KELLOGG CO
Form 10-K
February 20, 2018

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 December 30, 2017
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Transition Period From To
Commission file number 1-4171
Kellogg Company
(Exact name of registrant as specified in its charter)

Delaware	38-0710690
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Title of each class:	Name of each exchange on which registered:
Common Stock, $.25 par value per share	New York Stock Exchange
1.750% Senior Notes due 2021	New York Stock Exchange
0.800% Senior Notes due 2022	New York Stock Exchange
1.000% Senior Notes due 2024	New York Stock Exchange
1.250% Senior Notes due 2025	New York Stock Exchange

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

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ 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 þ
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 þ 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 þ 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. þ

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming for purposes of this computation only that the W. K. Kellogg Foundation Trust, directors and executive officers may be affiliates) as of the close of business on July 1, 2017 was approximately $18.9 billion based on the closing price of $68.34 for one share of common stock, as reported for the New York Stock Exchange on that date.

As of January 27, 2018, 345,748,749 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 27, 2018 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 18 within Notes to the Consolidated Financial Statements.

Principal Products. Our principal products are snacks, such as cookies, crackers, savory snacks, toaster pastries, cereal bars, granola bars and bites, fruit-flavored snacks; and convenience foods, such as, ready-to-eat cereals, frozen waffles and veggie foods. These products were, as of February 20, 2018, manufactured by us in 21 countries and marketed in more than 180 countries. They are sold to retailers through direct sales forces for resale to consumers. We use broker and distributor arrangements for certain products and channels, as well as less-developed market areas or in those market areas outside of our focus.

Our snacks brands are marketed under brands such as Kellogg's, Keebler, Cheez-It, Pringles, Murray, Austin, Famous Amos, Parati, and RXBAR. Our cereals and cereal bars are generally marketed under the Kellogg's name, with some under the Kashi and Bear Naked brands. Our frozen foods are marketed under the Eggo and Morningstar Farms brands.

We also market cookies, crackers, crisps, and other convenience foods, under brands such as Kellogg's, Keebler, Cheez-It, Pringles, Murray, Austin and Famous Amos, to supermarkets in the United States through a variety of distribution methods.

Additional information pertaining to the relative sales of our products for the years 2015 through 2017 is located in Note 18 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

Corporate responsibility and sustainability. Climate change and food security are core business issues for Kellogg to ensure the long-term health and viability of the ingredients we use in our products. The Social Responsibility & Public Policy Committee of our Board of Directors oversees the company's sustainability efforts and climate policy. All four committee members are independent. At the executive level, environmental and social issues in our supply chain are overseen by our Chief Sustainability Officer and are aligned and included in parallel work streams within internal audit and audit committee. Policies and strategies regarding these topics are aligned in the organization's lobbying, advocacy, and membership efforts. In multi-stakeholder initiatives, Kellogg partners with suppliers, customers, governments and non-governmental organizations, including the World Business Council for Sustainable Development and the Consumer Goods Forum.

Kellogg Company relies on natural capital including energy for product manufacturing and distribution, water as an ingredient, for facility cleaning and steam power, and food crops and commodities as an ingredient. These natural capital dependencies are at risk of shortage, price volatility, regulation, and quality impacts due to climate change which is assessed as part of Kellogg's overall enterprise risk management approach. Specific risks including water stress and social accountability are specifically identified and assessed on a regular basis, especially in emerging market expansion that fuels company growth. Due to these risks, Kellogg has implemented major short- and long-term initiatives to mitigate and adapt to these environmental pressures, as well as the resulting challenge of food security.

Global sustainability commitments. Kellogg has committed to improving efficiency in its owned manufacturing footprint by reducing water use, total waste, energy use, and greenhouse gas (GHG) emissions by 15% per metric tonne of food produced by 2020 from a 2015 baseline. We will report 2017 energy, GHG, and water use reductions in our 2017/2018 Corporate Responsibility Report. The goal is to reduce the risk of disruptions from unexpected constraints in natural resource availability or impacts on raw material pricing. Additionally, Kellogg is committed to implement water reuse projects in at least 25% of our plants by 2020 from a 2015 baseline, with a specific focus on plants located in water stressed areas. Kellogg has committed to responsibly sourcing our ten priority ingredients as determined by environmental, social, and business risk by 2020 by partnering with suppliers and farmers to

measure continuous improvement. In addition, Kellogg established third-party approved science-based targets to reduce absolute Scope 1 and 2 greenhouse emissions by 65% and Scope 3 greenhouse emissions by 50% by 2050 from a 2015 baseline. Through these commitments, Kellogg supports the United Nations Sustainable Development Goal #13 to take urgent action to combat climate change and its impacts.
In 2016, the manufacturing organization led sustainability efforts that resulted in a reduction in water use by 2.7%, energy use by 0.1%, an increase in GHG emissions by 1.8% per metric tonne of food produce compared to a 2015 baseline. In the first year of our science-based targets, we’ve reduced absolute Scope 1 and 2 emissions by 0.2%. Numerous factors contributed to our increased GHG emissions, including 1) in several countries where we operate, drought conditions have decreased the generation of clean energy from hydropower; 2) the decreasing prices of fossil fuels has encouraged some countries to generate more electricity from these non-renewable sources; and 3) our growing Pringles® business requires more energy (and water) to produce than other Kellogg foods. In September 2017, Kellogg joined RE100, an industry platform working together towards 100% renewable electricity. Increasing our use of renewable electricity will lower business risk and reduce GHG emissions.

Food Loss and Waste: As a global food company, Kellogg is committed to addressing the critical issues of climate and food security, and we’re committed to address food loss and waste. Kellogg supports the United Nations Sustainable Development Goal (SDG) 12.3, to halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses, by 2030. These goals are aligned with Kellogg commitments to reduce waste, with a focus on food waste across our end-to-end supply chain. And through our global signature cause platform, Breakfasts for Better Days™ we’re donating food for hunger relief that may otherwise go to waste.

Breakfasts for Better Days: In 2016, this global social purpose platform expanded with the intent to contribute to food security - aligned to United Nations Sustainable Development Goal #2 SDG 2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture. The goal of the program is to create 3 billion Better Days by 2025 to address food security risks that can impact the Company as well as create opportunity to engage consumers. The Company’s five key commitments include food donations, expansion of breakfast clubs, supporting 500,000 farmers, committing to 45,000 employee volunteer days, and engaging 300 million people to join Kellogg in its hunger relief efforts. Through Breakfasts for Better Days, Kellogg has helped make billions of days better for people in need, providing 1.9 billion servings of food since 2013.
As a grain-based food company, the success of Kellogg Company is dependent on having timely access to high quality, low cost ingredients, water and energy for manufacturing globally. Risks are identified annually through annual reporting and evaluated in the short (<3 years), medium (3 - 6 years) and long terms (>6 years). The Company has incorporated the risks and opportunities of climate change and food security as part of the Global 2020 Growth Strategy and global Heart and Soul Strategy by continuing to identify risk, incorporate sustainability indicators into strategic priorities, and report regularly to leadership, the Board, and publicly. While these risks are not currently impacting business growth, they must be monitored, evaluated, and mitigated.
Raw Materials. Agricultural commodities, including corn, wheat, potato flakes, vegetable oils, sugar and cocoa, are the principal raw materials used in our products. Cartonboard, corrugate, 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 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 electricity, oil, propane or solar cells on a back-up or alternative basis. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products.
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, snacks and various other 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, Choco Zucaritas, Cocoa Krispies, Kellogg’s Corn Flakes, Corn Pops, Cracklin’ Oat Bran, Crispix, Eggo, Froot Loops, Kellogg’s Frosted Flakes, Krave, Frosted Krispies, Frosted Mini-Wheats, Mueslix, Pops, Kellogg's Raisin Bran, Raisin Bran Crunch, Rice Krispies, Rice Krispies Treats, Smacks/Honey Smacks, Special K, Special K Nourish, Special K Red Berries and Zucaritas in the United States and elsewhere; Sucrilhos, Krunchy Granola, Kellogg's Extra, Kellness, Müsli, and Choco Krispis for cereals in Latin America; Vector in Canada; Ancient Legends, Coco Pops, Choco Krispies, Frosties, Fruit ‘N Fibre, Kellogg’s Crunchy Nut, Krave, Honey Loops, Kellogg’s Extra, Country Store, Smacks, Pops, Honey Bsss, Croco Copters, W.K. Kellogg, Toppas and Tresor for cereals in Europe; and Froot Ring, Guardian, Just Right, Sultana Bran, Frosties, Rice Bubbles, Nutri-Grain, and Sustain for cereals in Asia and Australia. Additional trademarks are the names of certain combinations of ready-to-eat Kellogg’s cereals, including Fun Pak and Variety.
Other brand names include Kellogg’s Corn Flake Crumbs; All-Bran, Choco Krispis, Crunchy Nut, Frutela, Special K, Squares, Zucaritas and Sucrilhos for cereal bars; Pop-Tarts for toaster pastries; Eggo and Nutri-Grain for frozen waffles and pancakes; Eggo, Special K and MorningStar Farms for breakfast sandwiches; Rice Krispies Treats for convenience foods; Special K protein shakes; Nutri-Grain cereal bars for convenience foods in the United States and elsewhere; K-Time, Split Stix, Be Natural, Sunibrite and LCMs for convenience foods in Australia; Choco Krispies, Coco Pops, and Rice Krispies Squares for convenience foods in Europe; Kashi for certain cereals, convenience foods, frozen foods, powders and pilaf; GoLean for cereals and nutrition bars; Special K and Vector for meal bars; Bear Naked for granola cereal and snack bites, Pringles for potato crisps, corn crisps, grain and vegetable crisps and potato sticks; and Morningstar Farms and Gardenburger for certain meat alternatives.
We also market convenience foods under trademarks and tradenames which include Keebler, Austin, Cheez-It, Chips Deluxe, Club, E. L. Fudge, Famous Amos, Fudge Shoppe, Gripz, Krispy, Minueto, Mother’s, Murray, Murray Sugar Free, Parati, Ready Crust, RXBAR, Sandies, Special K, Soft Batch, Simply Made, Stretch Island, Sunshine, Toasteds, Town House, Trink, Vienna Fingers, Zesta and Zoo Cartoon. 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 and Chocos cereal; Cornelius (aka Cornelio) for Kellogg’s Corn Flakes; Melvin the Elephant for certain cereal and convenience foods; Chocovore and Sammy the Seal (aka Smaxey the Seal) for certain cereal products; and Mr. P or Julius Pringles for Pringles potato crisps, corn crisps, grain and vegetable crisps and potato sticks.
The slogans The Original & Best, They’re Gr-r-reat!, Show Your Stripes and Follow Your Nose, are used in connection with our ready-to-eat cereals, along with L’ Eggo my Eggo, used in connection with our frozen waffles, pancakes, French toast sticks and breakfast sandwiches, Uncommonly Good and It Takes Heart To Make a Good Cookie used in connection with convenience food products, Taste It To Believe It used in connection with meat alternatives and Pop Play Eat 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. A description of our working capital is included in the Liquidity section of MD&A within Item 7 of this report.

Customers. Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 20% of consolidated net sales during 2017, comprised principally of sales within the United States. At December 30, 2017, approximately 17% of our consolidated receivables balance and 26% 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 2017. During 2017, our top five customers, collectively, including Wal-Mart, accounted for approximately 35% of our consolidated net sales and approximately 49% 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 December 30, 2017 and December 31, 2016 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): 2017-$148; 2016-$182; 2015-$193.

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 December 30, 2017, we had approximately 33,000 employees.

Financial Information About Geographic Areas. Information on geographic areas is located in Note 18 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

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Executive Officers. The names, ages, and positions of our executive officers (as of February 20, 2018) are listed below, together with their business experience. Executive officers are elected annually by the Board of Directors.

Amit Banati 49
Senior Vice President, Kellogg Company
President, Asia Pacific
Mr. Banati assumed his current position in March 2012. Prior to joining Kellogg Company, he served in a variety of board and leadership roles at Kraft Foods, Cadbury Schweppes and Procter & Gamble. Mr. Banati has worked extensively across the Asia Pacific region, particularly in Australia, India, China, Japan, Korea, Southeast Asia and Singapore. At Kraft Foods, he was President, North Asia and Asia Pacific strategy, leading the company's operations in Japan, Korea, Taiwan, Hong Kong and Singapore. Prior to that, Mr. Banati served as President, Pacific, for Cadbury Schweppes, leading its Australia, New Zealand, Japan and Singapore operations. He was also Chairman of Cadbury Schweppes Australia Limited.

John A. Bryant 52
Chairman

Mr. Bryant has been Chairman of the Board of Kellogg Company since July 2014. Mr. Bryant retired from his role as President and Chief Executive Officer on October 1, 2017, having served in that role since January 2011. He has been a member of Kellogg Company's Board of Directors since July 2010. From December 2006 through January 2011, Mr. Bryant held various operating roles, including President, Kellogg International; President, Kellogg North America; and Chief Operating Officer. He was also the Chief Financial Officer of Kellogg Company from February 2002 until June 2004 and again from December 2006 through December 2009. Mr. Bryant joined Kellogg Company in 1998 and was promoted during the next four years to a number of key financial and executive leadership roles. He has also been a trustee of the W. K. Kellogg Foundation Trust since 2015, and is a director of Macy's Inc.

Steven A. Cahillane 52
President and Chief Executive Officer

Mr. Cahillane became President and Chief Executive Officer on October 2, 2017, and has served as a Kellogg Director since October 2017. Prior to joining Kellogg, Mr. Cahillane served as Chief Executive Officer and President, and as member of the board of directors, of Alphabet Holding Company, Inc., and its wholly-owned operating subsidiary, The Nature's Bounty Co., since September 8, 2014. Prior to that, Mr. Cahillane served as Executive Vice President of The Coca-Cola Company from February 2013 to February 2014 and President of Coca-Cola Americas, the global beverage maker's largest business, with $25 billion in annual sales at that time, from January 2013 to February 2014. Mr. Cahillane served as President of various Coca-Cola operating groups from 2007 to 2012.

Alistair D. Hirst 58
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 to 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.

Christopher M. Hood 55
Senior Vice President, Kellogg Company
President, Kellogg Europe
Mr. Hood assumed his current position in October 2013. He joined The Procter and Gamble Company in 1993, and had a distinguished 19-year career in Marketing and General Management, based in Cincinnati, Ohio. Mr. Hood joined Kellogg Company in 2012 as the Vice President of European Snacks. He has held a number of Board roles across the Food and Beverage Industry. Mr. Hood is currently serving on the Board of Food Drink Europe and the European Brands Association.

Melissa A. Howell 51
Senior Vice President, Global Human Services
Ms. Howell assumed her current position in June 2016. Prior to joining Kellogg, she was Chief Human Resource Officer for Rockford, Michigan-based Wolverine since 2014. Prior to Wolverine, Ms. Howell spent 24 years with General Motors where she led a team of 2,800 Human Resource professionals worldwide, supporting a global business at one of the top automotive companies in the world, and also among the largest public corporations. Ms. Howell joined General Motors as a Labor Relations Representative at its Ypsilanti, Michigan, assembly plant in 1990. Over the following years, she served in a series of key human resource leadership roles in Europe, Asia and U.S. leading teams on six continents across an array of functional areas. Ms. Howell was promoted to Executive Director of North American Human Resources in 2011 and subsequently promoted to Senior Vice President of Global Human Resources.

Fareed Khan 52
Senior Vice President and Chief Financial Officer
Mr. Khan has been Senior Vice President, Chief Financial Officer and Principal Financial Officer, Kellogg Company since February 22, 2017. Mr. Khan joined Kellogg in February 2017. Before joining the Company, he served as Chief Financial Officer of US Foods Holding Corp. since 2013. Prior to that, Mr. Khan had been Senior Vice President and Chief Financial Officer of United Stationers Inc. since July 2011. Prior to United Stationers Inc., he spent twelve years with USG Corporation, where he most recently served as Executive Vice President, Finance and Strategy. Before joining USG Corporation in 1999, Mr. Khan was a consultant with McKinsey & Company, where he served global clients on a variety of projects.

Maria Fernanda Mejia 54
Senior Vice President, Kellogg Company
President, Kellogg Latin America
Ms. Mejia assumed her current position in November 2011. She previously held a variety of global marketing and management roles at the Colgate-Palmolive Company, including Corporate Vice President and General Manager, Global Personal Care and Corporate Fragrance Development, Corporate Vice President of Marketing and Innovation for Europe/South Pacific, and President and CEO of Colgate-Palmolive Spain. She joined Colgate in 1989.

Donald O. Mondano 46
Vice President and Corporate Controller
Mr. Mondano assumed his current position in March 2016. Prior to joining Kellogg Company, Mr. Mondano was Vice President, Finance and Corporate Controller at The Manitowoc Company, a Wisconsin-based manufacturer specializing in products for global foodservice and construction industries, since 2012. In this role, he was not only responsible for the enterprise reporting and accounting function, but he was also responsible for overseeing enterprise financial planning and analysis, management reporting and the overall finance function of one of the two business segments, the Cranes business unit. Prior to that role, he worked in various roles of increasing responsibility at PricewaterhouseCoopers at various international and domestic offices from March 2000 to June 2012. Mr. Mondano previously held positions in Phillip Semiconductors and The Bank of the Philippine Islands, as a cost accountant and commercial lender, respectively.

Paul T. Norman 53
Senior Vice President, Kellogg Company
President, Kellogg North America
Mr. Norman was appointed President, Kellogg North America in May 2015. He was appointed Senior Vice President, Kellogg Company in December 2005. Mr. Norman was appointed Chief Growth Officer in October 2013 and also held the role of interim U.S. Morning Foods President from June 2014 to May 2015. Mr. Norman joined Kellogg's U.K. sales organization in 1987. From 1989 to 1996, Mr. Norman was promoted to several marketing roles in France and Canada. He was promoted to director, marketing, Kellogg de Mexico in January 1997; to Vice President, Marketing, Kellogg USA in February 1999; to President, Kellogg Canada Inc. in December 2000; and to Managing Director, United Kingdom/Republic of Ireland in February 2002. In September 2004, Mr. Norman was appointed to Vice President, Kellogg Company, and President, U.S. Morning Foods. In August 2008, Mr. Norman was promoted to President, Kellogg International.

Gary H. Pilnick 53
Vice Chairman, Corporate Development
and Chief Legal Officer
Mr. Pilnick was appointed Vice Chairman, Corporate Development and Chief Legal Officer in January 2016. In August 2003, he was appointed Senior Vice President, General Counsel and Secretary and assumed responsibility for Corporate Development in June 2004. He joined Kellogg as Vice President — Deputy General Counsel and Assistant Secretary in September 2000 and served in that position until August 2003. Before joining Kellogg, he served as Vice President and Chief Counsel of Sara Lee Branded Apparel and as Vice President and Chief Counsel, Corporate Development and Finance at Sara Lee Corporation.

Clive M. Sirkin 54
Senior Vice President, Kellogg Company
Chief Growth Officer
Mr. Sirkin assumed his current position in December 2015. Prior to joining Kellogg Company, he served as Kimberly-Clark's Chief Marketing Officer (CMO) since 2012. Prior to joining Kimberly-Clark, Mr. Sirkin served as Principal, Plunger Group, a consulting firm focused on working with CMOs to transform brand building from an analog advertising and communication model to a digitally driven commercial model focused on driving growth. Prior to founding Plunger Group, he served as Group Managing Director Leo Burnett Worldwide. During his 15-year tenure with Leo Burnett, Mr. Sirkin also served as Executive Vice President - Global Director, and Vice President, Leo Burnett Canada.

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

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

Forward-Looking Statements. This Report contains "forward-looking statements" with projections concerning, among other things, the Company's global growth and efficiency program (Project K), the integration of acquired businesses, our strategy, zero-based budgeting, financial principles, and plans; initiatives, improvements and growth; sales, margins, advertising, promotion, merchandising, brand building, operating profit, and earnings per share; innovation; investments; capital expenditures; asset write-offs and expenditures and costs related to productivity or efficiency initiatives; the impact of accounting changes and significant accounting estimates; our ability to meet interest and debt principal repayment obligations; minimum contractual obligations; future common stock repurchases or debt reduction; effective income tax rate; cash flow and core working capital improvements; interest expense; commodity and energy prices; and employee benefit plan costs and funding. Forward-looking statements include predictions of future results or activities and may contain the words "expect," "believe," "will," "can," "anticipate," "estimate," "project," "sh words or phrases of similar meaning. For example, forward-looking statements are found in this Item 1 and in several sections of Management's Discussion and Analysis. Our actual results or activities may differ materially from these predictions. Our future results could be affected by a variety of factors, including the ability to implement Project K, including exiting our Direct-Store-Door distribution system, 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 benefits we expect from the adoption of zero-based budgeting in the amounts and at the times expected, the ability to realize anticipated benefits from revenue growth management, 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; adverse changes in global climate or extreme weather conditions; business disruption or other losses from natural disasters, war, terrorist acts, or political unrest; 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 efficiency and effectiveness program (Project K).
In November 2013, the Company announced a global 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. While we are four years into the implementation of Project K and many of the initiatives under the program have been successfully implemented or are nearing completion, we may not be able to implement Project K as planned, including the successful exit of our Direct Store Delivery network and transitioning that business to a warehouse model. 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 has required, and will continue to require a substantial amount of management and operational resources. Our management team must successfully implement administrative and operational changes necessary to achieve the anticipated benefits of Project K. These and related demands on our resources may divert the organization’s attention from existing core businesses, integrating or separating personnel and financial or other systems, have adverse effects on existing business relationships with suppliers and customers, and impact employee morale. As a result our financial condition, results of operations or cash flows may be adversely affected.
We may not realize the benefits we expect from the adoption of zero-based budgeting.
We adopted zero-based budgeting which presents significant organizational challenges. As a result, we may not realize all or part of the anticipated cost savings or other benefits from the initiative. Other events and circumstances, such as financial or strategic difficulties, delays or unexpected costs, may also adversely impact our ability to realize all or part of the anticipated cost savings or other benefits, or cause us not to realize the anticipated cost savings or other benefits on the expected timetable. If we are unable to realize the anticipated cost savings, our ability to fund other initiatives may be adversely affected. In addition, the initiatives may not advance our strategy as expected. Finally, the complexity of the implementation will require a substantial amount of management and operational resources. Our management team must successfully execute the administrative and operational changes necessary to achieve the anticipated benefits of the initiatives. These and related demands on our resources may divert the organization's attention from other business issues, have adverse effects on existing business relationships with suppliers and customers, and impact employee morale.
Any failure to implement our cost reduction, organizational design or other initiatives in accordance with our plans could adversely affect our business or financial results.
We may not realize the benefits we expect from revenue growth management.
We are establishing a more formal revenue growth management discipline to help us realize price in a more effective way. This approach addresses price strategy, price-pack architecture, promotion strategy, mix management, and trade strategies. Revenue growth management will involve changes to the way we do business and may not always be accepted by our customers or consumers causing us not to realize the anticipated benefits. In addition, the complexity of the implementation will require a substantial amount of management and operational resources. Our management team must successfully execute the administrative and operational changes necessary to achieve the anticipated benefits of the initiative. These and related demands on our resources may divert the organization's attention from other business issues and have adverse effects on existing business relationships with suppliers and customers. Any failure to implement revenue growth management in accordance with our plans could adversely affect our business or financial condition.
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, potato flakes, vegetable oils, sugar and cocoa, are the principal raw materials used in our products. Cartonboard, corrugated, and plastic are the principal packaging materials used by us.

