APPENDICES: Kellogg Company Q1 2014 Financial Results Presentation

May 1, 2014

GAAP Reconciliations

Other

Reconciliation of Kellogg-Defined Cash Flow to GAAP Cash Flow (a)

(unaudited)	Quarter ended March 29, 2014	March 30, 2013
Operating activities		
Net income	**$406**	$311
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	**116**	113
Postretirement benefit plan expense (benefit)	**(22)**	(4)
Deferred income taxes	**45**	11
Other	**6**	5
Postretirement benefit plan contributions	**(28)**	(31)
Changes in operating assets and liabilities, net of acquisitions	**(255)**	(67)
Net cash provided by (used in) operating activities	**268**	338
Less:		
Additions to properties	**(97)**	(102)
Cash flow	**$171**	$236

(a) Cash flow is defined as net cash provided by operating activities less capital expenditures. The Company uses this non-GAAP financial measure to focus management and investors on the amount of cash available for debt repayment, dividend distributions, acquisition opportunities and share repurchase.

Reconciliation of Non-GAAP Amounts – Reported Operating Profit to Comparable Operating Profit
Q1 2014

Quarter ended March 29, 2014

(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	**$128**	**$95**	**$87**	**$72**	**$67**	**$48**	**$14**	**$103**	**$614**
Mark-to-market(a)	-	-	-	-	-	-	-	116	116
Restructuring and cost reduction activities(b)	(11)	(7)	(1)	(3)	(12)	(4)	(6)	(10)	(54)
Underlying Operating Profit(c)	**$139**	**$102**	**$88**	**$75**	**$79**	**$52**	**$20**	**$(3)**	**$552**
Pringles integration costs	-	-	-	-	(6)	-	-	(1)	(7)
Comparable Operating Profit(d)	**$139**	**$102**	**$88**	**$75**	**$85**	**$52**	**$20**	**($2)**	**$559**

Quarter ended March 30, 2013

(millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North America Other	Europe	Latin America	Asia Pacific	Corporate	Kellogg Consolidated
Reported Operating Profit	$163	$106	$78	$75	$71	$48	$21	$(59)	$503
Mark-to-market(a)	-	-	-	-	-	-	-	(54)	(54)
Restructuring and cost reduction activities(b)	(3)	(3)	(1)	-	-	-	(6)	-	(13)
Underlying Operating Profit(c)	$166	$109	$79	$75	$71	$48	$27	$(5)	$570
Pringles integration costs	-	(3)	-	(1)	(8)	-	(5)	(3)	(20)
Comparable Operating Profit(d)	$166	$112	$79	$76	$79	$48	$32	$(2)	$590

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

(b) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The quarter ended March 30, 2013 has been recast to exclude all restructuring and cost reduction activities from underlying operating profit.

(c) Underlying Operating Profit excludes the impact of pension plans and commodity contracts mark-to-market adjustments and costs related to restructuring and cost reduction activities. The Company believes the use of this non-GAAP measure provides increased transparency and assists in understanding underlying operating performance. This non-GAAP measure is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table. Underlying operating profit for the quarters ended March 29, 2014 and March 30, 2013 includes postretirement benefit plan expense (income) of ($22) million and ($4) million, respectively.

(d) Comparable Operating Profit is a non-GAAP measure that excludes the impact of mark-to-market adjustments on pension plans and commodity contracts, the impact of restructuring and cost reduction activities and the impact of integration costs related to the acquisition of the Pringles business.

Reconciliation of Non-GAAP Amounts – Reported Operating Profit Growth to Underlying Reported Operating Profit Growth

	Quarter ended March 29, 2014
Reported Operating Profit Growth	22.1%
Mark-to-market (a)	32.7%
Restructuring and cost reduction activities (b)	-7.3%
Underlying Reported Operating Profit Growth (c)	-3.3%

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

(b) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The quarter ended March 30, 2013 has been recast to exclude all restructuring and cost reduction activities from underlying reported operating profit growth.

