Other	9	24	
Net cash provided by (used in) financing activities	\$ (1,063)	\$ (1,141)	\$ 1,317
Effect of exchange rate changes on cash and cash equivalents	13	(33)	(9)
Increase (decrease) in cash and cash equivalents	\$ 170	\$ (8)	\$ (179)
Cash and cash equivalents at beginning of period	273	281	460
Cash and cash equivalents at end of period	\$ 443	\$ 273	\$ 281

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1

ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of the Kellogg Company, those of the subsidiaries that it controls due to ownership of a majority voting interest and the accounts of the variable interest entities (VIEs) of which Kellogg Company is the primary beneficiary (Kellogg or the Company). The Company continually evaluates its involvement with VIEs to determine whether it has variable interests and is the primary beneficiary of the VIE. When these criteria are met, the Company is required to consolidate the VIE. The Company's share of earnings or losses of nonconsolidated affiliates is included in its consolidated operating results using the equity method of accounting when it is able to exercise significant influence over the operating and financial decisions of the affiliate. The Company uses the cost method of accounting if it is not able to exercise significant influence over the operating and financial decisions of the affiliate. Intercompany balances and transactions are eliminated.

The Company's fiscal year normally ends on the Saturday closest to December 31 and as a result, a 53rd week is added approximately every sixth year. The Company's 2013 and 2012 fiscal years each contained 52 weeks and ended on December 28, 2013 and December 29, 2012, respectively. The Company's 2014 fiscal year ended on January 3, 2015, and included a 5th week. While quarters normally consist of 13-week periods, the fourth quarter of fiscal 2014 included a 14th week.

Use of estimates

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

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

Property

The Company's property consists mainly of plants and equipment used for manufacturing activities. These assets are recorded at cost and depreciated over estimated useful lives using straight-line methods for financial reporting and accelerated methods, where permitted, for tax reporting. Major property categories are depreciated over various periods as follows (in years): manufacturing machinery and equipment 5-30; office equipment 4-5; computer equipment and capitalized software 3-7; building components 15-25; building structures 50. Cost includes

interest associated with significant capital projects. Plant and equipment are reviewed for impairment when conditions indicate that the carrying value may not be recoverable. Such conditions include an extended period of idleness or a plan of disposal. Assets to be disposed of at a future date are depreciated over the remaining period of use. Assets to be sold are written down to realizable value at the time the assets are being actively marketed for sale and a sale is expected to occur within one year. As of year-end 2014 and 2013, the carrying value of assets held for sale was insignificant.

Goodwill and other intangible assets

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

For the goodwill impairment test, the fair value of the reporting units are estimated based on market multiples. This approach employs market multiples based on earnings before interest, taxes, depreciation and amortization and earnings for companies that are comparable to the Company's reporting units. In the event the fair value determined using the market

multiple approach is close to carrying value, the Company may supplement the fair value determination using discounted cash flows. The assumptions used for the impairment test are consistent with those utilized by a market participant performing similar valuations for the Company's reporting units.

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

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

Accounts payable

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

Revenue recognition

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

Advertising and promotion

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

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

Research and development

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

Stock-based compensation

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

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

Certain of the Company's stock-based compensation plans contain provisions that accelerate vesting of awards upon retirement, disability, or death of eligible employees and directors. A stock-based award is considered vested for expense attribution purposes when the employee's retention of the award is no longer contingent on providing subsequent service.

Accordingly, the Company recognizes compensation cost immediately for awards granted to retirement-eligible individuals or over the period from the grant date to the date retirement eligibility is achieved, if less than the stated vesting period.

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

Corporate income tax benefits realized upon exercise or vesting of an award in excess of that previously recognized in earnings (windfall tax benefit) is recorded in other financing activities in the Consolidated Statement of Cash Flows. Realized windfall tax benefits are credited to capital in excess of par value in the Consolidated Balance Sheet. Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense. The Company currently has sufficient cumulative windfall tax benefits to absorb arising shortfalls, such that earnings were not affected during the periods presented. Correspondingly, the Company includes the impact of pro forma deferred tax assets (i.e., the as if windfall or shortfall) for purposes of determining assumed proceeds in the treasury stock calculation of diluted earnings per share.

