Mondelez International, Inc.
Form 10-Q
July 26, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(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 1-16483
Mondelēz International, Inc.
(Exact name of registrant as specified in its charter)

Virginia	52-2284372
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Three Parkway North, Deerfield, Illinois	60015
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (847) 943-4000
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
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 for such 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 ¨
(Do not check if a smaller reporting company)	Emerging growth company ¨

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

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

At July 20, 2018, there were 1,466,560,999 shares of the registrant's Class A Common Stock outstanding.

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In this report, for all periods presented, "we," "us," "our," "the Company" and "Mondelēz International" refer to Mondelēz International, Inc. and subsidiaries. References to "Common Stock" refer to our Class A Common Stock.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
Mondelēz International, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of U.S. dollars, except per share data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	$6,112	$5,986	$12,877	$12,400
Cost of sales	3,572	3,672	7,488	7,568
Gross profit	2,540	2,314	5,389	4,832
Selling, general and administrative expenses	1,904	1,455	3,431	2,938
Asset impairment and exit costs	111	176	165	342
Loss on divestiture	—	3	—	3
Amortization of intangibles	44	44	88	88
Operating income	481	636	1,705	1,461
Benefit plan non-service income	(15)	(5)	(28)	(20)
Interest and other expense, net	248	124	328	243
Earnings before income taxes	248	517	1,405	1,238
Provision for income taxes	(14)	(84)	(321)	(238)
Equity method investment net earnings	91	67	185	133
Net earnings	325	500	1,269	1,133
Noncontrolling interest earnings	(2)	(2)	(8)	(5)
Net earnings attributable to Mondelēz International	$323	$498	$1,261	$1,128
Per share data:				
Basic earnings per share attributable to Mondelēz International	$0.22	$0.33	$0.85	$0.74
Diluted earnings per share attributable to Mondelēz International	$0.22	$0.32	$0.84	$0.73
Dividends declared	$0.22	$0.19	$0.44	$0.38

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of U.S. dollars)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings	$325	$500	$1,269	$1,133
Other comprehensive earnings/(losses), net of tax:				
Currency translation adjustment	(874)	380	(667)	923
Pension and other benefit plans	168	(33)	162	(32)
Derivative cash flow hedges	26	12	(20)	30
Total other comprehensive earnings/(losses)	(680)	359	(525)	921
Comprehensive earnings/(losses)	(355)	859	744	2,054
less: Comprehensive earnings/(losses) attributable to noncontrolling interests	(10)	14	11	21
Comprehensive earnings/(losses) attributable to Mondelēz International	$(345)	$845	$733	$2,033

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of U.S. dollars, except share data)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$1,246	$ 761
Trade receivables (net of allowances of $40 at June 30, 2018 and $50 at December 31, 2017)	2,416	2,691
Other receivables (net of allowances of $61 at June 30, 2018 and $98 at December 31, 2017)	818	835
Inventories, net	2,683	2,557
Other current assets	1,039	676
Total current assets	8,202	7,520
Property, plant and equipment, net	8,384	8,677
Goodwill	21,002	21,085
Intangible assets, net	18,362	18,639
Prepaid pension assets	169	158
Deferred income taxes	259	319
Equity method investments	6,223	6,345
Other assets	373	366
TOTAL ASSETS	$62,974	$ 63,109
LIABILITIES		
Short-term borrowings	$4,074	$ 3,517
Current portion of long-term debt	780	1,163
Accounts payable	5,248	5,705
Accrued marketing	1,587	1,728
Accrued employment costs	614	721
Other current liabilities	2,529	2,959
Total current liabilities	14,832	15,793
Long-term debt	14,857	12,972
Deferred income taxes	3,395	3,376
Accrued pension costs	1,389	1,669
Accrued postretirement health care costs	395	419
Other liabilities	2,819	2,689
TOTAL LIABILITIES	37,687	36,918
Commitments and Contingencies (Note 12)		
EQUITY		
Common Stock, no par value (5,000,000,000 shares authorized and 1,996,537,778 shares issued at June 30, 2018 and December 31, 2017)	—	—
Additional paid-in capital	31,913	31,915
Retained earnings	23,305	22,749
Accumulated other comprehensive losses	(10,526)	(9,998)
Treasury stock, at cost (530,175,356 shares at June 30, 2018 and 508,401,694 shares at December 31, 2017)	(19,489)	(18,555)
Total Mondelēz International Shareholders' Equity	25,203	26,111
Noncontrolling interest	84	80

TOTAL EQUITY	25,287	26,191
TOTAL LIABILITIES AND EQUITY	$62,974	$ 63,109

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity
(in millions of U.S. dollars, except per share data)
(Unaudited)

