Mondelez International, Inc.
Form 10-Q
August 02, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 (State or other jurisdiction of incorporation or organization)	**52-2284372** (I.R.S. Employer Identification No.)
Three Parkway North, **Deerfield, Illinois** (Address of principal executive offices)	**60015** (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 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 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

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

At July 28, 2017, there were 1,507,639,931 shares of the registrant s Class A Common Stock outstanding.

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Mondelēz International, Inc.

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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, 2017	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
Net revenues	$ 5,986	$ 6,302	$ 12,400	$ 12,757
Cost of sales	3,662	3,786	7,551	7,706
Gross profit	2,324	2,516	4,849	5,051
Selling, general and administrative expenses	1,449	1,668	2,924	3,283
Asset impairment and exit costs	187	166	353	320
Loss on divestiture	3		3	
Amortization of intangibles	44	44	88	88
Operating income	641	638	1,481	1,360
Interest and other expense, net	124	151	243	395
Earnings before income taxes	517	487	1,238	965
Provision for income taxes	(84)	(118)	(238)	(167)
Gain on equity method investment exchange				43
Equity method investment net earnings	67	102	133	187
Net earnings	500	471	1,133	1,028
Noncontrolling interest earnings	(2)	(7)	(5)	(10)
Net earnings attributable to Mondelēz International	$ 498	$ 464	$ 1,128	$ 1,018
Per share data:				
Basic earnings per share attributable to Mondelēz International	$ 0.33	$ 0.30	$ 0.74	$ 0.65

Diluted earnings per share attributable to Mondelēz International	$	0.32	$	0.29	$	0.73	$	0.64
Dividends declared	$	0.19	$	0.17	$	0.38	$	0.34

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, 2017	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
Net earnings	$ 500	$ 471	$ 1,133	$ 1,028
Other comprehensive earnings/(losses), net of tax:				
Currency translation adjustment	380	(528)	923	103
Pension and other benefit plans	(33)	110	(32)	104
Derivative cash flow hedges	12	17	30	10
Total other comprehensive earnings/(losses)	359	(401)	921	217
Comprehensive earnings	859	70	2,054	1,245
less: Comprehensive earnings/(losses) attributable to noncontrolling interests	14	(7)	21	9
Comprehensive earnings attributable to Mondelēz International	$ 845	$ 77	$ 2,033	$ 1,236

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, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 1,397	$ 1,741
Trade receivables (net of allowances of $47 at June 30, 2017 and $58 at December 31, 2016)	2,395	2,611
Other receivables (net of allowances of $99 at June 30, 2017 and $93 at December 31, 2016)	913	859
Inventories, net	2,710	2,469
Other current assets	778	800
Total current assets	8,193	8,480
Property, plant and equipment, net	8,444	8,229
Goodwill	20,915	20,276
Intangible assets, net	18,514	18,101
Prepaid pension assets	144	159
Deferred income taxes	347	358
Equity method investments	5,853	5,585
Other assets	347	350
TOTAL ASSETS	$ 62,757	$ 61,538
LIABILITIES		
Short-term borrowings	$ 4,813	$ 2,531
Current portion of long-term debt	742	1,451
Accounts payable	5,012	5,318
Accrued marketing	1,574	1,745
Accrued employment costs	603	736
Other current liabilities	2,819	2,636
Total current liabilities	15,563	14,417
Long-term debt	13,226	13,217
Deferred income taxes	4,587	4,721
Accrued pension costs	1,708	2,014
Accrued postretirement health care costs	393	382
Other liabilities	1,488	1,572

TOTAL LIABILITIES		36,965		36,323
Commitments and Contingencies (Note 11)				
EQUITY				
Common Stock, no par value (5,000,000,000 shares authorized and 1,996,537,778 shares issued at June 30, 2017 and December 31, 2016)				
Additional paid-in capital		31,860		31,847
Retained earnings		21,648		21,149
Accumulated other comprehensive losses		(10,217)		(11,122)
Treasury stock, at cost (485,738,865 shares at June 30, 2017 and 468,172,237 shares at December 31, 2016)		(17,571)		(16,713)
Total Mondelēz International Shareholders Equity		25,720		25,161
Noncontrolling interest		72		54
TOTAL EQUITY		25,792		25,215
TOTAL LIABILITIES AND EQUITY	$	62,757	$	61,538

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**	**Noncontrolling Interest***	**To Equ**
s at January 1, 2016	$	$ 31,760	$ 20,700	$ (9,986)	$ (14,462)	$ 88	$
hensive earnings/(losses):							
ings			1,659			10	
omprehensive earnings/(losses), net ne taxes				(1,136)		(17)	
of stock options and issuance of ock awards		87	(94)		350		
n Stock repurchased					(2,601)		
vidends declared ($0.72 per share)			(1,116)				
ds paid on noncontrolling interest r activities						(27)	
s at December 31, 2016	$	$ 31,847	$ 21,149	$ (11,122)	$ (16,713)	$ 54	$
hensive earnings/(losses):							
ings			1,128			5	
omprehensive earnings/(losses), net ne taxes				905		16	
of stock options and issuance of ock awards		13	(48)		251		
n Stock repurchased					(1,109)		
vidends declared ($0.38 per share)			(581)				
ds paid on noncontrolling interest r activities						(3)	
s at June 30, 2017	$	$ 31,860	$ 21,648	$ (10,217)	$ (17,571)	$ 72	$

*

Noncontrolling interest as of June 30, 2016 was $84 million, as compared to $88 million as of January 1, 2016. The change of $(4) million during the six months ended June 30, 2016 was due to $(13) million of dividends paid, $(1) million of other comprehensive earnings, net of taxes offset by $10 million of net earnings.