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

Cereal processing ovens at major domestic and international facilities are regularly fueled by electricity, 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. In some cases, our competitors may be able to respond to changing business and economic conditions more quickly than us. Category share and growth could also be adversely impacted if we are not successful in introducing new products, anticipating changes in consumer preferences with respect to dietary trends or purchasing behaviors or in effectively assessing, changing and setting proper pricing.

The changing retail environment could negatively impact our sales and profits.

Our businesses are largely concentrated in the traditional retail grocery trade. Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 20% of consolidated net sales during 2017, comprised principally of sales within the United States. At December 30, 2017, approximately 17% of our consolidated receivables balance and 26% 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 2017. During 2017, our top five customers, collectively, including Wal-Mart, accounted for approximately 35% of our consolidated net sales and approximately 49% of U.S. net sales. There can be no assurances that our largest customers will continue to purchase our products in the same mix or quantities or on the same terms as in the past. As the retail grocery trade continues to consolidate and retailers become larger, our large retail customers have sought, and may continue to seek in the future, to use their position to improve their profitability through improved efficiency, lower pricing, increased promotional programs funded by their suppliers and more favorable terms. If we are unable to use our scale, marketing expertise, product innovation and category leadership positions to respond, our profitability or volume growth could be negatively affected. The loss of any large customer or severe adverse impact on the business operations of any large customer for an extended length of time could negatively impact our sales and profits.

Additionally, alternative retail channels, such as internet-based retailers, mobile applications, subscription services, discount and dollar stores, drug stores and club stores, have become more prevalent. If we are not successful in expanding sales in alternative retail channels, our business or financial results may be negatively impacted. In addition, these alternative retail channels may create consumer price deflation, affecting our retail customer relationships and presenting additional challenges to increasing prices in response to commodity or other cost increases. Also, if these alternative retail channels, such as internet-based retailers were to take significant share away from traditional retailers that could have a flow over effect on our business and our financial results could be negatively impacted.

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, the products becoming unavailable to consumers, or the failure to meet the nutrition expectations of our products or particular ingredients in our products (whether or not valid), including whether certain of our products are perceived to contribute to obesity. In addition, we might fail to anticipate consumer preferences with respect to dietary trends or purchasing behaviors, invest sufficiently in maintaining, extending and expanding our brand image or achieve the desired efforts of our marketing efforts. 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, reputation and brand loyalty, regardless of the information’s accuracy. The harm may be immediate without affording us an opportunity for redress or correction. Brand recognition and loyalty can also be impacted by the effectiveness of our advertising campaigns, marketing programs and sponsorships, 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.

The impact of recently enacted tax reform legislation in the U.S. on our business is uncertain.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code which impact our year ended 12/30/17, including but not limited to, reducing the corporate tax rate from 35% to 21%, requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that may be electively paid over eight years, and accelerating first year expensing of certain capital expenditures.

The Tax Act also introduces new tax laws that may impact our taxable income beginning in 2018 which will include, but not limited to the repeal of the domestic production activity deduction, generally eliminating U.S. federal income taxes on foreign earnings (subject to certain important exceptions), a new provision designed to tax currently global intangible low taxed income (GILTI), a provision that could limit the amount of deductible interest expense, limitations on the deductibility of certain executive compensation, creating a base erosion anti-abuse tax (BEAT), and modifying or repealing many deductions and credits.

The impact of many provisions of the Tax Act lack clarity and is subject to interpretation until additional Internal Revenue Service guidance is issued. The ultimate impact of the act may differ from the Company's estimates due to changes in the interpretations and assumptions made as well as any forthcoming regulatory guidance.

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 (including shifts in the geopolitical landscape), tax rates in the U.S. and various foreign jurisdictions have been and 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 recently enacted U.S. tax reform and contemplated changes in other countries of long-standing tax principles if finalized and adopted could have a material impact on our income tax expense and deferred tax balances.

We are also subject to regular reviews, examinations and audits by the Internal Revenue Service and other taxing authorities with respect to taxes inside and outside of the U.S. Although we believe our tax estimates are reasonable, if a taxing authority disagrees with the positions we have taken, we could face additional tax liability, including interest and penalties. There can be no assurance that payment of such additional amounts upon final adjudication of any disputes will not have a material impact on our results of operations and financial position.

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

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

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

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

We could also be adversely affected if consumers lose confidence in the safety and quality of certain food products or ingredients, or the food safety system generally. If another company recalls or experiences negative publicity related to a product in a category in which we compete, consumers might reduce their overall consumption of products in this category. Adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying our products or cause production and delivery disruptions.

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

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

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

Our activities or products, both in and outside of the United States, are subject to regulation by various federal, state, provincial and local laws, regulations and government agencies, including the U.S. Food and Drug Administration, U.S. Federal Trade Commission, the U.S. Departments of Agriculture, Commerce and Labor, as well as similar and other authorities outside of the United States, International Accords and Treaties and others, including voluntary regulation by other bodies. In addition, legal and regulatory systems in emerging and developing markets may be less developed, and less certain. These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of a variety of factors, including political, economic or social events. In addition, the enforcement of remedies in certain foreign jurisdictions may be less certain, resulting in varying abilities to enforce intellectual property and contractual rights.

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.

The marketing of food products has come under increased regulatory scrutiny in recent years, and the food industry has been subject to an increasing number of proceedings and claims relating to alleged false or deceptive marketing under federal, state and foreign laws or regulations. 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. Governmental and administrative bodies within the U.S. are considering a variety of trade and other regulatory forms. Changes in legal or regulatory requirements (such as new food safety requirements and revised nutrition facts labeling and serving size regulations), or evolving interpretations of existing legal or regulatory requirements, may result in increased compliance costs, capital expenditures and other financial obligations that could adversely affect our business or financial results. 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. Further, modifications to international trade policy, including changes to or repeal of the North American Free Trade Agreement or the imposition of increased or new tariffs, quotas or trade barriers on key commodities, could have a negative impact on us or the industries we serve, including as a result of related uncertainty, and could materially and adversely impact our business, financial condition, results of operations and cash flows.

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, Brazilian Real, Nigerian Naira, 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 and face exposure to adverse movements in foreign currency exchange rates. For example, the announcement of Brexit has caused, and may continue to cause, significant volatility in currency exchange rate fluctuations. Consequently, changes in the value of the U.S. dollar may unpredictably and negatively affect the value of these items in our consolidated financial statements, even if their value has not changed in their original currency.

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

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

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

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

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

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

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

Our success is dependent on anticipating changes in consumer preferences and on successful new product and process development and product relaunches in response to such changes. Trends within the food industry change often, and failure to identify and react to changes in these trends could lead to, among other things, reduced loyalty demand and price reductions for our brands and products. We aim to introduce products or new or improved production processes on a timely basis in order to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products and to the research, development and technology process functions of our business, we may not be successful in developing new products or our new products may not be commercially successful. In addition, if sales generated by new products cause a decline in sales of the Company's existing products, the Company's financial condition and results of operations could be materially adversely affected. 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 use available borrowings under the credit facilities and other available debt financing for cash to operate our business, which subjects us to market and counter-party risk, some of which is beyond our control.

In addition to cash we generate from our business, our principal existing sources of cash are borrowings available under our credit facilities and other available debt financing. If our access to such financing was unavailable or reduced, or if such financing were to become significantly more expensive for any reason, we may not be able to fund daily operations, which would cause material harm to our business or could affect our ability to operate our business as a going concern. In addition, if certain of our lenders experience difficulties that render them unable to fund future draws on the facilities, we may not be able to access all or a portion of these funds, which could have similar adverse consequences.

We have a substantial amount of indebtedness.

We have indebtedness that is substantial in relation to our shareholders’ equity, and we may incur additional indebtedness in the future, or enter into off-balance sheet financing, which would increase our leverage risks. As of December 30, 2017, we had total debt of approximately $8.6 billion and total Kellogg Company equity of $2.2 billion. Our substantial indebtedness could have important consequences, including:

- impairing the ability to access global capital markets to obtain additional financing for working capital, capital expenditures or general corporate purposes, particularly if the ratings assigned to our debt securities by rating organizations were revised downward or if a rating organization announces that our ratings are under review for a potential downgrade;
- a downgrade in our credit ratings, particularly our short-term credit rating, would likely reduce the amount of commercial paper we could issue, increase our commercial paper borrowing costs, or both;
- restricting our flexibility in responding to changing market conditions or making us more vulnerable in the event of a general downturn in economic conditions or our business;
- requiring a substantial portion of the cash flow from operations to be dedicated to the payment of principal and interest on our debt, reducing the funds available to us for other purposes such as expansion through acquisitions, paying dividends, repurchasing shares, marketing and other spending and expansion of our product offerings; and
- causing us to be more leveraged than some of our competitors, which may place us at a competitive disadvantage.

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

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

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

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

We may not be able to attract and retain the highly skilled people we need to support our business

We depend on the skills and continued service of key personnel, including our experienced management team. In addition, our ability to achieve our strategic and operating goals depends on our ability to identify, recruit, hire, train and retain qualified individuals. We compete with other companies both within and outside of our industry for talented personnel, and we may lose key personnel or fail to attract, recruit, train and retain other talented personnel. Any such loss or failure may adversely affect our business or financial results. In addition, activities related to identifying, recruiting, hiring and integrating qualified individuals may require significant time and expense. We may not be able to locate suitable replacements for any key employees who leave, or offer employment to potential replacements on reasonable terms, each of which may adversely affect our business and financial results

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 December 30, 2017, the carrying value of intangible assets totaled approximately $8.1 billion, of which $5.5 billion was goodwill and $2.6 billion represented trademarks, tradenames, and other acquired intangibles compared to total assets of $16.4 billion and total Kellogg Company equity of $2.2 billion.

Competition against retailer brands could negatively impact our business.

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

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

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

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

We increasingly rely on information technology systems to process, transmit, and store electronic information. For example, our production and distribution facilities and inventory management utilize information technology to increase efficiencies and limit costs. Information technology systems are also integral to the reporting of our results of operations. Furthermore, a significant portion of the communications between, and storage of personal data of, our personnel, customers, consumers and suppliers depends on information technology. Our information technology systems, and the systems of the parties we communicate and collaborate with, may be vulnerable to a variety of interruptions, as a result of updating our enterprise platform or due to events beyond our or their control, including, but not limited to, network or hardware failures, malicious or disruptive software, unintentional or malicious actions of employees or contractors, cyberattacks by common hackers, criminal groups or nation-state organizations or social-activist (hacktivist) organizations, geopolitical events, natural disasters, failures or impairments of telecommunications networks, or other catastrophic events. Moreover, our computer systems have been, and will likely continue to be subjected to computer viruses, malware, ransonware or other malicious codes, unauthorized access attempts, and cyber- or phishing-attacks. Cyber threats are constantly evolving and this increases the difficulty of detecting and successfully defending against them. 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.

The Company offers promotions, rebates, customer loyalty and other programs through which it may receive personal information, and it or its vendors could experience cyber-attacks, privacy breaches, data breaches or other incidents that result in unauthorized disclosure of consumer, customer, employee or Company information. If the Company suffers a loss as a result of a breach or other breakdown in its technology, including such cyber-attack, privacy breaches, data breaches or other incident involving one of the Company's vendors, that result in unauthorized disclosure or significant unavailability of business, financial, personal or stakeholder information, the Company may suffer reputational, competitive and/or business harm and may be exposed to legal liability, which may adversely affect the Company's results of operations and/or financial condition. The misuse, leakage or falsification of information could result in violations of data privacy laws, the Company may become subject to legal action and increased regulatory oversight. The Company could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and information systems. In addition, if the Company's suppliers or customers experience such a breach or unauthorized disclosure or system failure, their businesses could be disrupted or otherwise negatively affected, which may result in a disruption in the Company's supply chain or reduced customer orders, which would adversely affect the Company's business operations.

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. In addition, if, in the course of developing new products or improving the quality of existing products, we are found to have infringed the intellectual property rights of others, directly or indirectly, such finding could have an adverse impact on our business, financial condition or results of operations and may limit our ability to introduce new products or improve the quality of existing products. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Third party claims of intellectual property infringement might also require us to enter into costly license agreements. We also may be subject to significant damages or injunctions against development and sale of certain products.

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

We are a global company and generated 37% of our 2017 net sales, 35% of 2016 and 37% of our 2015 net sales outside the United States. We manufacture our products in 21 countries and have operations in more than 180 countries, so we are subject to risks inherent in multinational operations. Those risks include:

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

Please refer to Note 16 for more information regarding our operations in Venezuela, including the impact on our operations from currency restrictions and our decision to deconsolidate our Venezuelan operations effective December 31, 2016.

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

There may be uncertainty as a result of key global events during 2018. For example, the continuing uncertainty arising from the Brexit referendum in the United Kingdom as well as ongoing terrorist activity, may adversely impact global stock markets (including The New York Stock Exchange on which our common shares are traded) and general global economic conditions. All of these factors are outside of our control, but may nonetheless cause us to

adjust our strategy in order to compete effectively in global markets.
The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.
In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. In February 2017, the British Parliament voted in favor of allowing the British government to begin negotiating the terms of the United Kingdom’s withdrawal from the European Union, and, in March 2017, the British government invoked Article 50 of the Treaty on European Union, which, per the terms of the treaty, formally triggered a two-year negotiation process and puts the United Kingdom on a course to withdraw from the European Union by the end of March 2019. The terms of withdrawal have not been established and the United Kingdom will remain a member of the European Union until conclusion of the withdrawal agreement. If no agreement is concluded within two years of formal notification of withdrawal, however, then the United Kingdom may leave the European Union at such time. Accordingly, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal.
The economic conditions and outlook in the United Kingdom, the European Union and elsewhere could be further adversely affected by (i) the uncertainty concerning the timing and terms of the exit, (ii) new or modified trading arrangements between the United Kingdom and other countries, (iii) the risk that one or more other European Union countries could come under increasing pressure to leave the European Union, or (iv) the risk that the euro as the single currency of the Eurozone could cease to exist. Any of these developments, or the perception that any of these developments are likely to occur, could affect economic growth or business activity in the United Kingdom or the European Union, and could result in the relocation of businesses, cause business interruptions, lead to economic recession or depression, and impact the stability of the financial markets, availability of credit, currency exchange rates, interest rates, financial institutions, and political, financial and monetary systems. Any of these developments, or the perception that any of them could occur, could depress economic activity and restrict our access to capital, which could materially and adversely affect our product sales, financial condition and results of operations.
Our operations in certain emerging markets expose us to political, economic and regulatory risks.
Our growth strategy depends in part on our ability to expand our operations in emerging markets. However, some emerging markets have greater political, economic and currency volatility and greater vulnerability to infrastructure and labor disruptions than more established markets. In many countries outside of the United States, particularly those with emerging economies, it may be common for others to engage in business practices prohibited by laws and regulations with extraterritorial reach, such as the FCPA and the UKBA, or local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials, including in connection with obtaining permits or engaging in other actions necessary to do business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our reputation, financial condition and results of operations.
In addition, competition in emerging markets is increasing as our competitors grow their global operations and low cost local manufacturers expand and improve their production capacities. Our success in emerging markets is critical to our growth strategy. If we cannot successfully increase our business in emerging markets and manage associated political, economic and regulatory risks, our product sales, financial condition and results of operations could be materially and adversely affected.

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

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

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

Foreign, federal, state and local regulatory and legislative bodies have proposed various legislative and regulatory measures relating to climate change, regulating greenhouse gas emissions and energy policies. In the event that such regulation is enacted, we may experience significant increases in our costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. Lastly, consumers and customers may put an increased priority on purchasing products that are sustainably grown and made, requiring us to incur increased costs for additional transparency, due diligence and reporting. As a result, climate change could negatively affect our business and operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal research and development facilities are located in Battle Creek, Michigan. We operated, as of February 20, 2018, offices, manufacturing plants and distribution and warehousing facilities totaling more than 39 million square feet of building area in the United States and other countries. Our plants have been designed and constructed to meet our specific production requirements, and we periodically invest money for capital and technological improvements. At the time of its selection, each location was considered to be favorable, based on the location of markets, sources of raw materials, availability of suitable labor, transportation facilities, location of our other plants producing similar products, and other factors. Our manufacturing facilities in the United States include four cereal plants and warehouses located in Battle Creek, Michigan; Lancaster, Pennsylvania; Memphis, Tennessee; and Omaha, Nebraska and other plants or facilities in San Jose, California; Atlanta, Augusta, and Rome, Georgia; Chicago, Illinois; Seelyville, Indiana; Kansas City, Kansas; Florence, Louisville and Pikeville, Kentucky; Grand Rapids and Wyoming, Michigan; Blue Anchor, New Jersey; Cary, North Carolina; Cincinnati and Zanesville, Ohio; Muncy, Pennsylvania; Jackson and Rossville, Tennessee; and Allyn, Washington.

Outside the United States, we had, as of February 20, 2018, additional manufacturing locations, some with warehousing facilities, in Australia, Austria, Belgium, Brazil, Canada, Colombia, Ecuador, Egypt, Germany, Great Britain, India, Japan, Malaysia, Mexico, Poland, Russia, South Africa, South Korea, Spain, Thailand, and Venezuela. We also have joint ventures in China, Nigeria, Ghana and Turkey which own or operate manufacturing or warehouse facilities.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURE
Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
Information on the market for our common stock, number of shareowners and dividends is located in Note 17 within Notes to Consolidated Financial Statements.
In December 2015, the board of directors approved a new authorization to repurchase of up to $1.5 billion of our common stock beginning in 2016 through December 2017. In December 2017, a new authorization by the board of directors approved the repurchase of up to $1.5 billion of our common stock beginning in January 2018 through December 2019.
The following table provides information with respect to purchases of common shares under programs authorized by our board of directors during the quarter ended December 30, 2017.

(millions, except per share data)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1: 10/01/17-10/28/17	—	—	—	$ 558
Month #2: 10/29/17-11/25/17	—	—	—	$ 558
Month #3: 11/26/17-12/30/17	—	—	—	$ 558

ITEM 6. SELECTED FINANCIAL DATA
Kellogg Company and Subsidiaries
Selected Financial Data

(millions, except per share data and number of employees)	2017	2016	2015	2014	2013
Operating trends					
Net sales	$12,923	$13,014	$13,525	$14,580	$14,792
Gross profit as a % of net sales	38.9 %	36.5 %	34.6 %	34.7 %	41.3 %
Depreciation	469	510	526	494	523
Amortization	12	7	8	9	9
Advertising expense (a)	731	735	898	1,094	1,131
Research and development expense (a)	148	182	193	199	199
Operating profit	1,946	1,395	1,091	1,024	2,837
Operating profit as a % of net sales	15.1 %	10.7 %	8.1 %	7.0 %	19.2 %
Interest expense	256	406	227	209	235
Net income attributable to Kellogg Company	1,269	694	614	632	1,807
Average shares outstanding:					
Basic	348	350	354	358	363
Diluted	350	354	356	360	365
Per share amounts:					
Basic	3.65	1.98	1.74	1.76	4.98
Diluted	3.62	1.96	1.72	1.75	4.94
Cash flow trends					
Net cash provided by operating activities	$1,646	$1,628	$1,691	$1,793	$1,807
Capital expenditures	501	507	553	582	637
Net cash provided by operating activities reduced by capital expenditures (b)	1,145	1,121	1,138	1,211	1,170
Net cash used in investing activities	(1,094)	(893)	(1,127)	(573)	(641)
Net cash used in financing activities	(604)	(642)	(706)	(1,063)	(1,141)
Interest coverage ratio (c)	9.5	4.6	6.8	7.3	14.3
Capital structure trends					
Total assets	$16,350	$15,111	$15,251	$15,139	$15,456
Property, net	3,716	3,569	3,621	3,769	3,856
Short-term debt and current maturities of long-term debt	779	1,069	2,470	1,435	1,028
Long-term debt	7,836	6,698	5,275	5,921	6,312
Total Kellogg Company equity	2,212	1,910	2,128	2,789	3,545
Share price trends					
Stock price range	$59-76	$70-87	$61-74	$57-69	$55-68
Cash dividends per common share	2.12	2.04	1.98	1.90	1.80
Number of employees	33,000	37,000	34,000	30,000	30,000

(a) Advertising declined in both 2016 and 2015 as a result of foreign currency translation, implementation of efficiency and effectiveness programs including zero-based budgeting, the change in media landscape migrating investment to digital, and shifting investment to food innovation and renovation. Research and development declined due to changes intended to create a more efficient organizational design. We remain committed to invest in our brands at an industry-leading level to maintain the strength of our many recognizable brands in the marketplace.

(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.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Kellogg Company and Subsidiaries

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

For more than 100 years, consumers have counted on Kellogg for great-tasting, high-quality and nutritious foods. These foods include snacks, such as cookies, crackers, savory snacks, toaster pastries, cereal bars and bites, fruit-flavored snacks; and convenience foods, such as, ready-to-eat cereals, frozen waffles and veggie foods. Kellogg products are manufactured and marketed globally.

Segments
We manage our operations through ten 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 18 within Notes to Consolidated Financial Statements.

Operating Margin Expansion Through 2018
In 2016, we announced a plan to increase our currency-neutral comparable operating margin by 350 basis points from 2015 through 2018, excluding the impact of pending accounting changes beginning in the first quarter of 2018. In 2017, currency-neutral comparable operating margin increased 160 basis points as a result of COGS and SG&A savings realized from Project K and ZBB initiatives. Currency-neutral comparable operating margin was 16.9% for the full year 2017, which is 250 basis points higher than the level recorded for 2015.

During 2018, we expect to realize more than half of the remaining Project K savings, including savings from our DSD exit, and all remaining planned ZBB savings. These savings are expected to more than offset increased reinvestment in brand building, modest input cost inflation and higher transportation costs. As a result, we are currently on pace to deliver our targeted 3-year goal of margin expansion in 2018, excluding the impact of accounting changes.

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

2017, 2016, and 2015 Non-GAAP Financial Measures

Non-GAAP financial measures used for evaluation of 2017, 2016 and 2015 performance include comparable net sales, comparable gross margin, comparable SGA, comparable operating profit, comparable operating profit margin, comparable effective tax rate, comparable net income attributable to Kellogg Company, comparable diluted EPS, and cash flow. These non-GAAP financial measures are also evaluated for year-over-year growth and on a currency-neutral basis to evaluate the underlying growth of the business and to exclude the effect of foreign currency. We determine currency-neutral operating results by dividing or multiplying, as appropriate, the current-period local currency operating results by the currency exchange rates used to translate our financial statements in the comparable prior-year period to determine what the current period U.S. dollar operating results would have been if the currency exchange rate had not changed from the comparable prior-year period. These non-GAAP financial measures may not be comparable to similar measures used by other companies.

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

- Comparable gross profit, comparable gross margin, comparable SGA, comparable SGA%, comparable operating profit, comparable operating profit margin, comparable net income attributable to Kellogg Company, and comparable diluted EPS: We adjust the GAAP financial measures to exclude the effect of Project K and cost reduction activities, acquisitions, divestitures, integration costs, mark-to-market adjustments for pension plans, commodities and certain foreign currency contracts, shipping day differences, impacts of the Venezuela remeasurement and deconsolidation, costs associated with the VIE deconsolidation, and costs associated with the early redemption of debt outstanding. We excluded the items which we believe may obscure trends in our underlying profitability. The impact of acquisitions and divestitures are not excluded from comparable diluted EPS. By providing these non-GAAP profitability measures, management intends to provide investors with a meaningful, consistent comparison of the Company's profitability measures for the periods presented. Management uses these non-GAAP financial measures to evaluate the effectiveness of initiatives intended to improve profitability, such as Project K, ZBB and Revenue Growth Management, as well as to evaluate the impacts of inflationary pressures and decisions to invest in new initiatives within each of our segments. Currency-neutral comparable represents comparable excluding foreign currency impact.