	Mondelēz International Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings/ (Losses)	Treasury Stock	Non-controlling Interest*	Total Equity
Balances at January 1, 2017	$—	$31,847	$21,149	$ (11,122)	$(16,713)	$ 54	$25,215
Comprehensive earnings/(losses):							
Net earnings	—	—	2,922	—	—	14	2,936
Other comprehensive earnings/(losses), net of income taxes	—	—	—	1,124	—	28	1,152
Exercise of stock options and issuance of other stock awards	—	68	(83)	—	360	—	345
Common Stock repurchased	—	—	—	—	(2,202)	—	(2,202)
Cash dividends declared ($0.82 per share)	—	—	(1,239)	—	—	—	(1,239)
Dividends paid on noncontrolling interest and other activities	—	—	—	—	—	(16)	(16)
Balances at December 31, 2017	$—	$31,915	$22,749	$ (9,998)	$(18,555)	$ 80	$26,191
Comprehensive earnings/(losses):							
Net earnings	—	—	1,261	—	—	8	1,269
Other comprehensive earnings/(losses), net of income taxes	—	—	—	(528)	—	3	(525)
Exercise of stock options and issuance of other stock awards	—	(2)	(60)	—	216	—	154
Common Stock repurchased	—	—	—	—	(1,150)	—	(1,150)
Cash dividends declared ($0.44 per share)	—	—	(651)	—	—	—	(651)
Dividends paid on noncontrolling interest and other activities	—	—	6	—	—	(7)	(1)
Balances at June 30, 2018	$—	$31,913	$23,305	$ (10,526)	$(19,489)	$ 84	$25,287

* Noncontrolling interest as of June 30, 2017 was $72 million, as compared to $54 million as of January 1, 2017. The change of $18 million during the six months ended June 30, 2017 was due to $16 million of other comprehensive earnings, net of taxes, and $5 million of net earnings offset by $(3) million of dividends paid.

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of U.S. dollars)
(Unaudited)

	For the Six Months Ended June 30, 2018	2017
CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Net earnings	$1,269	$1,133
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	407	395
Stock-based compensation expense	67	77
U.S. tax reform transition tax	86	—
Deferred income tax provision	(46)	—
Asset impairments and accelerated depreciation	43	168
Loss on early extinguishment of debt	140	11
Loss on divestiture	—	3
Equity method investment net earnings	(185)	(133)
Distributions from equity method investments	151	132
Other non-cash items, net	366	(29)
Change in assets and liabilities, net of acquisitions and divestitures:		
Receivables, net	112	153
Inventories, net	(240)	(181)
Accounts payable	(325)	(430)
Other current assets	(41)	(88)
Other current liabilities	(481)	(646)
Change in pension and postretirement assets and liabilities, net	(141)	(303)
Net cash provided by operating activities	1,182	262
CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		
Capital expenditures	(532)	(488)
Acquisition, net of cash received	(528)	—
Proceeds from divestiture, net of disbursements	—	169
Proceeds from sale of property, plant and equipment and other assets	19	33
Net cash used in investing activities	(1,041)	(286)
CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		
Issuances of commercial paper, maturities greater than 90 days	1,315	1,150
Repayments of commercial paper, maturities greater than 90 days	(1,020)	(1,141)
Net issuances of other short-term borrowings	298	2,230
Long-term debt proceeds	2,948	350
Long-term debt repaid	(1,442)	(1,469)
Repurchase of Common Stock	(1,177)	(1,069)
Dividends paid	(657)	(581)
Other	124	154
Net cash provided by/(used in) financing activities	389	(376)
Effect of exchange rate changes on cash and cash equivalents	(45)	56
Cash and cash equivalents:		
Increase/(decrease)	485	(344)

Balance at beginning of period	761	1,741
Balance at end of period	$1,246	$1,397

See accompanying notes to the condensed consolidated financial statements.

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Mondelēz International, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Note 1. Basis of Presentation

Our interim condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted. It is management's opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of our results of operations, financial position and cash flows. Results of operations for any interim period are not necessarily indicative of future or annual results. For a complete set of consolidated financial statements and related notes, refer to our Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation:
The condensed consolidated financial statements include Mondelēz International, Inc. as well as our wholly owned and majority owned subsidiaries, except our Venezuelan subsidiaries. As of the close of the 2015 fiscal year, we deconsolidated and fully impaired our investment in our Venezuelan operations. As such, for all periods presented, we have excluded the results of operations, financial position and cash flows of our Venezuelan subsidiaries from our condensed consolidated financial statements. We account for investments over which we exercise significant influence under the equity method of accounting. Investments over which we do not have significant influence or control are not material and are carried at cost as there is no readily determinable fair value for the equity interests.

Currency Translation and Highly Inflationary Accounting:
We translate the results of operations of our subsidiaries from multiple currencies using average exchange rates during each period and translate balance sheet accounts using exchange rates at the end of each period. We record currency translation adjustments as a component of equity and realized exchange gains and losses on transactions in earnings.