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, 2017	For the Six Months Ended June 30, 2016
CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Net earnings	$ 1,133	$ 1,028
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	395	408
Stock-based compensation expense	77	72
Deferred income tax provision/(benefit)		(86)
Asset impairments and accelerated depreciation	168	142
Loss on early extinguishment of debt	11	
Gain on equity method investment exchange		(43)
Loss on divestiture	3	
Equity method investment net earnings	(133)	(187)
Distributions from equity method investments	132	58
Other non-cash items, net	(29)	126
Change in assets and liabilities, net of acquisitions and divestitures:		
Receivables, net	153	(27)
Inventories, net	(181)	(63)
Accounts payable	(430)	(319)
Other current assets	(88)	23
Other current liabilities	(646)	(457)
Change in pension and postretirement assets and liabilities, net	(303)	(338)
Net cash provided by operating activities	262	337
CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		
Capital expenditures	(488)	(604)
Proceeds from divestiture, net of disbursements	169	
Proceeds from sale of property, plant and equipment and other assets	33	99
Net cash used in investing activities	(286)	(505)
CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		
Issuances of commercial paper, maturities greater than 90 days	1,150	491
Repayments of commercial paper, maturities greater than 90 days	(1,141)	(68)

Net issuances of other short-term borrowings	2,230	2,008
Long-term debt proceeds	350	1,149
Long-term debt repaid	(1,469)	(1,757)
Repurchase of Common Stock	(1,069)	(1,312)
Dividends paid	(581)	(537)
Other	154	54
Net cash (used in)/provided by financing activities	(376)	28
Effect of exchange rate changes on cash and cash equivalents	56	25
Cash and cash equivalents:		
Decrease	(344)	(115)
Balance at beginning of period	1,741	1,870
Balance at end of period	$ 1,397	$ 1,755

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, 2016.

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 changed to the cost method of accounting for 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.

Segment Change:

On October 1, 2016, we integrated our Eastern Europe, Middle East, and Africa (EEMEA) operating segment into our Europe and Asia Pacific operating segments to further leverage and optimize the operating scale built within the Europe and Asia Pacific regions. Russia, Ukraine, Turkey, Belarus, Georgia and Kazakhstan were combined within our Europe region, while the remaining Middle East and African countries were combined within our Asia Pacific region to form a new Asia, Middle East and Africa (AMEA) operating segment. We have reflected the segment change as if it had occurred in all periods presented.

As of October 1, 2016, our operations and management structure were organized into four reportable operating segments:

- Latin America
- AMEA
- Europe
- North America

See Note 15, *Segment Reporting*, for additional information on our segments.

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, 2017, none of our consolidated subsidiaries were subject to highly inflationary accounting.

Argentina. We continue to closely monitor inflation and the potential for the economy to become highly inflationary for accounting purposes. As of June 30, 2017, the Argentinian economy was not designated as highly inflationary. At this time, we continue to record currency translation adjustments within equity and realized exchange gains and losses on transactions in earnings. Our Argentinian operations contributed $159 million, or 2.7% of consolidated net revenues in the three months and $301 million, or 2.4% of consolidated net revenues in the six months ended June 30, 2017, and our Argentinian operations had a net monetary liability position as of June 30, 2017.

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Ukraine. In the second quarter of 2017, based on projected inflation data published by the National Bank of Ukraine, Ukraine s three-year cumulative inflation rate dropped below 100% and it is projected to stay below 100% in late 2017. As such, Ukraine is no longer designated highly inflationary and we continue to record currency translation adjustments

within equity and realized exchange gains and losses on transactions in earnings. Our Ukraine operations contributed $15 million, or 0.3%, of consolidated net revenues in the three months and $30 million, or 0.2% of consolidated net revenues in the six months ended June 30, 2017, and our Ukraine net monetary assets as of June 30, 2017 were not material.

Other Countries. Since we sell in approximately 165 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. These include Brazil, China, Mexico, Russia, United Kingdom (Brexit), Turkey, Egypt, Nigeria and South Africa, most of which have had exchange rate volatility. We continue to monitor operations, currencies and net monetary exposures in these countries. At this time, we do not anticipate a risk to our operating results from changing to highly inflationary accounting in these countries.

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 a factoring arrangement with a major global bank for a maximum combined capacity of $1.0 billion. Under the program, we may sell eligible short-term trade receivables to the bank in exchange for cash. We then continue to collect the receivables sold, acting solely as a collecting agent on behalf of the bank. The outstanding principal amount of receivables under this arrangement amounted to $594 million as of June 30, 2017 and $644 million as of December 31, 2016. The incremental cost of factoring receivables under this arrangement was recorded in net revenue and was approximately $2 million in the three months and $3 million in the six months ended June 30, 2017 and was $1 million in the three months and $2 million in the six months ended June 30, 2016. During our contract negotiations with customers, we also work with our customers to achieve earlier collection of receivables. The outstanding principal amount of receivables under these arrangements amounted to $38 million as of June 30, 2017 and $101 million as of December 31, 2016. The incremental cost of these arrangements was recorded in net revenue and was less than $1 million in the three months and $1 million in the six months ended June 30, 2017 and was $2 million in the three months and $3 million in the six months ended June 30, 2016.

New Accounting Pronouncements:

In May 2017, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to clarify when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The ASU is applied prospectively to awards that are modified on or after the adoption date. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact on our consolidated financial statements and do not anticipate a material impact to our consolidated financial statements.

In March 2017, the FASB issued an ASU to amend the amortization period for certain purchased callable debt securities held at a premium, shortening the period to the earliest call date instead of the maturity date. The standard does not impact securities held at a discount as the discount continues to be amortized to maturity. The ASU is applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. 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 and do not anticipate a material impact to our consolidated financial statements.