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

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Cash flow: Defined as net cash provided by operating activities reduced by expenditures for property additions. Cash flow does not represent the residual cash flow available for discretionary expenditures. We use this non-GAAP financial measure of cash flow to focus management and investors on the amount of cash available for debt repayment, dividend distributions, acquisition opportunities, and share repurchases once all of the Company's business needs and obligations are met. Additionally, certain performance-based compensation includes a component of this non-GAAP measure.

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

Significant items impacting comparability

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

We recognized mark-to-market adjustments for pension plans, commodity contracts, and certain foreign currency contracts as incurred. Actuarial gains/losses for pension plans are recognized in the year they occur. Changes between contract and market prices for commodities contracts and certain foreign currency contracts result in gains/losses that are recognized in the quarter they occur. We recorded a total pre-tax mark-to-market benefit of $45 million for 2017 and pre-tax mark-to-market charges of $261 million and $446 million for 2016, and 2015, respectively. Within this total, the pre-tax mark-to-market benefit for pension plans was $86 million for 2017 and pre-tax mark-to-market charges of $314 million and $471 million for 2016 and 2015, respectively.

Project K and cost reduction activities

In February 2017, the Company announced an expansion and an extension to its previously-announced global efficiency and effectiveness program ("Project K"). Project K continued generating a significant amount of savings used to invest in key strategic areas of focus for the business. We recorded pre-tax charges of $260 million in 2017, $300 million in 2016, and $311 million in 2015.

In support of the ZBB initiative, we incurred pre-tax charges of $3 million in 2017, $25 million in 2016, and $12 million in 2015.

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

Debt redemption

During the quarter ended April 2, 2016, we redeemed $475 million of our 7.45% U.S. Dollar Debentures due 2031. In connection with the debt redemption, we incurred $153 million of interest expense, consisting primarily of a premium on the tender offer and also including accelerated losses on pre-issuance interest rate hedges, acceleration of fees and debt discount on the redeemed debt and fees related to the tender offer.

Variable interest entity (VIE) deconsolidation

During the quarter ended July 4, 2015, a series of previously executed agreements between Kellogg's and a third party VIE were terminated resulting in our determination that we were no longer the primary beneficiary of the VIE. Accordingly, we deconsolidated the financial statements of the VIE as of the end of the quarter. As a result of the agreement terminations and related settlements, we recognized a gain of $6 million in Other income (expense), net during the quarter. This gain, in combination with a related $25 million charge that was recorded during the quarter ended April 4, 2015, resulted in a net loss of $19 million in Other income (expense), net for the year-to-date period ended July 4, 2015.

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

Integration and transaction costs

We incurred integration costs related to the integration of various acquisitions in the years presented. We recorded pre-tax integration costs of $5 million, $12 million, and $30 million for 2017, 2016, and 2015, respectively.

Acquisitions

In January 2015, we completed the acquisition of a majority interest in Bisco Misr, the number one packaged biscuits company in Egypt for $125 million, or $117 million net of cash and cash equivalents acquired. In our European reportable segment, the acquisition added $9 million in net sales and less than $1 million of operating profit (before integration costs) in 2016 that impacted the comparability to 2015 reported results.

In September 2015, we completed the acquisition of Mass Foods, Egypt's leading cereal company for $46 million, or $44 million net of cash and cash equivalents acquired. In our European reportable segment, the acquisition added $16 million in net sales and approximately $2 million in operating profit (before integration costs) in 2016 that impacted comparability to 2015 reported results.

In December 2016, the Company acquired Ritmo Investimentos, controlling shareholder of Parati S/A, Afical Ltda and Padua Ltda ("Parati Group"), a leading Brazilian food group. In our Latin America reportable segment for the year-to-date period ended December 30, 2017, the acquisition added $203 million in net sales and $25 million of operating profit (before integration costs) that impacted the comparability to 2016 reported results.

In October of 2017, the Company acquired Chicago Bar Company LLC manufacturer of RXBAR, a high protein snack bar made of simple ingredients. In our North America Other reportable segment for year-to-date period ended December 30, 2017, the acquisition added $27 million in net sales and $3 million of operating profit (before integration costs) that impacted the comparability of 2016 reported results.

Shipping day differences
In December 2017, we eliminated a one-month timing difference in reporting of financial results for the Parati Group. This update resulted in an additional month of financial results being reported in the quarter and year-to-date period ended December 30, 2017, which included $14 million of net sales that impacted the comparability of our reported results.

Venezuela
There was a material change in the business environment, including a worsening of our access to key raw materials subject to restrictions, and a related significant drop in production volume in the fourth quarter. These supply chain disruptions, along with other factors such as the worsening economic environment in Venezuela and the limited access to dollars to import goods through the use of any of the available currency mechanisms, have impaired our ability to effectively operate and fully control our Venezuelan subsidiary.

As of December 31, 2016, we deconsolidated and changed to the cost method of accounting for our Venezuelan subsidiary. We recorded a $72 million pre-tax charge in Other income (expense), net as we fully impaired the value of our cost method investment in Venezuela. The deconsolidation charge included the historical cumulative translation losses of approximately $63 million related to our Venezuelan operations that had previously been recorded in accumulated other comprehensive losses within equity. Additionally, the deconsolidation reduced net sales by $31 million and operating profit by $9 million for the year-to-date period ended December 30, 2016 which impacted the comparability of 2017 to 2016 reported results.

In 2015 we concluded that we were no longer able to obtain sufficient U.S. dollars on a timely basis through the DIPRO exchange resulting in a decision to remeasure our Venezuela subsidiary's financial statements using the DICOM (formerly SIMADI) rate. In connection with the change in rates, we recorded pre-tax charges totaling $152 million, including $112 million in the Latin America operating segment and $40 million in the Corporate operating segment. Of the total charges, $100 million was recorded in COGS, $3 million was recorded in SGA, and $49 million was recorded in Other income (expense), net. These charges consisted of $47 million related to the remeasurement of net monetary assets denominated in Venezuelan bolivar at the SIMADI exchange rate (recorded in Other income (expense), net), $56 million related to reducing inventory to the lower of cost or market (recorded in COGS) and $49 million related to the impairment of long-lived assets in Venezuela (recorded primarily in COGS).

Following the change to the DICOM (formerly SIMADI) rate in 2015, certain non-monetary assets related to our Venezuelan subsidiary continued to be remeasured at historical exchange rates. As these assets were utilized by our Venezuelan subsidiary during 2016 and 2015 they were recognized in the income statement at historical exchange rates resulting in an unfavorable impact. We experienced an unfavorable pre-tax impact of approximately $11 million in 2016 and $17 million in 2015 related to the utilization of these remaining non-monetary assets, primarily impacting COGS.

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

from the comparable prior-year period.

Financial results
For the full year 2017, our reported net sales decreased by 0.7% due primarily to the list-price adjustments and other impacts in U.S. Snacks related to its transition from DSD and lower volume in U.S. Morning Foods. These impacts were partially offset by the Parati and RXBAR acquisitions, solid performance in U.S. Specialty and Asia-Pacific, and favorable foreign currency. Currency-neutral comparable net sales decreased by 2.6%, within our full year guidance, after eliminating the impact of acquisitions, shipping day differences, foreign currency and prior year Venezuela results.

Reported operating profit increased by 39.5% as a result of productivity savings from Project K restructuring, which includes this year's exit from its U.S. Snacks segment's Direct Store Delivery sales and delivery system. Reported operating profit also benefited from the year-over-year impact of mark-to-market, restructuring, integration costs, acquisitions, and Venezuela remeasurement, partially mitigated by prior year Venezuela results and foreign currency. Currency-neutral comparable operating profit increased by 7.6%, within our full-year guidance range, after excluding the impact of mark-to-market, restructuring, acquisitions, integration costs, prior year Venezuela results, Venezuela remeasurement, and foreign currency.

Reported operating margin for the year was favorable 440 basis points due primarily to COGS and SG&A savings realized from Project K and ZBB initiatives, the impact of mark-to-market accounting for pension, and lower restructuring charges. Currency-neutral comparable operating margin was favorable 160 basis points after excluding the year-over-year impact of mark-to-market, restructuring, integration costs, acquisitions, Venezuela remeasurement, and foreign currency.

Reported diluted EPS of $3.62 was up 84.7% compared to the prior year of $1.96 due primarily to higher operating profit, favorable mark-to-market adjustments, lower restructuring charges, and prior year debt redemption expense. Currency-neutral comparable diluted EPS of $4.06 was up 9.1% compared to prior year of $3.72, within our full-year guidance range, after excluding the impact of mark-to-market, restructuring, and debt redemption expense.

Reconciliation of certain non-GAAP Financial Measures

Consolidated results (dollars in millions, except per share data)	2017			2016		
Reported net income attributable to Kellogg Company	$	1,269		$	694	
Mark-to-market (pre-tax)	45			(261		)
Project K and cost reduction activities (pre-tax)	(263		)	(325		)
Debt redemption (pre-tax)	—			(153		)
Integration and transaction costs (pre-tax)	(5		)	(12		)
Shipping day differences (pre-tax)	(1		)	—		
Venezuela operations impact (pre-tax)	—			9		
Venezuela deconsolidation (pre-tax)	—			(72		)
Venezuela remeasurement (pre-tax)	—			(11		)
Income tax impact applicable to adjustments, net*	82			200		

U.S. Tax Reform adoption impact	(4)	—
Comparable net income attributable to Kellogg Company	$ 1,415	$ 1,319
Foreign currency impact	(6)	
Currency neutral comparable net income attributable to Kellogg Company	$ 1,421	
Reported diluted EPS	$ 3.62	$ 1.96
Mark-to-market (pre-tax)	0.13	(0.74)
Project K and cost reduction activities (pre-tax)	(0.75)	(0.92)
Debt redemption (pre-tax)	—	(0.43)
Integration and transaction costs (pre-tax)	(0.01)	(0.03)
Venezuela operations impact (pre-tax)	—	0.02
Venezuela deconsolidation (pre-tax)	—	(0.20)
Venezuela remeasurement (pre-tax)	—	(0.03)
Income tax impact applicable to adjustments, net*	0.22	0.57
U.S. Tax Reform adoption impact	(0.01)	—
Comparable diluted EPS	$ 4.04	$ 3.72
Foreign currency impact	(0.02)	
Currency neutral comparable diluted EPS	$ 4.06	
Currency neutral comparable diluted EPS growth	9.1 %	

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

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

Consolidated results (dollars in millions, except per share data)	2016	2015
Reported net income attributable to Kellogg Company	$694	$614
Mark-to-market (pre-tax)	(261)	(446)
Project K and cost reduction activities (pre-tax)	(325)	(323)
Debt redemption (pre-tax)	(153)	
VIE deconsolidation (pre-tax)	—	48
Integration and transaction costs (pre-tax)	(12)	(26)
Acquisitions/divestitures (pre-tax)	1	—
Venezuela deconsolidation (pre-tax)	(72)	—
Venezuela remeasurement (pre-tax)	(11)	(169)
Income tax impact applicable to adjustments, net*	201	273
Comparable net income attributable to Kellogg Company	$1,326	$1,257
Foreign currency impact	(203)	
Currency neutral comparable net income attributable to Kellogg Company	$1,529	
Reported diluted EPS	$1.96	$1.72
Mark-to-market (pre-tax)	(0.74)	(1.25)
Project K and cost reduction activities (pre-tax)	(0.92)	(0.91)
Debt redemption (pre-tax)	(0.43)	—
VIE deconsolidation (pre-tax)	—	0.13
Integration and transaction costs (pre-tax)	(0.03)	(0.08)
Venezuela deconsolidation (pre-tax)	(0.20)	—
Venezuela remeasurement (pre-tax)	(0.03)	(0.47)
Income tax impact applicable to adjustments, net*	0.57	0.77
Comparable diluted EPS	$3.74	$3.53
Foreign currency impact	(0.57)	
Currency neutral comparable diluted EPS	$4.31	
Currency neutral comparable diluted EPS growth	22.1 %	

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

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

Net sales and operating profit
2017 compared to 2016
The following tables provide an analysis of net sales and operating profit performance for 2017 versus 2016:
Year ended December 30, 2017

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported net sales	$2,778	$3,067	$1,249	$1,616	$2,291	$955	$967	$ —	$12,923
Acquisitions/divestitures	—	—	—	28	11	203	—	—	242
Shipping day differences	—	—	—	—	—	14	—	—	14
Comparable net sales	$2,778	$3,067	$1,249	$1,588	$2,280	$738	$967	$ —	$12,667
Foreign currency impact	—	—	—	12	(14)	4	26	—	28
Currency-neutral comparable net sales	$2,778	$3,067	$1,249	$1,576	$2,294	$734	$941	$ —	$12,639

Year ended December 31, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported net sales	$2,931	$3,198	$1,214	$1,598	$2,377	$780	$916	$ —	$13,014
Shipping day differences	—	—	—	—	—	—	—	—	—
Venezuela operations impact	—	—	—	—	—	31	—	—	31
Comparable net sales	$2,931	$3,198	$1,214	$1,598	$2,377	$749	$916	$ —	$12,983
% change - 2017 vs. 2016:									
Reported growth	(5.2)%	(4.1)%	2.9%	1.1%	(3.6)%	22.3%	5.6%	—%	(0.7)%
Acquisitions/divestitures	—%	—%	—%	1.7%	0.5%	25.9%	—%	—%	1.9%
Shipping day differences	—%	—%	—%	—%	—%	1.9%	—%	—%	0.1%
Venezuela operations impact	—%	—%	—%	—%	—%	(4.0)%	—%	—%	(0.3)%
Comparable Growth	(5.2)%	(4.1)%	2.9%	(0.6)%	(4.1)%	(1.5)%	5.6%	—%	(2.4)%
Foreign currency impact	—%	—%	—%	0.8%	(0.6)%	0.4%	2.8%	—%	0.2%
Currency-neutral comparable growth	(5.2)%	(4.1)%	2.9%	(1.4)%	(3.5)%	(1.9)%	2.8%	—%	(2.6)%

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

Year ended December 30, 2017

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported operating profit	$ 601	$ 115	$ 312	$ 230	$ 279	$ 108	$ 86	$ 215	$ 1,946
Mark-to-market	—	—	—	—	—	—	—	45	45
Project K and cost reduction activities	(18)	(309)	(2)	(16)	(40)	(8)	(11)	141	(263)
Integration and transaction costs	—	—	—	(2)	—	(3)	—	—	(5)
Acquisitions/divestitures	—	—	—	1	(1)	25	—	—	25
Shipping day differences	—	—	—	—	—	—	—	—	—
Comparable operating profit	$ 619	$ 424	$ 314	$ 247	$ 320	$ 94	$ 97	$ 29	$ 2,144
Foreign currency impact	—	—	—	1	(4)	(1)	2	—	(2)
Currency-neutral comparable operating profit	$ 619	$ 424	$ 314	$ 246	$ 324	$ 95	$ 95	$ 29	$ 2,146

Year ended December 31, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported operating profit	$ 593	$ 324	$ 279	$ 181	$ 205	$ 84	$ 70	$ (341)	$ 1,395
Mark-to-market	—	—	—	—	—	—	—	(261)	(261)
Project K and cost reduction activities	(23)	(76)	(8)	(38)	(126)	(8)	(7)	(39)	(325)
Integration and transaction costs	—	—	—	—	(3)	(2)	(3)	(2)	(10)
Shipping day differences	—	—	—	—	—	—	—	—	—
Venezuela operations impact	—	—	—	—	—	9	—	—	9
Venezuela remeasurement	—	—	—	—	—	(13)	—	—	(13)
Comparable operating profit	$ 616	$ 400	$ 287	$ 219	$ 334	$ 98	$ 80	$ (39)	$ 1,995
% change - 2017 vs. 2016:									
Reported growth	1.3 %	(64.5)%	12.0 %	27.3 %	35.6 %	28.2 %	23.1 %	163.0 %	39.5 %
Mark-to-market	— %	— %	— %	— %	— %	— %	— %	(149.5)%	24.7 %
Project K and cost reduction activities	0.8 %	(70.5)%	2.6 %	14.5 %	39.6 %	2.5 %	(3.3)%	143.8 %	5.6 %
Integration and transaction costs	— %	— %	— %	(0.8)%	1.0 %	(0.5)%	5.3 %	(2.5)%	0.3 %
Acquisitions/divestitures	— %	— %	— %	0.4 %	(0.3)%	26.9 %	— %	— %	1.3 %
Shipping day differences	— %	— %	— %	— %	— %	(0.2)%	— %	— %	— %
Venezuela operations impact	— %	— %	— %	— %	— %	(11.5)%	— %	(0.6)%	(0.5)%
Venezuela remeasurement	— %	— %	— %	— %	— %	14.7 %	— %	— %	0.6 %
Comparable growth	0.5 %	6.0 %	9.4 %	13.2 %	(4.7)%	(3.7)%	21.1 %	171.8 %	7.5 %
Foreign currency impact	— %	— %	— %	0.8 %	(1.3)%	(2.0)%	3.6 %	(1.6)%	(0.1)%
Currency-neutral comparable growth	0.5 %	6.0 %	9.4 %	12.4 %	(3.4)%	(1.7)%	17.5 %	173.4 %	7.6 %

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

U.S. Morning Foods

This segment consists of primarily cereal and toaster pastries. As reported and currency-neutral comparable net sales declined 5.2% as a result of decreased volume partially offset by favorable pricing/mix.

Cereal category consumption declined for the year, particularly in the health and wellness segment. Our kid-oriented brands have performed well. Frosted Flakes grew consumption and share during the year behind effective media and innovation, including new Cinnamon Frosted Flakes. Special K returned to share growth in the fourth quarter as a result of an effective media campaign and in-store activation.

Toaster pastries grew share during the year, despite lower consumption in the category.

As Reported operating profit increased 1.3% due to productivity initiatives and lower restructuring charges partially offset by lower net sales. Currency-neutral comparable operating profit increased 0.5% after eliminating the impact of restructuring charges.

U.S. Snacks
This segment consists of crackers, cookies, savory snacks, wholesome snacks and fruit-flavored snacks.

As reported and currency-neutral comparable net sales declined 4.1% primarily due to impacts related to our conversion from DSD to warehouse distribution; specifically, reduced merchandising during the transition, reduction of SKUs, and a list-price adjustment to eliminate the premium charged for DSD services.

Crackers, Cookies and Wholesome Snacks declined in consumption and share for the year due to the reduction of promotion activity related to our efforts to smoothly transition out of DSD during the second and third quarters. Savory snacks consumption was pulled down, in part, by the elimination of a promotion-sized can. Focused marketing investment behind key brands resulted in improved consumption in the second half for Cheez-it and Club crackers, Keebler Fudge Shoppe cookies, and Rice Krispies Treats wholesome snacks.

As reported operating profit declined 64.5% due to increased Project K restructuring charges in the current year associated with our DSD transition. Currency-neutral comparable operating profit increased 6.0% after excluding the impact of restructuring charges; this was driven by DSD-related overhead reductions partially offset by increased brand investment.

U.S. Specialty
This segment sells the full line of Kellogg products to channels such as food service, vending, convenience stores, and Girl Scouts.

As reported and currency-neutral comparable net sales improved 2.9% as a result of higher volume and improved pricing/mix aided by innovation and expansion in core and emerging growth channels. In addition, the back half of the year benefited from hurricane-related shipments.

As reported operating profit increased 12.0% due to the higher net sales, savings from Project K and ZBB initiatives, and lower restructuring charges. Currency-neutral comparable operating profit increased 9.4% after excluding the impact of restructuring charges.

North America Other
This segment is composed of our U.S. Frozen Foods, Kashi Company, Canada, and RXBAR businesses.

As reported net sales increased 1.1% due primarily to the RXBAR acquisition, U.S. Frozen growth, and foreign currency. Currency-neutral comparable net sales declined 1.4% after excluding the impact of acquisitions and foreign currency.

In U.S. Frozen, Eggo® grew share and consumption during the year, benefiting from the removal of artificial ingredients and the success of Disney-shaped waffles, as well as the exit of a competitor. Our frozen veggie business, under the Morningstar Farms® and Gardenburger® brands, returned to consumption and share growth during the second half of the year, driven by marketing and in-store support focused on core grilling items.

In Canada, consumption and share performance continued to improve in both cereal and in snacks during the back half of the year. Recent share gains in cereal were the result of effective innovation and commercial programs.

Kashi Company reported net sales and operating profit were lower versus the prior year, as we continue to stabilize the Kashi brand outside of the natural channel. The business benefited from the continued success of our Bear Naked brand, which has become the #1 granola brand in the U.S. behind on-trend innovation and expanded distribution. Bear Naked grew both consumption and share for the year.

Reported operating profit increased 27.3% due to lower restructuring charges and by Project K and ZBB savings. Currency-neutral comparable operating profit increased 12.4% after excluding the impact of restructuring charges and foreign currency.

Europe
Reported net sales declined 3.6% due to lower volume partially offset by the favorable impact of foreign currency, pricing/mix and acquisitions. Currency-neutral comparable net sales declined 3.5% after excluding the impact of foreign currency and acquisitions.

Pringles volume was lower due primarily to prolonged negotiations with our customers as we sought to price behind our food and packaging upgrades. These negotiations were resolved by April but caused us to miss out on several first and second quarter merchandising programs. Promotional activity resumed in the third quarter and the brand returned to growth during the back half of the year with a particularly strong fourth quarter.

Cereal sales declined versus the prior year across the region but improved during the second half of the year. In the U.K., our largest market in the region, consumption and share turned positive in the second half of the year as a result of increased advertising behind our core brands, most notably Special K.

As reported operating profit increased 35.6% due to lower restructuring charges and incremental Project K savings, partially offset by lower sales and unfavorable foreign currency. Currency-neutral comparable operating profit declined 3.4% after excluding the impact of restructuring charges, prior year integration costs, acquisitions and foreign currency.

Latin America
Reported net sales improved 22.3% due to increased volume as a result of the Parati acquisition, favorable pricing/mix, and foreign currency. This was partially offset by lower volume in the Caribbean/Central America business and prior year Venezuela results. Currency-neutral comparable net sales declined 1.9% after excluding the impact of acquisitions, prior year Venezuela results, and foreign currency.

This decline was due primarily to the Caribbean/Central America sub-region, where first half distributor transitions and economic softness were followed during the back half of the year by shipment disruptions due to hurricanes Maria and Irma.

We did post solid growth for the year in Mexico and the Mercosur region. Our Mexico business continued to perform well with consumption and sales increasing versus the prior year in both cereal and snacks. Mercosur posted particularly strong growth in Pringles.

The integration of Parati, our acquisition in Brazil, continues to progress well, and the business posted double digit growth for the year.

As Reported operating profit increased 28.2%, primarily due to the impact of the Parati acquisition partially offset by lower sales in the Caribbean/Central America business. Currency-neutral comparable operating profit decreased 1.7% after excluding the impact of restructuring costs, integration costs, acquisitions, prior year Venezuela operations, Venezuela remeasurement, and foreign currency.

