KELLOGG CO
Form 10-Q
August 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(Mark One)

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

For the quarterly period ended June 30, 2018
OR

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

For the transition period from to
Commission file number 1-4171
KELLOGG COMPANY

State of Incorporation—Delaware IRS Employer Identification No.38-0710690
One Kellogg Square, P.O. Box 3599, Battle Creek, MI 49016-3599
Registrant's telephone number: 269-961-2000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨	Emerging growth company o

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 Exchange Act).
Yes ¨ No x

Common Stock outstanding as of July 28, 2018 — 346,672,653 shares

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

	June 30, 2018 (unaudited)	December 30, 2017
Current assets		
Cash and cash equivalents	$ 257	$ 281
Accounts receivable, net	1,530	1,389
Inventories	1,291	1,217
Other current assets	189	149
Total current assets	3,267	3,036
Property, net	3,638	3,716
Goodwill	6,072	5,504
Other intangibles, net	3,391	2,639
Investments in unconsolidated entities	421	429
Other assets	1,112	1,027
Total assets	$ 17,901	$ 16,351
Current liabilities		
Current maturities of long-term debt	$ 7	$ 409
Notes payable	324	370
Accounts payable	2,306	2,269
Other current liabilities	1,329	1,474
Total current liabilities	3,966	4,522
Long-term debt	8,737	7,836
Deferred income taxes	714	355
Pension liability	532	839
Other liabilities	548	605
Commitments and contingencies		
Equity		
Common stock, $.25 par value	105	105
Capital in excess of par value	866	878
Retained earnings	7,743	7,069
Treasury stock, at cost	(4,375)	(4,417)
Accumulated other comprehensive income (loss)	(1,501)	(1,457)
Total Kellogg Company equity	2,838	2,178
Noncontrolling interests	566	16
Total equity	3,404	2,194
Total liabilities and equity	$ 17,901	$ 16,351

See accompanying Notes to Consolidated Financial Statements.

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

(Results are unaudited)	Quarter ended		Year-to-date period ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net sales	$3,360	$3,175	$6,761	$6,423
Cost of goods sold	2,151	1,950	4,300	4,038
Selling, general and administrative expense	735	840	1,477	1,720
Operating profit	474	385	984	665
Interest expense	72	63	141	124
Other income (expense), net	69	63	139	151
Income before income taxes	471	385	982	692
Income taxes	70	102	137	145
Earnings (loss) from unconsolidated entities	198	—	198	2
Net income	599	283	1,043	549
Net income (loss) attributable to noncontrolling interests	3	—	3	—
Net income attributable to Kellogg Company	$596	$283	$1,040	$549
Per share amounts:				
Basic earnings	$1.72	$0.81	$3.00	$1.57
Diluted earnings	$1.71	$0.80	$2.99	$1.56
Dividends	$0.54	$0.52	$1.08	$1.04
Average shares outstanding:				
Basic	347	349	346	350
Diluted	348	352	348	353
Actual shares outstanding at period end			346	346

See accompanying Notes to Consolidated Financial Statements.

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

	Quarter ended June 30, 2018			Year-to-date period ended June 30, 2018		
(Results are unaudited)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 599			$ 1,043
Other comprehensive income (loss):						
Foreign currency translation adjustments	$ (54)	$ (46)	(100)	$ (24)	$ (27)	(51)
Cash flow hedges:						
Unrealized gain (loss) on cash flow hedges	3	(1)	2	3	(1)	2
Reclassification to net income	2	(1)	1	4	(1)	3
Postretirement and postemployment benefits:						
Reclassification to net income:						
Net experience loss	(1)	—	(1)	(2)	—	(2)
Other comprehensive income (loss)	$ (50)	$ (48)	$ (98)	$ (19)	$ (29)	$ (48)
Comprehensive income			$ 501			$ 995
Net Income (loss) attributable to noncontrolling interests			3			3
Other comprehensive income (loss) attributable to noncontrolling interests			(4)			(4)
Comprehensive income attributable to Kellogg Company			$ 502			$ 996

	Quarter ended July 1, 2017			Year-to-date period ended July 1, 2017		
(Results are unaudited)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 283			$ 549
Other comprehensive income (loss):						
Foreign currency translation adjustments	$ (66)	$ 57	(9)	$ 10	$ 66	76
Cash flow hedges:						
Reclassification to net income	2	—	2	4	(1)	3
Postretirement and postemployment benefits:						
Reclassification to net income:						
Net experience loss	—	—	—	1	—	1
Other comprehensive income (loss)	$ (64)	$ 57	$ (7)	$ 15	$ 65	$ 80
Comprehensive income			$ 276			$ 629

See accompanying Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF EQUITY
(millions)