Highly inflationary accounting is triggered when a country's three-year cumulative inflation rate exceeds 100%. It requires the remeasurement of financial statements of subsidiaries in the country from the functional currency of the subsidiary to our U.S. dollar reporting currency, with currency remeasurement gains or losses recorded in earnings. As of June 30, 2018, none of our consolidated subsidiaries were subject to highly inflationary accounting. As discussed below, beginning on July 1, 2018, we expect to apply highly inflationary accounting for our operations in Argentina.

Argentina. During the quarter ended June 30, 2018, primarily based on published estimates which indicate that Argentina's three-year cumulative inflation rate has exceeded 100%, we concluded that Argentina has become a highly inflationary economy. Beginning July 1, 2018, we expect to apply highly inflationary accounting for our Argentinian subsidiaries. We will change the functional currency from the Argentinian peso to the U.S. dollar. Local currency monetary assets and liabilities will be remeasured into U.S. dollars using exchange rates as of the latest balance sheet date, with remeasurement adjustments and other transaction gains and losses recognized in net earnings. Our Argentinian operations contributed $267 million, or 2.1% of consolidated net revenues in the six months ended June 30, 2018. Based on a review of our Argentinian peso-denominated monetary assets and liabilities, our Argentinian operations had an immaterial net monetary liability position as of June 30, 2018.

Other Countries. Since we sell in approximately 160 countries and have operations in over 80 countries, we monitor economic and currency-related risks and seek to take protective measures in response to these exposures. Some of the countries in which we do business have recently experienced periods of significant economic uncertainty and exchange rate volatility, including Brazil, China, Mexico, Russia, United Kingdom (Brexit), Ukraine, Turkey, Egypt, Nigeria, South Africa and Pakistan. We continue to monitor operations, currencies and net monetary exposures in these countries. At this time, we do not anticipate that these countries are at risk of becoming highly inflationary countries.

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Revenue Recognition:
We predominantly sell food and beverage products across several product categories and in all regions as detailed in Note 16, Segment Reporting. We recognize revenue when control over the products transfers to our customers, which generally occurs upon delivery or shipment of the products. A small percentage of our net revenues relates to the licensing of our intellectual property, predominantly brand and trade names, and we record these revenues when earned within the period of the license term. We account for product shipping, handling and insurance as fulfillment activities with revenues for these activities recorded within net revenue and costs recorded within cost of sales. Any taxes collected on behalf of government authorities are excluded from net revenues.

Revenues are recorded net of trade and sales incentives and estimated product returns. Known or expected pricing or revenue adjustments, such as trade discounts, rebates or returns, are estimated at the time of sale. We base these estimates of expected amounts principally on historical utilization and redemption rates. Estimates that affect revenue, such as trade incentives and product returns, are monitored and adjusted each period until the incentives or product returns are realized.

Key sales terms, such as pricing and quantities ordered, are established on a frequent basis such that most customer arrangements and related incentives have a one year or shorter duration. As such, we do not capitalize contract inception costs and we capitalize product fulfillment costs in accordance with U.S. GAAP and our inventory policies. We generally do not have any unbilled receivables at the end of a period. Deferred revenues are not material and primarily include customer advance payments typically collected a few days before product delivery, at which time deferred revenues are reclassified and recorded as net revenues. We generally do not receive noncash consideration for the sale of goods nor do we grant payment financing terms greater than one year.

Transfers of Financial Assets:
We account for transfers of financial assets, such as uncommitted revolving non-recourse accounts receivable factoring arrangements, when we have surrendered control over the related assets. Determining whether control has transferred requires an evaluation of relevant legal considerations, an assessment of the nature and extent of our continuing involvement with the assets transferred and any other relevant considerations. We use receivable factoring arrangements periodically when circumstances are favorable to manage liquidity. We have non-recourse factoring arrangements in which we sell eligible trade receivables primarily to banks in exchange for cash. We may then continue to collect the receivables sold, acting solely as a collecting agent on behalf of the banks. The outstanding principal amount of receivables under these arrangements amounted to $719 million as of June 30, 2018 and $843 million as of December 31, 2017. The incremental cost of factoring receivables under this arrangement was not material for all periods presented. The proceeds from the sales of receivables are included in cash from operating activities in the condensed consolidated statements of cash flows.

New Accounting Pronouncements:
In June 2018, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that requires entities to record share-based payment transactions for acquiring goods and services from non-employees at fair value as of adoption date. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently assessing the impact on our consolidated financial statements.

In February 2018, the FASB issued an ASU that permits entities to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 enactment of U.S. tax reform legislation. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently assessing the impact on our consolidated financial statements.

In August 2017, the FASB issued an ASU to better align hedge accounting with an entity's risk management activities and improve disclosures surrounding hedging. For cash flow and net investment hedges as of the adoption date, the ASU requires a modified retrospective transition approach. Presentation and disclosure requirements related to this ASU are required prospectively. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We early adopted the standard as of January 1, 2018 and there was no material impact to our consolidated financial statements upon adoption. Refer to Note 9, Financial Instruments, for additional information.