Income taxes

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

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

Derivative Instruments

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

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

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

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

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

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

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

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

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

Interest rate risk. The Company is exposed to interest rate volatility with regard to future issuances of fixed rate debt and existing and future issuances of variable rate debt. The Company periodically uses interest rate swaps, including forward-starting swaps, to reduce interest rate volatility and funding costs associated with certain debt issues, and to achieve a desired proportion of variable versus fixed rate debt, based on current and projected market conditions.

Fixed-to-variable interest rate swaps are accounted for as fair value hedges and the assessment of effectiveness is based on changes in the fair value of the underlying debt, using incremental borrowing rates currently available on loans with similar terms and maturities.

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

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

Pension benefits, nonpension postretirement and postemployment benefits

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

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

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

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

Pension and nonpension postretirement benefits. The Company recognizes actuarial gains and losses in operating results in the year in which they occur. Experience gains and losses are recognized annually as of the measurement date, which is the Company's fiscal year-end, or when remeasurement is otherwise required under generally accepted accounting principles. The Company uses the fair value of plan assets to calculate the expected return on plan assets.

Reportable segments are allocated service cost and amortization of prior service cost. All other components of pension and postretirement benefit expense, including interest cost, expected return on assets, and experience gains and losses are considered unallocated corporate costs and are not included in the measure of reportable segment operating results. See Note 16 for more information on reportable segments.

Assumed mortality rates of plan participants are a critical estimate in measuring the expected payments a participant will receive over their lifetime and the amount of expense recognized. On October 27, 2014, the Society of Actuaries (SOA) published updated mortality tables and an updated improvement scale, which both reflect improved longevity. In determining the appropriate mortality assumptions as of January 3, 2015, the Company considered the SOA's updated mortality tables as well as other mortality information available from the Social Security Administration to develop assumptions aligned with the Company's expectation of future improvement rates.

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

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

New accounting standards

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

Reporting of amounts reclassified out of Accumulated Other Comprehensive Income. In February 2013, the FASB issued an updated accounting standard requiring entities to present information about reclassifications out of accumulated other comprehensive income in a single note or on the face of the financial statements. The Company adopted the updated standard in 2013.

Indefinite-lived intangible asset impairment testing. In July 2012, the FASB issued an ASU to allow entities the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative indefinite-lived intangible asset impairment test. Under the updated standard an entity would not be required to perform the quantitative impairment test unless the entity determines, based on a qualitative assessment, that it is more likely than not that an indefinite-lived intangible asset is impaired. The Company adopted the revised guidance in 2013, with no impact to the Consolidated Financial Statements.

Accounting standards to be adopted in future periods

In May 2014, the FASB issued an ASU which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled 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. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. 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 2017. 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

GOODWILL AND OTHER INTANGIBLE ASSETS

Pringles® acquisition

On May 31, 2012, the Company completed its acquisition of the Pringles® business (Pringles) from The Procter & Gamble Company (P&G) for \$2.695 billion, or \$2.683 billion net of cash and cash equivalents, subject to certain purchase price adjustments, which resulted in a reduction of the purchase price by approximately \$15 million to \$2.668 billion net of cash and cash equivalents. The acquisition was accounted for under the purchase method and was financed through a combination of cash on hand, and short-term and long-term debt. The assets and liabilities of Pringles are included in the Consolidated Balance Sheet as of January 3, 2015 and December 28, 2013 and the results of the Pringles operations subsequent to the acquisition date are included in the Consolidated Statement of Income.

The final acquired assets and assumed liabilities include the following:

(millions)	May 31, 2012
Accounts receivable, net	\$ 128
Inventories	103
Other prepaid assets	18
Property	317

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Goodwill	1,319
Other intangibles:	
Definite-lived intangible assets	79
Brand	776
Other assets:	
Deferred income taxes	23
Other	16
Notes payable	(3)
Accounts payable	(9)
Other current liabilities	(24)
Other liabilities	(75)
	\$ 2,668

Goodwill of \$645 million is expected to be deductible for statutory tax purposes.