(unaudited)	Common stock shares	Common stock amount	Capital in excess of par value	Retained earnings	Treasury stock shares	Treasury stock amount	Accumulated other comprehensive income (loss)	Total Kellogg Company equity	Non-controlling interests	Total equity
Balance, December 31, 2016	420	$ 105	$ 806	$ 6,552	69	$ (3,997)	$ (1,575)	$ 1,891	$ 16	$ 1,907
Common stock repurchases					7	(516)		(516)		(516)
Net income				1,254				1,254	—	1,254
Dividends				(736)				(736)		(736)
Other comprehensive income							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	$ 7,069	75	$ (4,417)	$ (1,457)	$ 2,178	$ 16	$ 2,194
Common stock repurchases					1	(50)		(50)		(50)
Net income				1,040				1,040	3	1,043
Acquisition of noncontrolling interest, net								—	552	552
Dividends				(374)				(374)	(1)	(375)
Other comprehensive income							(44)	(44)	(4)	(48)
Stock compensation			30					30		30
Stock options exercised and other			(42)	8	(2)	92		58		58
Balance, June 30, 2018	421	$ 105	$ 866	$ 7,743	74	$ (4,375)	$ (1,501)	$ 2,838	$ 566	$ 3,404

See accompanying Notes to Consolidated Financial Statements.

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

(unaudited)	Year-to-date period ended June 30, 2018	July 1, 2017
Operating activities		
Net income	$1,043	$549
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	234	240
Postretirement benefit plan expense (benefit)	(86)	(96)
Deferred income taxes	69	(66)
Stock compensation	30	36
Gain on unconsolidated entities, net	(200)	—
Other	(67)	36
Postretirement benefit plan contributions	(274)	(28)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	(83)	(716)
Inventories	(38)	63
Accounts payable	64	70
All other current assets and liabilities	(245)	4
Net cash provided by (used in) operating activities	447	92
Investing activities		
Additions to properties	(270)	(268)
Collections of deferred purchase price on securitized trade receivables	—	568
Acquisitions, net of cash acquired	(28)	4
Investments in unconsolidated entities	(388)	—
Acquisition of cost method investments	(4)	—
Other	29	(4)
Net cash provided by (used in) investing activities	(661)	300
Financing activities		
Net issuances (reductions) of notes payable	(76)	287
Issuances of long-term debt	993	655
Reductions of long-term debt	(401)	(626)
Net issuances of common stock	70	65
Common stock repurchases	(50)	(390)
Cash dividends	(374)	(363)
Net cash provided by (used in) financing activities	162	(372)
Effect of exchange rate changes on cash and cash equivalents	28	34
Increase (decrease) in cash and cash equivalents	(24)	54
Cash and cash equivalents at beginning of period	281	280
Cash and cash equivalents at end of period	$257	$334
Supplemental cash flow disclosures		
Interest paid	$151	$138
Income taxes paid	$76	$205

Supplemental cash flow disclosures of non-cash investing activities:		
Beneficial interests obtained in exchange for securitized trade receivables	$—	$566
Additions to properties included in accounts payable	$77	$82

See accompanying Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
for the quarter ended June 30, 2018 (unaudited)
Note 1 Accounting policies

Basis of presentation
The unaudited interim financial information of Kellogg Company (the Company) included in this report reflects all adjustments, all of which are of a normal and recurring nature, that management believes are necessary for a fair statement of the results of operations, comprehensive income, financial position, equity and cash flows for the periods presented. This interim information should be read in conjunction with the financial statements and accompanying footnotes within the Company’s 2017 Annual Report on Form 10-K.

The condensed balance sheet information at December 30, 2017 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The results of operations for the quarterly period ended June 30, 2018 are not necessarily indicative of the results to be expected for other interim periods or the full year.

Accounts payable
The Company has agreements with certain third parties to provide accounts payable tracking systems which facilitates participating suppliers’ ability to monitor and, if elected, sell payment obligations from the Company to designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to sell one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company’s goal in entering into these agreements is to capture overall supplier savings, in the form of payment terms or vendor funding, created by facilitating suppliers’ ability to sell payment obligations, while providing them with greater working capital flexibility. We have no economic interest in the sale of these suppliers’ receivables and no direct financial relationship with the financial institutions concerning these services. The Company’s obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers’ decisions to sell amounts under these arrangements. However, the Company’s right to offset balances due from suppliers against payment obligations is restricted by this agreement for those payment obligations that have been sold by suppliers. As of June 30, 2018, $834 million of the Company’s outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $572 million of those payment obligations to participating financial institutions. 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.

Revenue
The Company recognizes revenue from the sale of food products which are sold to retailers through direct sales forces, broker and distributor arrangements. The Company also recognizes revenue from the license of our trademarks granted to third parties who uses these trademarks on their merchandise. Revenue from these licenses are not material to the Company. Revenue, which includes shipping and handling charges billed to the customer, is reported net of applicable discounts, returns, allowances, and various government withholding taxes.

Contract balances where revenue is recognized in the current period that is not a result of current period performance is not material to the Company. The Company also does not incur costs to obtain or fulfill contracts.

Performance obligations

The Company recognizes revenue when (or as) performance obligations are satisfied by transferring control of the goods to customers. Control is transferred upon delivery of the goods to the customer. At the time of delivery, the customer is invoiced with payment terms which are commensurate with the customer’s credit profile. Shipping and/or

handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs.