Asia Pacific
Reported net sales improved 5.6% due to favorable foreign currency and pricing/mix as well as higher volume. Currency-neutral comparable net sales increased 2.8%, after excluding the impact of foreign currency.

Growth in cereal was led by India and Korea. Australia, our largest market in the region, gained share during the second half of the year, reflecting continued stabilization. We are experiencing growth in consumption and share through food news and media behind our health and wellness brands, as well as innovation and brand building behind our taste-oriented brands.

Our Pringles business posted solid growth for the year across the region, driven by emerging markets as well as Australia and Korea. We are also seeing the benefits from the expansion of our wholesome snacks business in the region.

As reported operating profit increased 23.1% due to higher net sales and brand-building efficiencies. Currency-neutral comparable operating profit improved 17.5% after excluding the impact of restructuring, prior year integration costs and foreign currency.

Outside of our reported results, our joint ventures in West Africa and China continued to perform extremely well. Double-digit growth was driven by strong noodles volume in West Africa and e-commerce sales in China.

Corporate

As reported operating expense improved $556 million year on year due primarily to the year over year benefit from pension mark-to-market as well as pension curtailment gains in conjunction with Project K restructuring. Currency-neutral comparable operating profit improved $68 million year on year, primarily due to lower pension costs, after excluding the impact of mark-to-market, restructuring, integration costs, and foreign currency.

2016 compared to 2015

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

Year ended December 31, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported net sales	$2,931	$3,198	$1,214	$1,598	$2,377	$780	$916	$—	$13,014
Project K and cost reduction activities	—	—	—	—	—	—	—	—	—
Integration and transaction costs	—	—	—	—	—	—	—	—	—
Acquisitions/divestitures	—	—	—	3	28		—	—	31
Shipping day differences	—	—	—	—	—	—	—	—	—
Comparable net sales	$2,931	$3,198	$1,214	$1,595	$2,349	$780	$916	$—	$12,983
Comparable net sales excluding Venezuela						$749			$12,952
Foreign currency impact	—	—	—	(14)	(132)	(922)	(5)	—	(1,073)
Currency-neutral comparable net sales	$2,931	$3,198	$1,214	$1,609	$2,481	$1,702	$921	$—	$14,056
Currency-neutral comparable net sales excluding Venezuela						$824			$13,178

Year ended January 2, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported net sales	$2,992	$3,234	$1,181	$1,687	$2,497	$1,015	$919	$—	$13,525
Project K and cost reduction activities	—	—	—	(2)	(2)	—	—	—	(4)
Integration and transaction costs	—	—	—	—	—	—	(1)	—	(1)
Acquisitions/divestitures	—	—	—	—	—	—	14	—	14
Shipping day differences	—	—	—	—	(3)	—	—	—	(3)
Comparable net sales	$2,992	$3,234	$1,181	$1,689	$2,502	$1,015	$906	$—	$13,519
Comparable net sales excluding Venezuela						$818			$13,322
% change - 2016 vs. 2015:									
Reported growth	(2.0)%	(1.1)%	2.8%	(5.3)%	(4.8)%	(23.1)%	(0.4)%	—%	(3.8)%
Project K and cost reduction activities	—%	—%	—%	0.1%	0.1%	—%	—%	—%	—%
Integration and transaction costs	—%	—%	—%	—%	—%	—%	0.2%	—%	—%
Acquisitions/divestitures	—%	—%	—%	0.2%	1.1%	—%	(1.6)%	—%	0.1%
Shipping day differences	—%	—%	—%	—%	0.1%	—%	—%	—%	0.1%
Comparable growth	(2.0)%	(1.1)%	2.8%	(5.6)%	(6.1)%	(23.1)%	1.0%	—%	(4.0)%
Comparable growth excluding Venezuela						(8.4)%			(2.8)%
Foreign currency impact	—%	—%	—%	(0.9)%	(5.3)%	(90.8)%	(0.6)%	—%	(8.0)%

Currency-neutral comparable growth	(2.0)%	(1.1)%	2.8%	(4.7)%	(0.8)%	67.7%	1.6%	—%	4.0%
Currency-neutral comparable growth excluding Venezuela						0.7%			(1.1)%

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

Year ended December 31, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported operating profit	$593	$324	$279	$181	$205	$84	$70	$(341)	$1,395
Mark-to-market	—	—	—	—	—	—	—	(261)	(261)
Project K and cost reduction activities	(23)	(76)	(8)	(38)	(126)	(8)	(7)	(39)	(325)
VIE deconsolidation	—	—	—	—	—	—	—	—	—
Integration and transaction costs	—	—	—	—	(3)	(2)	(3)	(2)	(10)
Acquisitions/divestitures	—	—	—	(1)	2	—	—	—	1
Shipping day differences	—	—	—	—	—	—	—	—	—
Venezuela remeasurement	—	—	—	—	—	(13)	—	—	(13)
Comparable operating profit	$616	$400	$287	$220	$332	$107	$80	$(39)	$2,003
Comparable operating profit excluding Venezuela						98		(39)	1,994
Foreign currency impact	—	—	—	(2)	(30)	(250)	2	2	(278)
Currency-neutral comparable operating profit	$616	$400	$287	$222	$362	$357	$78	$(41)	$2,281
Currency-neutral comparable operating profit excluding Venezuela						$106		$(31)	$2,040

Year ended January 2, 2016

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported operating profit	$474	$385	$260	$178	$247	$9	$54	$(516)	$1,091
Mark-to-market	—	—	—	—	—	—	—	(446)	(446)
Project K and cost reduction activities	(58)	(50)	(5)	(63)	(74)	(4)	(13)	(56)	(323)
VIE deconsolidation	—	67	—	—	—	—	—	—	67
Integration and transaction costs	—	—	—	—	(11)	(3)	(14)	(2)	(30)
Acquisitions/divestitures	—	—	—	—	—	—	4	—	4
Shipping day differences	—	—	—	—	—	—	—	—	—
Venezuela remeasurement	—	—	—	—	—	(119)	—	(1)	(120)
Comparable operating profit	$532	$368	$265	$241	$332	$135	$77	$(11)	$1,939
Comparable operating profit excluding Venezuela						$103		$(6)	$1,912
% change - 2016 vs. 2015:									
Reported growth	25.0 %	(15.8)%	7.4 %	1.9 %	(16.9)%	855.2 %	28.9 %	33.8 %	27.8 %
Mark-to-market	— %	— %	— %	— %	— %	— %	— %	48.9 %	20.1 %
Project K and cost reduction activities	9.3 %	(7.7)%	(1.4)%	11.0 %	(20.3)%	252.8 %	14.9 %	188.5 %	1.2 %
VIE deconsolidation	— %	(16.6)%	— %	— %	— %	— %	— %	— %	(4.0)%
Integration and transaction costs	— %	— %	— %	(0.1)%	2.5 %	95.2 %	15.1 %	46.1 %	1.3 %

Acquisitions/divestitures	— %	— %	— %	(0.6)%	0.8 %	— %	(6.8)%	— %	(0.3)%
Shipping day differences	— %	— %	— %	— %	0.2 %	— %	— %	— %	0.1 %
Venezuela remeasurement	— %	— %	— %	— %	— %	527.9 %	— %	31.6 %	6.1 %
Comparable growth	15.7 %	8.5 %	8.8 %	(8.4)%	(0.1)%	(20.7)%	5.7 %	(281.3)%	3.3 %
Comparable growth excluding Venezuela						(5.9)%		(573.4)%	4.3 %
Foreign currency impact	— %	— %	— %	(0.9)%	(9.0)%	(185.6)%	3.8 %	13.2 %	(14.4)%
Currency-neutral comparable growth	15.7 %	8.5 %	8.8 %	(7.5)%	8.9 %	164.9 %	1.9 %	(294.5)%	17.7 %
Currency-neutral comparable growth excluding Venezuela						2.5 %		(429.9)%	6.7 %

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

U.S. Morning Foods
This segment consists primarily of cereal and toaster pastries. As reported and currency-neutral comparable net sales declined 2.0% as a result of unfavorable volume and pricing/mix. Most of the decline was related to drinks and non-core products.

The cereal category and Kellogg share are both down approximately 1% for the year. However, our core six cereal brands collectively gained 20 basis points of share, including Special K®.

Toaster pastries reported an increase in net sales and share gains, with good contribution from innovation.

As reported operating profit increased 25.0% due to Project K savings, brand-building efficiencies resulting from ZBB, net deflation of input costs and reduced restructuring charges. This was partially offset by unfavorable sales performance. Currency-neutral comparable operating profit increased 15.7%, excluding the benefit of reduced restructuring charges.

U.S. Snacks
This segment consists of crackers, cereal bars, cookies, savory snacks, and fruit-flavored snacks. As reported and currency-neutral comparable net sales declined 1.1% as a result of unfavorable pricing/mix and a slight decrease in volume.

Crackers posted increased sales and share led by the Big 3 brands in combination (Cheez-It® , Town House®, and Club®).

The bars business declined due to weakness in the Special K® brand as the change in weight-management trends away from counting calories. The brand's declines are moderating with the success of on-trend offerings like Protein Trail Mix bars and Fruit & Nut bars. Rice Krispies Treats® and Nutri-Grain® gained share during the year.

The cookies business consumption declined for the year resulting in lost share, although share losses moderated in the last half of the year as we benefited from turning on advertising behind our Keebler® Elves.

Savory snacks reported low-single-digit growth as a result of consumption growth due to core Pringles® products driven, in part, by accelerated growth in on-the-go pack formats. This growth was partially offset by the lapping of SKU discontinuations during the year.

As reported operating profit declined 15.8% due to the prior year benefit of the VIE deconsolidation, increased restructuring charges in the current year, and unfavorable sales performance. This was partially offset by Project K savings and brand-building efficiencies from ZBB. Currency-neutral comparable operating profit increased 8.5% after excluding the impact of the prior year VIE deconsolidation and the impact of restructuring charges.

U.S. Specialty
This segment sells the full line of Kellogg products to channels such as food service, vending, convenience stores, and Girl Scouts.

As reported and currency-neutral comparable net sales increased 2.8% as a result of favorable pricing/mix and a slight increase in volume. Reported net sales growth was led by growth in the Foodservice, Convenience and Vending channels. We held or gained share in cereal, crackers, wholesome snacks, and veggie in the Foodservice channel, and in cereal, crackers, and frozen breakfast in the Convenience channel.

As reported operating profit increased 7.4% due to favorable sales performance and ZBB savings. Currency-neutral comparable operating profit increased 8.8% after excluding the minor impact of restructuring charges.

North America Other
This segment is composed of our U.S. Frozen Foods, Kashi Company, and Canada businesses.

As reported net sales decreased 5.3% due to lower volume, unfavorable impact of foreign currency and slightly unfavorable pricing/mix. Currency-neutral comparable net sales declined 4.7% after excluding the impact of foreign currency.

The U.S. Frozen business reported a net sales decline as we reshaped the portfolio for Eggo® and transitioned packaging for Morningstar Farms®. Despite the impact of these significant changes, the business posted improvement in operating profit and profit margins, driven by Project K and ZBB.

In Canada, net sales were down as a result of volume declines and unfavorable currency impact, partially offset by improved pricing/mix. Beginning in the second quarter, we increased prices to help offset higher input costs due to significant transactional foreign exchange pressure. The price increases resulted in lower volume. However, consumption and share declines moderated in the fourth quarter. Special K® gained share during 2016.

Kashi posted lower sales during the year as the business continues to transition its portfolio. We have exited several non-core product lines, including frozen pizza, hot cereal, and trail mix. While these exits negatively impacted sales, they provide tighter focus and better economics going forward. We are investing heavily in our food. During the year, we completed an overhaul of our cereal portfolio, making every product Non-GMO Project Verified. We also launched several new cereal and wholesome snacks products. Finally, we have redesigned our packaging across our Kashi portfolio.

As reported operating profit increased 1.9% due to lower restructuring charges as well as Project K savings and brand-building efficiencies resulting from ZBB in the U.S. Frozen and Canada businesses. These impacts were mitigated somewhat by investments in food and packaging in the Kashi business. Currency-neutral comparable operating profit declined 7.5% after excluding the impact of restructuring and foreign currency.

Europe

As reported net sales declined 4.8% due to unfavorable foreign currency and pricing/mix offset by a slight increase in volume. Currency-neutral comparable net sales declined 0.8% after excluding the impact of foreign currency and the impact of acquisitions.

The Pringles® business posted mid-single-digit net sales growth due to sustained momentum in key markets and expansion of Pringles® Tortilla into new markets.

The wholesome snacks business posted net sales growth for the year led by emerging markets. In addition, we increased share in the UK and France, where growth in kids' brands accelerated.

The cereal business in Europe posted a net sales decline mostly attributable to the UK, where consumption is down and a deflationary environment persists in our categories. We continue working to reposition and renovate Special K®.

Overall, we continue to see strong growth in emerging markets as currency-neutral comparable net sales increased at a double-digit rate in Mediterranean, Middle East, and Russia.

As reported operating profit declined 16.9% due to increased restructuring charges and unfavorable foreign currency impact partially offset by Project K savings and productivity initiatives. Currency-neutral comparable operating profit improved 8.9%, excluding the impact of restructuring charges and foreign currency.

Latin America

As reported net sales declined 23.1% due to unfavorable foreign currency and lower volume. This was partially offset by the favorable impact of pricing/mix, primarily due to Venezuela. Currency-neutral comparable net sales improved 67.7% primarily due to the impact of Venezuela. Excluding Venezuela, currency-neutral comparable net sales would have grown 0.7%.

Our sales performance was driven by price realization, as we cover the adverse impact of currency, as well as the focus on kids-oriented RTEC brands, the expansion of affordable formats in high-frequency stores, and the benefit of some distributor changes for Pringles®.

Cereal consumption and share grew in the back half of the year for Mexico led by our focus on kids' RTEC brands. The snacks business posted mid-single-digit net sales growth driven by strong Pringles® results, with notable growth in the Mexico and Andean markets. We've accelerated consumption growth in wholesome snacks in Mexico, led by new Special K® offerings.

As reported operating profit increased 855.2% due to the year-over-year change in Venezuela remeasurement impact, the favorable impact of pricing actions in Venezuela, and the favorable impact of brand-building efficiencies. Currency-neutral comparable operating profit improved by 164.9%, excluding the impact of Venezuela remeasurement and foreign currency. Excluding Venezuela, currency neutral comparable operating profit increased 2.5%.

Asia Pacific

As reported net sales declined 0.4% due to unfavorable foreign currency, disposition of a small business and unfavorable pricing/mix. Currency-neutral comparable net sales increased 1.6% after excluding the impact of foreign currency and disposition of a small business.

Our Australia business stabilized in 2016. The business is focusing media behind our priority brands, executing big "tent-pole" promotions during key shopper weeks, and launching consumer-driven innovation and renovation. Our largest cereal brand in Australia, Nutri-Grain®, returned to consumption and share growth as a result of these efforts.

In Asia, modest growth was led by Southeast Asia and Korea. The Sub-Saharan Africa business continued to perform well. Pringles® grew at a mid-single-digit rate on the strength of effective promotions as well as renovations like the re-stage of sweet flavors in Korea and the roll-out of Tortilla in Australia and South Africa. Pringles® posted share gains for the year in Korea, Japan, South Africa, Indonesia, and the Philippines.

As reported operating profit increased 28.9% due to reduced restructuring charges, Project K savings and productivity initiatives. Currency-neutral comparable operating profit increased 1.9% excluding the impact of restructuring charges, integration costs and foreign currency.

Corporate

As reported operating expense improved 33.8% due to lower year-over-year mark-to-market cost impacts, and lower restructuring costs partially offset by higher pension and benefit costs. Currency-neutral comparable operating profit declined after excluding the impact of mark-to-market pension and postretirement benefit and restructuring costs.

Margin performance

2017 versus 2016 margin performance was as follows:

	2017	2016	Change vs. prior year (pts.)
Reported gross margin (a)	38.9 %	36.5 %	2.4
Mark-to-market (COGS)	0.1 %	(1.3)%	1.4
Project K and cost reduction activities (COGS)	(0.4)%	(1.3)%	0.9
Integration and transaction costs (COGS)	— %	— %	—
Acquisitions/divestitures (COGS)	0.1 %	— %	0.1
Venezuela remeasurement (COGS)	— %	(0.1)%	0.1
Comparable gross margin	39.1 %	39.2 %	(0.1)
Foreign currency impact	0.1 %		0.1
Currency-neutral comparable gross margin	39.0 %		(0.2)
Reported SGA%	(23.8)%	(25.8)%	2.0
Mark-to-market (SGA)	0.3 %	(0.7)%	1.0
Project K and cost reduction activities (SGA)	(1.7)%	(1.2)%	(0.5)
Integration and transactions costs (SGA)	— %	(0.1)%	0.1
Acquisitions/divestitures (SGA)	(0.2)%	— %	(0.2)
Venezuela remeasurement (SGA)	— %	— %	—
Comparable SGA%	(22.2)%	(23.8)%	1.6
Foreign currency impact	(0.2)%		(0.2)
Currency-neutral comparable SGA%	(22.0)%		1.8
Reported operating margin	15.1 %	10.7 %	4.4
Mark-to-market	0.4 %	(2.0)%	2.4
Project K and cost reduction activities	(2.1)%	(2.5)%	0.4
Integration and transactions costs	— %	(0.1)%	0.1
Acquisitions/divestitures	(0.1)%	— %	(0.1)
Venezuela remeasurement	— %	(0.1)%	0.1
Comparable operating margin	16.9 %	15.4 %	1.5
Foreign currency impact	(0.1)%		(0.1)
Currency-neutral comparable operating margin	17.0 %		1.6

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

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

Reported gross margin for the year was favorable 240 basis points due primarily to productivity and cost savings under our Project K restructuring program, the year over year impact of mark-to-market accounting for pension, and lower restructuring charges, largely due to the curtailment benefit resulting from the amendment of certain pension plans in the U.S. and Canada. These impacts were mitigated somewhat by our U.S. Snacks transition out of DSD distribution, namely the list price adjustment and increased resources in warehouse logistics due to the DSD transition. Currency-neutral comparable gross margin was 20 basis points lower compared to the prior year after eliminating the impact of mark-to-market, restructuring, acquisitions, Venezuela remeasurement, and foreign currency; this was due to the reset of list prices for U.S. Snacks' transition out of DSD.

Reported SG&A% for the year was favorable 200 basis points due primarily to overhead savings realized from Project K, including the transition out of DSD, and ZBB, and the year over year impact of mark-to-market pension accounting. These impacts were partially offset by higher year-over-year Project K restructuring charges and acquisitions. Currency-neutral comparable SG&A% was favorable 180 basis points after excluding the impact of restructuring, mark-to-market, integration costs and acquisitions.

Reported operating margin for the year was favorable 440 basis points due primarily to COGS and SG&A savings realized from Project K and ZBB initiatives, the impact of mark-to-market accounting for pension, and lower restructuring charges. Currency-neutral comparable operating margin was favorable 160 basis points after excluding the year-over-year impact of mark-to-market, restructuring, integration costs, acquisitions, Venezuela remeasurement, and foreign currency.

Our 2017 and 2016 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)	2017	2016
Reported gross profit (a)	$5,022	$4,755
Mark-to-market (COGS)	8	(159)
Project K and cost reduction activities (COGS)	(46)	(173)
Integration and transaction costs (COGS)	(1)	(2)
Acquisitions/divestitures (COGS)	106	—
Shipping day differences (COGS)	6	—
Venezuela operations impact (COGS)	—	11
Venezuela remeasurement (COGS)	—	(12)
Comparable gross profit	$4,949	$5,090
Foreign currency impact	14	
Currency-neutral comparable gross profit	$4,935	
Reported SGA	$3,076	$3,360
Mark-to-market (SGA)	37	(102)
Project K and cost reduction activities (SGA)	(217)	(152)
Integration and transaction costs (SGA)	(4)	(8)
Acquisitions/divestitures (SGA)	(81)	—
Shipping day differences (SGA)	(6)	—
Venezuela operations impact (SGA)	—	(2)
Venezuela remeasurement (SGA)	—	(1)
Comparable SGA	$2,805	$3,095
Foreign currency impact	(16)	
Currency-neutral comparable SGA	$2,789	
Reported operating profit	$1,946	$1,395
Mark-to-market	45	(261)
Project K and cost reduction activities	(263)	(325)
Integration and transaction costs	(5)	(10)
Acquisitions/divestitures	25	—
Shipping day differences	—	—
Venezuela operations impact	—	9
Venezuela remeasurement	—	(13)
Comparable operating profit	$2,144	$1,995
Foreign currency impact	(2)	
Currency-neutral comparable operating profit	$2,146	

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

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

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2016 versus 2015 margin performance was as follows:

	2016	2015	Change vs. prior year (pts.)
Reported gross margin (a)	36.5 %	34.6 %	1.9
Mark-to-market (COGS)	(1.3)%	(2.2)%	0.9
Project K and cost reduction activities (COGS)	(1.3)%	(1.4)%	0.1
VIE deconsolidation (COGS)	— %	— %	—
Integration and transaction costs (COGS)	— %	(0.1)%	0.1
Venezuela remeasurement (COGS)	(0.1)%	(0.9)%	0.8
Comparable gross margin	39.2 %	39.2 %	—
Comparable gross margin excluding Venezuela	39.2 %	39.4 %	(0.2)
Foreign currency impact	0.3 %		0.3
Currency-neutral comparable gross margin	38.9 %		(0.3)
Currency-neutral comparable gross margin excluding Venezuela	39.2 %		(0.2)
Reported SGA%	(25.8)%	(26.5)%	0.7
Mark-to-market (SGA)	(0.7)%	(1.1)%	0.4
Project K and cost reduction activities (SGA)	(1.2)%	(1.0)%	(0.2)
VIE deconsolidation (SGA)	— %	0.5 %	(0.5)
Integration and transactions costs (SGA)	(0.1)%	(0.1)%	—
Venezuela remeasurement (SGA)	— %	0.1 %	(0.1)
Comparable SGA%	(23.8)%	(24.9)%	1.1
Comparable SGA% excluding Venezuela	(23.8)%	(25.0)%	1.2
Foreign currency impact	(1.1)%		(1.1)
Currency-neutral comparable SGA%	(22.7)%		2.2
Currency-neutral comparable SGA% excluding Venezuela	(23.7)%		1.3
Reported operating margin	10.7 %	8.1 %	2.6
Mark-to-market	(2.0)%	(3.3)%	1.3
Project K and cost reduction activities	(2.5)%	(2.4)%	(0.1)
VIE deconsolidation	— %	0.5 %	(0.5)
Integration and transactions costs	(0.1)%	(0.2)%	0.1
Venezuela remeasurement	(0.1)%	(0.8)%	0.7
Comparable operating margin	15.4 %	14.3 %	1.1
Comparable operating margin excluding Venezuela	15.4 %	14.4 %	1.0
Foreign currency impact	(0.8)%		(0.8)
Currency-neutral comparable operating margin	16.2 %		1.9
Currency-neutral comparable operating margin excluding Venezuela	15.5 %		1.1

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

Reported gross margin for the year was favorable 190 basis points due to savings realized from Project K and ZBB, Venezuela remeasurement, restructuring costs, mark-to-market and integration costs. This was partially offset by the impact of investments we are making in our food and packaging, unfavorable transactional foreign currency impact, and unfavorable mix. Currency-neutral comparable gross margin declined 30 basis points, after excluding the impact of market-to-market, restructuring, integration costs, Venezuela remeasurement, and foreign currency. Currency-neutral comparable gross margin excluding Venezuela declined 20 basis points.