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the value of providing an established platform to leverage the Company's existing brands in the international snacks category, synergies expected to arise from the combined brand portfolios, as well as any intangible assets that do not qualify for separate recognition.

For the years ended January 3, 2015 and December 28, 2013, the Company incurred integration-related costs as part of the Pringles acquisition as follows: \$20 million (\$46 million in 2013) recorded in SGA, \$22 million (\$15 million in 2013) recorded in COGS and \$1 million (\$5 million in 2013) in net sales. Transaction fees and other integration-related costs incurred through December 29, 2012 were as follows: \$73 million recorded in SGA, \$3 million recorded in COGS and \$5 million in fees for a bridge financing facility which are recorded in OIE.

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

Changes in the carrying amount of goodwill

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
December 29, 2012	\$ 133	\$ 3,767	\$ 82	\$ 280	\$ 438	\$ 92	\$ 246	\$ 5,038
Pringles goodwill					10		3	13
Other goodwill		12						12
Currency translation adjustment				(2)	4	(3)	(11)	(12)
December 28, 2013	\$ 133	\$ 3,779	\$ 82	\$ 278	\$ 452	\$ 89	\$ 238	\$ 5,051
Currency translation adjustment				(5)	(63)	(6)	(6)	(80)
January 3, 2015	\$ 133	\$ 3,779	\$ 82	\$ 273	\$ 389	\$ 83	\$ 232	\$ 4,971

Intangible assets subject to amortization

(millions)	U.S. Morning Foods*	U.S. Snacks*	U.S. Specialty	North America Other	Europe*	Latin America*	Asia Pacific	Consoli- dated
Gross carrying amount								
December 29, 2012	\$ 8	\$ 65	\$	\$ 5	\$ 41	\$ 6	\$ 10	\$ 135
Currency translation adjustment					1			1
December 28, 2013	\$ 8	\$ 65	\$	\$ 5	\$ 42	\$ 6	\$ 10	\$ 136
Currency translation adjustment					(4)			(4)
January 3, 2015	\$ 8	\$ 65	\$	\$ 5	\$ 38	\$ 6	\$ 10	\$ 132

Accumulated Amortization

December 29, 2012	\$ 8	\$ 7	\$	\$ 3	\$ 1	\$ 6	\$	\$ 25
Amortization		4		1	3		1	9
December 28, 2013	\$ 8	\$ 11	\$	\$ 4	\$ 4	\$ 6	\$ 1	\$ 34
Amortization		5			3		1	9
January 3, 2015	\$ 8	\$ 16	\$	\$ 4	\$ 7	\$ 6	\$ 2	\$ 43

Intangible assets subject to amortization, net

December 29, 2012	\$	\$ 58	\$	\$ 2	\$ 40	\$	\$ 10	\$ 110
Amortization		(4)		(1)	(3)		(1)	(9)
Currency translation adjustment					1			1
December 28, 2013	\$	\$ 54	\$	\$ 1	\$ 38	\$	\$ 9	\$ 102
Amortization (a)		(5)			(3)		(1)	(9)
Currency translation adjustment					(4)			(4)
January 3, 2015	\$	\$ 49	\$	\$ 1	\$ 31	\$	\$ 8	\$ 89

* Certain fully amortized intangible assets which were no longer utilized by the Company have been written off and revised in prior period presentation. The impact to the reporting segments are as follows (millions): U.S. Morning Foods \$20; U.S. Snacks \$5; Europe \$2; Latin America \$1.

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- (a) The currently estimated aggregate amortization expense for each of the next five succeeding fiscal periods is approximately \$9 million per year.