The Company assesses the goods and services promised in its customers' purchase orders and identifies a performance obligation for each promise to transfer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, the Company considers all the goods or services promised, whether explicitly stated or implied based on customary business practices. For a purchase order that has more

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than one performance obligation, the Company allocates the total consideration to each distinct performance obligation on a relative standalone selling price basis.

Significant Judgments

The Company offers various forms of trade promotions and the methodologies for determining these provisions are dependent on local customer pricing and promotional practices, which range from contractually fixed percentage price reductions to provisions based on actual occurrence or performance. Where applicable, future provisions are estimated based on a combination of historical patterns and future expectations regarding specific in-market product performance.

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.

Practical expedients

The Company elected the following practical expedients in accordance with ASU 2014-09:

- Significant financing component - The Company elected not to adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
- Shipping and handling costs - The Company elected to account for shipping and handling activities that occur before the customer has obtained control of a good as fulfillment activities (i.e., an expense) rather than as a promised service.
- Measurement of transaction price - The Company has elected to exclude from the measurement of transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer for sales taxes.

New accounting standards

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 adopted the ASU in the first quarter of 2018. The impact of adoption was immaterial to the financial statements.

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 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 adopted the ASU in the first quarter of 2018.

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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 an entity's annual or any 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 adopted the ASU in the first quarter of 2018 with no impact.

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 adopted the new ASU in the first quarter of 2018.

Recognition and measurement of financial assets and liabilities. In January 2016, the FASB issued an ASU which requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income and which updates certain presentation and disclosure requirements. 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 adopted the updated standard in the first quarter of 2018. The impact of adoption was immaterial to the financial statements.

Revenue from contracts with customers. In May 2014, the FASB issued an ASU, as amended, which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The Company adopted the updated standard in the first quarter of 2018 using the full retrospective method and restated previously reported amounts. In connection with the adoption, the Company made reclassification of certain customer allowances. The adoption effects relate to the timing of recognition and classification of certain promotional allowances. The updated revenue standard also required additional disaggregated revenue disclosures. Refer to Impacts to Previously Reported Results below for the impact of adoption of the standard on our consolidated financial statements.

Impacts to Previously Reported Results

Adoption of the standards related to revenue recognition, pension and cash flow impacted our previously reported results as follows:

	As of December 30, 2017		
Consolidated Balance Sheet	Previously Reported	Revenue Recognition ASU	Restated
Other assets	$1,026	$ 1	$ 1,027
Other current liabilities	$1,431	$ 43	$ 1,474

Deferred income taxes	$363	$ (8)	$ 355
Retained earnings	$7,103	$ (34)	$ 7,069

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Consolidated Statement of Income	Quarter ended July 1, 2017			
	Previously Reported	Revenue Recognition ASU	Pension ASU	Restated
Net sales	$3,187	$ (12)	$ —	$ 3,175
Cost of goods sold	$1,922	$ (17)	$ 45	$ 1,950
Selling, general and administrative expense	$812	$ 4	$ 24	$ 840
Other income (expense), net	$(6)	$ —	$ 69	$ 63
Income taxes	$102	$ —	$ —	$ 102
Net income	$282	$ 1	$ —	$ 283
Per share amounts:				
Basic earnings	$0.81	$ —	$ —	$ 0.81
Diluted earnings	$0.80	$ —	$ —	$ 0.80

Consolidated Statement of Income	Year-to-date period ended July 1, 2017			
	Previously Reported	Revenue Recognition ASU	Pension ASU	Restated
Net sales	$6,441	$ (18)	$ —	$ 6,423
Cost of goods sold	$3,972	$ (33)	$ 99	$ 4,038
Selling, general and administrative expense	$1,656	$ 9	$ 55	$ 1,720
Other income (expense), net	$(3)	$ —	$ 154	$ 151
Income taxes	$144	$ 1	$ —	$ 145
Net income	$544	$ 5	$ —	$ 549
Per share amounts:				
Basic earnings	$1.56	$ 0.01	$ —	$ 1.57
Diluted earnings	$1.54	$ 0.02	$ —	$ 1.56

Consolidated Statement of Cash Flows	Year-to-date period ended July 1, 2017			
	Previously Reported	Revenue Recognition ASU	Cash Flow ASU	Restated
Net income	$544	$ 5	$—	$ 549
Deferred income taxes	$(67)	$ 1	$—	$ (66)
Other	$30	$ —	$6	$ 36
Trade receivables	$(148)	$ —	$(568)	$ (716)
All other current assets and liabilities, net	$10	$ (6)	$—	$ 4
Net cash provided by (used in) operating activities	$654	$ —	$(562)	$ 92
Collections of deferred purchase price on securitized trade receivables	$—	$ —	$568	$ 568
Investment in unconsolidated entities, net proceeds	$6	$ —	$(6)	$ —
Net cash provided by (used in) investing activities	$(262)	$ —	$562	$ 300

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Accounting standards to be adopted in future periods

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. In February 2018, the FASB issued an ASU permitting a company to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 on items within accumulated other comprehensive income (AOCI). The reclassification is optional. Regardless of whether or not a company opts to make the reclassification, the new guidance requires all companies to include certain disclosures in their financial statements. The guidance is effective for all fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing when to adopt the ASU and 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 ASU in the first quarter of 2019, and is currently evaluating the impact that implementing this ASU will have on its financial statements.