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In February 2016, the FASB issued an ASU on lease accounting. The ASU revises existing U.S. GAAP and outlines a new model for lessors and lessees to use in accounting for lease contracts. The guidance requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases, with the exception of short-term leases. In the statement of earnings, lessees will classify leases as either operating (resulting in straight-line expense) or financing (resulting in a front-loaded expense pattern). The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We anticipate adopting the new standard on January 1, 2019. We continue to make progress in our data collection and evaluation of our leasing arrangements, practical expedients, accounting policy elections and implementing our lease accounting system. We completed the initial design of changes to our business processes to meet the new lease accounting and disclosure requirements. At this time, we are unable to reasonably estimate the expected increase in assets and liabilities on our balance sheet for our operating leases.

In January 2016, the FASB issued an ASU that provides updated guidance for the recognition, measurement, presentation and disclosure of financial assets and liabilities. The standard requires that equity investments (other than those accounted for under equity method of accounting or those that result in consolidation of the investee) be measured at fair value, with changes in fair value recognized in net income. The standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017. We adopted this standard on January 1, 2018 and there was no material impact to our consolidated financial statements upon adoption.

In May 2014, the FASB issued an ASU on revenue recognition from contracts with customers. The ASU outlines a new, single comprehensive model for companies to use in accounting for revenue. The core principle is that an entity should recognize revenue to depict the transfer of control over promised goods or services to a customer in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for the goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows from customer contracts, including significant judgments made in recognizing revenue. In 2016 and 2017, the FASB issued several ASUs that clarified principal versus agent (gross versus net) revenue presentation considerations, confirmed the accounting for certain prepaid stored-value products and clarified the guidance for identifying performance obligations within a contract, the accounting for licenses and partial sales of nonfinancial assets. The FASB also issued two ASUs providing technical corrections, narrow scope exceptions and practical expedients to clarify and improve the implementation of the new revenue recognition guidance. The revenue guidance is effective for annual reporting periods beginning after December 15, 2017. We adopted the new standard on January 1, 2018 on a full retrospective basis. There was no material financial impact from adopting the new revenue standards in any of the historical periods presented. Refer to the Revenue Recognition section above and Note 16, Segment Reporting, for additional information.

Reclassifications:
Certain amounts previously reported have been reclassified to conform to current-year presentation. On January 1, 2018, we adopted an ASU that changed the presentation of net periodic pension and postretirement costs on the condensed consolidated statements of earnings. As a result of this adoption, we disaggregated the components of our net periodic pension and postretirement benefit costs and moved components other than service costs to a new line item, benefit plan non-service income, located below operating income. Prior-period cost of sales, selling, general and administrative expenses and asset impairment and exit costs as well as segment operating income results were updated to reflect the reclassification. All components of net periodic pension and postretirement benefit costs are summarized in Note 10, Benefit Plans.

Note 2. Divestitures and Acquisitions

On June 7, 2018, we acquired a U.S. premium biscuit company, Tate's Bake Shop, within our North America segment and extended our premium biscuit offerings. We paid $528 million, net of cash received, and we expect to finalize the purchase price paid later this year once final working capital adjustments are confirmed. We accounted for the transaction as a business combination. We are working to complete the valuation work and have recorded a preliminary purchase price allocation of $40 million to definite-lived intangible assets, $170 million to indefinite-lived intangible assets, $337 million to goodwill, $14 million to property, plant and equipment, $5 million to inventory, $9 million to accounts receivable, $6 million to current liabilities and $41 million to deferred tax liabilities.

On December 28, 2017, we completed the sale of a confectionery business in Japan. We received cash proceeds of ¥2.8 billion ($24 million as of December 28, 2017) and recorded an immaterial pre-tax loss on the divestiture within our AMEA segment.

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On October 2, 2017, we completed the sale of one of our equity method investments and received cash proceeds of $65 million. We recorded a pre-tax gain of $40 million within the gain on equity method investment transactions and $15 million of tax expense.

In connection with the 2012 spin-off of Kraft Foods Group, Inc. (now a part of The Kraft Heinz Company ("KHC")), Kraft Foods Group and we each granted the other various licenses to use certain trademarks in connection with particular product categories in specified jurisdictions. On August 17, 2017, we entered into two agreements with KHC to terminate the licenses of certain KHC-owned brands used in our grocery business within our Europe region and to transfer to KHC inventory and certain other assets. On August 17, 2017, the first transaction closed and we received cash proceeds of €9 million ($11 million as of August 17, 2017) and on October 23, 2017, the second transaction closed and we received cash proceeds of €2 million ($3 million as of October 23, 2017). The gain on both transactions combined was immaterial.