Intangible assets not subject to amortization

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
December 29, 2012	\$ 63	\$ 1,625	\$	\$ 95	\$ 466	\$	\$	\$ 2,249
Currency translation adjustment					16			16
December 28, 2013	\$ 63	\$ 1,625	\$	\$ 95	\$ 482	\$	\$	\$ 2,265
Currency translation adjustment					(59)			(59)
January 3, 2015	\$ 63	\$ 1,625	\$	\$ 95	\$ 423	\$	\$	\$ 2,206

NOTE 3**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

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

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

The Company currently anticipates that the program will result in total pre-tax charges, once all phases are approved and implemented, of \$1.2 to \$1.4 billion, with after-tax cash costs, including incremental capital expenditures, estimated to be \$900 million to \$1.1 billion. The Company currently expects the charges will consist of asset-related costs totaling \$450 to \$500 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs totaling \$425 to \$475 million which will include severance, pension and other termination benefits; and other costs totaling \$325 to \$425 million which will consist primarily of charges related to the design and implementation of global business capabilities. A significant portion of other costs are the result of the implementation of global business service centers which are intended to simplify and standardize business support processes.

The Company currently expects that total pre-tax charges related to Project K will impact reportable segments as follows: U.S. Morning Foods (approximately 18%), U.S. Snacks (approximately 12%), U.S. Specialty (approximately 1%), North America Other (approximately 5%), Europe (approximately 13%), Latin America (approximately 3%), Asia-Pacific (approximately 6%), and Corporate (approximately 42%). A majority of the costs impacting Corporate relate to additional initiatives to be approved and executed in the future. When these initiatives are fully defined and approved, the Company will update estimated costs by reportable segment as needed.

Since inception of Project K, the Company has recognized charges of \$506 million that have been attributed to the program. The charges were comprised of \$2 million being recorded as a reduction of revenue, \$326 million being recorded in COGS and \$178 million recorded in SGA.

All Projects

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

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

During 2012, the Company recorded \$56 million of costs associated with cost reduction initiatives. The charges were comprised of \$43 million being recorded in COGS and \$13 million recorded in SGA expense.

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The tables below provide the details for the charges incurred during 2014, 2013 and 2012 and program costs to date for all programs currently active as of January 3, 2015.

(millions)	2014	2013	2012	Program costs to date January 3, 2015
Employee related costs	\$ 90	\$ 114	\$	\$ 197
Asset related costs	37	10	4	43
Asset impairment	21	70	17	87
Other costs	150	56	35	179
Total	\$ 298	\$ 250	\$ 56	\$ 506

(millions)	2014	2013	2012	Program costs to date January 3, 2015
U.S. Morning Foods	\$ 60	\$ 109	\$ 16	\$ 160
U.S. Snacks	57	30	10	76
U.S. Specialty	3	5	1	6
North America Other	18	11	6	27
Europe	80	27	3	99
Latin America	8	5	2	12
Asia Pacific	37	32	18	61
Corporate	35	31		65
Total	\$ 298	\$ 250	\$ 56	\$ 506

Employee related costs consisted of severance and pension charges. Asset impairments were recorded for fixed assets that were determined to be impaired and were written down to their estimated fair value. See Note 12 for more information. Asset related costs consist primarily of accelerated depreciation. Other costs incurred consist primarily of third-party incremental costs related to the development and implementation of global business capabilities.

At January 3, 2015 total exit cost reserves were \$110 million, related to severance payments and other costs of which a substantial portion will be paid in 2015 and 2016. The following table provides details for exit cost reserves.

(millions)	Employee Related Costs	Asset Impairment	Asset Related Costs	Other Costs	Total
Liability as of December 28, 2013	\$ 66	\$	\$	\$ 12	\$ 78
2014 restructuring charges	90	21	37	150	298
Cash payments	(84)		(24)	(148)	(256)
Non-cash charges and other (a)	24	(21)	(13)		(10)
Liability as of January 3, 2015	\$ 96	\$	\$	\$ 14	\$ 110

(a) Employee related non-cash charges consist of pension curtailment benefit.