Reported SGA% for the year was favorable 70 basis points primarily due to the favorable year-over-year impact to brand-building investment from ZBB efficiencies, overhead savings realized from Project K and ZBB, and lower mark-to-market expense. These impacts were partially mitigated by the unfavorable year-over-year impact of a VIE deconsolidation, continued reinvestment of Project K savings into sales capabilities and re-establishing the Kashi business, and foreign currency. Currency-neutral comparable SGA% was favorable 220 basis points, after excluding the impact of mark-to-market, VIE deconsolidation, and foreign currency.

Reported operating margin for the year was favorable 260 basis points due to the favorable year-over-year impact to brand-building investment from ZBB efficiencies and overhead savings realized from Project K and ZBB, Venezuela remeasurement, mark-to-market, and integration costs. This was partially offset by the impact of investments we are making in our food and packaging, general inflationary trends in wages and logistics, unfavorable transactional foreign currency impact, the continued reinvestment of Project K savings into sales capabilities, re-establishing the Kashi business, the unfavorable year-over-year impact of foreign currency, and VIE deconsolidation. Currency-neutral comparable operating margin was favorable 190 basis points, after excluding the year-over-year impact of restructuring, integration costs, Venezuela remeasurement, VIE deconsolidation, and foreign currency.

Our 2016 and 2015 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)	2016	2015
Reported gross profit (a)	$4,755	$4,681
Mark-to-market (COGS)	(159)	(296)
Project K and cost reduction activities (COGS)	(173)	(195)
VIE deconsolidation (COGS)	—	—
Integration and transaction costs (COGS)	(2)	(15)
Acquisitions/divestitures (COGS)	9	5
Venezuela remeasurement (COGS)	(12)	(112)
Comparable gross profit	$5,092	$5,294
Comparable gross profit excluding Venezuela	5,081	5,243
Foreign currency impact	(377)	
Currency-neutral comparable gross profit	$5,469	
Currency-neutral comparable gross profit excluding Venezuela	$5,172	
Reported SGA	$3,360	$3,590
Mark-to-market (SGA)	(102)	(150)
Project K and cost reduction activities (SGA)	(152)	(128)
VIE deconsolidation (SGA)	—	67
Integration and transaction costs (SGA)	(8)	(15)
Acquisitions/divestitures (SGA)	(8)	(1)
Venezuela remeasurement (SGA)	(1)	(8)
Comparable SGA	$3,089	$3,355
Comparable SGA excluding Venezuela	$3,087	$3,331
Foreign currency impact	99	
Currency-neutral comparable SGA	$3,188	
Currency-neutral comparable SGA excluding Venezuela	$3,132	
Reported operating profit	$1,395	$1,091
Mark-to-market	(261)	(446)
Project K and cost reduction activities	(325)	(323)
VIE deconsolidation	—	67
Integration and transaction costs	(10)	(30)
Acquisitions/divestitures	1	4
Venezuela remeasurement	(13)	(120)
Comparable operating profit	$2,003	$1,939
Comparable operating profit excluding Venezuela	$1,994	$1,912
Foreign currency impact	(278)	
Currency-neutral comparable operating profit	$2,281	
Currency-neutral comparable operating profit excluding Venezuela	$2,040	

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

Restructuring and cost reduction activities

We view our restructuring and cost reduction activities as part of our 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

In February 2017, the Company announced an expansion and an extension to its previously-announced global efficiency and effectiveness program ("Project K"), to reflect additional and changed initiatives. Project K is expected to continue generating a significant amount of savings that may be invested in key strategic areas of focus for the business to drive future growth or utilized to achieve our 2018 Margin Expansion target.

In addition to the original program's focus on strengthening existing businesses in core markets, increasing growth in developing and emerging markets, and driving an increased level of value-added innovation, the extended program also focuses on implementing a more efficient go-to-market model for certain businesses and creating a more efficient organizational design in several markets. Since inception, Project K has provided significant benefits and is expected to continue to provide a number of benefits in the future, including an optimized supply chain infrastructure, the implementation of global business services, a new global focus on categories, increased agility from a more efficient organization design, and improved effectiveness in go-to-market models.

We currently anticipate that Project K will result in total pre-tax charges, once all phases are approved and implemented, of $1.5 to $1.6 billion, with after-tax cash costs, including incremental capital investments, estimated to be approximately $1.1 billion. Cash expenditures of approximately $950 million have been incurred through the end of fiscal year 2017. Total cash expenditures, as defined, are expected to be approximately $175 million for 2018. Total charges for Project K in 2018 are expected to be approximately $75 to $125 million.

We expect annual cost savings generated from Project K will be approximately $600 to $700 million in 2019. The savings will be realized primarily in selling, general and administrative expense with additional benefit realized in gross profit as cost of goods sold savings are partially offset by negative volume and price impacts resulting from go-to-market business model changes. The overall savings profile of the project reflects our go-to-market initiatives that will impact both selling, general and administrative expense and gross profit. We have realized approximately $480 million of annual savings through the end of 2017. Cost savings have been utilized to increase margins and be strategically invested in areas such as in-store execution, sales capabilities, including adding sales representatives, re-establishing the Kashi business unit, and in the design and quality of our products. We have also invested in production capacity in developing and emerging markets, and in global category teams.

We funded much of the initial cash requirements for Project K through our supplier financing initiative. We are now able to fund much of the cash costs for the project through cash on hand as we have started to realize cash savings from the project.

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 will complete implementation of Project K in 2018, with annual savings expected to increase through 2019. Project charges, after-tax cash costs and annual savings remain in line with expectations.

Refer to Note 5 within Notes to Consolidated Financial Statements for further information related to Project K and other restructuring activities.

Other Projects

In 2015 we implemented a zero-based budgeting (ZBB) program in our North America business and during the first half of 2016 the program was expanded into our international businesses. We have realized annual savings from the ZBB program of $397 million through 2017 and expect cumulative savings to be approximately $450 to $500 million by the end of 2018, realized largely in selling, general and administrative expense.

In support of the ZBB initiative, we incurred pre-tax charges of approximately $3 million, $25 million and $12 million during 2017, 2016 and 2015, respectively. Total charges of $40 million have been recognized since the inception of the ZBB program which consists primarily of the design and implementation of business capabilities.

We completed implementation of the ZBB program in 2017, with annual savings expected to increase through 2018. Project charges, after-tax cash costs and annual savings remain in line with expectations.

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, Brazilian Real, Nigerian Naira, 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
Interest expense was lower in 2017 due to a $153 million pre-tax charge in 2016 to redeem $475 million of 7.45% U.S. Dollar Debentures due 2031. The charge consisted primarily of a premium on the tender offer and also included accelerated losses on pre-issuance interest rate hedges, acceleration of fees and debt discount on the redeemed debt and fees. Also contributing to the increase from 2015 to 2016 was increased weighting of fixed rate debt and higher average debt levels.

Interest income (recorded in other income (expense), net) was (in millions), 2017-$9; 2016-$5; 2015-$4. We currently expect that our 2018 gross interest expense will increase from 2017 due to the $600 million, ten-year, 3.4% Senior Notes issued in November 2017 in conjunction with our acquisition of Chicago Bar Co., LLC, the manufacturer of RXBAR, and higher expected interest rates on floating rate debt.

(dollars in millions)				Change vs. prior year	
	2017	2016	2015	2017	2016
Reported interest expense	$256	$406	$227		
Amounts capitalized	4	4	4		
Gross interest expense	$260	$410	$231	(36.6)%	77.5%

Income taxes
On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code which impact our year ended December 30, 2017 including but not limited to, reducing the corporate tax rate from 35% to 21%, requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that may be electively paid over eight years, and accelerating first year expensing of certain capital expenditures.

The Tax Act also introduces new tax laws that may impact our taxable income beginning in 2018 which will include, but not limited to, the repeal of the domestic production activity deduction, generally eliminating U.S. federal income taxes on foreign earnings (subject to certain important exceptions), a new provision designed to tax currently global intangible low taxed income (GILTI), a provision that could limit the amount of deductible interest expense, limitations on the deductibility of certain executive compensation, creating a base erosion anti-abuse tax (BEAT), and modifying or repealing many deductions and credits.

Shortly after the Tax Act was enacted, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) which provides guidance on accounting for the Tax Act's impact. SAB 118 provides a measurement period, which in no case should extend beyond one year from the Tax Act enactment date, during which a company acting in good faith may complete the accounting for the impacts of the Tax Act under ASC Topic 740. Per SAB 118, we must reflect the income tax effects of the Tax Act in the reporting period in which the accounting under ASC Topic 740 is complete. To the extent our accounting for certain income tax effects of the Tax Act is incomplete, we can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements in the first reporting period in which a reasonable estimate can be determined. If we cannot determine a provisional estimate to be included in the financial statements, we should continue to apply ASC 740 based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. If we are unable to provide a reasonable estimate of the impacts of the Tax Act in a reporting period, a provisional amount must be recorded in the first reporting period in which a reasonable estimate can be determined.

Our year end income tax provision includes $4 million of net additional income tax expense during the quarter ended December 30, 2017, driven by the reduction in the U.S. corporate tax rate and the transition tax on foreign earnings.

Reduction in U.S. Corporate Tax Rate: The tax provision includes a tax benefit of $153 million for the remeasurement of certain deferred tax assets and liabilities to reflect the corporate tax rate reduction impact to our net deferred tax balances. This adjustment is considered complete.

Transition tax on foreign earnings: The transition tax is a tax on the previously untaxed accumulated and current earnings and profits of certain of our foreign subsidiaries. In order to determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 earnings and profits (E&P) of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. E&P is similar to retained earnings of the subsidiary, but requires other adjustments to conform to U.S. tax rules. As of December 30, 2017, based on accumulated foreign earnings and profits of approximately $2.6 billion, which are primarily in Europe, we are able to make a reasonable estimate of the transition tax and recorded a transition tax obligation of $157 million which the Company expects to elect to pay over eight years. The current portion of $17 million is included in Other current liabilities and the remainder is included within Other liabilities on the balance sheet. However, we are awaiting further interpretative guidance, continuing to assess available tax methods and elections, and continuing to gather additional information in order to finalize our calculations and complete the accounting for the transition tax liability.

In addition to the transition tax, the Tax Act introduced a territorial tax system, which will be effective beginning in 2018. The territorial tax system will impact our overall global capital and legal entity structure, working capital, and repatriation plan on a go-forward basis. In light of the territorial tax system, and other new international provisions within the Tax Act that are effective beginning in 2018, we are continuing to keep the $2.6 billion of accumulated foreign earnings and profits in Europe and other non-US jurisdictions and we can continue to support our assertion to indefinitely reinvest these foreign earnings and profits. As a result, as a reasonable provisional estimate, we are not recording any new deferred tax liabilities associated with the territorial tax system or for any changes to our indefinite reinvestment assertion. Further, it is impracticable for us to estimate any future tax cost for any unrecognized future tax liabilities associated with our indefinite reinvestment assertion as of December 30, 2017, because the actual tax liability, if any, would be dependent on complex analysis and calculations considering various tax laws, exchange rates, circumstances existing when a repatriation, sale, or liquidation occurs, and other factors.

If there are any changes to our indefinite reinvestment assertion as a result of finalizing our assessment of the new Tax Act, we will adjust our provisional estimates, record, and disclose any tax impacts in the appropriate period, pursuant to SAB 118.

For the year ended December 30, 2017, we did not identify any items from the Tax Act for which a provisional estimate could not be determined. In addition, other provisions of the Tax Act for which we have finalized or are continuing to finalize its accounting are not material (or expected to be material) to the financial statements as of and for the year ended December 30, 2017.

Our reported effective tax rates for 2017, 2016 and 2015 were 24.6%, 25.2%, and 20.6%, respectively. Comparable effective tax rates for 2017, 2016 and 2015 were 25.8%, 24.7%, and 25.6%, respectively.

For the year ended December 30, 2017, the effective tax rate benefited from a deferred tax benefit of $39 million resulting from the intercompany transfer of intellectual property. The 2016 effective income tax rate benefited from excess tax benefits from share-based compensation totaling $36 million. The 2015 effective income tax rates benefited from the mark-to-market loss recorded for our pension plans. Refer to Note 13 within Notes to Consolidated Financial Statements for further information.

Fluctuations in foreign currency exchange rates could impact the expected effective income tax rate as it is dependent upon U.S. dollar earnings of foreign subsidiaries doing business in various countries with differing statutory tax rates. Additionally, the rate could be impacted if pending uncertain tax matters, including tax positions that could be affected by planning initiatives, are resolved more or less favorably than we currently expect.

The following table provides a reconciliation of as reported to currency-neutral comparable income taxes and effective income tax rate for 2017 and 2016.

Consolidated results (dollars in millions)	2017	2016
Reported income taxes	$412	$233
Mark-to-market	6	(59)
Project K and cost reduction activities	(86)	(85)
Debt redemption	—	(54)
Integration and transaction costs	(2)	(3)
Venezuela operations impact	—	1
Venezuela deconsolidation	—	—
Venezuela remeasurement	—	—
U.S. Tax Reform adoption impact	4	
Comparable income taxes	$490	$433
Reported effective income tax rate	24.6 %	25.2 %
Mark-to-market	(0.3)	0.5
Project K and cost reduction activities	(1.1)	(0.3)
Debt redemption	—	(0.9)
Integration and transaction costs	—	—
Venezuela operations impact	—	(0.1)
Venezuela deconsolidation	—	1.0
Venezuela remeasurement	—	0.2
U.S. Tax Reform adoption impact	0.2	—
Comparable effective income tax rate	25.8 %	24.8 %

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

The following table provides a reconciliation of as reported to currency-neutral comparable income taxes and effective income tax rate for 2016 and 2015.

Consolidated results (dollars in millions)	2016	2015
Reported income taxes	$233	$159
Mark-to-market	(59)	(148)
Project K and cost reduction activities	(85)	(94)
Debt redemption	(54)	—
VIE deconsolidation	—	(2)
Integration and transaction costs	(3)	(9)
Venezuela deconsolidation	—	—
Venezuela remeasurement	—	(20)
Comparable income taxes	$434	$432
Reported effective income tax rate	25.2 %	20.6 %
Mark-to-market	0.5	(4.6)
Project K and cost reduction activities	(0.3)	(0.8)
Debt redemption	(0.9)	—
VIE deconsolidation	—	(0.9)
Integration and transaction costs	—	(0.2)
Venezuela deconsolidation	1.0	—
Venezuela remeasurement	0.2	1.5
Comparable effective income tax rate	24.7 %	25.6 %

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

Investments in unconsolidated entities

After-tax earnings from unconsolidated entities for the year ended December 30, 2017 increased to $7 million compared to the prior year of $1 million. The change was driven by increased sales and favorable tax benefits in Multipro Singapore Pte Ltd ('Multipro'), partially offset by inflation on input costs for both Multipro and our Other unconsolidated entities. Net sales attributed to our share of the unconsolidated entities were approximately $377 million for Multipro and approximately $28 million for all other unconsolidated entities.

The components of our unconsolidated entities' net sales growth for 2017 versus 2016 are shown in the following table:

2017 versus 2016 (pts):	Multipro	Other	Total unconsolidated entities
Contributions from volume growth (a)	10.8	20.9	11.0
Net price realization and mix	27.1	6.9	26.2
Currency-neutral comparable sales growth	37.9	27.8	37.2
Foreign currency exchange	(24.0)	(7.8)	(22.9)
Reported net sales growth	13.9	20.0	14.3

(a) Measured in tons based on the stated weight of our product shipments.

After-tax earnings from unconsolidated entities for the year ended December 31, 2016 increased to $1 million compared to the prior year of less than $1 million. The change was driven by increased sales in Multipro partially offset by the other unconsolidated entities. Net sales attributed to our share of the unconsolidated entities were approximately $331 million for Multipro and approximately $23 million for all other unconsolidated entities.

The components of our unconsolidated entities' net sales growth for 2016 versus 2015 are shown in the following table:

2016 versus 2015 (pts):	Multipro (a)	Other	Total unconsolidated entities
Contributions from volume growth (b)	(5.8)	(1.1)	(5.5)
Net price realization and mix	51.1	1.7	43.2
Currency-neutral comparable sales growth	45.3	0.6	37.7
Foreign currency exchange	(48.7)	(6.8)	(41.6)
Reported net sales growth	(3.4)	(6.2)	(3.9)

(a) 2016 results based on four months of activity to be comparable to 2015.
(b) Measured in tons based on the stated weight of our product shipments.

LIQUIDITY AND CAPITAL RESOURCES

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

We have historically reported negative working capital primarily as the result of our focus to improve core working capital by reducing our levels of trade receivables and inventory while extending the timing of payment of our trade payables. In addition, we have a substantial amount of indebtedness which results in current maturities of long-term debt and notes payable which can have a significant impact on working capital as a result of the timing of these required payments. Working capital is also impacted by the use of our ongoing cash flows from operations to service our debt obligations, pay dividends, fund acquisition opportunities, and repurchase our common stock. We had negative working capital of $1.4 billion and $1.5 billion as of December 30, 2017 and December 31, 2016, respectively.

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

As of December 30, 2017 and December 31, 2016, we had $204 million and $240 million, respectively, of cash and cash equivalents held in international jurisdictions. 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 international earnings to the U.S. which may be subject to additional taxes.   The Tax Act required a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries. The impact of the Tax Act provision on repatriation lacks clarity and is subject to interpretation and may ultimately vary from the provision amount reported.

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

(dollars in millions)	2017	2016	2015
Net cash provided by (used in):			
Operating activities	$1,646	$1,628	$1,691
Investing activities	(1,094)	(893)	(1,127)
Financing activities	(604)	(642)	(706)
Effect of exchange rates on cash and cash equivalents	53	(64)	(50)
Net increase (decrease) in cash and cash equivalents	$1	$29	$(192)

Operating activities

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

Our net cash provided by operating activities for 2017 totaled $1,646 million, an increase of $18 million as compared to 2016. Pre-tax cash costs totaling $144 million in the year ended December 31, 2016 related to the $475 million redemption of our 7.45% U.S. Dollar Debentures due 2031 and $59 million cash settlement of forward starting swaps were offset by an increase in tax cash payments during the current year as well as a lower year-over-year cash flow impact from the supplier financing initiative.

After-tax cash payments related to Project K were $230 million in 2017, $117 million in 2016, and $191 million in 2015.

Our cash conversion cycle (defined as days of inventory and trade receivables outstanding less days of trade payables outstanding, based on a trailing 12 month average), is approximately negative 7 days and 3 days for 2017 and 2016, respectively. Core working capital in 2017 averaged 3.0% of net sales, compared to 4.0% in 2016 and 6.2% in 2015. In 2017, both our cash conversion cycle and core working capital showed improvements in days of trade payables outstanding which includes the positive impact of a supplier financing initiative. Days of trade receivables and inventory on hand were flat in 2017 compared to 2016.

Our total pension and postretirement benefit plan funding amounted to $44 million, $33 million and $53 million, in 2017, 2016 and 2015, 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 2022 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 2018 of approximately $37 million. Actual 2018 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)	2017	2016	2015
Net cash provided by operating activities	$1,646	$1,628	$1,691
Additions to properties	(501)	(507)	(553)
Cash flow	$1,145	$1,121	$1,138
year-over-year change	2.1%	(1.5)%	

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Investing activities

Our net cash used in investing activities for 2017 amounted to $1,094 million, an increase of $201 million compared with 2016. In 2017, we acquired Chicago Bar Co., LLC, the manufacturer of RXBAR, for $596 million. In 2016, we acquired Parati, a manufacturer of biscuit, powdered beverage and pasta brands in Brazil for $381 million.

In 2015, we acquired, for $445 million, a 50% interest in Multipro Singapore Pte. Ltd., a leading distributor of a variety of food products in Nigeria and Ghana, and an option to purchase a minority interest in an affiliated food manufacturer. In addition to our joint venture investment in 2015, we also acquired Mass Foods and a majority interest in Bisco Misr.

Capital spending in 2017 included investments in our supply chain infrastructure and network optimization initiatives in global manufacturing and distribution.

Cash paid for additions to properties as a percentage of net sales was 3.9% in 2017, 3.9% in 2016, and 4.1% in 2015.

Financing activities

Our net cash used by financing activities was $604 million, $642 million and $706 million for 2017, 2016 and 2015, respectively.

Total debt was $8.6 billion and $7.8 billion at year-end 2017 and 2016, respectively.

In November 2017, we issued $600 million of ten-year 3.4% Senior Notes to pay down commercial paper issued in conjunction with the purchase of Chicago Bar Co., LLC, manufacturer of RXBAR.

In May 2017, we issued €600 million of five-year 0.80% Euro Notes due 2022 and repaid our 1.75% fixed rate $400 million U.S. Dollar Notes due 2017 at maturity. Additionally, we repaid our 2.05% fixed rate Cdn. $300 million Canadian Dollar Notes at maturity.

In November 2016, we issued $600 million of seven-year 2.65% U.S. Dollar Notes and repaid our 1.875% $500 million U.S. Dollar Notes due 2016 at maturity.

In May 2016, we issued €600 million of eight-year 1.00% Euro Notes due 2024 and repaid our 4.45% fixed rate $750 million U.S. Dollar Notes due 2016 at maturity.

In March 2016, we issued $750 million of ten-year 3.25% U.S. Dollar Notes and $650 million of thirty-year 4.50% U.S. Dollar Notes. Also in March 2016, we redeemed $475 million of our 7.45% U.S. Dollar Debentures due 2031.

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

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

In December 2015, the board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to $1.5 billion beginning in 2016 through December 2017. In December 2017, the board of directors approved the repurchase of up to $1.5 billion of our common stock beginning in January 2018 through December 2019.

During 2017, we purchased 7 million shares totaling $516 million. During 2016, we purchased 6 million shares totaling $426 million. During 2015, we purchased 11 million shares totaling $731 million.

We paid quarterly dividends to shareholders totaling $2.12 per share in 2017, $2.04 per share in 2016, and $1.98 per share in 2015. Total cash paid for dividends increased by 4.0% in 2017 and 3.0% in 2016. On February 16, 2018, the board of directors declared a dividend of $.54 per common share, payable on March 15, 2018 to shareholders of record at the close of business on March 5, 2018.

We entered into an unsecured Five-Year Credit Agreement in February 2014, allowing us to borrow, on a revolving credit basis, up to $2.0 billion and expiring in 2019. In January 2018, we entered into an unsecured Five-Year Credit Agreement to replace the existing agreement allowing us to borrow up to $1.5 billion, on a revolving basis.

In January 2018, we entered into an unsecured 364-Day Credit Agreement to borrow, on a revolving credit basis, up to $1.0 billion at any time outstanding, to replace the $800 million 364-day facility that expired in January 2018. The new credit facilities contains customary covenants and warranties, including specified restrictions on indebtedness, liens and a specified interest expense coverage ratio. If an event of default occurs, then, to the extent permitted, the administrative agent may terminate the commitments under the credit facility, accelerate any outstanding loans under the agreement, and demand the deposit of cash collateral equal to the lender's letter of credit exposure plus interest. There are no borrowings outstanding under the new credit facilities.
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 364-Day Credit Facility, which expires in January 2019, as well as our Five-Year Credit Agreement, which expires in January 2023. 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 December 30, 2017. 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.

During 2016, we initiated a program in which customers could extend their payment terms in exchange for the elimination of early payment discounts (Extended Terms Program).