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).

The Company has two Receivable Sales Agreements (Monetization Programs) and previously had 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 terminated the Securitization Program at the end of 2017 and entered into the second monetization program during the quarter ended March 31, 2018. The impact on working capital of the Extended Terms Program is effectively offset by the Monetization and Securitization Programs.

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 June 30, 2018 and December 30, 2017 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 Programs

The Company has two Monetization Programs, for a discrete group of customers, to sell, on a revolving basis, certain trade accounts receivable invoices 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 Programs provide 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 $1,033 million (increased from $988 million as of March 31, 2018, reflecting the execution of an amendment to the second monetization program on June 26, 2018). Accounts receivable sold of $936 million and $601 million remained outstanding under these arrangements as of June 30, 2018 and December 30, 2017, 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 was $6 million and $12 million for the quarter and year-to-date periods ended June 30, 2018, respectively and was $3 million and $5 million for the quarter and year-to-date periods ended July 1, 2017, respectively. The recorded loss is included in Other income and expense.

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Securitization Program
Between July 2016 and December 2017, the Company had a 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. In March 2018 the Company substantially replaced the securitization program with the second monetization program. Kellogg Funding had no creditors and held no assets at June 30, 2018.

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. The portion of the purchase price for the receivables which is not paid in cash by the financial institutions is a deferred purchase price asset, which is paid to Kellogg Funding as payments on the receivables are collected from customers. The deferred purchase price asset represents a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price asset is included in Other current assets on the Consolidated Balance Sheet. Upon final settlement of the program in March 2018, the outstanding deferred purchase price asset of $21 million was exchanged for previously sold trade accounts receivable.

The recorded net loss on sale of receivables for the year-to-date period ended July 1, 2017 is included in Other income and expense and is not material.

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. Accounts receivable sold of $26 million and $86 million remained outstanding under these programs as of June 30, 2018 and December 30, 2017, 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 Acquisitions, West Africa investments, goodwill and other intangible assets

Multipro acquisition
On May 2, 2018, the Company (i) acquired an incremental 1% ownership interest in Multipro, a leading distributor of a variety of food products in Nigeria and Ghana, and (ii) exercised its call option (Purchase Option) to acquire a 50% interest in Tolaram Africa Foods, PTE LTD (TAF), a holding company with a 49% equity interest in an affiliated food manufacturer, resulting in the Company having a 24.5% interest in the affiliated food manufacturer. The aggregate cash consideration paid was approximately $419 million and was funded through cash on hand and short-term borrowings, which was refinanced with long-term borrowings in May 2018. As part of the consideration for the acquisition, an escrow established in connection with the original Multipro investment in 2015, which represented a significant portion of the amount paid for the Company’s initial investment, was released by the Company. The amount

paid to exercise the Purchase Option is subject to certain working capital and net debt adjustments based on the actual working capital and net debt existing on the exercise date compared to targeted amounts.

As a result of the Company's incremental ownership interest in Multipro and concurrent changes to the shareholders' agreement, the Company now has a 51% controlling interest in and began consolidating Multipro. Accordingly, the acquisition was accounted for as a business combination and the assets and liabilities of Multipro were included in the June 30, 2018 Consolidated Balance Sheet and the results of its operations have been included in the Consolidated Statement of Income subsequent to the acquisition date. The aggregate of the

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consideration paid and the fair value of previously held equity interest totaled $626 million, or $617 million net of cash acquired. The Multipro investment was previously accounted for under the equity method of accounting and the Company recorded our share of equity income or loss from Multipro within Earnings (loss) from unconsolidated entities. In connection with the business combination, the Company recognized a one-time, non-cash gain on the disposition of our previously held equity interest in Multipro of $245 million, which is included within Earnings (loss) from unconsolidated entities.

The assets and liabilities are included in the Consolidated Balance Sheet as of June 30, 2018 within the Asia-Pacific reporting segment. The acquired assets and assumed liabilities include the following:

(millions)	May 2, 2018
Current assets	$118
Property	41
Goodwill	616
Intangible assets subject to amortization, primarily customer relationships	425
Intangible assets not subject to amortization, primarily distribution rights	373
Deferred tax liability	(256)
Other liabilities	(148)
Noncontrolling interest	(552)
	$617

The amounts in the above table represent the preliminary allocation of purchase price and are subject to revision when valuations are finalized for intangible assets, which are expected in 2018. The goodwill from the acquisition is not expected to be deductible for income tax purposes.

