Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

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

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED BALANCE SHEET

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

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2015	2014	2013
Operating activities			
Net income	$ 614	$ 633	$ 1,808
Adjustments to reconcile net income to operating cash flows:			
Depreciation and amortization	534	503	532
FFO Postretirement benefit plan (income) expense	320	803	(1,078)
Deferred income taxes	(169)	(254)	317
Stock compensation	51	37	34
Venezuela remeasurement	169	—	15
VIE deconsolidation	(49)	—	—
Other	(13)	(125)	(15)
Postretirement benefit plan contributions	(33)	(53)	(48)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	(127)	131	(50)
working capital Inventories	(42)	(30)	112
Accounts payable	427	96	31
Accrued income taxes	29	87	4
Accrued interest expense	5	(2)	(9)
Accrued and prepaid advertising, promotion and trade allowances	7	(21)	(32)
Accrued salaries and wages	20	(7)	61
All other current assets and liabilities	(52)	(5)	125
Net cash provided by (used in) operating activities	$ 1,691	$ 1,793	$ 1,807
Investing activities			
Additions to properties	$ (553)	$ (582)	$ (637)
Acquisitions, net of cash acquired	(161)	—	—
Investments in unconsolidated entities	(456)	(6)	(6)
Other	43	15	2
Net cash provided by (used in) investing activities	$ (1,127)	$ (573)	$ (641)
Financing activities			
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	443	183	(524)
Issuances of notes payable, with maturities greater than 90 days	214	1,030	640
Reductions of notes payable, with maturities greater than 90 days	(283)	(1,124)	(442)
Issuances of long-term debt	696	952	645
Reductions of long-term debt	(606)	(960)	(762)
Net issuances of common stock	261	217	475
Common stock repurchases (Treasury repurchase)	(731)	(690)	(544)
Cash dividends	(700)	(680)	(653)
Other	—	9	24
Net cash provided by (used in) financing activities	$ (706)	$ (1,063)	$ (1,141)
Effect of exchange rate changes on cash and cash equivalents	(50)	13	(33)
Increase (decrease) in cash and cash equivalents	$ (192)	$ 170	$ (8)
Cash and cash equivalents at beginning of period	443	273	281
Cash and cash equivalents at end of period	$ 251	$ 443	$ 273
Supplemental cash flow disclosures:			
Interest paid	$ 228	$ 209	$ 234
Income taxes paid	$ 337	$ 414	$ 426
Supplemental cash flow disclosures of non-cash investing activities:			
Additions to properties included in accounts payable	$ 147	$ 136	$ 135

Refer to Notes to Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share data)	2013	2012	2011
Net sales	$ 14,792	$ 14,197	$ 13,198
Cost of goods sold	8,689	8,763	8,046
Selling, general and administrative expense	3,266	3,872	3,725
Operating profit	$ 2,837	$ 1,562	$ 1,427
Interest expense	235	261	233
Other income (expense), net	4	24	(10)
Income before income taxes	2,606	1,325	1,184
Income taxes	792	363	320
Earnings (loss) from joint ventures	(6)	(1)	—
Net income	$ 1,808	$ 961	$ 864
Net income (loss) attributable to noncontrolling interests	1	—	(2)
Net income attributable to Kellogg Company	$ 1,807	$ 961	$ 866
Per share amounts:			
Basic	$ 4.98	$ 2.68	$ 2.39
Diluted	$ 4.94	$ 2.67	$ 2.38
Dividends per share	$ 1.80	$ 1.74	$ 1.67

Refer to Notes to Consolidated Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED BALANCE SHEET

(millions, except share data)	2013	2012
Current assets		
Cash and cash equivalents	$ 273	$ 281
Accounts receivable, net	1,424	1,454
Inventories	1,248	1,365
Other current assets	322	280
Total current assets	3,267	3,380
Property, net	3,856	3,782
Goodwill*	5,051	5,038
Other intangibles, net	2,367	2,359
Other assets	933	610
Total assets	$15,474	$15,169
Current liabilities		
Current maturities of long-term debt	$ 289	$ 755
Notes payable	739	1,065
Accounts payable	1,432	1,402
Other current liabilities	1,375	1,301
Total current liabilities	3,835	4,523
Long-term debt	6,330	6,082
Deferred income taxes	928	523
Pension liability	277	886
Other liabilities	497	690
Commitments and contingencies		
Equity		
Common stock, $ 25 par value, 1,000,000,000 shares authorized Issued: 419,923,540 shares in 2013 and 419,718,217 shares in 2012	105	105
Capital in excess of par value	626	573
Retained earnings	6,749	5,615
Treasury stock, at cost 57,121,760 shares in 2013 and 58,452,083 shares in 2012	(2,999)	(2,943)
Accumulated other comprehensive income (loss)*	(936)	(946)
Total Kellogg Company equity	3,545	2,404
Noncontrolling interests	62	61
Total equity	3,607	2,465
Total liabilities and equity	$15,474	$15,169