In March 2017, the FASB issued an ASU to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The standard requires employers to disaggregate the service cost component from the other components of net benefit cost and disclose the amount and location where the net benefit cost is recorded in the income statement or capitalized in assets. The standard is to be applied on a retrospective basis for the change in presentation in the income statement and prospectively for the change in presentation on the balance sheet. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact on our consolidated financial statements.

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In January 2017, the FASB issued an ASU that clarifies the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The definition of a business may affect many areas of accounting including acquisitions, disposals, goodwill and consolidation. The ASU is applied on a prospective basis and is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We continue to assess the ASU based on any pending or new transactions that may arise prior to the January 1, 2018 adoption date. At this time, we do not anticipate early adopting nor a material impact on our consolidated financial statements.

In November 2016, the FASB issued an ASU that requires the change in restricted cash or cash equivalents to be included with other changes in cash and cash equivalents in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We anticipate adopting this standard at the same time as the cash flow statement classification changes described below go into effect on January 1, 2018. We continue to assess the impact on our consolidated statement of cash flows.

In October 2016, the FASB issued an ASU that requires the recognition of tax consequences of intercompany asset transfers other than inventory when the transfer occurs and removes the exception to postpone recognition until the asset has been sold to an outside party. The standard is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We anticipate adopting on January 1, 2018 and do not expect the ASU to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued an ASU to provide guidance on eight specific cash flow classification issues and reduce diversity in practice in how some cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We anticipate adopting this standard on January 1, 2018. We continue to assess the impact on our consolidated statement of cash flows.

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 due diligence and assess the impact of the new standard across our operations and on our consolidated financial statements, which will consist primarily of recording lease 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. This ASU is not expected to have a significant impact on our consolidated financial statements.

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 early 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, with early adoption permitted as of the original effective date (annual reporting periods beginning after December 15, 2016). The ASU may be applied retrospectively to historical periods presented or as a cumulative-effect adjustment as of the date of adoption. We plan to adopt the new standard on January 1, 2018 on a full retrospective basis. We are finalizing reviews and working on implementing the process, policy and disclosure changes that will go into effect on January 1, 2018. At this time, we do not expect a material financial impact from adopting the new revenue standards.

Reclassifications:

Certain amounts previously reported have been reclassified to conform to current-year presentation. In connection with the October 1, 2016 segment change described above, see Notes 5, *Goodwill and Intangible Assets*; 6, *2014-2018 Restructuring Program;* and 15, *Segment Reporting* for information on related changes made to prior-period segment goodwill, net revenues and earnings aligned with the new segment structure. We also reclassified certain amounts previously reported within our condensed consolidated statements of cash flows, condensed consolidated statements of comprehensive earnings and Note 12, *Reclassifications from Accumulated Other Comprehensive Income,* to be consistent with the current-year presentation.

Note 2. Divestitures and Acquisitions

JDE Coffee Business Transactions:

On July 2, 2015, we completed transactions to combine our wholly owned coffee businesses with those of D.E Master Blenders 1753 B.V. (DEMB) to create a new company, Jacobs Douwe Egberts (JDE). Following the exchange of a portion of our investment in JDE for an interest in Keurig Green Mountain, Inc. (Keurig) in March 2016, we held a 26.5% equity interest in JDE. (See discussion under *Keurig Transaction* below.) The remaining 73.5% equity interest in JDE was held by a subsidiary of Acorn Holdings B.V. (AHBV, owner of DEMB prior to July 2, 2015). Following the transactions discussed under *JDE Stock-Based Compensation Arrangements* below, as of June 30, 2017, we hold a 26.5% voting interest, a 26.4% ownership interest and a 26.2% profit and dividend sharing interest in JDE. We recorded $19 million of JDE equity earnings for three months and $38 million for the six months ended June 30, 2017 and $45 million for the three months and $92 million for the six months ended June 30, 2016. We also recorded $49 million of cash dividends received during the first quarter of 2017.

JDE Stock-Based Compensation Arrangements:

On June 30, 2016, we entered into agreements with AHBV and its affiliates to establish a new stock-based compensation arrangement tied to the issuance of JDE equity compensation awards to JDE employees. This arrangement replaced a temporary equity compensation program tied to the issuance of AHBV equity compensation to JDE employees. New Class C, D and E JDE shares were authorized and issued for investments made by, and vested stock-based compensation awards granted to, JDE employees. Under these arrangements, share ownership dilution from the JDE Class C, D and E shareholders is limited to 2%. We retained our 26.5% voting rights and have a slightly lower portion of JDE s profits and dividends than our shareholder ownership interest as certain employee shareholders receive a slightly larger share. Upon execution of the agreements and the creation of the Class C, D and E JDE shares, as a percentage of the total JDE issued shares, our Class B shares decreased from 26.5% to 26.4% and AHBV s Class A shares decreased from 73.5% to 73.22%, while the Class C, D and E shares, held by AHBV and its affiliates until the JDE employee awards vest, comprised 0.38% of JDE s shares. Additional Class C shares are available to be issued when planned long-term incentive plan (JDE LTIP) awards vest, generally over the next five years. When the JDE Class C shares are issued in connection with the vested JDE LTIP awards, the Class A and B relative ownership interests will decrease. Based on estimated achievement and forfeiture assumptions, we do not expect our JDE ownership interest to decrease below 26.27%.