On July 4, 2017, we completed the sale of most of our grocery business in Australia and New Zealand to Bega Cheese Limited for $456 million Australian dollars ($347 million as of July 4, 2017). We divested $27 million of current assets, $135 million of non-current assets and $4 million of current liabilities based on the July 4, 2017 exchange rate. We recorded a pre-tax gain of $247 million Australian dollars ($187 million as of July 4, 2017) on the sale. During the third and fourth quarters of 2017, we also recorded divestiture-related costs of $2 million and a foreign currency hedge loss of $3 million. In the fourth quarter of 2017, we recorded a final $3 million inventory-related working capital adjustment, increasing the pre-tax gain to $190 million in 2017.

On April 28, 2017, we completed the sale of several manufacturing facilities in France and the sale or license of several local confectionery brands. We received cash of approximately €157 million ($169 million as of April 28, 2017), net of cash divested with the businesses. On April 28, 2017, we divested $44 million of current assets, $155 million of non-current assets, $8 million of current liabilities and $22 million of non-current liabilities based on the April 28, 2017 exchange rate. During the three months ended March 31, 2018, we reversed $3 million of accrued expenses no longer required. We also incurred divestiture-related costs of $3 million in the three months and $21 million in the six months ended June 30, 2017. We recorded a $3 million loss on the sale during the three months ended June 30, 2017. Divestiture-related costs were recorded within cost of sales and selling, general and administrative expenses primarily within our Europe segment.

Note 3. Inventories

Inventories consisted of the following:

	As of June 30, 2018	As of December 31, 2017
	(in millions)	
Raw materials	$726	$ 711
Finished product	2,070	1,975
	2,796	2,686
Inventory reserves	(113)	(129)
Inventories, net	$2,683	$ 2,557

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Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	As of June 30, 2018	As of December 31, 2017
	(in millions)	
Land and land improvements	$439	$ 458
Buildings and building improvements	2,950	2,979
Machinery and equipment	10,947	11,195
Construction in progress	984	1,048
	15,320	15,680
Accumulated depreciation	(6,936)	(7,003)
Property, plant and equipment, net	$8,384	$ 8,677

For the six months ended June 30, 2018, capital expenditures of $532 million excluded $268 million of accrued capital expenditures remaining unpaid at June 30, 2018 and included payment for a portion of the $357 million of capital expenditures that were accrued and unpaid at December 31, 2017. For the six months ended June 30, 2017, capital expenditures of $488 million excluded $190 million of accrued capital expenditures remaining unpaid at June 30, 2017 and included payment for a portion of the $343 million of capital expenditures that were accrued and unpaid at December 31, 2016.

In connection with our restructuring program, we recorded non-cash property, plant and equipment write-downs (including accelerated depreciation and asset impairments) in the condensed consolidated statements of earnings within asset impairment and exit costs and within the segment results as follows (refer to Note 7, 2014-2018 Restructuring Program).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Latin America	$6	$ 6	$14	$12
AMEA	4	30	8	42
Europe	1	4	6	42
North America	2	7	8	22
Non-cash property, plant and equipment write-downs	$13	$ 47	$36	$118

Note 5. Goodwill and Intangible Assets

Goodwill by segment was:

	As of June 30, 2018	As of December 31, 2017
	(in millions)	
Latin America	$821	$ 901

AMEA	3,289	3,371
Europe	7,655	7,880
North America	9,237	8,933
Goodwill	$21,002	$ 21,085

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Intangible assets consisted of the following:

	As of June 30, 2018	As of December 31, 2017
	(in millions)	
Non-amortizable intangible assets	$17,463	$ 17,671
Amortizable intangible assets	2,363	2,386
	19,826	20,057
Accumulated amortization	(1,464)	(1,418)
Intangible assets, net	$18,362	$ 18,639

Non-amortizable intangible assets consist principally of brand names purchased through our acquisitions of Nabisco Holdings Corp., the Spanish and Portuguese operations of United Biscuits, the global LU biscuit business of Groupe Danone S.A. and Cadbury Limited. Amortizable intangible assets consist primarily of trademarks, customer-related intangibles, process technology, licenses and non-compete agreements.

Amortization expense for intangible assets was $44 million in each of the three months and $88 million in each of the six months ended June 30, 2018 and June 30, 2017. For the next five years, we currently estimate annual amortization expense of approximately $175 million for the next three years and approximately $85 million in years four and five (reflecting June 30, 2018 exchange rates).

Changes in goodwill and intangible assets consisted of:

	Goodwill	Intangible Assets, at cost
	(in millions)	
Balance at January 1, 2018	$21,085	$ 20,057
Currency/other	(420)	(441)
Acquisition	337	210
Balance at June 30, 2018	$21,002	$ 19,826

Changes to goodwill and intangibles were:

- Acquisition – During the second quarter of 2018, in connection with the acquisition of Tate's Bake Shop, we recorded a preliminary purchase price allocation of $337 million to goodwill and $210 million to intangible assets. See Note 2, Divestitures and Acquisitions, for additional information.