Multipro contributed net revenues of $129 million and net earnings of $2 million since the acquisition, including transaction fees and integration costs. The unaudited pro forma historical net sales, as if Multipro had been acquired at the beginning of 2017 are estimated as follows:

	Quarter ended		Year-to-date period ended	
(millions)	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net sales	$3,433	$3,326	$7,043	$6,739

The impact of the business combination as if Multipro had been acquired at the beginning of 2017, on the unaudited pro forma historical net income and net income attributable to Kellogg Company, exclusive of the non-cash $245 million gain on the disposition of the equity interest, was immaterial.

Investment in TAF

The investment in TAF is accounted for under the equity method of accounting with the Company’s share of equity income or loss being recognized within Earnings (loss) from unconsolidated entities. The $458 million aggregate of the consideration paid upon exercise and the historical cost value of the Put Option was compared to the estimated fair value of the Company’s ownership percentage of TAF and the Company recognized a one-time, non-cash loss of $45 million within Earnings (loss) from unconsolidated entities, which represents an other than temporary excess of cost over fair value of the investment. The difference between the carrying amount of TAF and the underlying equity in net assets is primarily attributable to brand and customer list intangible assets, a portion of which is being amortized over future periods, and goodwill.

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 was subject to certain working capital adjustments based on the actual working capital on the acquisition date compared to targeted amounts. These adjustments were finalized during the quarter ended March 31, 2018 and resulted in a purchase price reduction of $1 million. The acquisition was accounted for under the purchase price method and was financed with short-term borrowings.

For the year-to-date period ended June 30, 2018, the acquisition added net sales in the Company's North America Other reporting segment totaling $110 million and net earnings totaling $6 million, respectively.

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The assets and liabilities are included in the Consolidated Balance Sheet as of June 30, 2018 within the North America Other reporting segment. The acquired assets and assumed liabilities include the following:

(millions)	October 27, 2017
Current assets	$ 42
Goodwill	373
Intangible assets, primarily indefinite-lived brands	203
Current liabilities	(23)
	$ 595

The amounts in the above table represent the final allocation of purchase price as of June 30, 2018, which resulted in a $2 million increase in amortizable intangible assets with a corresponding reduction of goodwill during the first quarter of 2018.

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 and distribution agreements, are presented in the following tables:

Carrying amount of goodwill

(millions)	U.S. Snacks	U.S. Morning Foods	U.S. Specialty Channels	North America Other	Europe	Latin America	Asia Pacific	Consoli-dated
December 30, 2017	$3,568	$ 131	$ 82	$ 836	$414	$ 244	$229	$5,504
Additions	—	—	—	—	—	—	616	616
Purchase price allocation adjustment	—	—	—	(1)	—	—	—	(1)
Purchase price adjustment	—	—	—	(1)	—	—	—	(1)
Currency translation adjustment	—	—	—	(2)	(12)	(25)	(7)	(46)
June 30, 2018	$3,568	$ 131	$ 82	$ 832	$402	$ 219	$838	$6,072

Intangible assets subject to amortization

Gross carrying amount

(millions)	U.S. Snacks	U.S. Morning Foods	U.S. Specialty Channels	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
December 30, 2017	$ 42	$ 8	$ —	$ 22	$ 45	$ 74	$ 10	$ 201
Additions	—	—	—	—	—	—	425	425
Purchase price allocation adjustment	—	—	—	2	—	—	—	2
Currency translation adjustment	—	—	—	—	(1)	(10)	(3)	(14)
June 30, 2018	$ 42	$ 8	$ —	$ 24	$ 44	$ 64	$ 432	$ 614
Accumulated Amortization								
December 30, 2017	$ 22	$ 8	$ —	$ 5	$ 18	$ 10	$ 4	$ 67
Amortization	2	—	—	1	1	2	3	9
Currency translation adjustment	—	—	—	—	—	(1)	—	(1)
June 30, 2018	$ 24	$ 8	$ —	$ 6	$ 19	$ 11	$ 7	$ 75
Intangible assets subject to amortization, net								
December 30, 2017	$ 20	$ —	$ —	$ 17	$ 27	$ 64	$ 6	$ 134
Additions	—	—	—	—	—	—	425	425
Purchase price allocation adjustment	—	—	—	2	—	—	—	2
Amortization	(2)	—	—	(1)	(1)	(2)	(3)	(9)
Currency translation adjustment	—	—	—	—	(1)	(9)	(3)	(13)
June 30, 2018	$ 18	$ —	$ —	$ 18	$ 25	$ 53	$ 425	$ 539

For intangible assets in the preceding table, amortization was $9 million and $4 million for the year-to-date periods ended June 30, 2018 and July 1, 2017, respectively. The currently estimated aggregate annual amortization expense for full-year 2018 is approximately $23 million.