Keurig Transaction:

On March 3, 2016, a subsidiary of AHBV completed a $13.9 billion acquisition of all of the outstanding common stock of Keurig through a merger transaction. On March 7, 2016, we exchanged with a subsidiary of AHBV a portion of our equity interest in JDE with a carrying value of 1.7 billion (approximately $2.0 billion as of March 7, 2016) for an interest in Keurig with a fair value of $2.0 billion based on the merger consideration per share for Keurig. We recorded the difference between the fair value of Keurig and our basis in JDE shares as a $43 million gain on the equity method investment exchange in March 2016. Immediately following the exchange, our ownership interest in JDE was 26.5% and our interest in Keurig was 24.2%. Both AHBV and we hold our investments in Keurig through a combination of equity and interests in a shareholder loan, with pro-rata ownership of each. Our initial $2.0 billion investment in Keurig includes a $1.6 billion Keurig equity interest and a $0.4 billion shareholder loan receivable, which are reported on a combined basis within equity method investments on our condensed consolidated balance sheet as of June 30, 2017. The shareholder loan has a 5.5% interest rate and is payable at the end of a seven-year term on February 27, 2023. We recorded Keurig equity earnings, shareholder loan interest and dividends of $15 million, $6 million and $2 million during the three months and $29 million, $12 million and $6 million during the six months ended June 30, 2017. In 2016, we recorded Keurig equity earnings, shareholder loan interest and dividends of $21 million, $6 million and no dividends during the three months and $29 million, $8 million and $2 million during the four months ended June 30, 2016.

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Other Divestitures and Acquisitions:

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) and we expect to make a final working capital adjustment next quarter. We divested approximately $25 million of current assets, approximately $135 million of non-current assets and approximately $5 million of current liabilities based on the July 4, 2017 exchange rate.

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 net cash of approximately 157 million ($169 million as of April 28, 2017) at the transaction date, for proceeds net of cash in the businesses which transferred to the buyer. Sales price adjustments related to employee-related liabilities and working capital transferred at closing will be settled in the remainder of 2017. The sale was subject to E.U. and local regulatory approvals, completion of employee consultation requirements and additional steps to prepare the assets for transfer. During the fourth quarter of 2016, the buyer obtained anti-trust clearance in all markets where it was required and we received the Works Council approval. 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 euro-to-U.S. dollar exchange rate. We recorded a $3 million loss on the sale during the three months ended June 30, 2017. We also incurred divestiture-related costs of $3 million in the three months and $21 million in the six months ended June 30, 2017, and $84 million for the three and six months ended June 30, 2016. These costs were recorded within cost of sales and selling, general and administrative expenses of our Europe segment. In prior periods, we recorded a $5 million impairment charge in May 2016 for a candy trademark to reduce the overall net assets to the estimated net sales proceeds after transaction costs. On March 31, 2016, we recorded a $14 million impairment charge for another gum & candy trademark as a portion of its carrying value would not be recoverable based on future cash flows expected under a planned license agreement with the buyer.

On November 2, 2016, we purchased from Burton s Biscuit Company certain intangibles, which include the license to manufacture, market and sell Cadbury-branded biscuits in additional key markets around the world, including in the U.K., France, Ireland, North America and Saudi Arabia. The transaction was accounted for as a business combination. Total cash paid for the acquired assets was £199 million ($245 million as of November 2, 2016). We have recorded a preliminary purchase price allocation of $72 million to definite-lived intangible assets, $155 million to goodwill, $14 million to property, plant and equipment and $4 million to inventory, reflecting a November 2, 2016 exchange rate.

On May 2, 2016, we completed the sale of certain local biscuit brands in Finland as part of our strategic decisions to exit select small and local brands and shift investment towards our Power Brands. The sales price was 14 million ($16 million as of May 2, 2016) and we divested $8 million of indefinite-lived intangible assets and less than $1 million of other assets. We received cash proceeds of 12 million ($14 million as of May 2, 2016) upon closing and another 2 million ($2 million as of October 31, 2016) following the completion of post-closing requirements. The additional $2 million of consideration increased the pre-tax gain of $6 million recorded in the second quarter of 2016 to a total 2016 pre-tax gain of $8 million.

Sales of Property:

In the second quarter of 2016, we sold property within our North America segment and from our centrally held corporate assets. The North America sale generated cash proceeds of $40 million and a pre-tax gain of $33 million. The corporate aircraft sale generated cash proceeds of $20 million and a pre-tax gain of $6 million. The gains were recorded within selling, general and administrative expenses and cash proceeds were recorded in cash flows from other investing activities in the six months ended June 30, 2016.

Note 3. Inventories

Inventories consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	(in millions)	
Raw materials	$ 757	$ 722
Finished product	2,087	1,865
	2,844	2,587
Inventory reserves	(134)	(118)
Inventories, net	$ 2,710	$ 2,469

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Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	(in millions)	
Land and land improvements	$ 484	$ 471
Buildings and building improvements	2,946	2,801
Machinery and equipment	10,920	10,302
Construction in progress	1,027	1,113
	15,377	14,687
Accumulated depreciation	(6,933)	(6,458)
Property, plant and equipment, net	$ 8,444	$ 8,229

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. For the six months ended June 30, 2016, capital expenditures of $604 million excluded $222 million of accrued capital expenditures remaining unpaid at June 30, 2016 and included payment for $322 million of capital expenditures that were accrued and unpaid at December 31, 2015.