During the first half of 2016, in order to mitigate the net working capital impact of the Extended Terms Program for a discrete customer, we entered into an agreement to sell, on a revolving basis, certain trade accounts receivable balances to third party financial institutions (Monetization Program). Transfers under the Monetization Program are accounted for as sales of receivables resulting in the receivables being de-recognized from our Consolidated Balance Sheet. The Monetization Program provides for the continuing sale of certain receivables on a revolving basis until terminated by either party; however the maximum funding from receivables that may be sold at any time is currently $800 million, but may be increased as additional financial institutions are added to the Monetization Program. Accounts receivable sold of $601 million and $562 million remained outstanding under this arrangement as of December 30, 2017 and December 31, 2016, respectively. Approximately $2.2 billion and $1.5 billion of accounts receivable have been sold via the Monetization Program during the years ended December 30, 2017 and December 31, 2016, respectively.

In addition to the Monetization Program, during 2016, in order to mitigate the net working capital impact of the Extended Terms Program for other customers, we entered into agreements with financial institutions (Securitization Program) to sell these receivables resulting in the receivables being de-recognized from our consolidated balance sheet. The maximum funding from receivables that may be sold at any time is currently $600 million, but may be increased as additional financial institutions are added to the agreement. As of December 30, 2017, approximately $433 million of accounts receivable sold under the Securitization Program remained outstanding, for which we received cash of approximately $412 million and a deferred purchase price asset of approximately $21 million. As of December 31, 2016, approximately $292 million of accounts receivable sold under the securitization program remained outstanding, for which we received cash of approximately $255 million and a deferred purchase price asset of approximately $37 million. During the years ended December 30, 2017 and December 31, 2016, $2.6 billion and $839 million of accounts receivable were sold through the Securitization Program, respectively. In December 2017, we terminated the Securitization Program, such that no receivables will be sold after December 28, 2017. We terminated the Securitization Program as a result of declining customer interest in an extended-terms program, and recent changes to accounting guidelines that (i) no longer treat the advances from the securitization in a way that preserves Cash Flow, defined as Cash From Operations less Capital Expenditure, and (ii) require burdensome administration, including daily reconciliations of receivables sold and collected under the program. Terminating the Securitization Program will have no impact on our Cash Flow.

Refer to Note 2 within Notes to Consolidated Financial Statements for further information related to the sale of accounts receivable.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS
Off-balance sheet arrangements
At December 30, 2017, we did not have any material off-balance sheet arrangements. Refer to Note 2 within Notes to Consolidated Financial Statements for information on our accounts receivable securitization and factoring programs.
Contractual obligations
The following table summarizes our contractual obligations at December 30, 2017:

Contractual obligations	Payments due by period						
(millions)	Total	2018	2019	2020	2021	2022	2023 and beyond
Long-term debt:							
Principal	$8,319	407	$507	$850	$600	$1,079	$ 4,876
Interest (a)	2,306	238	221	211	177	160	1,299
Capital leases (b)	3	1	1	1	—	—	—
Operating leases (c)	455	127	89	61	49	40	89
Purchase obligations (d)	1,341	924	306	86	21	3	1
Uncertain tax positions (e)	8	8	—	—	—	—	—
Other long-term obligations (f)	794	166	68	83	96	100	281
Total	$13,226	$1,871	$1,192	$1,292	$943	$1,382	$ 6,546

(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 December 30, 2017.

(b) The total expected cash payments on our capital leases include interest expense totaling less than $1 million over the periods presented above.

(c) Operating leases represent the minimum rental commitments under non-cancelable operating leases.

(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 2017, 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 December 30, 2017, our total liability for uncertain tax positions was $60 million, of which $8 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 $52 million.

(f) Other long-term obligations are those associated with noncurrent liabilities recorded within the Consolidated Balance Sheet at year-end 2017 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 2023 as follows: 2018-$56; 2019-$47; 2020-$65; 2021-$77; 2022-$76; 2023-$117.

In addition, the total tax repatriation payable of $157 million which expected to be paid over the next 8 years is included in the total above.

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 December 30, 2017, we have property, plant and equipment of $3.7 billion, net of accumulated depreciation, on our balance sheet. Included in this amount are approximately $22 million of idle assets.

Goodwill and other intangible assets

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

Goodwill impairment testing first requires a comparison between the carrying value and fair value of a reporting unit with associated goodwill. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit, which often requires allocation of shared or corporate items among reporting units. For the 2017 goodwill impairment test, the fair value of the reporting units was estimated based on market multiples. Our approach employs market multiples based on sales, if applicable, and/or 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 December 30, 2017, goodwill and other intangible assets amounted to $8.1 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 $2.5 billion of non-goodwill intangible assets were classified as indefinite-lived, comprised principally of Keebler and Pringles trademarks. The majority of these intangible assets are recorded in our U.S. Snacks reporting unit. 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 57% and 41% in 2017 and 2016, 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 $207 million of goodwill related to our Kashi reporting unit, which was primarily a result of establishing Kashi as a separate operating segment in 2015, which required an allocation of goodwill from our U.S.

Snacks operating segment. The 2017 fair value of the Kashi reporting unit was estimated primarily based on a multiple of net sales and discounted cash flows. The percentage of excess over fair value was approximately 30%. The use of modestly different assumptions in the valuation could have resulted in an impairment.

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 71% 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 2017 of 8.5% equated to approximately the 62nd 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 29% of our global benefit plan assets.

Based on consolidated benefit plan assets at December 30, 2017, a 100 basis point increase or decrease in the assumed rate of return would correspondingly increase or decrease 2018 benefits expense by approximately $62 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): 2017-$415; 2016-$84; 2015-$(666).

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 5.19%, our initial trend rate for 2018 of 5.75% 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 December 30, 2017, a 100 basis point increase in the assumed health care cost trend rates would increase 2018 benefits expense by approximately $7 million and generate an immediate loss recognition of $117 million. A one percent increase in 2018 health care claims cost over that projected from the assumed trend rate would result in an experience loss of approximately $7 million and would increase 2018 expense by $0.3 million. Any arising health care claims cost-related experience gain or loss is recognized in the year in which they occur. The experience loss arising from recognition of 2017 claims experience was approximately $54 million.

Assumed mortality rates of plan participants are a critical estimate in measuring the expected payments a participant will receive over their lifetime and the amount of expense we recognize. At the end of 2014, we revised our mortality assumption after considering the Society of Actuaries' (SOA) updated mortality tables and improvement scale, as well as other mortality information available from the Social Security Administration to develop assumptions aligned with our expectation of future improvement rates. In determining the appropriate mortality assumptions as of December 30, 2017, we considered the SOA's 2017 updated improvement scale. The SOA's 2017 scale incorporates changes consistent with our view of future mortality improvements established in 2014. Therefore, we adopted the 2017 SOA improvement scale. This change to the mortality assumption decreased the year-end U.S. pension and other postretirement benefit obligations by $21 million and $9 million, respectively.

To conduct our annual review of discount rates, we selected the discount rate based on a cash-flow matching analysis using Willis Towers Watson’s proprietary RATE:Link tool and projections of the future benefit payments constituting the projected benefit obligation for the plans. RATE:Link establishes the uniform discount rate that produces the same present value of the estimated future benefit payments, as is generated by discounting each year’s benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 40th to 90th percentile of U.S. high quality bonds. A similar methodology is applied in Canada and Europe, except the smaller bond markets imply that yields between the 10th and 90th percentiles are preferable and in the U.K. the underlying yield curve was derived after further adjustments to the universe of bonds to remove bonds from issuers where it is not clear if they are truly corporate bonds. We use a December 31 measurement date for our defined benefit plans. Accordingly, we select yield curves to measure our benefit obligations that are consistent with market indices during December of each year.

Based on consolidated obligations at December 30, 2017, a 25 basis point decline in the yield curve used for benefit plan measurement purposes would decrease 2018 benefits expense by approximately $4 million and would result in an immediate loss recognition of $239 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 actuarial gains or losses due to differences between assumed and actual experience and due to changing economic conditions. During 2017, we recognized a net actuarial gain of approximately $126 million compared to a net actuarial loss of approximately $307 million in 2016. The total net gain recognized in 2017 was driven by a $415 million gain from better than expected asset returns, offset by a loss of approximately $289 million of plan experience and assumption changes, including declines in the discount rate which were partially offset by the change in mortality assumptions. During 2017, we also recognized curtailment gains of $153 million related to benefit changes and certain events affecting our benefit programs.

Of the total net gain recognized in 2016, approximately $393 million was related to assumption changes, primarily declines in the discount rate which were partially offset by the change in mortality assumptions. The loss was offset by an $84 million gain from better than expected asset returns.

During 2017, we made contributions in the amount of $31 million to Kellogg’s global tax-qualified pension programs. This amount was mostly non-discretionary. Additionally we contributed $13 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.

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 13 within Notes to Consolidated Financial Statements.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code including a one-time transition tax on certain current and accumulated earnings and profits of certain of our foreign subsidiaries. In order to determine the amount of the transition tax, we must determine, in addition to other factors, the amount of post-1986 earnings and profits (E&P) of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. E&P is similar to retained earnings of the subsidiary, but requires other adjustments to conform to U.S. tax rules. We are able to make a reasonable estimate of the transition tax and recorded a transition tax obligation of $157 million which we expect to elect to pay over eight years. The current portion of $17 million is included in Other current liabilities and the remainder is included within Other liabilities on the balance sheet. However, we are awaiting further interpretative guidance, continuing to assess available tax methods and elections, and continuing to gather additional information to more precisely compute the amount of the transition tax liability.

In addition to the transition tax, the Tax Act introduced a territorial tax system, which will be effective beginning in 2018. As of the year-ended December 30, 2017, we have accumulated foreign earnings and profits of approximately $2.6 billion, which are primarily in Europe. As our accumulated foreign earnings and profits continue to be indefinitely reinvested and the company is still finalizing its assessment of the territorial tax system and the Tax Act on its indefinite reinvestment assertion on a go-forward basis, it is impracticable for us to estimate a future tax cost for any unrecognized deferred tax liabilities because the actual tax liability, if any, would be dependent on complex analysis and calculations considering various tax laws, exchange rates, circumstances existing when a repatriation, sale, or liquidation occurs, and other factors.

Management monitors the Company’s ability to utilize certain future tax deductions, operating losses and tax credit carryforwards, prior to expiration. Changes resulting from management’s assessment will result in impacts to deferred tax assets and the corresponding impacts on the effective income tax rate. Valuation allowances were recorded to reduce deferred tax assets to an amount that will, more likely than not, be realized in the future.

ACCOUNTING STANDARDS TO BE ADOPTED IN FUTURE PERIODS

Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. In August 2017, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) intended to simplify hedge accounting by better aligning an entity’s financial reporting for hedging relationships with its risk management activities. The ASU also simplifies the application of the hedge accounting guidance. The new guidance is effective on January 1, 2019, with early adoption permitted. For cash flow hedges existing at the adoption date, the standard requires adoption on a modified retrospective basis with a cumulative-effect adjustment to the Consolidated Balance Sheet as of the beginning of the year of adoption. The amendments to presentation guidance and disclosure requirements are required to be adopted prospectively. We will adopt the new ASU in the first quarter of 2018 and are currently evaluating the impact of adoption.

Improving the Presentation of net Periodic Pension Cost and net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued an ASU to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption should be the first interim period if an entity issues interim financial statements. The amendments in this ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. We will adopt the ASU in the first quarter of 2018. If we had adopted the ASU in the first quarter of 2017, on an as reported basis, the impact to our Corporate segment would have been an increase to COGS and SG&A of $325 million and $217 million, respectively, with an offsetting decrease to other income (expense), net (OIE) of $542 million in the year ended December 30, 2017. For the year ended December 31, 2016, the impact to our Corporate segment would have been a decrease to COGS and SG&A of $54 million and $26 million, respectively, with an offsetting increase to OIE of $80 million. Adoption will have no impact on net income or cash flow. The impact to the Consolidated Balance Sheet at December 30, 2017 and December 31, 2016 would have been immaterial.

On a comparable basis, the impact would have been an increase to COGS and SG&A of $169 million and $99 million, respectively, with an offsetting decrease to OIE of $274 million in the year ended December 30, 2017. On a comparable basis for the year ended December 31, 2016, the impact would have been an increase to COGS and SG&A of $143 million and $82 million, respectively, with an offsetting decrease to OIE of $225 million.
Simplifying the test for goodwill impairment. In January 2017, the FASB issued an ASU to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in this ASU should be applied on a prospective basis. We are currently assessing the impact and timing of adoption of this ASU.

Classification of certain cash receipts and payments. In August 2016, the FASB issued an ASU to provide cash flow statement classification guidance for certain cash receipts and payments including (a) debt prepayment or extinguishment costs; (b) contingent consideration payments made after a business combination; (c) insurance settlement proceeds; (d) distributions from equity method investees; (e) beneficial interests in securitization transactions and (f) application of the predominance principle for cash receipts and payments with aspects of more than one class of cash flows. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period, in which case adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The amendments in this ASU should be applied retrospectively. We will adopt the new ASU in the first quarter of 2018 and are currently evaluating the impact of adoption.
Leases. In February 2016, the FASB issued an ASU which will require the recognition of lease assets and lease liabilities by lessees for all leases with terms greater than 12 months. The distinction between finance leases and operating leases will remain, with similar classification criteria as current GAAP to distinguish between capital and operating leases. The principal difference from current guidance is that the lease assets and lease liabilities arising from operating leases will be recognized on the Consolidated Balance Sheet. Lessor accounting remains substantially similar to current GAAP. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. We will adopt the new ASU in the first quarter of 2019 and are currently evaluating the impact that implementing this ASU will have on our financial statements and disclosures. Please refer to Note 7 for a summary of our undiscounted minimum rental commitments under operating leases as of December 30, 2017.

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

Revenue from contracts with customers. In May 2014, the FASB issued an ASU which provides guidance for accounting for revenue from contracts with customers across all industries, with final amendments issued in 2016. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard also calls for additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments. When the ASU was originally issued it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption was not permitted. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The updated standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original effective date. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. We will adopt the guidance in the first quarter of 2018 using the full retrospective transition method which requires restating each prior reporting period presented. The adoption is not expected to have a material impact on our financial statements and is limited to timing and classification differences as well as disaggregated revenue disclosures.

FUTURE OUTLOOK

We provide net sales guidance on a currency-neutral basis. On this basis, we expect net sales to be flat in 2018. The October acquisition of RXBAR is expected to contribute 1-2% growth offset by a 1% decline related to the negative impact of our exit from Direct Store Delivery (DSD) in U.S. Snacks, including list-price adjustments and rationalization of stock-keeping units, and a flat to 1% decrease for the remainder of our business.

From a profitability standpoint, we expect currency-neutral adjusted operating profit to increase 4-6% during 2018. RXBAR is expected to contribute 1-2% of this growth, while the remaining growth is driven by remaining Project K and ZBB savings, partially offset by an increase in brand building. The resultant operating profit margin reaches our publicly stated margin-expansion target, excluding the impact of pending accounting changes.

Finally, we expect currency-neutral adjusted EPS to grow in the range of 9 to 11% in 2018. This growth incorporates an effective tax rate of 20-21%, 5-6% lower than 2017 as a result of U.S. Tax Reform. The tax benefit is partially offset by the impact of de-leveraging our capital structure and de-risking pension plans by making additional contributions or adjusting target pension asset allocations plans to a more conservative investment mix, which would be accompanied by a reduction in our Expected Return on Assets assumption.

We expect that full-year cash flow will be between $1.2 and $1.3 billion, with year on year growth driven by higher net income, sustained working capital improvement, and the benefits of U.S. Tax Reform. Our guidance includes remaining cash outlays related to Project K and capital expenditures of approximately $500 million.

2018 Non-GAAP Financial Measures

Starting in 2018, the Company is modifying its presentation of non-GAAP measurements. This modification aligns with how the Company assesses its reporting segments, which now includes the delivery of objectives for acquired businesses, and presents performance in a way that is more simple and useful to investors, using nomenclature that is used by peer companies. Non-GAAP financial measures used for 2018 guidance include organic net sales, adjusted operating profit, adjusted diluted EPS, and cash flow. These non-GAAP financial measures are also evaluated for year-over-year growth and on a currency-neutral basis to evaluate the underlying growth of the business and to exclude the effect of foreign currency. We determine currency-neutral operating results by dividing or multiplying, as appropriate, the current-period local currency operating results by the currency exchange rates used to translate our financial statements in the comparable prior-year period to determine what the current period U.S. dollar operating results would have been if the currency exchange rate had not changed from the comparable prior-year period. These non-GAAP financial measures may not be comparable to similar measures used by other companies.

- Currency-neutral net sales and organic net sales: We adjust the GAAP financial measure to exclude the impact of foreign currency, resulting in currency-neutral sales. In addition, we exclude the impact of acquisitions, dispositions, related integration costs, shipping day differences, and foreign currency, resulting in organic net sales. We excluded the items which we believe may obscure trends in our underlying net sales performance. By providing these non-GAAP net sales measures, management intends to provide investors with a meaningful, consistent comparison of net sales performance for the Company and each of our reportable segments for the periods presented. Management uses these non-GAAP measures to evaluate the effectiveness of initiatives behind net sales growth, pricing realization, and the impact of mix on our business results. These non-GAAP measures are also used to make decisions regarding the future direction of our business, and for resource allocation decisions.

- Currency-neutral adjusted operating profit and adjusted diluted EPS: We adjust the GAAP financial measures to exclude the effect of Project K and cost reduction activities, mark-to-market adjustments for

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pension plans, commodities and certain foreign currency contracts. We excluded the items which we believe may obscure trends in our underlying profitability. By providing these non-GAAP profitability measures, management intends to provide investors with a meaningful, consistent comparison of the Company's profitability measures for the periods presented. Management uses these non-GAAP financial measures to evaluate the effectiveness of initiatives intended to improve profitability, such as Project K, ZBB and Revenue Growth Management, to assess performance of newly acquired businesses, as well as to evaluate the impacts of inflationary pressures and decisions to invest in new initiatives within each of our segments. Currency-neutral adjusted represents adjusted excluding foreign currency impact.

- Cash flow: Defined as net cash provided by operating activities reduced by expenditures for property additions. Cash flow does not represent the residual cash flow available for discretionary expenditures. We use this non-GAAP financial measure of cash flow to focus management and investors on the amount of cash available for debt repayment, dividend distributions, acquisition opportunities, and share repurchases once all of the Company’s business needs and obligations are met. Additionally, certain performance-based compensation includes a component of this non-GAAP measure.

We are unable to reasonably estimate the potential full-year financial impact of mark-to-market adjustments because these impacts are dependent on future changes in market conditions (interest rates, return on assets, and commodity prices) or future decisions to be made by our management team and Board of Directors, including decisions on future acquisitions or dispositions. Similarly, because of volatility in foreign exchange rates and shifting country mix of our international earnings, we are unable to reasonably estimate the potential full-year financial impact of foreign currency translation.

As a result, these impacts are not included in the guidance provided. Therefore, we are unable to provide a full reconciliation of these non-GAAP measures used in our guidance without unreasonable effort as certain information necessary to calculate such measure on a GAAP basis is unavailable, dependent on future events outside of our control and cannot be predicted without unreasonable efforts by the Company.

The projected impact of certain other items that are excluded from non-GAAP guidance are shown below:

Impact of certain items excluded from non-GAAP guidance:	Net Sales	Operating Profit	Effective Tax Rate	Earnings Per Share
Project K and cost restructuring activities		$90-110M		$0.27-0.32
Income Tax benefit applicable to adjustments, net**				$0.05-0.06
Currency-neutral adjusted guidance	Flat	4-6%	20-21%	9-11%

* 2018 full year guidance for net sales, operating profit, and earnings per share are provided on a non-GAAP basis only because certain information necessary to calculate such measures on a GAAP basis is unavailable, dependent on future events outside of our control and cannot be predicted without unreasonable efforts by the Company. The Company is providing quantification of known adjustment items where available.

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

Reconciliation of Non-GAAP amounts - Cash Flow Guidance
(billions)

	Approximate Full Year 2018
Net cash provided by (used in) operating activities	$1.7 - $1.8
Additions to properties	~($.5)
Cash Flow	$1.2 - $1.3

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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 14 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, Russian ruble, Brazilian Real and Nigerian Naira 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 2017 was $2.2 billion, representing a settlement obligation of $4 million. The total notional amount of foreign currency derivative instruments at year-end 2016 was $1.4 billion, representing a settlement receivable of $16 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 obligation would have increased by $71 million at year-end 2017 and the settlement receivable at year-end 2016 would have become a settlement obligation of $46 million. These unfavorable changes would generally have been offset by favorable changes in the values of the underlying exposures.

Interest rate risk

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

During 2017 and 2016, we entered into interest rate swaps, and in some instances terminated interest rate swaps, in connection with certain U.S. Dollar and Euro Notes. Refer to Note 8 within Notes to Consolidated Financial Statements. The total notional amount of interest rate swaps at year-end 2017 was $2.3 billion, representing a settlement obligation of $54 million. The total notional amount of interest rate swaps at year-end 2016 was $2.2 billion, representing a settlement obligation of $64 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 $27 million and $17 million at year-end 2017 and 2016, respectively.