During our 2017 annual testing of non-amortizable intangible assets, we recorded $70 million of impairment charges in the third quarter of 2017 related to five trademarks recorded across all regions. During that annual review, we identified thirteen brands, including the five impaired trademarks, with $938 million of aggregate book value as of June 30, 2018 that each had a fair value in excess of book value of 10% or less. We believe our current plans for each of these brands will allow them to continue to not be impaired, but if the product line expectations are not met or specific valuation factors outside of our control, such as discount rates, change significantly, then a brand or brands could become impaired in the future.

Note 6. Equity Method Investments

Our investments accounted for under the equity method of accounting totaled $6,223 million as of June 30, 2018 and $6,345 million as of December 31, 2017. Our largest investments are in Jacobs Douwe Egberts (“JDE”) and Keurig Green Mountain, Inc. (“Keurig”).

JDE:
As of June 30, 2018, we held a 26.5% voting interest, a 26.4% ownership interest and a 26.3% profit and dividend sharing interest in JDE. We recorded JDE equity earnings of $42 million in the second quarter of 2018 and $19 million in the second quarter of 2017 and $88 million in the first six months of 2018 and $38 million in the first six months of 2017. We also recorded $73 million of cash dividends received during the first quarter of 2018 and $49 million of cash dividends received during the first quarter of 2017.

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Keurig:
As of June 30, 2018, we held a 24.2% ownership interest in Keurig. We recorded Keurig equity earnings, shareholder loan interest and cash dividends of $20 million, $6 million and $2 million in the second quarter of 2018 and $15 million, $6 million and $2 million in the second quarter of 2017. We recorded Keurig equity earnings, shareholder loan interest and cash dividends of $36 million, $12 million and $5 million in the first six months of 2018 and $29 million, $12 million and $6 million in the first six months of 2017.

Keurig Dr Pepper Transaction:
On July 9, 2018, Keurig closed on its definitive merger agreement with Dr Pepper Snapple Group, Inc., and formed Keurig Dr Pepper Inc. ("Keurig Dr Pepper", NYSE: “KDP”). Following the close of the merger, our ownership in Keurig Dr Pepper was 13.8%. In our third quarter 2018, we expect to record a gain related to the conversion of our investment in Keurig (including our shareholder loan receivable) into an investment in Keurig Dr Pepper. As we will continue to have significant influence, we will continue to account for our investment in Keurig Dr Pepper under the equity method, resulting in recognizing our share of their earnings within our earnings and our share of their dividends within our cash flows. We have nominated two directors to the board of Keurig Dr Pepper and will have certain additional governance rights. In our future filings, we will recast our financial statements and reflect our share of Keurig’s historical results and Keurig Dr Pepper’s ongoing results on a quarter lag basis. A lag will allow us to record our share of Keurig Dr Pepper’s results timely after they have publicly reported their results and to facilitate comparisons of our operating results across all reported periods.

Note 7. 2014-2018 Restructuring Program

On May 6, 2014, our Board of Directors approved a $3.5 billion restructuring program and up to $2.2 billion of capital expenditures. On August 31, 2016, our Board of Directors approved a $600 million reallocation between restructuring program cash costs and capital expenditures so that now the $5.7 billion program consists of approximately $4.1 billion of restructuring program costs ($3.1 billion cash costs and $1 billion non-cash costs) and up to $1.6 billion of capital expenditures. The primary objective of the 2014-2018 Restructuring Program is to reduce our operating cost structure in both our supply chain and overhead costs. The program is intended primarily to cover severance as well as asset disposals and other manufacturing-related one-time costs. Since inception, we have incurred total restructuring and related implementation charges of $3.6 billion related to the 2014-2018 Restructuring Program. We expect to incur the full $4.1 billion of program charges by year-end 2018.

Restructuring Costs:
We recorded restructuring charges of $112 million in the second quarter of 2018 and $148 million in the second quarter of 2017 and $164 million in the first six months of 2018 and $305 million in the first six months of 2017 within asset impairment and exit costs or benefit plan non-service income. The 2014-2018 Restructuring Program liability activity for the six months ended June 30, 2018 was:

	Severance and related costs	Asset Write-downs	Total
	(in millions)		
Liability balance, January 1, 2018	$464	$ —	$464
Charges	125	39	164
Cash spent	(161)	—	(161)
Non-cash settlements/adjustments	—	(39)	(39)
Currency	(24)	—	(24)
Liability balance, June 30, 2018	$404	$ —	$404

We spent $82 million in the second quarter of 2018 and $78 million in the second quarter of 2017 and $161 million in the first six months of 2018 and $162 million in the first six months of 2017 in cash severance and related costs. We also recognized non-cash asset write-downs (including accelerated depreciation and asset impairments) and other non-cash adjustments totaling $14 million in the second quarter of 2018 and $54 million in the second quarter of 2017 and $39 million in the first six months of 2018 and $126 million in the first six months of 2017. At June 30, 2018, $323 million of our net restructuring liability was recorded within other current liabilities and $81 million was recorded within other long-term liabilities.