In connection with our restructuring program, we recorded non-cash asset write-downs (including accelerated depreciation and asset impairments) of $47 million in the three months and $118 million in the six months ended June 30, 2017 and $61 million in the three months and $113 million in the six months ended June 30, 2016 (see Note 6, *2014-2018 Restructuring Program*). These charges were recorded in the condensed consolidated statements of earnings within asset impairment and exit costs and in the segment results as follows:

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
	(in millions)			
Latin America	$ 6	$ 8	$ 12	$ 13
AMEA	30	12	42	21
Europe	4	17	42	38
North America	7	22	22	39
Corporate		2		2
Total non-cash asset write-downs	$ 47	$ 61	$ 118	$ 113

Note 5. Goodwill and Intangible Assets

Goodwill by segment reflects our current segment structure for both periods presented:

	As of June 30, 2017	As of December 31, 2016
	(in millions)	
Latin America	$ 925	$ 897
AMEA	3,413	3,324
Europe	7,667	7,170
North America	8,910	8,885
Goodwill	$ 20,915	$ 20,276

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Intangible assets consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	(in millions)	
Non-amortizable intangible assets	$ 17,465	$ 17,004
Amortizable intangible assets	2,389	2,315
	19,854	19,319
Accumulated amortization	(1,340)	(1,218)
Intangible assets, net	$ 18,514	$ 18,101

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. At June 30, 2017, the weighted-average life of our amortizable intangible assets was 13.6 years.

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, 2017 and June 30, 2016. For the next five years, we currently estimate annual amortization expense of approximately $175 million for the next four years and approximately $85 million in year five, reflecting June 30, 2017 exchange rates.

Changes in goodwill and intangible assets consisted of:

	Goodwill	Intangible Assets, at cost
	(in millions)	
Balance at January 1, 2017	$ 20,276	$ 19,319
Currency	651	634
Divestiture	(23)	(62)
Acquisition	12	
Asset impairment		(38)
Other	(1)	1
Balance at June 30, 2017	$ 20,915	$ 19,854

Changes to goodwill and intangibles were:

Divestiture During the second quarter of 2017, we divested several manufacturing facilities primarily in France and as a result of the divestiture, $23 million of goodwill and $62 million of amortizable and non-amortizable intangible assets. See Note 2, *Divestitures and Acquisitions*, for additional information.

Acquisition During the second quarter of 2017, we recorded a $12 million adjustment to goodwill in connection with our preliminary purchase price allocation for the Burton s Biscuit Company purchase completed in the fourth quarter of 2016. See Note 2, *Divestitures and Acquisitions*, for additional information.

Asset impairment During the second quarter of 2017, we recorded a $38 million intangible asset impairment charge resulting from a category decline and lower than expected product growth related to a gum trademark in our North America segment.

During our 2016 annual testing of non-amortizable intangible assets, we recorded $98 million of impairment charges in the fourth quarter of 2016 related to five trademarks recorded across all regions. We also noted nine brands, including the five impaired trademarks, with $630 million of aggregate book value as of December 31, 2016 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. 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 $2.9 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 $148 million in the three months and $305 million in the six months ended June 30, 2017 and $154 million in the three months and $293 million in the six months ended June 30, 2016 within asset impairment and exit costs. The 2014-2018 Restructuring Program liability activity for the six months ended June 30, 2017 was:

	Severance and related costs	Asset Write-downs (in millions)	Total
Liability balance, January 1, 2017	$ 464	$	$ 464
Charges	184	121	305
Cash spent	(162)		(162)
Non-cash settlements/adjustments	(5)	(121)	(126)
Currency	19		19
Liability balance, June 30, 2017	$ 500	$	$ 500

We spent $78 million in the three months and $162 million in the six months ended June 30, 2017 and $86 million in the three months and $160 million in the six months ended June 30, 2016 in cash severance and related costs. We also recognized non-cash pension settlement losses (See Note 9, *Benefit Plans)*, non-cash asset write-downs (including accelerated depreciation and asset impairments) and other non-cash adjustments totaling $54 million in the three months and $126 million in the six months ended June 30, 2017 and $72 million in the three months and $124 million in the six months ended June 30, 2016. At June 30, 2017, $435 million of our net restructuring liability was recorded within other current liabilities and $65 million was recorded within other long-term liabilities.

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 $63 million in the three months and $117 million in the six months ended June 30, 2017 and $74 million in the three months and $172 million in the six months ended June 30, 2016. We recorded these costs within cost of sales and general corporate expense within selling, general and administrative expenses.

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Restructuring and Implementation Costs in Operating Income:

During the three and six months ended June 30, 2017 and June 30, 2016, and since inception of the 2014-2018 Restructuring Program, we recorded restructuring and implementation costs within operating income by segment (as revised to reflect our current segment structure) as follows:

	Latin America	AMEA	Europe	North America (1)	Corporate (2)	Total
			(in millions)			
For the Three Months Ended June 30, 2017						
Restructuring Costs	$ 8	$ 48	$ 50	$ 33	$ 9	$ 148
Implementation Costs	10	10	19	13	11	63
Total	$ 18	$ 58	$ 69	$ 46	$ 20	$ 211
For the Six Months Ended June 30, 2017						
Restructuring Costs	$ 31	$ 73	$ 119	$ 72	$ 10	$ 305
Implementation Costs	20	20	31	25	21	117
Total	$ 51	$ 93	$ 150	$ 97	$ 31	$ 422
For the Three Months Ended June 30, 2016						
Restructuring Costs	$ 32	$ 34	$ 45	$ 36	$ 7	$ 154
Implementation Costs	12	10	3	35	14	74
Total	$ 44	$ 44	$ 48	$ 71	$ 21	$ 228
For the Six Months Ended June 30, 2016						
Restructuring Costs	$ 44	$ 63	$ 112	$ 68	$ 6	$ 293
Implementation Costs	19	18	33	72	30	172
Total	$ 63	$ 81	$ 145	$ 140	$ 36	$ 465
Total Project 2014-2017 (3)						
Restructuring Costs	$ 369	$ 382	$ 768	$ 425	$ 60	$ 2,004
Implementation Costs	128	104	235	221	199	887
Total	$ 497	$ 486	$ 1,003	$ 646	$ 259	$ 2,891

(1) During 2017 and 2016, our North America region implementation costs included incremental costs that we incurred related to re-negotiating collective bargaining agreements that expired at the end of February 2016 for eight U.S. facilities and related to executing business continuity plans for the North America business.
(2) Includes adjustment for rounding.
(3) Includes all charges recorded since program inception on May 6, 2014 through June 30, 2017.