Price risk

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

The total notional amount of commodity derivative instruments at year-end 2017 was $544 million, representing a settlement obligation of approximately $1 million. The total notional amount of commodity derivative instruments at year-end 2016 was $437 million, representing a settlement receivable of approximately $6 million. Assuming a 10% decrease in year-end commodity prices, the settlement obligation would have increased by $41 million at year-end

2017, and the settlement obligation would have increased by approximately $20 million at year-end 2016, 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 December 30, 2017 and December 31, 2016, we had posted collateral of $20 million and $41 million, respectively, in the form of cash, which was reflected as an increase in accounts receivable, net on the Consolidated Balance Sheet. As of December 30, 2017 and December 31, 2016, we posted $17 million and $7 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)	2017	2016	2015
Net sales	$12,923	$13,014	$13,525
Cost of goods sold	7,901	8,259	8,844
Selling, general and administrative expense	3,076	3,360	3,590
Operating profit	$1,946	$1,395	$1,091
Interest expense	256	406	227
Other income (expense), net	(16)	(62)	(91)
Income before income taxes	1,674	927	773
Income taxes	412	233	159
Earnings (loss) from unconsolidated entities	7	1	—
Net income	$1,269	$695	$614
Net income (loss) attributable to noncontrolling interests	—	1	—
Net income attributable to Kellogg Company	$1,269	$694	$614
Per share amounts:			
Basic	$3.65	$1.98	$1.74
Diluted	$3.62	$1.96	$1.72
Dividends per share	$2.12	$2.04	$1.98

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions)	2017 Pre-tax amount	2017 Tax (expense) benefit	2017 After-tax amount	2016 Pre-tax amount	2016 Tax (expense) benefit	2016 After-tax amount	2015 Pre-tax amount	2015 Tax (expense) benefit	2015 After-tax amount
Net income			$ 1,269			$ 695			$ 614
Other comprehensive income:									
Foreign currency translation adjustments	$(34)	$ 113	79	$(230)	$ (24)	(254)	$(170)	$ (26)	(196)
Cash flow hedges:									
Unrealized gain (loss) on cash flow hedges	—	—	—	(55)	22	(33)	8	(3)	5
Reclassification to net income	9	(3)	6	11	(6)	5	(23)	3	(20)
Postretirement and postemployment benefits:									
Amounts arising during the period:									
Net experience gain (loss)	44	(12)	32	25	(9)	16	—	—	—
Prior service credit (cost)	—	—	—	(4)	2	(2)	63	(24)	39
Reclassification to net income:									
Net experience loss	—	—	—	3	(1)	2	3	(1)	2
Prior service cost	1	—	1	5	(1)	4	9	(3)	6
Venezuela deconsolidation loss	—	—	—	63	—	63	—	—	—
Other comprehensive income (loss)	$20	$ 98	$ 118	$(182)	$ (17)	$ (199)	$(110)	$ (54)	$ (164)
Comprehensive income			$ 1,387			$ 496			$ 450
Net income (loss) attributable to noncontrolling interests			—			1			—
Other comprehensive income (loss) attributable to noncontrolling interests			—			—			(1)
Comprehensive income attributable to Kellogg Company			$ 1,387			$ 495			$ 451

Refer to notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
CONSOLIDATED BALANCE SHEET

(millions, except share data)	2017	2016
Current assets		
Cash and cash equivalents	$281	$280
Accounts receivable, net	1,389	1,231
Inventories	1,217	1,238
Other current assets	149	191
Total current assets	3,036	2,940
Property, net	3,716	3,569
Goodwill	5,504	5,166
Other intangibles, net	2,639	2,369
Investment in unconsolidated entities	429	438
Other assets	1,026	629
Total assets	$16,350	$15,111
Current liabilities		
Current maturities of long-term debt	$409	$631
Notes payable	370	438
Accounts payable	2,269	2,014
Other current liabilities	1,431	1,391
Total current liabilities	4,479	4,474
Long-term debt	7,836	6,698
Deferred income taxes	363	525
Pension liability	839	1,024
Other liabilities	605	464
Commitments and contingencies		
Equity		
Common stock, $.25 par value, 1,000,000,000 shares authorized Issued: 420,514,582 shares in 2017 and 420,472,901 shares in 2016	105	105
Capital in excess of par value	878	806
Retained earnings	7,103	6,571
Treasury stock, at cost 74,911,865 shares in 2017 and 69,403,567 shares in 2016	(4,417)	(3,997)
Accumulated other comprehensive income (loss)	(1,457)	(1,575)
Total Kellogg Company equity	2,212	1,910
Noncontrolling interests	16	16
Total equity	2,228	1,926
Total liabilities and equity	$16,350	$15,111

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF EQUITY

(millions)	Common stock shares	Common stock amount	Capital in excess of par value	Retained earnings	Treasury stock shares	Treasury stock amount	Accumulated other comprehensive income (loss)	Total Kellogg Company equity	Non-controlling interests	Total equity
Balance, January 3, 2015	420	$ 105	$ 678	$ 6,689	64	$ (3,470)	$ (1,213)	$ 2,789	$ 62	$ 2,851
Common stock repurchases					11	(731)		(731)		(731)
Net income (loss)				614				614	—	614
Acquisition of noncontrolling interest								—	7	7
VIE deconsolidation								—	(58)	(58)
Dividends				(700)				(700)		(700)
Other comprehensive income							(163)	(163)	(1)	(164)
Stock compensation			51					51		51
Stock options exercised and other			16	(6)	(5)	258		268		268
Balance, January 2, 2016	420	$ 105	$ 745	$ 6,597	70	$ (3,943)	$ (1,376)	$ 2,128	$ 10	$ 2,138
Common stock repurchases					6	(426)		(426)		(426)
Net income (loss)				694				694	1	695
Acquisition of noncontrolling interest								—	5	5
Dividends				(716)				(716)		(716)
Other comprehensive loss							(199)	(199)	—	(199)
Stock compensation			63					63		63
Stock options exercised and other			(2)	(4)	(7)	372		366		366
Balance, December 31, 2016	420	$ 105	$ 806	$ 6,571	69	$ (3,997)	$ (1,575)	$ 1,910	$ 16	$ 1,926
Common stock repurchases					7	(516)		(516)		(516)
Net income (loss)				1,269				1,269	—	1,269
Acquisition of noncontrolling interest								—	—	—
Dividends				(736)				(736)		(736)
Other comprehensive loss							118	118	—	118
Stock compensation			66					66		66
Stock options exercised and other	1		6	(1)	(1)	96		101		101
Balance, December 30, 2017	421	$ 105	$ 878	$ 7,103	75	$ (4,417)	$ (1,457)	$ 2,212	$ 16	$ 2,228

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2017	2016	2015
Operating activities			
Net income	$1,269	$695	$614
Adjustments to reconcile net income to operating cash flows:			
Depreciation and amortization	481	517	534
Postretirement benefit plan expense	(427)	198	320
Deferred income taxes	(56)	(26)	(169)
Stock compensation	66	63	51
Venezuela deconsolidation	—	72	—
Venezuela remeasurement	—	11	169
VIE deconsolidation	—	—	(49)
Noncurrent income taxes payable	144	(12)	(21)
Other	27	(62)	8
Postretirement benefit plan contributions	(44)	(33)	(33)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	(57)	21	(127)
Inventories	80	7	(42)
Accounts payable	193	124	427
Accrued income taxes	(29)	4	29
Accrued interest expense	3	7	5
Accrued and prepaid advertising, promotion and trade allowances	34	14	7
Accrued salaries and wages	(27)	(7)	20
All other current assets and liabilities	(11)	35	(52)
Net cash provided by (used in) operating activities	$1,646	$1,628	$1,691
Investing activities			
Additions to properties	$(501)	$(507)	$(553)
Acquisitions, net of cash acquired	(592)	(398)	(161)
Reduction of cash due to Venezuela deconsolidation	—	(2)	—
Investments in unconsolidated entities	—	27	(456)
Acquisition of cost method investments	(7)	(2)	—
Other	6	(11)	43
Net cash provided by (used in) investing activities	$(1,094)	$(893)	$(1,127)
Financing activities			
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	153	(918)	443
Issuances of notes payable, with maturities greater than 90 days	17	1,961	214
Reductions of notes payable, with maturities greater than 90 days	(238)	(1,831)	(283)
Issuances of long-term debt	1,251	2,657	696
Reductions of long-term debt	(632)	(1,737)	(606)
Net issuances of common stock	97	368	261
Common stock repurchases	(516)	(426)	(731)
Cash dividends	(736)	(716)	(700)
Net cash provided by (used in) financing activities	$(604)	$(642)	$(706)
Effect of exchange rate changes on cash and cash equivalents	53	(64)	(50)
Increase (decrease) in cash and cash equivalents	$1	$29	$(192)
Cash and cash equivalents at beginning of period	280	251	443
Cash and cash equivalents at end of period	$281	$280	$251

Supplemental cash flow disclosures:			
Interest paid	$258	$405	$228
Income taxes paid	$352	$256	$337
Supplemental cash flow disclosures of non-cash investing activities:			
Additions to properties included in accounts payable	$151	$161	$147

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 2017, 2016 and 2015 fiscal years each contained 52 weeks and ended on December 30, 2017, December 31, 2016, and January 2, 2016, respectively.
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. As of year-end 2017 and 2016, the Company's off-balance sheet credit exposure related to its customers was immaterial. Please refer to Note 2 for information on sales of accounts receivable.
Inventories
Inventories are valued at the lower of cost or net realizable value. Cost is determined on an average cost basis.
Property
The Company's property consists mainly of plants and equipment used for manufacturing activities. These assets are recorded at cost and depreciated over estimated useful lives using straight-line methods for financial reporting and accelerated methods, where permitted, for tax reporting. Major property categories are depreciated over various periods as follows (in years): manufacturing machinery and equipment 5-30; office equipment 4-5; computer equipment and capitalized software 3-7; building components 15-25; building structures 30-50. Cost includes interest associated with significant capital projects. Plant and equipment are reviewed for impairment when conditions indicate that the carrying value may not be recoverable. Such conditions include an extended period of idleness or a plan of disposal. Assets to be disposed of at a future date are depreciated over the remaining period of use. Assets to be sold are written down to realizable value at the time the assets are being actively marketed for sale and a sale is expected to occur within one year. As of year-end 2017 and 2016, the carrying value of assets held for sale was immaterial.

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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

The Company has agreements with third parties to provide accounts payable tracking systems which facilitate participating suppliers' ability to monitor and, if elected, sell payment obligations from the Company to designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to sell one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into the agreements is to capture overall supplier savings, in the form of payment terms or vendor funding, created by facilitating suppliers' ability to sell payment obligations, while providing them with greater working capital flexibility. The Company has 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 the arrangements. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by the agreements for those payment obligations that have been sold by suppliers. As of December 30, 2017, $850 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $674 million of those payment obligations to participating financial institutions. As of December 31, 2016, $677 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $507 million of those payment obligations to participating financial institutions.

Revenue recognition

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

Advertising and promotion

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

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

Research and development

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

Stock-based compensation

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

The Company classifies pre-tax stock compensation expense in SGA and COGS 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.

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.

As of December 30, 2017 substantially all foreign earnings were considered permanently invested. As the Company's accumulated foreign earnings and profits continue to be indefinitely reinvested and the company is still finalizing its assessment of the territorial tax system and the Tax Act on its indefinite reinvestment assertion on a go-forward basis, it is impracticable for the Company to estimate a future tax cost for any unrecognized deferred tax liabilities because the actual tax liability, if any, would be dependent on complex analyses and calculations considering various tax laws, exchange rates, circumstances existing when a repatriation, sale, or liquidation occurs, and other factors.

Management monitors the Company's ability to utilize certain future tax deductions, operating losses and tax credit carryforwards, prior to expiration. Changes resulting from management's assessment will result in impacts to deferred tax assets and the corresponding impacts on the effective income tax rate. Valuation allowances were recorded to reduce deferred tax assets to an amount that will, more likely than not, be realized in the future.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes a provision designed to tax currently global intangible low taxed income (GILTI) starting in 2018. Under the provision, a U.S. shareholder is required to include in gross income the amount of its GILTI, which is 50% of the excess of the shareholder's net tested income of its controlled foreign corporation over the deemed tangible income return. The amount of GILTI included by a U.S. shareholder is computed by aggregating all controlled foreign corporations (CFC). Shareholders are allowed to claim a foreign tax credit for 80 percent of the taxes paid or accrued with respect to the tested income of each CFC, subject to some limitations.

Beginning in 2018, the Company intends to account for the GILTI as a period cost and will include a provisional estimate for GILTI in its Q1 2018 effective tax rate. The FASB staff has indicated that a company should make and disclose a policy election as to whether it will (1) recognize deferred taxes for basis differences expected to reverse as GILTI or (2) account for GILTI as a period cost if and when incurred. The Company is currently applying the SAB 118 guidance to the selection of a GILTI accounting policy election and, therefore, as of December 30, 2017, the determination of its GILTI accounting policy is not complete. The Company intends to finalize its GILTI accounting policy in 2018 during the measurement period.

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.

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.

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

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

New accounting standards

Income Taxes. In October 2016, the Financial Accounting Standards Board (FASB), as part of their simplification initiative, issued an Accounting Standards Update (ASU) to improve the accounting for income tax consequences of intra-entity transfers of assets other than inventory. Current Generally Accepted Accounting Principles (GAAP) prohibit recognition of current and deferred income taxes for intra-entity asset transfers until the asset has been sold to an outside party, which is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The amendments in the ASU eliminate the exception, such that entities should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. That is, early adoption should be the first interim period if an entity issues interim financial statements. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the period of adoption. The Company early adopted the ASU in the first quarter of 2017. As a result of intercompany transfers of intellectual property, the Company recorded a $39 million reduction in income tax expense during the year ended December 30, 2017. Upon adoption, there was no cumulative effect adjustment to retained earnings.

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

- Excess tax benefits and deficiencies for share-based payments are recorded as an adjustment of income taxes and reflected in operating cash flows after adoption of this ASU. Excess tax benefits and deficiencies were previously recorded in equity and as financing cash flows prior to adoption of this ASU. See Note 13 for information on the impact of this accounting change.

- The guidance allows the employer to withhold up to the maximum statutory tax rates in the applicable jurisdictions without triggering liability accounting. The Company's accounting treatment of outstanding equity awards was not impacted by its adoption of this provision of the ASU.

- The guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The Company is not making this election, and will continue to account for forfeitures on an estimated basis.

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

Simplifying the Measurement of Inventory. In July 2015, the FASB issued an ASU to simplify the measurement of inventory. The ASU requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted the updated standard in the first quarter of 2017 with no material impact to the financial statements,

Balance sheet classification of deferred taxes. In November 2015, the FASB issued an ASU to simplify the presentation of deferred income taxes. The ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. Entities should apply the new guidance either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company early adopted the updated standard in the first quarter of 2016, on a prospective basis. The year-end 2015 balance for current deferred tax assets and liabilities was $227 million and $(9) million, respectively. Please see Note 13 for more information on the Company's deferred tax assets and liabilities. Prior period balances have not been adjusted.

Simplifying the accounting for measurement-period adjustments. In September 2015, the FASB issued an ASU to simplify the accounting for measurement-period adjustments for items in a business combination. The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Entities should apply the new guidance prospectively to adjustments to provisional amounts that occur after the effective date of the ASU with earlier application permitted for financial statements that have not been issued. The Company adopted the updated standard in the first quarter of 2016 with no material impact to the financial statements.

Accounting standards to be adopted in future periods

Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. In August 2017, the FASB issued an ASU intended to simplify hedge accounting by better aligning an entity's financial reporting for hedging relationships with its risk management activities. The ASU also simplifies the application of the hedge accounting guidance. The new guidance is effective on January 1, 2019, with early adoption permitted. For cash flow hedges existing at the adoption date, the standard requires adoption on a modified retrospective basis with a cumulative-effect adjustment to the Consolidated Balance Sheet as of the beginning of the year of adoption. The amendments to presentation guidance and disclosure requirements are required to be adopted prospectively. The Company will adopt the new ASU in the first quarter of 2018 and is currently assessing the impact and timing of adoption of this ASU.

Improving the Presentation of net Periodic Pension Cost and net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued an ASU to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption should be the first interim period if an entity issues interim financial statements. The amendments in this ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company will adopt the ASU in the first quarter of 2018. If the Company had adopted the ASU in the first quarter of 2017, the impact to its Consolidated Statement of Income would have been an increase to COGS and SG&A of $325 million and $217 million, respectively, with an offsetting decrease to Other income (expense), net (OIE) of $542 million in the year ended December 30, 2017. For the year ended December 31, 2016, the impact to the Company's Consolidated Statement of Income would have been a decrease to COGS and SG&A of $54 million and $26 million, respectively, with an offsetting increase to OIE of $80 million. Adoption will have no impact on net income or cash flow. The impact to the Consolidated Balance Sheet at December 30, 2017 and December 31, 2016 would have been immaterial.

Simplifying the test for goodwill impairment. In January 2017, the FASB issued an ASU to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in this ASU should be applied on a prospective basis. The Company is currently assessing the impact and timing of adoption of this ASU.

Statement of Cash Flows. In August 2016, the FASB issued an ASU to provide cash flow statement classification guidance for certain cash receipts and payments including (a) debt prepayment or extinguishment costs; (b) contingent consideration payments made after a business combination; (c) insurance settlement proceeds; (d) distributions from equity method investees; (e) beneficial interests in securitization transactions and (f) application of the predominance principle for cash receipts and payments with aspects of more than one class of cash flows. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period, in which case adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The amendments in this ASU should be applied retrospectively. The Company will adopt the new ASU in the first quarter of 2018 and is currently evaluating the impact of adoption.

Leases. In February 2016, the FASB issued an ASU which will require the recognition of lease assets and lease liabilities by lessees for all leases with terms greater than 12 months. The distinction between finance leases and operating leases will remain, with similar classification criteria as current GAAP to distinguish between capital and operating leases. The principal difference from current guidance is that the lease assets and lease liabilities arising from operating leases will be recognized on the Consolidated Balance Sheet. Lessor accounting remains substantially similar to current GAAP. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company will adopt the new ASU in the first quarter of 2019 and is currently evaluating the impact that implementing this ASU will have on its financial statements and disclosures. Please refer to Note 7 for a summary of the Company's undiscounted minimum rental commitments under operating leases as of December 30, 2017.

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

Revenue from contracts with customers. In May 2014, the FASB issued an ASU which provides guidance for accounting for revenue from contracts with customers across all industries with final amendments issued in 2016. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard also calls for additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments. When the ASU was originally issued it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption was not permitted. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The updated standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original effective date. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. The Company plans to adopt in the first quarter of 2018 using the full retrospective transition method which requires restating each prior reporting period presented. The adoption is not expected to have a material impact its financial statements and is limited to timing and classification differences as well as disaggregated revenue disclosures.

NOTE 2
SALE OF ACCOUNTS RECEIVABLE
During 2016, The Company initiated a program in which a customer could extend their payment terms in exchange for the elimination of early payment discounts (Extended Terms Program).

In 2016, the Company entered into a Receivable Sales Agreement (Monetization Program) and a separate U.S. accounts receivable securitization program (Securitization Program), both described below, which are intended to directly offset the impact the Extended Terms Program would have on the days-sales-outstanding (DSO) metric that is critical to the effective management of the Company's accounts receivable balance and overall working capital.

The Company has no retained interest in the receivables sold, however the Company does have collection and administrative responsibilities for the sold receivables. The Company has not recorded any servicing assets or liabilities as of December 30, 2017 and December 31, 2016 for these agreements as the fair value of these servicing arrangements as well as the fees earned were not material to the financial statements.

Monetization Program
In March 2016, the Company entered into a Monetization Program to sell, on a revolving basis, certain trade accounts receivable balances to third party financial institutions. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. The Monetization Program provides for the continuing sale of certain receivables on a revolving basis until terminated by either party; however the maximum receivables that may be sold at any time is $800 million. Accounts receivable sold of $601 million and $562 million remained outstanding under this arrangement as of December 30, 2017 and December 31, 2016, respectively. During 2017 and 2016, approximately $2.2 billion and $1.5 billion of accounts receivable have been sold via the Monetization Program, respectively. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on sale of receivables is approximately $11 million and $5 million for the years ended December 30, 2017 and December 31, 2016, respectively, and is included in Other income and expense.

Securitization Program
In July 2016, the Company entered into the Securitization Program with a third party financial institution. Under the program, the Company received cash consideration of up to $600 million and a deferred purchase price asset for the remainder of the purchase price. Transfers under the Securitization Program were accounted for as sales of receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. This Securitization Program utilized Kellogg Funding Company (Kellogg Funding), a wholly-owned subsidiary of the Company. Kellogg

Funding's sole business consisted of the purchase of receivables, from its parent or other subsidiary and subsequent transfer of such receivables and related assets to financial institutions. Although Kellogg Funding is included in the Company's consolidated financial statements, it is a separate legal entity with separate creditors who will be entitled, upon its liquidation, to be satisfied out of Kellogg Funding assets prior to any assets or value in Kellogg Funding becoming available to the Company or its subsidiaries. The assets of Kellogg Funding are not available to pay creditors of the Company or its subsidiaries. The Securitization Program was structured to expire in July 2018, but was terminated at the end of 2017. The Company terminated the accounts receivable securitization program as a result of declining customer interest in an extended-terms program, and recent changes to accounting guidelines that (i) no longer treat the advances from the securitization in a way that preserves Cash Flow, defined as Cash From Operations less Capital Expenditure, and (ii) require burdensome administration, including daily reconciliations of receivables sold and collected under the program. Terminating the securitization will have no impact on our Cash Flow.

During the years ended December 30, 2017 and December 31, 2016, $2.6 billion and $839 million of accounts receivable were sold via the Securitization Program, respectively. As of December 30, 2017, approximately $433 million of accounts receivable sold to Kellogg Funding under the Securitization Program remained outstanding, for which the Company received net cash proceeds of approximately $412 million and a deferred purchase price asset of approximately $21 million. As of December 31, 2016, approximately $292 million of accounts receivable sold to Kellogg Funding under the Securitization Program remained outstanding, for which the Company received net cash proceeds of approximately $255 million and a deferred purchase price asset of approximately $37 million. The portion of the purchase price for the receivables which was not paid in cash by the financial institutions is a deferred purchase price asset, which is paid to Kellogg Funding as payments on the receivables are collected from customers. The deferred purchase price asset represents a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price asset is included in Other current assets on the Consolidated Balance Sheet. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on sale of receivables is approximately $7 million for the year end December 30, 2017 and was not material for year ended December 31, 2016. The recorded net loss on sale of receivables is included in Other income and expense.

Other programs
Additionally, from time to time certain of the Company's foreign subsidiaries will transfer, without recourse, accounts receivable balances of certain customers to financial institutions. These transactions are accounted for as sales of the receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. During the years ended December 30, 2017 and December 31, 2016, $237 million and $164 million of accounts receivable were sold via these programs, respectively. Accounts receivable sold of $86 million and $124 million remained outstanding under these programs as of December 30, 2017 and December 31, 2016, respectively. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on the sale of these receivables is included in Other income and expense and is not material.

NOTE 3
GOODWILL AND OTHER INTANGIBLE ASSETS

RXBAR acquisition
In October 2017, the Company completed its acquisition of Chicago Bar Co., LLC, the manufacturer of RXBAR, for $600 million, or $596 million net of cash and cash equivalents. The purchase price is subject to certain working capital and net debt adjustments based on the actual working capital and net debt existing on the acquisition date compared to targeted amounts. The acquisition was accounted for under the purchase price method and was financed with short-term borrowings.

For the post-acquisition period ended December 30, 2017, the acquisition added $27 million in net sales and less than $1 million of operating profit in the Company's North America Other reporting segment. The pro forma effects of this acquisition were not material.

The assets and liabilities are included in the Consolidated Balance Sheet as of December 30, 2017 within the North America Other reporting segment. The acquired assets and assumed liabilities include the following:

(millions)	October 27, 2017
Current assets	$ 43

Goodwill	375
Intangible assets, primarily indefinite-lived brands	201
Current liabilities	(23)
	$ 596

The amounts in the above table represent the preliminary allocation of purchase price and are subject to revision when the working capital and net debt adjustments to the purchase price are agreed between the parties and valuations are finalized for intangible assets. These items will be finalized in 2018. The goodwill from this acquisition is expected to be deductible for income tax purposes and reflects the value of utilizing the Company’s resources to increase the number of distribution locations and customers as well as any intangible assets that do not qualify for separate recognition.

Parati acquisition

In December 2016, the Company acquired Ritmo Investimentos, controlling shareholder of Parati S/A, Afical Ltda and Padua Ltda ("Parati Group"), a leading Brazilian food group for approximately BRL1.38 billion ($381 million) or $379 million, net of cash and cash equivalents. The purchase price was subject to certain working capital and net debt adjustments based on the actual working capital and net debt existing on the acquisition date compared to targeted amounts. These adjustments were finalized during 2017 and resulted in a purchase price reduction of BRL14 million ($4 million). The acquisition was accounted for under the purchase price method and was financed with cash on hand and short-term borrowings.

For the year ended December 30, 2017 the acquisition added $217 million in net sales and $22 million of operating profit in the Company's Latin America reporting segment.

The assets and liabilities of the Parati Group are included in the Consolidated Balance Sheet as of December 30, 2017 within the Latin America segment. The acquired assets and assumed liabilities include the following:

(millions)	December 1, 2016
Current assets	$ 44
Property	72
Goodwill	165
Intangible assets	148
Current liabilities	(48)
Non-current deferred tax liability and other	(6)
	$ 375

During the year ended December 30, 2017, the value of intangible assets subject to amortization increased $39 million, resulting in an immaterial change to amortization expense, and intangible assets not subject to amortization decreased $11 million with an offsetting $28 million adjustment to goodwill in conjunction with an updated allocation of the purchase price.