NOTE 4**EQUITY****Earnings per share**

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

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Earnings per share
2014			
Basic	\$ 632	358	\$ 1.76
Dilutive potential common shares		2	(0.01)
Diluted	\$ 632	360	\$ 1.75
2013			
Basic	\$ 1,807	363	\$ 4.98
Dilutive potential common shares		2	(0.04)
Diluted	\$ 1,807	365	\$ 4.94
2012			
Basic	\$ 961	358	\$ 2.68
Dilutive potential common shares		2	(0.01)
Diluted	\$ 961	360	\$ 2.67

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

2012-9.9.

Stock transactions

The Company issues shares to employees and directors under various equity-based compensation and stock purchase programs, as further discussed in Note 7. The number of shares issued during the periods presented was (in millions): 2014 4; 2013 10; 2012 5. The Company issued shares totaling less than one million in each of the years presented under *Kellogg DirectTM*, a direct stock purchase and dividend reinvestment plan for U.S. shareholders.

In December 2012, the Company's board of directors approved a share repurchase program authorizing the repurchase of up to \$300 million during 2013. In April 2013, the Company's board of directors approved an authorization to repurchase up to \$1 billion in shares through April 2014. In February 2014, the Company's board of directors approved a new authorization to repurchase up to \$1.5 billion in shares through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow the Company to repurchase shares for general corporate purposes and to offset issuances for employee benefit programs. In May 2013, the Company entered into an Accelerated Share Repurchase (ASR) Agreement with a financial institution counterparty and paid \$355 million for the repurchase of shares during the term of the Agreement which extended through August 2013. During the second quarter of 2013, 4.9 million shares were initially delivered to the Company and accounted for as a reduction to Kellogg Company equity. The transaction was completed during the third quarter, at which time the Company received 0.6 million additional shares. The total number of shares delivered upon settlement of the ASR was based upon the volume weighted average price of the Company's stock over the term of the agreement.

During 2014, the Company repurchased 11 million shares of common stock for a total of \$690 million. During 2013, the Company repurchased 9 million shares of common stock for a total of \$544 million. During 2012, the Company repurchased 1 million shares of common stock at a total cost of \$63 million.

Comprehensive income

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Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by or distributions to shareholders. Other comprehensive income for all years presented consists of foreign currency translation adjustments, fair value adjustments associated with cash flow hedges and adjustments for net experience losses and prior service cost related to employee benefit plans.

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Reclassifications out of Accumulated Other Comprehensive Income (AOCI) for the year ended January 3, 2015 and December 28, 2013, consisted of the following:

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

Accumulated other comprehensive income (loss) as of January 3, 2015 and December 28, 2013 consisted of the following:

(millions)	January 3, 2015	December 28, 2013
Foreign currency translation adjustments	\$ (1,119)	\$ (856)
Cash flow hedges unrealized net gain (loss)	(24)	1
Postretirement and postemployment benefits:		
Net experience loss	(18)	(15)
Prior service cost	(52)	(66)
Total accumulated other comprehensive income (loss)	\$ (1,213)	\$ (936)

Noncontrolling interests

In December 2012, the Company entered into a series of agreements with a third party including a subordinated loan (VIE Loan) of \$44 million which is convertible into approximately 85% of the equity of the entity (VIE). Due to this convertible subordinated loan and other agreements, the Company determined that the entity is a variable interest entity and the Company is the primary beneficiary. Accordingly, the Company has consolidated the financial statements of the VIE in 2012 and treated the consolidation as a business acquisition within the U.S. Snacks reportable segment, which resulted in the following as of December 29, 2012: current assets, \$14 million; property, \$36 million; amortizable intangibles and other non-current assets, \$26 million; goodwill, \$76 million; current liabilities, \$2 million; notes payable and long-term debt, \$39 million; non-current deferred tax liabilities, \$8 million; and noncontrolling interests, \$59 million. During 2013, the purchase price allocation was completed resulting in increases to goodwill and non-current deferred tax liabilities of \$12 million. The assets and liabilities of the VIE are included in the Consolidated Balance Sheet as of January 3, 2015 and December 28, 2013 and the results of the VIE's operations are included in the Consolidated Statement of Income for the years ended January 3, 2015 and December 28, 2013. The Company evaluates the VIE Loan for collectability based on the actual and projected financial results of the VIE, the amount of senior collateralized borrowings of the VIE as well as other matters impacting the VIE's operations. The Company has determined that an allowance for credit losses is not necessary as of January 3, 2015 and December 28, 2013. If the Company used moderately different assumptions regarding the VIE's financial results and other matters, the VIE Loan would have an other than temporary impairment.