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Implementation Costs:
Implementation costs are directly attributable to restructuring activities; however, they do not qualify for special accounting treatment as exit or disposal activities. We believe the disclosure of implementation costs provides readers of our financial statements with more information on the total costs of our 2014-2018 Restructuring Program. Implementation costs primarily relate to reorganizing our operations and facilities in connection with our supply chain reinvention program and other identified productivity and cost saving initiatives. The costs include incremental expenses related to the closure of facilities, costs to terminate certain contracts and the simplification of our information systems. Within our continuing results of operations, we recorded implementation costs of $70 million in the second quarter of 2018 and $63 million in the second quarter of 2017 and $132 million in the first six months of 2018 and $117 million in the first six months of 2017. We recorded these costs within cost of sales and general corporate expense within selling, general and administrative expenses.

Restructuring and Implementation Costs:
During the three and six months ended June 30, 2018 and June 30, 2017, and since inception of the 2014-2018 Restructuring Program, we recorded the following restructuring and implementation costs within segment operating income and earnings before income taxes:

	Latin America	AMEA	Europe	North America (1)	Corporate (2)	Total
	(in millions)					
For the Three Months Ended June 30, 2018						
Restructuring Costs	$12	$ 17	$63	$ 14	$ 6	$112
Implementation Costs	15	8	13	21	13	70
Total	$27	$ 25	$76	$ 35	$ 19	$182
For the Three Months Ended June 30, 2017						
Restructuring Costs	$8	$ 48	$50	$ 26	$ 16	$148
Implementation Costs	10	10	19	13	11	63
Total	$18	$ 58	$69	$ 39	$ 27	$211
For the Six Months Ended June 30, 2018						
Restructuring Costs	$36	$ 23	$70	$ 26	$ 9	$164
Implementation Costs	30	20	29	38	15	132
Total	$66	$ 43	$99	$ 64	$ 24	$296
For the Six Months Ended June 30, 2017						
Restructuring Costs	$31	$ 73	$119	$ 65	$ 17	$305
Implementation Costs	20	20	31	25	21	117
Total	$51	$ 93	$150	$ 90	$ 38	$422
Total Project 2014-2018 (3)						
Restructuring Costs	$466	$ 471	$909	$ 445	$ 107	$2,398
Implementation Costs	182	149	301	291	236	1,159
Total	$648	$ 620	$1,210	$ 736	$ 343	$3,557

(1) During 2018 and 2017, our North America region implementation costs included incremental costs that we incurred related to renegotiating collective bargaining agreements that expired in February 2016 for eight U.S. facilities and related to executing business continuity plans for the North America business.
(2) During the first quarter of 2018, in connection with adopting a new pension cost classification accounting standard, we reclassified certain of our benefit plan component costs other than service costs out of operating income into a new line, benefit plan non-service income, on our condensed consolidated statements of earnings. As such, we

have recast our historical operating income, segment operating income and restructuring and implementation costs by segment to reflect this reclassification, which had no impact to earnings before income taxes or net earnings. The benefit plan non-service income amounts no longer recorded in segment operating income are included within the Corporate column in the table above. The Corporate column also includes minor adjustments for rounding.

(3) Includes all charges recorded since program inception on May 6, 2014 through June 30, 2018.

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Note 8. Debt and Borrowing Arrangements

Short-Term Borrowings:
Our short-term borrowings and related weighted-average interest rates consisted of:

	As of June 30, 2018		As of December 31, 2017	
	Amount Outstanding (in millions)	Weighted-Average Rate	Amount Outstanding (in millions)	Weighted-Average Rate
Commercial paper	$3,900	2.4 %	$3,410	1.7 %
Bank loans	174	13.4 %	107	11.5 %
Total short-term borrowings	$4,074		$3,517	

As of June 30, 2018, commercial paper issued and outstanding had between 2 and 172 days remaining to maturity. Commercial paper borrowings increased since year end primarily as a result of issuances to finance the payment of long-term debt maturities, dividend payments and share repurchases during the year.

Some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $1.8 billion at June 30, 2018 and $2.0 billion at December 31, 2017. Borrowings on these lines were $174 million at June 30, 2018 and $107 million at December 31, 2017.