Note 7. Debt and Borrowing Arrangements

Short-Term Borrowings:

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

	As of June 30, 2017		As of December 31, 2016	
	Amount Outstanding (in millions)	Weighted-Average Rate	Amount Outstanding (in millions)	Weighted-Average Rate
Commercial paper	$ 4,219	1.2%	$ 2,371	1.0%
Bank loans	594	6.9%	160	10.6%
Total short-term borrowings	$ 4,813		$ 2,531	

As of June 30, 2017, commercial paper issued and outstanding had between 3 and 89 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 quarter.

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Some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $2.2 billion at June 30, 2017 and $1.8 billion at December 31, 2016. Borrowings on these lines were $594 million at June 30, 2017 and $160 million at December 31, 2016. Short-term bank loans and cash and cash equivalents increased at the end of the second quarter as scheduled cash sweeps, which normally transfer cash between accounts to fund obligations, did not occur. As a result, temporary bank overdrafts resulted in the accounts scheduled to be funded and were recorded within short-term bank loans and funded in early July.

Borrowing Arrangements:

On March 1, 2017, 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 28, 2018. The agreement includes the same terms and conditions as our existing $4.5 billion multi-year credit facility discussed below. As of June 30, 2017, 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, 2017, we complied with this covenant as our shareholders equity, as defined by the covenant, was $35.9 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, 2017, no amounts were drawn on the facility.

Long-Term Debt:

On April 12, 2017, we discharged $488 million of our 6.500% U.S. dollar-denominated debt. We paid $504 million, representing principal as well as past and future interest accruals from February 2017 through the August 2017 maturity date. We recorded an $11 million loss on debt extinguishment within interest expense and a $5 million reduction in accrued interest.

On March 30, 2017, *fr.*175 million of our 0.000% Swiss franc-denominated notes matured. The notes and accrued interest to date were paid with net proceeds from the *fr.*350 million Swiss franc-denominated notes issued on March 13, 2017.

On March 13, 2017, we launched an offering of *fr.*350 million of Swiss franc-denominated notes, or $349 million in U.S. dollars as of March 31, 2017, consisting of:

- *fr.*225 million (or $224 million) of 0.050% fixed rate notes that mature on March 30, 2020
- *fr.*125 million (or $125 million) of 0.617% fixed rate notes that mature on September 30, 2024

On March 30, 2017, we received net proceeds of *fr.*349 million (or $349 million) that were used for general corporate purposes.

On January 26, 2017, 750 million of our 1.125% euro-denominated 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 2.1% as of June 30, 2017 and 2.2% as of December 31, 2016, down from 3.7% as of December 31, 2015.

Fair Value of Our Debt:

The fair value of our short-term borrowings at June 30, 2017 and December 31, 2016 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, 2017, the aggregate fair value of our total debt was $19,477 million and its carrying value was $18,781 million. At December 31, 2016, the aggregate fair value of our total debt was $17,882 million and its carrying value was $17,199 million.

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Interest and Other Expense, net:

Interest and other expense, net within our results of continuing operations consisted of:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Interest expense, debt	$ 103	$ 135	$ 206	$ 271
Loss on debt extinguishment	11		11	
Loss related to interest rate swaps				97
Other expense, net	10	16	26	27
Interest and other expense, net	$ 124	$ 151	$ 243	$ 395

See Note 8, *Financial Instruments*, for information on the loss related to U.S. dollar interest rate swaps no longer designated as accounting cash flow hedges during the first quarter of 2016.

Note 8. Financial Instruments

Fair Value of Derivative Instruments:

Derivative instruments were recorded at fair value in the condensed consolidated balance sheets as follows:

	As of June 30, 2017		As of December 31, 2016	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
	(in millions)			
Derivatives designated as accounting hedges:				
Currency exchange contracts	$ 2	$ 1	$ 19	$ 8
Commodity contracts	1	9	17	22
Interest rate contracts	22	246	108	19
	$ 25	$ 256	$ 144	$ 49
Derivatives not designated as accounting hedges:				
Currency exchange contracts	$ 51	$ 49	$ 29	$ 43
Commodity contracts	57	234	112	167
Interest rate contracts	22	15	27	19

	$	130	$	298	$	168	$	229
Total fair value	$	155	$	554	$	312	$	278

Derivatives designated as accounting hedges include cash flow and fair value hedges and derivatives not designated as accounting hedges include economic hedges. Non-U.S. dollar denominated debt, designated as a hedge of our net investments in non-U.S. operations, is not reflected in the table above, but is included in long-term debt summarized in Note 7, *Debt and Borrowing Arrangements*. We record derivative assets and liabilities on a gross basis on our condensed consolidated balance sheets. The fair value of our asset derivatives is recorded within other current assets and the fair value of our liability derivatives is recorded within other current liabilities.