Intangible assets not subject to amortization

(millions)	U.S. Snacks	U.S. Morning Foods	U.S. Specialty Channels	North America Other	Europe	Latin America	Asia Pacific	Consoli- dated
December 30, 2017	$ 1,625	$ —	$ —	$ 360	$ 434	$ 86	$ —	$ 2,505
Additions	—	—	—	—	—	—	373	373
Currency translation adjustment	—	—	—	—	(10)	(13)	(3)	(26)
June 30, 2018	$ 1,625	$ —	$ —	$ 360	$ 424	$ 73	$ 370	$ 2,852

Note 4 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 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.

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Total Projects

During the quarter ended June 30, 2018, the Company recorded total net charges of $5 million across all restructuring and cost reduction activities. The charges were comprised of $(4) million net gain recorded in cost of goods sold (COGS) and a $9 million expense recorded in selling, general and administrative (SG&A) expense. During the year-to-date period ended June 30, 2018, the Company recorded total charges of $25 million across all restructuring and cost reduction activities. The charges were comprised of $9 million recorded in COGS and $16 million recorded in SG&A expense.

During the quarter ended July 1, 2017, the Company recorded total charges of $96 million across all restructuring and cost reduction activities. The charges were comprised of $24 million recorded in COGS, $75 million recorded in SG&A expense and $(3) million net gain recorded in other (income) expense, net (OIE). During the year-to-date period ended July 1, 2017, the Company recorded total charges of $238 million across all restructuring and cost reduction activities. The charges were comprised of $37 million recorded in COGS, $200 million recorded in SG&A expense and $1 million recorded in OIE.

Project K

Project K is expected to continue generating savings that may be invested in key strategic areas of focus for the business or utilized to achieve our growth initiatives.

Since inception, Project K has reduced the Company's cost structure, and is expected to provide enduring benefits, including an optimized supply chain infrastructure, an efficient global business services model, a global focus on categories, increased agility from a more efficient organization design, and improved effectiveness in go-to-market models. These benefits are intended to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation.

The Company currently anticipates that the program will result in total pre-tax charges, once all phases are approved and implemented, on the lower end of a range of $1.5 to $1.6 billion, with after-tax cash costs, including incremental capital investments, estimated to be approximately $1.1 billion. Based on current estimates and actual charges to date, the Company expects the total project charges will consist of asset-related costs of approximately $500 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs of approximately $500 million which will include 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. Snacks (approximately 34%), U.S. Morning Foods (approximately 17%), U.S. Specialty Channels (approximately 1%), North America Other (approximately 13%), Europe (approximately 22%), Latin America (approximately 2%), Asia-Pacific (approximately 6%), and Corporate (approximately 5%).

Since the inception of Project K, the Company has recognized charges of $1,402 million that have been attributed to the program. The charges consist of $6 million recorded as a reduction of revenue, $803 million recorded in COGS, $730 million recorded in SG&A, and ($137 million) recorded in OIE.

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The tables below provide the details for charges incurred during the quarters and year-to-date periods ended June 30, 2018 and July 1, 2017 and program costs to date for programs currently active as of June 30, 2018.

(millions)	Quarter ended June 30, 2018	Quarter ended July 1, 2017	Year-to-date period ended June 30, 2018	Year-to-date period ended July 1, 2017	Program costs to date June 30, 2018
Employee related costs	$ 1	$ 28	$ 5	$ 135	$ 539
Pension curtailment (gain) loss, net	—	(3)	—	1	(137)
Asset related costs	(14)	20	(10)	30	259
Asset impairment	—	—	—	—	155
Other costs	18	51	30	72	586
Total	$ 5	$ 96	$ 25	$ 238	$ 1,402

(millions)	Quarter ended June 30, 2018	Quarter ended July 1, 2017	Year-to-date period ended June 30, 2018	Year-to-date period ended July 1, 2017	Program costs to date June 30, 2018
U.S. Snacks	$ 3	$ 79	9	$ 199	$ 512
U.S. Morning Foods	10	1	12	2	263
U.S. Specialty Channels	—	1	—	1	21
North America Other	(1)	2	1	9	141
Europe	(13)	2	(6)	8	324
Latin America	2	3	4	4	31
Asia Pacific	3	3	3	4	90
Corporate	1	5	2	11	20
Total	$ 5	$ 96	$ 25	$ 238	$ 1,402

Employee related costs consist primarily of severance and related benefits. Pension curtailment (gain) loss consists of curtailment gains or losses that resulted from project initiatives. Asset related costs consist primarily of accelerated depreciation. During the quarter ended June 30, 2018, a gain was recognized related to the sale of a manufacturing facility in Europe that was previously impacted as part of Project K. Asset impairments were recorded for fixed assets that were determined to be impaired and were written down to their estimated fair value. Other costs consist 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 go-to-market model.

At June 30, 2018 total project reserves were $76 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.