Borrowing Arrangements:
On April 2, 2018, in connection with the tender offer described below, we entered into a $2.0 billion revolving credit agreement for a 364-day senior unsecured credit facility that is scheduled to expire on April 1, 2019. The agreement includes the same terms and conditions as our existing $4.5 billion multi-year credit facility discussed below. On April 17, 2018, we borrowed $714 million on this facility to fund the debt tender described below and availability under the facility was reduced to match the borrowed amount. On May 7, 2018, we repaid the $714 million from the net proceeds received from the May 2018 $2.5 billion long-term debt issuance and terminated this credit facility.

On February 28, 2018, to supplement our commercial paper program, we entered into a $1.5 billion revolving credit agreement for a 364-day senior unsecured credit facility that is scheduled to expire on February 27, 2019. The agreement replaces our previous credit agreement that matured on February 28, 2018 and includes the same terms and conditions as our existing $4.5 billion multi-year credit facility discussed below. As of June 30, 2018, no amounts were drawn on the facility.

We also maintain a $4.5 billion multi-year senior unsecured revolving credit facility for general corporate purposes, including working capital needs, and to support our commercial paper program. On October 14, 2016, the revolving credit agreement, which was scheduled to expire on October 11, 2018, was extended through October 11, 2021. The revolving credit agreement includes a covenant that we maintain a minimum shareholders’ equity of at least $24.6 billion, excluding accumulated other comprehensive earnings/(losses) and the cumulative effects of any changes in accounting principles. At June 30, 2018, we complied with this covenant as our shareholders’ equity, as defined by the covenant, was $35.7 billion. The revolving credit facility agreement also contains customary representations, covenants and events of default. There are no credit rating triggers, provisions or other financial covenants that could require us to post collateral as security. As of June 30, 2018, no amounts were drawn on the facility.

Long-Term Debt:
On May 3, 2018, we issued $2.5 billion of U.S. dollar-denominated, fixed-rate notes consisting of:

- $750 million of 3.000% notes that mature in May 2020
- $750 million of 3.625% notes that mature in May 2023
- $700 million of 4.125% notes that mature in May 2028
- $300 million of 4.625% notes that mature in May 2048

On May 7, 2018, we received net proceeds of $2.48 billion that were used to repay amounts outstanding under our revolving credit agreement facility and for other general corporate purposes, including the repayment of outstanding commercial paper borrowings and other debt. We recorded approximately $22 million of discounts and deferred financing costs net of various fees associated for the bond transaction and underwriter fee reimbursement, which will be amortized into interest expense over the life of the notes.

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On April 17, 2018, we completed a cash tender offer and retired $570 million of the long-term U.S. dollar debt consisting of:
- $241 million of our 6.500% notes due in February 2040
- $97.6 million of our 5.375% notes due in February 2020
- $75.8 million of our 6.500% notes due in November 2031
- $72.1 million of our 6.875% notes due in February 2038
- $42.6 million of our 6.125% notes due in August 2018
- $29.3 million of our 6.875% notes due in January 2039
- $11.7 million of our 7.000% notes due in August 2037

We financed the repurchase of the notes, including the payment of accrued interest and other costs incurred, from the $2.0 billion revolving credit agreement entered into on April 2, 2018. We recorded a loss on debt extinguishment of $140 million within interest and other expense, net related to the amount we paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts, deferred financing and other cash costs in earnings at the time of the debt extinguishment. Cash costs related to tendering the debt are included in long-term debt repayments in the condensed consolidated statement of cash flows for the six months ended June 30, 2018.

On March 2, 2018, we launched an offering of C$600 million of 3.250% Canadian-dollar denominated notes that mature on March 7, 2025. On March 7, 2018, we received C$595 million (or $461 million) of proceeds, net of discounts and underwriting fees, to be used for general corporate purposes. We recorded approximately $4 million of discounts and deferred financing costs, which will be amortized into interest expense over the life of the notes.

On February 1, 2018, $478 million of our 6.125% U.S. dollar notes matured. The notes and accrued interest to date were paid with the issuance of commercial paper and cash on hand.

On January 26, 2018, fr250 million (or $260 million) of our 0.080% Swiss franc notes matured. The notes and accrued interest to date were paid with the issuance of commercial paper and cash on hand.

Our weighted-average interest rate on our total debt was 2.4% as of June 30, 2018, 2.1% as of December 31, 2017 and 2.2% as of December 31, 2016.

Fair Value of Our Debt:
The fair value of our short-term borrowings at June 30, 2018 and December 31, 2017 reflects current market interest rates and approximates the amounts we have recorded on our condensed consolidated balance sheets. The fair value of our long-term debt was determined using quoted prices in active markets (Level 1 valuation data) for the publicly traded debt obligations. At June 30, 2018, the aggregate fair value of our total debt was $20,089 million and its carrying value was $19,711 million. At December 31, 2017, the aggregate fair value of our total debt was $18,354 million and its carrying value was $17,652 million.

Interest and Other Expense, net:
Interest and other expense, net consisted of:

For the Three Months Ended June 30,	For the Six Months Ended June 30,