* December 29, 2012 balances have been revised as discussed in Note 2 to the financial statements

Refer to Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2013	2012	2011
Operating activities			
Net income	$1,808	$ 961	$ 864
Adjustments to reconcile net income to operating cash flows:			
Depreciation and amortization	532	448	369
Postretirement benefit plan (income) expense	(1,078)	419	684
Deferred income taxes	317	(159)	(93)
Other	25	(21)	(115)
Postretirement benefit plan contributions	(48)	(51)	(192)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	(46)	(65)	(100)
Inventories	116	(80)	(125)
Accounts payable	30	208	40
Accrued income taxes	4	25	132
Accrued interest expense	(9)	(1)	(7)
Accrued and prepaid advertising, promotion and trade allowances	(30)	97	4
Accrued salaries and wages	61	15	89
All other current assets and liabilities	125	(38)	45
Net cash provided by (used in) operating activities	$ 1,807	$ 1,758	$1,595
Investing activities			
Additions to properties	$ (637)	$ (533)	$ (594)
Acquisitions, net of cash acquired	—	(2,668)	—
Other	(4)	(44)	7
Net cash provided by (used in) investing activities	$ (641)	$(3,245)	$ (587)
Financing activities			
Net increase (reduction) of notes payable, with maturities less than or equal to 90 days	$ (524)	$ 779	$ 189
Issuances of notes payable, with maturities greater than 90 days	640	724	—
Reductions of notes payable, with maturities greater than 90 days	(442)	(707)	—
Issuances of long-term debt	645	1,727	895
Reductions of long-term debt	(762)	(750)	(945)
Net issuances of common stock	475	229	291
Common stock repurchases	(544)	(63)	(798)
Cash dividends	(653)	(622)	(604)
Other	24	—	15
Net cash provided by (used in) financing activities	$(1,141)	$1,317	$ (957)
Effect of exchange rate changes on cash and cash equivalents	(33)	(9)	(35)
Increase (decrease) in cash and cash equivalents	$ (8)	$ (179)	$ 16
Cash and cash equivalents at beginning of period	281	460	444
Cash and cash equivalents at end of period	$ 273	$ 281	$ 460

Refer to Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(millions, except share data)	2011	2010
Current assets		
Cash and cash equivalents	$ 460	$ 444
Accounts receivable, net	1,188	1,190
Inventories	1,132	1,056
Other current assets	247	225
Total current assets	3,027	2,915
Property, net	3,281	3,128
Goodwill	3,623	3,628
Other intangibles, net	1,454	1,456
Other assets	516	720
Total assets	$ 11,901	$ 11,847
Current liabilities		
Current maturities of long-term debt	$ 761	$ 952
Notes payable	234	44
Accounts payable	1,189	1,149
Other current liabilities	1,129	1,039
Total current liabilities	3,313	3,184
Long-term debt	5,037	4,908
Deferred income taxes	637	697
Pension liability	560	265
Other liabilities	592	639
Commitments and contingencies		
Equity		
Common stock, $ 25 par value, 1,000,000,000 shares authorized Issued: 419,484,087 shares in 2011 and 419,272,027 shares in 2010	105	105
Capital in excess of par value	522	495
Retained earnings	6,721	6,122
Treasury stock, at cost 62,182,500 shares in 2011 and 53,667,635 shares in 2010	(3,130)	(2,650)
Accumulated other comprehensive income (loss)	(2,458)	(1,914)
Total Kellogg Company equity	1,760	2,158
Noncontrolling interests	2	(4)
Total equity	1,762	2,154
Total liabilities and equity	$ 11,901	$ 11,847

Refer to Notes to Consolidated Financial Statements.