	Employee Related Costs	Pension curtailment (gain) loss, net	Asset Impairment	Asset Related Costs	Other Costs	Total
Liability as of December 31, 2017	$ 97	$ —	$ —	$ —	$ 63	$ 160
2018 restructuring charges	5	—	—	(10)	30	25
Cash payments	(43)	—	—	—	(76)	(119)
Non-cash charges and other	—	—	—	10	—	10
Liability as of June 30, 2018	$ 59	$ —	$ —	$ —	$ 17	$ 76

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Note 5 Equity

Earnings per share

Basic earnings per share is determined by dividing net income 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. There were 9 million and 6 million anti-dilutive potential common shares excluded from the reconciliation for the quarter and year-to-date periods ended June 30, 2018, respectively. There were 5 million anti-dilutive potential common shares excluded from the reconciliation for the quarter and year-to-date periods ended July 1, 2017, respectively.

Quarters ended June 30, 2018 and July 1, 2017:

(millions, except per share data)	Net income	Average shares outstanding	Earnings per share
2018			
Basic	$ 596	347	$ 1.72
Dilutive potential common shares		1	(0.01)
Diluted	$ 596	348	$ 1.71
2017			
Basic	$ 283	349	$ 0.81
Dilutive potential common shares		3	(0.01)
Diluted	$ 283	352	$ 0.80

Year-to-date periods ended June 30, 2018 and July 1, 2017:

(millions, except per share data)	Net income	Average shares outstanding	Earnings per share
2018			
Basic	$ 1,040	346	$ 3.00
Dilutive potential common shares		2	(0.01)
Diluted	$ 1,040	348	$ 2.99
2017			
Basic	$ 549	350	$ 1.57
Dilutive potential common shares		3	(0.01)
Diluted	$ 549	353	$ 1.56

In December 2017, the board of directors approved a new authorization to repurchase up to $1.5 billion of our common stock beginning in January 2018 through December 2019. As of June 30, 2018, $1.45 billion remains available under the authorization.

During the year-to-date period ended June 30, 2018, the Company repurchased less than 1 million shares of common stock for a total of $50 million. During the year-to-date period ended July 1, 2017, the Company repurchased 6 million shares of common stock for a total of $435 million, of which $390 million was paid and $45 million was payable at July 1, 2017.

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Comprehensive income

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

Reclassifications out of AOCI for the quarter and year-to-date periods ended June 30, 2018 and July 1, 2017, consisted of the following:

(millions)

Details about AOCI components	Amount reclassified from AOCI		Line item impacted within Income Statement
	Quarter ended June 30, 2018	Year-to-date period ended June 30, 2018	
(Gains) losses on cash flow hedges:			
Foreign currency exchange contracts	$ —	$ —	COGS
Interest rate contracts	2	4	Interest expense
	$ 2	$ 4	Total before tax
	(1)	(1)	Tax expense (benefit)
	$ 1	$ 3	Net of tax
Amortization of postretirement and postemployment benefits:			
Net experience loss	$ (1)	$ (2)	OIE
	$ (1)	$ (2)	Total before tax
	—	—	Tax expense (benefit)
	$ (1)	$ (2)	Net of tax
Total reclassifications	$ —	$ 1	Net of tax

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(millions)			
Details about AOCI components	Amount reclassified from AOCI		Line item impacted within Income Statement
	Quarter ended July 1, 2017	Year-to-date period ended July 1, 2017	
(Gains) losses on cash flow hedges:			
Foreign currency exchange contracts	$ —	$ (1)	COGS
Foreign currency exchange contracts	—	—	SGA
Interest rate contracts	2	5	Interest expense
Commodity contracts	—	—	COGS
	$ 2	$ 4	Total before tax
	—	(1)	Tax expense (benefit)
	$ 2	$ 3	Net of tax
Amortization of postretirement and postemployment benefits:			
Net experience loss	$ —	$ 1	See Note 8 for further details
Prior service cost	—	—	See Note 8 for further details
	$ —	$ 1	Total before tax
	—	—	Tax expense (benefit)
	$ —	$ 1	Net of tax
Total reclassifications	$ 2	$ 4	Net of tax

Accumulated other comprehensive income (loss), net of tax, as of June 30, 2018 and December 30, 2017 consisted of the following:

(millions)	June 30, 2018	December 30, 2017
Foreign currency translation adjustments	$(1,473)	$(1,426)
Cash flow hedges — unrealized net gain (loss)	(56)	(61)
Postretirement and postemployment benefits:		
Net experience loss	32	34
Prior service cost	(4)	(4)
Total accumulated other comprehensive income (loss)	$(1,501)	$(1,457)

Note 6 Debt

The following table presents the components of notes payable at June 30, 2018 and December 30, 2017:

	June 30, 2018		December 30, 2017	
(millions)	Principal amount	Effective interest rate	Principal amount	Effective interest rate (a)
U.S. commercial paper	$197	2.26 %	$196	1.76 %
Europe commercial paper	—	— %	96	(0.32)%
Bank borrowings	127		78	
Total	$324		$370	

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

In May 2018, the Company issued $600 million of ten-year 4.30% Senior Notes due 2028 and $400 million of three-year 3.25% Senior Notes due 2021, resulting in aggregate net proceeds after debt discount of $994 million. The proceeds from these Notes were used for general corporate purposes, including the repayment of the Company's $400 million, seven-year 3.25% U.S. Dollar Notes due 2018 at maturity, and the repayment of a portion of the Company's commercial paper borrowings used to finance the acquisition of ownership interests in TAF and

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Multipro. The Notes contain customary covenants that limit the ability of the Company and its restricted subsidiaries (as defined) to incur certain liens or enter into certain sale and lease-back transactions, as well as a change of control provision.