(c) Underlying reported operating profit growth is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table.

Reconciliation of Non-GAAP Amounts – Reported EPS to Comparable EPS

	Quarter ended		
	March 29, 2014	March 30, 2013	*Change vs. prior year*
Reported EPS	**$1.12**	$0.85	31.8%
Mark-to-market (a)	**0.22**	(0.10)	37.1%
Restructuring and cost reduction activities (b)	**(0.10)**	(0.03)	-7.3%
Pringles Integration costs	**(0.01)**	(0.04)	3.0%
Comparable EPS (c)	**$1.01**	$1.02	-1.0%

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

(b) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The quarter ended March 30, 2013 has been recast to exclude all restructuring and cost reduction activities from comparable EPS.

(c) Comparable EPS is a non-GAAP measure that excludes the impact of mark-to-market adjustments on pension plans and commodity contracts, the impact of costs related to restructuring and cost reduction activities, and the impact of integration costs related to the acquisition of the Pringles business.

Reconciliation of Non-GAAP Amounts – Reported Gross Profit to Underlying Reported Gross Profit

	Quarter ended March 29, 2014	Quarter ended March 30, 2013
Reported Gross Profit (a)	$1,504	$1,393
Mark-to-market (b)	116	(54)
Restructuring and cost reduction activities (c)	(25)	(8)
Underlying Reported Gross Profit (d)	$1,413	$1,455

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

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

(c) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The quarter ended March 30, 2013 has been recast to exclude all restructuring and cost reduction activities from underlying reported gross profit.

(d) Underlying reported gross profit is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table.

Reconciliation of Non-GAAP Amounts – Reported Gross Margin to Underlying Reported Gross Margin

	Quarter ended	
	March 29, 2014	March 30, 2013
Reported Gross Margin (a)	40.2%	36.1%
Mark-to-market (b)	3.1%	-1.4%
Restructuring and cost reduction activities (c)	-0.7%	-0.2%
Underlying Reported Gross Margin (d)	37.8%	37.7%

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

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

(c) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The quarter ended March 30, 2013 has been recast to exclude all restructuring and cost reduction activities from underlying reported gross margin.

(d) Underlying reported gross margin is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table.

Analysis of Net Sales and Operating Profit Performance
Q1 2014

First Quarter of 2014 versus 2013

(dollars in millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North Am. Other	North America	Europe	Latin America	Asia Pacific	Corp-orate	Consoli-dated
2014 net sales	**$861**	**$903**	**$372**	**$381**	**$2,517**	**$708**	**$278**	**$239**	**$0**	**$3,742**
2013 net sales	**$911**	**$901**	**$379**	**$403**	**$2,594**	**$692**	**$308**	**$267**	**$0**	**$3,861**
% change - 2014 vs. 2013:										
As Reported	**-5.5%**	**0.3%**	**-1.7%**	**-5.6%**	**-2.9%**	**2.3%**	**-9.8%**	**-10.7%**	**0.0%**	**-3.1%**
Acquisitions/Divestitures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%	0.0%	0.0%
Integration impact (a)	0.0%	0.0%	0.0%	0.2%	0.1%	0.0%	0.0%	0.3%	0.0%	0.0%
Foreign currency impact	0.0%	0.0%	0.0%	-3.7%	-0.6%	4.0%	-4.5%	-9.3%	0.0%	-0.7%
Subtotal - internal business (b)	**-5.5%**	**0.3%**	**-1.7%**	**-2.1%**	**-2.4%**	**-1.7%**	**-5.3%**	**-1.4%**	**0.0%**	**-2.4%**
Volume (tonnage) (c)					-2.9%	-3.0%	-11.4%	0.0%	0.0%	-3.5%
Pricing/mix					0.5%	1.3%	6.1%	-1.4%	0.0%	1.1%