A portion of the acquisition price aggregating $67 million was placed in escrow in favor of the seller for general representations and warranties, as well as pending resolution of certain contingencies arising from the business prior to the acquisition. During the year ended December 30, 2017, the Company recognized $7 million for certain pre-acquisition contingencies which are considered to be probable of being incurred, which increased goodwill.

During 2017, the Company finalized plans to merge the acquired and pre-existing Brazilian legal entities, which resulted in tax basis of the acquired intangible assets. Accordingly, deferred tax liabilities and goodwill were both reduced by $58 million.

The amounts in the above table represent the allocation of purchase price as of December 30, 2017 and represent the finalization of the valuations for intangible assets and the Company's evaluation of pre-acquisition contingencies and finalization of the merger. The goodwill from this acquisition is expected to be deductible for income tax purposes.

Other acquisitions

In September 2016, the Company acquired a majority ownership interest in a natural, bio-organic certified breakfast company for €3 million, which was accounted for under the purchase method and financed with cash on hand. The assets, which primarily consist of indefinite lived intangible assets and goodwill, and liabilities, including non-controlling interests, are included in the Consolidated Balance Sheet as of December 31, 2016 and December 30, 2017 within the Europe segment.

In March 2016, the Company completed the acquisition of an organic and natural snack company for $18 million, which was accounted for under the purchase method and financed with cash on hand. The assets, which primarily consist of indefinite lived brands, and liabilities are included in the Consolidated Balance Sheet as of December 31, 2016 and December 30, 2017 within the North America Other segment.

Bisco Misr acquisition

In January 2015, the Company completed its acquisition of a majority interest in Bisco Misr, the number one packaged biscuits company in Egypt, for $125 million, or $117 million net of cash and cash equivalents acquired. The acquisition was accounted for under the purchase method and was financed through cash on hand. The assets and liabilities of Bisco Misr are included in the Consolidated Balance Sheet as of December 30, 2017 and December 31, 2016 and the results of its operations subsequent to the acquisition date, which are immaterial, are included in the Consolidated Statement of Income within the Europe operating segment.

The acquired assets and assumed liabilities include the following:

(millions)	January 18, 2015
Current assets	$ 11
Property	79
Goodwill	59
Intangible assets and other	30
Current liabilities	(15)
Other non current liabilities, primarily deferred taxes	(27)
Non-controlling interests	(20)
	$ 117

Goodwill, which is not expected to be deductible for statutory tax purposes, is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded primarily reflects the value of providing an established platform to leverage the Company's existing brands in the markets served by Bisco Misr as well as any intangible assets that do not qualify for separate recognition. The allocation of purchase price was finalized in the 4th quarter of 2015.

In October 2015, the Company acquired additional ownership in Bisco Misr through payment of $13 million to non-controlling interests, which is reported as financing activity on the consolidated statement of cash flows. As of December 30, 2017 and December 31, 2016 the Company owns greater than 95% of Bisco Misr outstanding shares.

Mass Food acquisition

In September 2015, the Company completed the acquisition of Mass Foods, Egypt's leading cereal company, for $46 million, or $44 million net of cash and cash equivalents acquired. The purchase price was subject to certain working capital and net debt adjustments based on the actual working capital and net debt existing on the acquisition date compared to targeted amounts. During 2016, the purchase price was finalized resulting in a reduction in the purchase price of $3 million. The acquisition was accounted for under the purchase method and financed through cash on hand. The assets and liabilities of Mass Foods are included in the Consolidated Balance Sheet as of December 30, 2017 and December 31, 2016 and the results of its operations subsequent to the acquisition date, which are immaterial, are included in the Consolidated Statement of Income within the Europe reportable segment. The acquired assets and liabilities assumed include the following: Current assets - $8 million, Property, intangible assets and goodwill - $46 million, Current and non-current liabilities - $13 million. Goodwill, which is not expected to be deductible for statutory tax purposes, is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded primarily reflects the value of providing an established platform to leverage the Company's existing brands in the markets served by Mass Foods as well as any intangibles that do not qualify for separate recognition. The allocation of purchase price was finalized during 2016.

Goodwill and Intangible Assets

Changes in the carrying amount of goodwill, intangible assets subject to amortization, consisting primarily of customer lists, and indefinite-lived intangible assets, consisting of brands, are presented in the following tables:

Carrying amount of goodwill

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
January 2, 2016	$ 131	$3,568	$ 82	$ 456	$431	$ 76	$ 224	$4,968
Additions	—	—	—	—	4	241	—	245
Currency translation adjustment	—	—	—	1	(59)	11	—	(47)
December 31, 2016	$ 131	$3,568	$ 82	$ 457	$376	$ 328	$ 224	$5,166
Additions	—	—	—	375	—	—	—	375
Purchase price allocation adjustment	—	—	—	—	—	(79)	—	(79)
Purchase price adjustment	—	—	—	—	—	(4)	—	(4)
Currency translation adjustment	—	—	—	4	38	(1)	5	46
December 30, 2017	$ 131	$3,568	$ 82	$ 836	$414	$ 244	$ 229	$5,504

Intangible assets subject to amortization

Intangible assets subject to amortization

(millions) Gross carrying amount	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
January 2, 2016	$ 8	$ 42	$ —	$ 5	$ 45	$ 6	$ 10	$ 116
Additions	—	—	—	—	—	29	—	29
Currency translation adjustment	—	—	—	—	(5)	1	—	(4)
December 31, 2016	$ 8	$ 42	$ —	$ 5	$ 40	$ 36	$ 10	$ 141
Additions	—	—	—	17	—	—	—	17
Purchase price allocation adjustment	—	—	—	—	—	39	—	39
Currency translation adjustment	—	—	—	—	5	(1)	—	4
December 30, 2017	$ 8	$ 42	$ —	$ 22	$ 45	$ 74	$ 10	$ 201
Accumulated Amortization								
January 2, 2016	$ 8	$ 16	$ —	$ 4	$ 11	$ 6	$ 2	$ 47
Amortization	—	3	—	—	3	—	1	7
December 31, 2016	$ 8	$ 19	$ —	$ 4	$ 14	$ 6	$ 3	$ 54
Amortization (a)	—	3	—	1	3	4	1	12
Currency translation adjustment	—	—	—	—	1	—	—	1
December 30, 2017	$ 8	$ 22	$ —	$ 5	$ 18	$ 10	$ 4	$ 67
Intangible assets subject to amortization, net								
January 2, 2016	$ —	$ 26	$ —	$ 1	$ 34	$ —	$ 8	$ 69
Additions	—	—	—	—	—	29	—	29
Amortization	—	(3)	—	—	(3)	—	(1)	(7)
Currency translation adjustment	—	—	—	—	(5)	1	—	(4)
December 31, 2016	$ —	$ 23	$ —	$ 1	$ 26	$ 30	$ 7	$ 87
Additions	—	—	—	17	—	—	—	17
Amortization	—	(3)	—	(1)	(3)	(4)	(1)	(12)
Purchase price allocation adjustment	—	—	—	—	—	39	—	39
Currency translation adjustment	—	—	—	—	4	(1)	—	3
December 30, 2017	$ —	$ 20	$ —	$ 17	$ 27	$ 64	$ 6	$ 134

(a) The currently estimated aggregate amortization expense for each of the next five succeeding fiscal periods is approximately $12 million for 2018 and $11 million per year thereafter through 2022.

Intangible assets not subject to amortization
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	Consolidated
January 2, 2016	$ —	$1,625	$ —	$ 158	$416	$ —	$ —	$2,199
Additions	—	—	—	18	3	92	—	113
Contribution to joint venture	—	—	—	—	(5)	—	—	(5)
Currency translation adjustment	—	—	—	—	(31)	6	—	(25)
December 31, 2016	$ —	$1,625	$ —	$ 176	$383	$ 98	$ —	$2,282
Additions	—	—	—	184	—	—	—	184
Purchase price allocation adjustment	—	—	—	—	—	(11)	—	(11)
Currency translation adjustment	—	—	—	—	51	(1)	—	50
December 30, 2017	$ —	$1,625	$ —	$ 360	$434	$ 86	$ —	$2,505

NOTE 4
INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

In September 2015, the Company acquired, for a final net purchase price of $418 million, a 50% interest in Multipro Singapore Pte. Ltd. (Multipro), a leading distributor of a variety of food products in Nigeria and Ghana and also obtained a call option to acquire 24.5% of an affiliated food manufacturing entity under common ownership based on a fixed multiple of future earnings as defined in the agreement (Purchase Option).
The acquisition of the 50% interest is accounted for under the equity method of accounting. The Purchase Option, is recorded at cost and has been monitored for impairment through December 30, 2017 with no impairment being required. In July 2017, the Company received notification that the entity, through June 30, 2017, had achieved the level of earnings as defined in the agreement for the purchase option to become exercisable for a 1 year period. During the exercise period, the Company will validate the information provided in the notification and evaluate whether to exercise its rights to acquire the 24.5% interest. While no decision to exercise the option has been made by the Company, if the option is exercised, the Company would acquire 24.5% of the affiliated food manufacturing entity for approximately $400 million.
The difference between the amount paid for Multipro and the underlying equity in net assets is primarily attributable to intangible assets, a portion of which is being amortized over future periods, and goodwill.
Summarized combined financial information for the Company’s investments in unconsolidated entities is as follows (on a 100% basis, excluding amortization):

Statement of Operations (millions)	2017	2016	2015
Net sales:			
Multipro (a)	$ 754	$ 662	$240
Others	55	46	49
Total net sales	$ 809	$ 708	$289
Gross profit:			
Multipro (a)	$ 86	$ 71	$32
Others	14	10	12
Total gross profit	$ 100	$ 81	$44
Income before income taxes (a)	43	28	12
Net income (a)	25	15	5

Balance sheets	December 30, 2017	December 31, 2016
Current assets	$ 155	$ 128
Non-current assets	139	67
Current liabilities	(181)	(103)
Non-current liabilities	(37)	(5)

(a) 2015 includes three months of results for Multipro.

NOTE 5
RESTRUCTURING AND COST REDUCTION ACTIVITIES

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

Total projects
The Company recorded $263 million of costs in 2017 associated with cost reduction initiatives. The charges were comprised of $46 million being recorded in COGS and $217 million recorded in SGA expense.

During 2016, the Company recorded $325 million of charges associated with all cost reduction initiatives. The charges were comprised of $173 million being recorded in COGS and $152 million recorded in SGA expense.

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

Project K

In 2017, the Company announced an expansion and an extension to its previously-announced global efficiency and effectiveness program ("Project K"), to reflect additional and changed initiatives. Project K is expected to continue generating a significant amount of savings that may be invested in key strategic areas of focus for the business or utilized to achieve the Company's 2018 Margin Expansion target.

In addition to the original program's focus on strengthening existing businesses in core markets, increasing growth in developing and emerging markets, and driving an increased level of value-added innovation, the extended program will also focus on implementing a more efficient go-to-market model for certain businesses and creating a more efficient organizational design in several markets. Since inception, Project K has provided significant benefits and is expected to continue to provide a number of benefits in the future, including an optimized supply chain infrastructure, the implementation of global business services, a new global focus on categories, increased agility from a more efficient organization design, and improved effectiveness in go-to-market strategies.

The Company currently anticipates that the program will result in total pre-tax charges, once all phases are approved and implemented, of approximately $1.5 to $1.6 billion, with after-tax cash costs, including incremental capital expenditures, estimated to be approximately $1.1 billion. Based on current estimates and actual charges incurred to date, the Company expects the total project charges will consist of asset-related costs of approximately $500 million which consists primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs of approximately $500 million which includes severance, pension and other termination benefits; and other costs of approximately $600 million which consists primarily of charges related to the design and implementation of global business capabilities and a more efficient go-to-market model.

The Company currently expects that total pre-tax charges related to Project K will impact reportable segments as follows: U.S. Morning Foods (approximately 17%), U.S. Snacks (approximately 34%), U.S. Specialty (approximately 1%), North America Other (approximately 13%), Europe (approximately 22%), Latin America (approximately 2%), Asia-Pacific (approximately 6%), and Corporate (approximately 5%).

Since inception of Project K, the Company has recognized charges of $1,377 million that have been attributed to the program. The charges were comprised of $6 million being recorded as a reduction of revenue, $736 million being recorded in COGS and $635 million recorded in SGA.

The Company will complete its implementation of Project K in 2018, with annual savings expected to increase through 2019. Project charges, after-tax cash costs and annual savings remain in line with expectations.

Other projects

In 2015 the Company implemented a zero-based budgeting (ZBB) program in its North America business that has delivered annual savings. During 2016, ZBB was expanded to include the international segments of the business. In support of the ZBB initiative, the Company incurred pre-tax charges of approximately $3 million, $25 million and $12 million for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. Total charges of $40 million have been recognized since the inception of the ZBB program.

The Company completed implementation of the ZBB program in 2017, with annual savings expected to increase through 2018. Project charges, after-tax cash costs and annual savings remain in line with expectations.

The tables below provide the details for the charges incurred during 2017, 2016 and 2015 and program costs to date for all programs currently active as of December 30, 2017.

(millions)	2017	2016	2015	Program costs to date December 30, 2017
Employee related costs	$177	$108	$63	$ 534
Pension curtailment (gain) loss, net	(148)	1	(1)	(137)
Asset related costs	77	46	103	269
Asset impairment	—	50	18	155
Other costs	157	120	140	596
Total	$263	$325	$323	$ 1,417

(millions)	2017	2016	2015	Program costs to date December 30, 2017
U.S. Morning Foods	$18	$23	$58	$ 259
U.S. Snacks	309	76	50	511
U.S. Specialty	2	8	5	21
North America Other	16	38	63	144
Europe	40	126	74	339
Latin America	9	8	4	33
Asia Pacific	11	7	13	92
Corporate	(142)	39	56	18
Total	$263	$325	$323	$ 1,417

Employee related costs consisted of severance and pension charges. Pension curtailment (gain) loss consists of curtailment gains or losses that resulted from project initiatives. Asset impairments were recorded for fixed assets that were determined to be impaired and were written down to their estimated fair value. See Note 14 for more information. Asset related costs consist primarily of accelerated depreciation. Other costs incurred consist primarily of lease termination costs as well as third-party incremental costs related to the development and implementation of global business capabilities and a more efficient to-to-market model.

At December 30, 2017 total project reserves were $160 million, related to severance payments and other costs of which a substantial portion will be paid in 2018 and 2019. The following table provides details for exit cost reserves.

(millions)	Employee Related Costs	Curtailment Gain Loss, net	Asset Impairment	Asset Related Costs	Other Costs	Total
Liability as of January 2, 2016	$ 55	—	$ —	$ —	$33	$88
2016 restructuring charges	108	1	50	46	120	325
Cash payments	(62)	—	—	(14)	(124)	(200)
Non-cash charges and other	1	(1)	(50)	(32)	—	(82)
Liability as of December 31, 2016	$ 102	—	$ —	$ —	$29	$131
2017 restructuring charges	177	(148)	—	77	157	263
Cash payments	(182)	—	—	(34)	(123)	(339)
Non-cash charges and other	—	148	—	(43)	—	105
Liability as of December 30, 2017	$ 97	—	$ —	$ —	$63	$160

NOTE 6
EQUITY
Earnings per share
Basic earnings per share is determined by dividing net income attributable to Kellogg Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is similarly determined, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued. Dilutive potential common shares consist principally of employee stock options issued by the Company, restricted stock units, 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
2017			
Basic	$ 1,269	348	$ 3.65
Dilutive potential common shares		2	(0.03)
Diluted	$ 1,269	350	$ 3.62
2016			
Basic	$ 694	350	$ 1.98
Dilutive potential common shares		4	(0.02)
Diluted	$ 694	354	$ 1.96
2015			
Basic	$ 614	354	$ 1.74
Dilutive potential common shares		2	(0.02)
Diluted	$ 614	356	$ 1.72

The total number of anti-dilutive potential common shares excluded from the reconciliation for each period was (shares in millions): 2017-4.9; 2016-2.8; 2015-2.7.
Stock transactions
The Company issues shares to employees and directors under various equity-based compensation and stock purchase programs, as further discussed in Note 9. The number of shares issued during the periods presented was (shares in millions): 2017–7; 2016–7; 2015–5. The Company issued shares totaling less than one million in each of the years presented under Kellogg Direct™, a direct stock purchase and dividend reinvestment plan for U.S. shareholders.
In December 2015, the board of directors approved a new authorization to repurchase of up to $1.5 billion of the Company's common stock beginning in 2016 through December 2017. In December 2017, a new authorization by the board of directors approved the repurchase of up to $1.5 billion of our common stock beginning in January 2018 through December 2019.
During 2017, the Company repurchased 7 million shares of common stock for a total of $516 million . During 2016, the Company repurchased 6 million shares of common stock for a total of $426 million. During 2015, the Company repurchased 11 million shares of common stock at a total cost of $731 million.

Comprehensive income

Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by or distributions to shareholders. Other comprehensive income for all years presented consists of foreign currency translation adjustments, fair value adjustments associated with cash flow hedges and adjustments for net experience gains (losses) and prior service credit (cost) related to employee benefit plans. For the years ended December 30, 2017 and December 31, 2016, the Company modified assumptions for a U.S. postemployment benefit plan. As a result of the U.S. postemployment benefit plan assumption change, a net experience gain was recognized in other comprehensive income with an offsetting reduction in the accumulated postemployment benefit obligation. During the year ended January 2, 2016, the Company modified assumptions for a U.S. postemployment benefit plan and amended a U.S. defined-benefit pension plan. As a result of the U.S. postemployment benefit plan assumption change, a net experience gain was recognized in other comprehensive income with an offsetting reduction in the accumulated postretirement benefit obligation. The U.S. defined-benefit pension plan amendment increased the Company's pension benefit obligation with an offsetting increase in prior service costs in other comprehensive income. See Note 10 and Note 11 for further details.

	2017			2016			2015		
	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			$ 1,269			$ 695			$ 614
Other comprehensive income:									
Foreign currency translation adjustments	$ (34)	$ 113	79	$ (230)	$ (24)	$ (254)	$ (170)	(26)	(196)
Cash flow hedges:									
Unrealized gain (loss) on cash flow hedges	—	—	—	(55)	22	(33)	8	(3)	5
Reclassification to net income	9	(3)	6	11	(6)	5	(23)	3	(20)
Postretirement and postemployment benefits:									
Amounts arising during the period:									
Net experience gain (loss)	44	(12)	32	25	(9)	16	—	—	—
Prior service credit (cost)	—	—	—	(4)	2	(2)	63	(24)	39
Reclassification to net income:									
Net experience loss	—	—	—	3	(1)	2	3	(1)	2
Prior service cost	1	—	1	5	(1)	4	9	(3)	6
Venezuela deconsolidation loss	—	—	—	63	—	63	—	—	—
Other comprehensive income (loss)	$ 20	$ 98	$ 118	$ (182)	$ (17)	$ (199)	$ (110)	$ (54)	$ (164)
Comprehensive income			$ 1,387			$ 496			$ 450
Net income (loss) attributable to noncontrolling interests			—			1			—
Other comprehensive income (loss) attributable to noncontrolling interests			—			—			(1)
Comprehensive income attributable to Kellogg Company			$ 1,387			$ 495			$ 451

Reclassifications from Accumulated Other Comprehensive Income (AOCI) for the year ended December 30, 2017 and December 31, 2016, consisted of the following:

Details about AOCI Components	Amount reclassified from AOCI			Line item impacted within Income Statement
(millions)	2017	2016	2015	
Gains and losses on cash flow hedges:				
Foreign currency exchange contracts	$(1)	$(14)	$(40)	COGS
Foreign currency exchange contracts	—	(1)	2	SGA
Interest rate contracts	10	13	3	Interest expense
Commodity contracts	—	13	12	COGS
	$9	$11	$(23)	Total before tax
	(3)	(6)	3	Tax (expense) benefit
	$6	$5	$(20)	Net of tax
Amortization of postretirement and postemployment benefits:				
Net experience loss	$—	$3	$3	(a)
Prior service cost	1	5	9	(a)
	$1	$8	$12	Total before tax
	—	(2)	(4)	Tax (expense) benefit
	$1	$6	$8	Net of tax
Venezuela deconsolidation loss	$—	$63	$—	Other (income) expense
Total reclassifications	$7	$74	$(12)	Net of tax

(a) See Note 10 and Note 11 for further details.

Accumulated other comprehensive income (loss) as of December 30, 2017 and December 31, 2016 consisted of the following:

(millions)	December 30, 2017	December 31, 2016
Foreign currency translation adjustments	$(1,426)	$(1,505)
Cash flow hedges — unrealized net gain (loss)	(61)	(67)
Postretirement and postemployment benefits:		
Net experience gain (loss)	34	2
Prior service credit (cost)	(4)	(5)
Total accumulated other comprehensive income (loss)	$(1,457)	$(1,575)

Noncontrolling interests

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

NOTE 7

LEASES AND OTHER COMMITMENTS

The Company’s leases are generally for equipment and warehouse space. Rent expense on all operating leases was (in millions): 2017-$195; 2016-$176; 2015-$189. During 2017, 2016 and 2015, the Company entered into less than $1 million in capital lease agreements.

At December 30, 2017, future minimum annual lease commitments under non-cancelable operating and capital leases were as follows:

(millions)	Operating leases	Capital leases
2018	127	1
2019	89	1
2020	61	1
2021	49	—
2022	40	—
2023 and beyond	89	—
Total minimum payments	$ 455	$ 3
Amount representing interest		—
Obligations under capital leases		3
Obligations due within one year		(1)
Long-term obligations under capital leases		$ 2

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 December 30, 2017, the Company had not recorded any liability related to these indemnifications.

NOTE 8

DEBT

The following table presents the components of notes payable at year end December 30, 2017 and December 31, 2016:

(millions)	2017		2016	
	Principal amount	Effective interest rate	Principal amount	Effective interest rate
U.S. commercial paper	$196	1.76 %	$80	0.61 %
Europe commercial paper	96	(0.32)	306	(0.18)
Bank borrowings	78		52	
Total	$370		$438	

85

The following table presents the components of long-term debt at year end December 30, 2017 and December 31, 2016:

(millions)	2017	2016
(a) 4.50% U.S. Dollar Notes due 2046	$637	$637
(b) 7.45% U.S. Dollar Debentures due 2031	620	620
(c) 3.40% U.S. Dollar Notes due 2027	595	—
(d) 3.25% U.S. Dollar Notes due 2026	729	728
(e) 1.25% Euro Notes due 2025	712	629
(f) 1.00% Euro Notes due 2024	723	639
(g) 2.65% U.S. Dollar Notes due 2023	589	591
(h) 2.75% U.S. Dollar Notes due 2023	201	201
(i) 3.125% U.S. Dollar Notes due 2022	354	357
(j) 0.80% Euro Notes due 2022	717	—
(k) 1.75% Euro Notes due 2021	597	523
(l) 4.0% U.S. Dollar Notes due 2020	847	844
(m) 4.15% U.S. Dollar Notes due 2019	506	510
(n) 3.25% U.S. Dollar Notes due 2018	402	406
(o) 2.05% Canadian Dollar Notes due 2017	—	