Part I – FINANCIAL INFORMATION

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

	July 2, 2016 (unaudited)	January 2, 2016 *
Current assets		
Cash and cash equivalents	$ 531	$ 251
Accounts receivable, net	1,473	1,344
Inventories:		
Raw materials and supplies	322	315
Finished goods and materials in process	894	935
Deferred income taxes	—	227
Other prepaid assets	201	164
Total current assets	3,421	3,236
Property, net of accumulated depreciation of $5,310 and $5,236	3,543	3,621
Investments in unconsolidated entities	435	456
Goodwill	4,963	4,968
Other intangibles, net of accumulated amortization of $51 and $47	2,282	2,268
Pension	246	231
Other assets	497	471
Total assets	$ 15,387	$ 15,251
Current liabilities		
Current maturities of long-term debt	$ 1,144	$ 1,266
Notes payable	780	1,204
Accounts payable	1,988	1,907
Accrued advertising and promotion	464	447
Accrued income taxes	83	42
Accrued salaries and wages	238	325
Other current liabilities	574	548
Total current liabilities	5,271	5,739
Long-term debt	6,277	5,275
Deferred income taxes	477	685
Pension liability	922	946
Nonpension postretirement benefits	58	77
Other liabilities	382	391
Commitments and contingencies		
Equity		
Common stock, $.25 par value	105	105
Capital in excess of par value	770	745
Retained earnings	6,701	6,597
Treasury stock, at cost	(4,092)	(3,943)
Accumulated other comprehensive income (loss)	(1,494)	(1,376)
Total Kellogg Company equity	1,990	2,128
Noncontrolling interests	10	10
Total equity	2,000	2,138
Total liabilities and equity	$ 15,387	$ 15,251

* Condensed from audited financial statements.

Refer to Notes to Consolidated Financial Statements.

Table of Contents

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

(Results are unaudited)	Quarter ended July 2, 2016	Quarter ended July 4, 2015	Year-to-date period ended July 2, 2016	Year-to-date period ended July 4, 2015
Net sales	$ 3,268	$ 3,498	$ 6,663	$ 7,054
Cost of goods sold	1,998	2,257	4,148	4,568
Selling, general and administrative expense	821	829	1,628	1,690
Operating profit	449	412	887	796
Interest expense	68	58	285	112
Other income (expense), net	4	(46)	4	(72)
Income before income taxes	385	308	606	612
Income taxes	106	85	153	161
Earnings (loss) from unconsolidated entities	1	(1)	2	(2)
Net income	$ 280	$ 222	$ 455	$ 449
Net income (loss) attributable to noncontrolling interests	—	(1)	—	(1)
Net income attributable to Kellogg Company	$ 280	$ 223	$ 455	$ 450
Per share amounts:				
Basic	$ 0.80	$ 0.63	$ 1.30	$ 1.27
Diluted	$ 0.79	$ 0.63	$ 1.29	$ 1.26
Dividends per share	$ 0.50	$ 0.49	$ 1.00	$ 0.98
Average shares outstanding:				
Basic	350	353	350	354
Diluted	354	355	354	356
Actual shares outstanding at period end			349	353

Refer to Notes to Consolidated Financial Statements.

Table of Contents

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

	Year-to-date period ended	
(unaudited)	July 2, 2016	July 4, 2015
Operating activities		
Net income	$ 455	$ 449
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	251	269
Postretirement benefit plan expense (benefit)	(56)	(41)
Deferred income taxes	7	(11)
Stock compensation	30	21
Venezuela remeasurement	11	152
Variable-interest entity impairment	—	(49)
Other	—	35
Postretirement benefit plan contributions	(23)	(17)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	(159)	(207)
Inventories	17	5
Accounts payable	157	154
Accrued income taxes	54	(34)
Accrued interest expense	(2)	(2)
Accrued and prepaid advertising and promotion	10	9
Accrued salaries and wages	(87)	(61)
All other current assets and liabilities	(17)	(91)
Net cash provided by (used in) operating activities	648	581
Investing activities		
Additions to properties	(249)	(258)
Acquisitions, net of cash acquired	(15)	(117)
Investments in unconsolidated entities, net proceeds	29	—
Other	(15)	42
Net cash provided by (used in) investing activities	(250)	(333)
Financing activities		
Net issuances (reductions) of notes payable	(424)	114
Issuances of long-term debt	2,061	672
Reductions of long-term debt	(1,227)	(606)
Net issuances of common stock	233	90
Common stock repurchases	(386)	(285)
Cash dividends	(351)	(347)
Other	—	5
Net cash provided by (used in) financing activities	(94)	(357)
Effect of exchange rate changes on cash and cash equivalents	(24)	(40)
Increase (decrease) in cash and cash equivalents	280	(149)
Cash and cash equivalents at beginning of period	251	443
Cash and cash equivalents at end of period	$ 531	$ 294

Supplemental cash flow disclosures		
Interest paid	$ 284	$ 114
Income taxes paid	$ 85	$ 240

Supplemental cash flow disclosures of non-cash investing activities:		
Additions to properties included in accounts payable*	$ 89	$ 96

*The Q2 2015 Consolidated Statement of Cash Flows has been revised to correctly eliminate the non-cash effect of accrued capital expenditures of $40 million from changes in Accounts payable, resulting in an increase in net cash provided by operations and from Additions to properties, resulting in an increase in net cash provided by investing activities. These revisions were not considered material to the previously issued Q2 2015 financial statements.

Refer to Notes to Consolidated Financial Statements.