(dollars in millions)	U.S. Morning Foods	U.S. Snacks	U.S. Specialty	North Am. Other	North America	Europe	Latin America	Asia Pacific	Corp-orate	Consoli-dated
2014 operating profit	**$128**	**$95**	**$87**	**$72**	**$382**	**$67**	**$48**	**$14**	**$103**	**$614**
2013 operating profit	**$163**	**$106**	**$78**	**$75**	**$422**	**$71**	**$48**	**$21**	**($59)**	**$503**
% change - 2014 vs. 2013:										
As Reported	**-21.1%**	**-10.5%**	**11.6%**	**-4.1%**	**-9.4%**	**-6.1%**	**1.0%**	**-34.7%**	**274.6%**	**22.1%**
Acquisitions/Divestitures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%	0.0%
Integration impact (a)	0.0%	3.0%	0.0%	1.1%	0.9%	3.9%	0.3%	8.7%	54.3%	2.0%
Foreign currency impact	0.1%	0.0%	0.0%	-4.5%	-0.7%	7.1%	1.1%	-8.8%	41.9%	0.2%
Mark-to-market (d)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	431.2%	32.7%
Restructuring and cost reduction activities (e)	-5.3%	-3.5%	-0.4%	-2.9%	-3.5%	-17.0%	-9.1%	-7.9%	-183.5%	-7.3%
Underlying internal (f)	**-15.9%**	**-10.0%**	**12.0%**	**2.2%**	**-6.1%**	**-0.1%**	**8.7%**	**-27.3%**	**-69.3%**	**-5.5%**

Analysis of Net Sales and Operating Profit Performance
Q1 2014

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

(b) Internal net sales growth for 2014 excludes the impact of acquisitions, divestitures, integration costs and impact of foreign currency translation. Internal net sales growth is a non-GAAP financial measure which is reconciled to the directly comparable measure in accordance with U.S. GAAP within these tables.

(c) We measure the volume impact (tonnage) on revenues based on the stated weight of our product shipments.

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

(e) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The quarter ended March 30, 2013 has been recast to exclude all restructuring and cost reduction activities from underlying internal operating profit growth.

(f) Underlying internal operating profit growth excludes the impact of foreign currency translation, pension plans and commodity contracts mark-to-market adjustments, costs related to restructuring and cost reduction activities, and if applicable, acquisitions, dispositions, and integration costs associated with the acquisition of Pringles. The Company believes the use of this non-GAAP measure provides increased transparency and assists in understanding underlying operating performance. This non-GAAP measure is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table.

Restructuring and Cost Reduction Activities

$ millions

	Quarter ended March 29, 2014		
	Cost of goods sold	Selling, general and administrative expense	Total
2014			
U.S. Morning Foods	$9	$2	$11
U.S. Snacks	5	2	7
U.S. Specialty	-	1	1
North America Other	2	1	3
Europe	5	7	12
Latin America	-	4	4
Asia Pacific	4	2	6
Corporate	-	10	10
	$25	$29	$54

	Quarter ended March 30, 2013		
	Cost of goods sold	Selling, general and administrative expense	Total
2013			
U.S. Morning Foods	$1	$2	$3
U.S. Snacks	1	2	3
U.S. Specialty	-	1	1
North America Other	-	-	-
Europe	-	-	-
Latin America	-	-	-
Asia Pacific	6	-	6
Corporate	-	-	-
	$8	$5	$13

2014 Variance - better(worse) than 2013			
U.S. Morning Foods	$(8)	$-	$(8)
U.S. Snacks	(4)	-	(4)
U.S. Specialty	-	-	-
North America Other	(2)	(1)	(3)
Europe	(5)	(7)	(12)
Latin America	-	(4)	(4)
Asia Pacific	2	(2)	-
Corporate	-	(10)	(10)
	$(17)	$(24)	$(41)

* 'Restructuring and cost reduction activities include programs which will result in future cash savings and/or reduced depreciation.

Quarter ended March 29, 2014 includes Project K costs.