In May 2017, the Company issued €600 million (approximately $685 million USD at July 1, 2017, which reflects the discount and translation adjustments) of five-year 0.80% Euro Notes due 2022, resulting in aggregate net proceeds after debt discount of $656 million. The proceeds from these Notes were used for general corporate purposes, including, together with cash on hand and additional commercial paper borrowings, repayment of the Company's $400 million, five-year 1.75% U.S. Dollar Notes due 2017 at maturity. The Notes contain customary covenants that limit the ability of the Company and its restricted subsidiaries (as defined) to incur certain liens or enter into certain sale and lease-back transactions, as well as a change of control provision. The Notes were designated as a net investment hedge of the Company's investment in its Europe subsidiary when issued.

During the second quarter of 2017, the Company repaid its Cdn.$300 million three year 2.05% Canadian Dollar Notes.

The Company has entered into interest rate swaps with notional amounts totaling $1.5 billion, which effectively converts a portion of the associated U.S. Dollar Notes and Euro Notes from fixed rate to floating rate obligations. These derivative instruments are designated as fair value hedges. The effective interest rates on debt obligations resulting from the Company’s interest rate swaps as of June 30, 2018 were as follows: (a) ten-year 4.15% U.S. Dollar Notes due 2019 – 3.50%; (b) ten-year 4.00% U.S. Dollar Notes due 2020 – 3.39%; (c) ten-year 3.125% U.S. Dollar Notes due 2022 – 3.87%; (d) ten-year 2.75% U.S. Dollar Notes due 2023 – 4.00%; (e) seven-year 2.65% U.S. Dollar Notes due 2023 – 3.42%; (f) eight-year 1.00% Euro Notes due 2024 – 0.72%; (g) ten-year 1.25% Euro Notes due 2025 - 1.30% and (h) ten-year 3.25% U.S. Notes due 2026 – 4.06%.

Note 7 Stock compensation

The Company uses various equity-based compensation programs to provide long-term performance incentives for its global workforce. Currently, these incentives consist principally of stock options, restricted stock units, and to a lesser extent, executive performance shares and restricted stock grants. The Company also sponsors a discounted stock purchase plan in the United States and matching-grant programs in several international locations. Additionally, the Company awards restricted stock to its outside directors. The interim information below should be read in conjunction with the disclosures included within the stock compensation footnote of the Company’s 2017 Annual Report on Form 10-K.

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

(millions)	Quarter ended June 30, 2018	Quarter ended July 1, 2017	Year-to-date period ended June 30, 2018	Year-to-date period ended July 1, 2017
Pre-tax compensation expense	$ 16	$ 21	$ 33	$ 39
Related income tax benefit	$ 4	$ 8	$ 8	$ 14

As of June 30, 2018, total stock-based compensation cost related to non-vested awards not yet recognized was $112 million and the weighted-average period over which this amount is expected to be recognized was 2 years.

Stock options

During the year-to-date periods ended June 30, 2018 and July 1, 2017, the Company granted non-qualified stock options to eligible employees as presented in the following activity tables. Terms of these grants and the Company’s methods for determining grant-date fair value of the awards were consistent with that described within the stock compensation footnote in the Company’s 2017 Annual Report on Form 10-K.

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Year-to-date period ended June 30, 2018:

Employee and director stock options	Shares (millions)	Weighted-average exercise price	Weighted-average remaining contractual term (yrs.)	Aggregate intrinsic value (millions)
Outstanding, beginning of period	14	$ 64		
Granted	3	70		
Exercised	(1)	57		
Forfeitures and expirations	(1)	70		
Outstanding, end of period	15	$ 65	6.6	$ 92
Exercisable, end of period	11	$ 63	5.7	$ 91

Year-to-date period ended July 1, 2017:

Employee and director stock options	Shares (millions)	Weighted-average exercise price	Weighted-average remaining contractual term (yrs.)	Aggregate intrinsic value (millions)
Outstanding, beginning of period	15	$ 62		
Granted	2	73		
Exercised	(1)	57		
Forfeitures and expirations	—	—		
Outstanding, end of period	16	$ 64	7.0	$ 109
Exercisable, end of period	11	$ 60	6.1	$ 104

The weighted-average grant date fair value of options granted was $10.00 per share and $10.14 per share for the year-to-date periods ended June 30, 2018 and July 1, 2017, respectively. The fair value was estimated using the following assumptions:

	Weighted-average expected volatility	Weighted-average expected term (years)	Weighted-average risk-free interest rate	Dividend yield
Grants within the year-to-date period ended June 30, 2018:	18 %	6.6	2.82 %	3.00 %
Grants within the year-to-date period ended July 1, 2017:	18 %			