As of January 3, 2015 and December 28, 2013, the VIE had property and equipment with a carrying value of \$32 million and \$35 million, respectively, and notes payable and current and long-term debt of \$19 million and \$30 million, respectively. The liabilities recognized as a result of consolidating the VIE do not represent additional claims on the Company's general assets. Conversely, general creditors would not have claims against the assets of the VIE.

NOTE 5

LEASES AND OTHER COMMITMENTS

The Company's leases are generally for equipment and warehouse space. Rent expense on all operating leases was (in millions): 2014-\$183; 2013-\$174; 2012-\$174. During 2014 and 2013, the Company entered into less than \$1 million in capital lease agreements. In 2012, the Company entered into approximately \$4 million in capital lease agreements to finance the purchase of equipment.

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At January 3, 2015, future minimum annual lease commitments under non-cancelable operating and capital leases were as follows:

(millions)	Operating leases	Capital leases
2015	\$ 176	\$ 1
2016	157	1
2017	119	1
2018	90	1
2019	64	1
2020 and beyond	115	1
Total minimum payments	\$ 721	\$ 6
Amount representing interest		(1)
Obligations under capital leases		5
Obligations due within one year		(1)
Long-term obligations under capital leases		\$ 4

The Company has provided various standard indemnifications in agreements to sell and purchase business assets and lease facilities over the past several years, related primarily to pre-existing tax, environmental, and employee benefit obligations. Certain of these indemnifications are limited by agreement in either amount and/or term and others are unlimited. The Company has also provided various hold harmless provisions within certain service type agreements. Because the Company is not currently aware of any actual exposures associated with these indemnifications, management is unable to estimate the maximum potential future payments to be made. At January 3, 2015, the Company had not recorded any liability related to these indemnifications.

NOTE 6

DEBT

The following table presents the components of notes payable at year end January 3, 2015 and December 28, 2013:

(millions)	2014		2013	
	Principal amount	Effective interest rate	Principal amount	Effective interest rate
U.S. commercial paper	\$ 681	0.36%	\$ 249	0.22%
Europe commercial paper	96	0.09	437	0.23
Bank borrowings	51		53	
Total	\$ 828		\$ 739	

The following table presents the components of long-term debt at year end January 3, 2015 and December 28, 2013:

(millions)	2014	2013
(a) 7.45% U.S. Dollar Debentures due 2031	\$ 1,090	\$ 1,089
(b) 4.0% U.S. Dollar Notes due 2020	842	974
(c) 4.45% U.S. Dollar Notes due 2016	760	767
(d) 1.75% Euro Notes due 2021	597	
(e) 1.875% U.S. Dollar Notes due 2016	504	505
(f) 4.15% U.S. Dollar Notes due 2019	497	488
(g) 3.25% U.S. Dollar Notes due 2018	410	411
(h) 1.75% U.S. Dollar Notes due 2017	396	395
(i) 3.125% U.S. Dollar Notes due 2022	357	682
(j) 1.125% U.S. Dollar Notes due 2015	350	350
(k) 2.05% Canadian Dollar Notes due 2017	259	
(l) Floating-rate U.S. Dollar Notes due 2015	250	250
(m) 2.75% U.S. Dollar Notes due 2023	210	398
(n) 2.10% Canadian Dollar Notes due 2014		282
Other	20	28
	6,542	6,619
Less current maturities	(607)	