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The fair values (asset/(liability)) of our derivative instruments were determined using:

	As of June 30, 2017			
	Total Fair Value of Net Asset/(Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Currency exchange contracts	$ 3	$	$ 3	$
Commodity contracts	(185)	(175)	(10)	
Interest rate contracts	(217)		(217)	
Total derivatives	$ (399)	$ (175)	$ (224)	$

	As of December 31, 2016			
	Total Fair Value of Net Asset/(Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Currency exchange contracts	$ (3)	$	$ (3)	$
Commodity contracts	(60)	(86)	26	
Interest rate contracts	97		97	
Total derivatives	$ 34	$ (86)	$ 120	$

Level 1 financial assets and liabilities consist of exchange-traded commodity futures and listed options. The fair value of these instruments is determined based on quoted market prices on commodity exchanges. Our exchange-traded derivatives are generally subject to master netting arrangements that permit net settlement of transactions with the same counterparty when certain criteria are met, such as in the event of default. We also are required to maintain cash margin accounts in connection with funding the settlement of our open positions, and the margin requirements generally fluctuate daily based on market conditions. We have recorded margin deposits related to our exchange-traded derivatives of $270 million as of June 30, 2017 and $133 million as of December 31, 2016 within other current assets. Based on our net asset or liability positions with individual counterparties, in the event of default and immediate net settlement of all of our open positions, for derivatives we have in a net asset position, our counterparties would owe us a total of $95 million as of June 30, 2017 and $48 million as of December 31, 2016. As of June 30, 2017, we have no derivatives in a net liability position, and as of December 31, 2016 we would have owed

$2 million for derivatives we have in a net liability position.

Level 2 financial assets and liabilities consist primarily of over-the-counter (OTC) currency exchange forwards, options and swaps; commodity forwards and options; and interest rate swaps. Our currency exchange contracts are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Commodity derivatives are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount or based on pricing models that rely on market observable inputs such as commodity prices. Our calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the observable market interest rate curve. Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk. Our OTC derivative transactions are governed by International Swap Dealers Association agreements and other standard industry contracts. Under these agreements, we do not post nor require collateral from our counterparties. The majority of our commodity and currency exchange OTC derivatives do not have a legal right of set-off. In connection with our OTC derivatives that could be net-settled in the event of default, assuming all parties were to fail to comply with the terms of the agreements, for derivatives we have in a net liability position, we would owe $257 million as of June 30, 2017 and $40 million as of December 31, 2016, and for derivatives we have in a net asset position, our counterparties would owe us a total of $30 million as of June 30, 2017 and $162 million as of December 31, 2016. We manage the credit risk in connection with these and all our derivatives by entering into transactions with counterparties with investment grade credit ratings, limiting the amount of exposure with each counterparty and monitoring the financial condition of our counterparties.

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Derivative Volume:

The net notional values of our derivative instruments were:

	Notional Amount	
	As of June 30, 2017	As of December 31, 2016
	(in millions)	
Currency exchange contracts:		
Intercompany loans and forecasted interest payments	$ 2,992	$ 3,343
Forecasted transactions	1,432	1,452
Commodity contracts	1,174	837
Interest rate contracts	6,480	6,365
Net investment hedge euro notes	3,844	4,012
Net investment hedge pound sterling notes	442	419
Net investment hedge Swiss franc notes	1,723	1,447

Cash Flow Hedges:

Cash flow hedge activity, net of taxes, within accumulated other comprehensive earnings/(losses) included:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Accumulated (loss)/gain at January 1	$ (103)	$ (53)	$ (121)	$ (45)
Transfer of realized (gains)/losses in fair value to earnings	(4)	8	3	66
Unrealized gain/(loss) in fair value	16	9	27	(57)
Accumulated (loss)/gain at June 30	$ (91)	$ (36)	$ (91)	$ (36)

After-tax gains/(losses) reclassified from accumulated other comprehensive earnings/(losses) into net earnings were:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			

Currency exchange contracts forecasted transactions	$	1	$	(2)	$	1	$	3
Commodity contracts		3		(6)		(4)		(9)
Interest rate contracts								(60)
Total	$	4	$	(8)	$	(3)	$	(66)

After-tax gains/(losses) recognized in other comprehensive earnings/(losses) were:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017		2016		2017		2016	
	(in millions)							
Currency exchange contracts forecasted transactions	$	(14)	$	2	$	(26)	$	(10)
Commodity contracts		6		14		6		9
Interest rate contracts		24		(7)		47		(56)
Total	$	16	$	9	$	27	$	(57)

Cash flow hedge ineffectiveness was not material for all periods presented.

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Within interest and other expense, net, we recorded pre-tax losses of $97 million in the first quarter of 2016 related to amounts excluded from effectiveness testing. This amount relates to interest rate swaps no longer designated as cash flow hedges due to changes in financing plans. Due to lower overall costs and our decision to hedge a greater portion of our net investments in operations that use currencies other than the U.S. dollar as their functional currencies, we changed our plans to issue U.S. dollar-denominated debt and instead issued euro and Swiss franc-denominated notes in the first quarter of 2016. Amounts excluded from effectiveness testing were not material for all periods presented.

We record pre-tax and after-tax (i) gains or losses reclassified from accumulated other comprehensive earnings/(losses) into earnings, (ii) gains or losses on ineffectiveness and (iii) gains or losses on amounts excluded from effectiveness testing in:

- cost of sales for commodity contracts;
- cost of sales for currency exchange contracts related to forecasted transactions; and
- interest and other expense, net for interest rate contracts and currency exchange contracts related to intercompany loans.

Based on current market conditions, we would expect to transfer losses of $20 million (net of taxes) for commodity cash flow hedges, unrealized gains of $1 million (net of taxes) for currency cash flow hedges and unrealized losses of $1 million (net of taxes) for interest rate cash flow hedges to earnings during the next 12 months.

Cash Flow Hedge Coverage:

As of June 30, 2017, we hedged transactions forecasted to impact cash flows over the following periods:

- commodity transactions for periods not exceeding the next 6 months;
- interest rate transactions for periods not exceeding the next 6 years and 4 months; and
- currency exchange transactions for periods not exceeding the next 6 months.

Fair Value Hedges:

Pre-tax gains/(losses) due to changes in fair value of our interest rate swaps and related hedged long-term debt were recorded in interest and other expense, net:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
	(in millions)			
Derivatives	$ 1	$ 4	$ (2)	$ 9
Borrowings	(1)	(4)	2	(9)

Fair value hedge ineffectiveness and amounts excluded from effectiveness testing were not material for all periods presented.

Economic Hedges:

Pre-tax gains/(losses) recorded in net earnings for economic hedges were:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		Location of Gain/(Loss) Recognized
	2017	2016	2017	2016	in Earnings
	(in millions)				
Currency exchange contracts:					
Intercompany loans and forecasted interest payments	$ 3	$ 6	$ 5	$ 11	Interest and other expense, net
Forecasted transactions	18	(46)	2	(77)	Cost of sales
Forecasted transactions	1		(2)	8	Interest and other expense, net
Forecasted transactions	2	8	2	12	Selling, general and administrative expenses
Commodity contracts	(97)	31	(160)	(13)	Cost of sales
Total	$ (73)	$ (1)	$ (153)	$ (59)	

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Hedges of Net Investments in International Operations:

After-tax gains/(losses) related to hedges of net investments in international operations in the form of euro, pound sterling and Swiss franc-denominated debt were:

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016	Location of Gain/(Loss) Recognized in AOCI
	(in millions)				
Euro notes	$ (168)	$ 82	$ (196)	$ (72)	Currency
Pound sterling notes	(10)	63	(15)	86	Translation
Swiss franc notes	(49)	14	(64)	(29)	Adjustment

Note 9. Benefit Plans

Pension Plans

Components of Net Periodic Pension Cost:

Net periodic pension cost consisted of the following:

	U.S. Plans For the Three Months Ended June 30, 2017	U.S. Plans For the Three Months Ended June 30, 2016	Non-U.S. Plans For the Three Months Ended June 30, 2017	Non-U.S. Plans For the Three Months Ended June 30, 2016
	(in millions)			
Service cost	$ 10	$ 14	$ 38	$ 39
Interest cost	16	15	49	62
Expected return on plan assets	(25)	(24)	(108)	(111)
Amortization:				
Net loss from experience differences	9	9	40	31
Prior service cost/(credit)		1		(1)
Settlement losses/(gains) and other expenses	18	12	1	(1)
Net periodic pension cost	$ 28	$ 27	$ 20	$ 19

	U.S. Plans For the Six Months Ended June 30, 2017	U.S. Plans For the Six Months Ended June 30, 2016	Non-U.S. Plans For the Six Months Ended June 30, 2017	Non-U.S. Plans For the Six Months Ended June 30, 2016
	(in millions)			
Service cost	$ 22	$ 27	$ 77	$ 77

Interest cost		31		31		97		122
Expected return on plan assets		(50)		(48)		(212)		(221)
Amortization:								
Net loss from experience differences		17		18		81		62
Prior service cost/(credit)		1		1		(1)		(2)
Settlement losses/(gains) and other expenses		21		16		2		(1)
Net periodic pension cost	$	42	$	45	$	44	$	37

Within settlement losses/(gains) and other expenses are losses of $11 million for the three and six months ended June 30, 2017 and $9 million for the three and six months ended June 30, 2016, that are related to our 2014-2018 Restructuring Program and are recorded within asset impairment and exit costs on our condensed consolidated statements of earnings.

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Employer Contributions:

During the six months ended June 30, 2017, we contributed $9 million to our U.S. pension plans and $369 million to our non-U.S. pension plans. The non-U.S. amount included a non-recurring $250 million contribution made in connection with a new funding agreement for a Company plan in the U.K. We make contributions to our pension plans in accordance with local funding arrangements and statutory minimum funding requirements. Discretionary contributions are made to the extent that they are tax deductible and do not generate an excise tax liability.

As of June 30, 2017, we plan to make further contributions of approximately $4 million to our U.S. plans and approximately $86 million to our non-U.S. plans during the remainder of 2017. Our actual contributions may be different due to many factors, including changes in tax and other benefit laws, significant differences between expected and actual pension asset performance or interest rates.

Postretirement Benefit Plans

Net periodic postretirement health care costs consisted of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Service cost	$ 2	$ 3	$ 4	$ 6
Interest cost	3	5	7	10
Amortization:				
Net loss from experience differences	4	1	7	3
Prior service credit (1)	(10)	(1)	(20)	(3)
Net periodic postretirement health care costs	$ (1)	$ 8	$ (2)	$ 16

(1) For the three and six months ended June 30, 2017, amortization of prior service credit includes an $8 million and $16 million gain respectively, related to a change in the eligibility requirement and a change in benefits to Medicare-eligible participants.

Postemployment Benefit Plans

Net periodic postemployment costs consisted of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			

Service cost	$ 2	$ 1	$ 3	$ 3
Interest cost	1	2	2	3
Amortization of net gains	(1)		(2)	
Net periodic postemployment costs	$ 2	$ 3	$ 3	$ 6

Note 10. Stock Plans

Stock Options:

Stock option activity is reflected below:

	Shares Subject to Option	Weighted-Average Exercise or Grant Price Per Share	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at January 1, 2017	53,601,612	$ 28.02	6 years	$ 874 million
Annual grant to eligible employees	6,012,140	43.20		
Additional options issued	26,600	44.30		
Total options granted	6,038,740	43.20		
Options exercised [(1)]	(6,099,149)	27.38		$ 109 million
Options cancelled	(1,270,978)	38.80		
Balance at June 30, 2017	52,270,225	29.59	6 years	$ 711 million

(1) Cash received from options exercised was $113 million in the three months and $170 million in the six months ended June 30, 2017. The actual tax benefit realized and recorded in the provision for income taxes for the tax deductions from the option exercises totaled $10 million in the three months and $18 million in the six months ended June 30, 2017.

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Performance Share Units and Other Stock-Based Awards:

Our performance share unit, deferred stock unit and historically granted restricted stock activity is reflected below: