Mondelez International, Inc.
Form 10-Q
October 29, 2015
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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 September 30, 2015

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)

(847) 943-4000

(Registrant s telephone number, including area code)

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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 October 23, 2015, there were 1,589,167,484 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 September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
Net revenues	$ 6,849	$ 8,337	$ 22,272	$ 25,414
Cost of sales	4,179	5,195	13,595	15,963
Gross profit	2,670	3,142	8,677	9,451
Selling, general and administrative expenses	1,790	2,053	5,675	6,356
Asset impairment and exit costs	155	188	546	285
Gains on coffee business transactions and divestiture	(7,122)		(7,135)	
Amortization of intangibles	45	48	137	157
Operating income	7,802	853	9,454	2,653
Interest and other expense / (income)	114	(227)	814	717
Earnings before income taxes	7,688	1,080	8,640	1,936
Provision for income taxes	348	178	561	242
Equity method investment net losses	72		72	
Net earnings	7,268	902	8,007	1,694
Noncontrolling interest	2	3	11	10
Net earnings attributable to Mondelēz International	$ 7,266	$ 899	$ 7,996	$ 1,684
Per share data:				
Basic earnings per share attributable to Mondelēz International	$ 4.52	$ 0.53	$ 4.91	$ 0.99
	$ 4.46	$ 0.53	$ 4.86	$ 0.98

Diluted earnings per share attributable to Mondelēz International								
Dividends declared	$	0.17	$	0.15	$	0.47	$	0.43

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 September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net earnings	$ 7,268	$ 902	$ 8,007	$ 1,694
Other comprehensive earnings / (losses):				
Currency translation adjustment:				
Translation adjustment	(1,047)	(1,755)	(2,371)	(1,615)
Tax (expense) / benefit	(23)	(147)	(111)	(150)
Pension and other benefits:				
Net actuarial gain / (loss) arising during period	127	16	99	16
Reclassification of (gains) / losses into net earnings:				
Amortization of experience losses and prior service costs	46	31	165	100
Settlement losses	51	9	64	25
Tax (expense) / benefit	(68)	(26)	(99)	(47)
Derivatives accounted for as hedges:				
Net derivative gains / (losses)	(113)	34	(103)	(78)
Reclassification of (gains) / losses into net earnings	75	(18)	27	(22)
Tax (expense) / benefit	29	14	16	57
Total other comprehensive earnings / (losses)	(923)	(1,842)	(2,313)	(1,714)
Comprehensive earnings / (losses)	6,345	(940)	5,694	(20)
less: Comprehensive earnings / (losses) attributable to noncontrolling interests	(4)	(15)	(11)	(9)
Comprehensive earnings / (losses) attributable to Mondelēz International	$ 6,349	$ (925)	$ 5,705	$ (11)

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)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 2,039	$ 1,631
Trade receivables (net of allowances of $61 at September 30, 2015 and $66 at December 31, 2014)	3,352	3,802
Other receivables (net of allowances of $91 at September 30, 2015 and $91 at December 31, 2014)	2,566	949
Inventories, net	3,029	3,480
Deferred income taxes	550	480
Other current assets	638	1,408
Total current assets	12,174	11,750
Property, plant and equipment, net	8,564	9,827
Goodwill	20,963	23,389
Intangible assets, net	19,115	20,335
Prepaid pension assets	42	53
Equity method investments	4,895	662
Other assets	637	799
TOTAL ASSETS	$ 66,390	$ 66,815
LIABILITIES		
Short-term borrowings	$ 1,571	$ 1,305
Current portion of long-term debt	1,759	1,530
Accounts payable	4,875	5,299
Accrued marketing	1,563	2,047
Accrued employment costs	932	946
Other current liabilities	2,937	2,880
Total current liabilities	13,637	14,007
Long-term debt	13,029	13,865
Deferred income taxes	5,137	5,512
Accrued pension costs	2,132	2,912
Accrued postretirement health care costs	541	526

Other liabilities		1,962		2,140
TOTAL LIABILITIES		36,438		38,962
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 September 30, 2015 and December 31, 2014)				
Additional paid-in capital		31,727		31,651
Retained earnings		21,707		14,529
Accumulated other comprehensive losses		(9,609)		(7,318)
Treasury stock, at cost (405,346,755 shares at September 30, 2015 and 332,896,779 shares at December 31, 2014)		(13,957)		(11,112)
Total Mondelēz International Shareholders Equity		29,868		27,750
Noncontrolling interest		84		103
TOTAL EQUITY		29,952		27,853
TOTAL LIABILITIES AND EQUITY	$	66,390	$	66,815

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*	Total Equity
Balances at January 1, 2014	$	$ 31,396	$ 13,419	$ (2,889)	$ (9,553)	$ 159	$ 32,532
Comprehensive earnings / (losses):							
Net earnings			2,184			17	2,201
Other comprehensive losses, net of income taxes				(4,429)		(33)	(4,462)
Exercise of stock options and issuance of other stock awards		271	(98)		332		505
Common Stock repurchased					(1,891)		(1,891)
Cash dividends declared ($0.58 per share)			(976)				(976)
Dividends paid on noncontrolling interest and other activities		(16)				(40)	(56)
Balances at December 31, 2014	$	$ 31,651	$ 14,529	$ (7,318)	$ (11,112)	$ 103	$ 27,853
Comprehensive earnings / (losses):							
Net earnings			7,996			11	8,007
Other comprehensive losses, net of income taxes				(2,291)		(22)	(2,313)
Exercise of stock options and issuance of other stock awards		76	(60)		239		255
Common Stock repurchased					(3,084)		(3,084)
Cash dividends declared ($0.47 per share)			(758)				(758)
Dividends paid on noncontrolling interest and other activities						(8)	(8)
Balances at September 30, 2015	$	$ 31,727	$ 21,707	$ (9,609)	$ (13,957)	$ 84	$ 29,952

* Noncontrolling interest as of September 30, 2014 was $112 million, as compared to $159 million as of January 1, 2014. The change of $(47) million during the nine months ended September 30, 2014 was due to $(38) million of dividends paid, $10 million of net earnings and $(19) million of other comprehensive losses, net of taxes.

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 Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 8,007	$ 1,694
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	663	797
Stock-based compensation expense	98	104
Deferred income tax benefit	(81)	(255)
Asset impairments	195	77
Loss on early extinguishment of debt	708	493
Gains on coffee business transactions and divestiture	(7,135)	
Coffee business transactions currency-related net gains	(436)	(413)
Loss/(income) from equity method investments	16	(83)
Distributions from equity method investments	58	61
Other non-cash items, net	142	(6)
Change in assets and liabilities, net of acquisition and divestitures:		
Receivables, net	(868)	(163)
Inventories, net	(314)	(625)
Accounts payable	496	19
Other current assets	36	(106)
Other current liabilities	11	(430)
Change in pension and postretirement assets and liabilities, net	(184)	(15)
Net cash provided by operating activities	1,412	1,149
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(1,178)	(1,129)
Proceeds from coffee business transactions and divestiture, net of disbursements	4,091	
Proceeds from coffee business transactions currency hedge settlements	1,050	
Acquisitions, net of cash received	(536)	
Proceeds from sale of property, plant and equipment and other	33	29
Net cash provided by / (used in) investing activities	3,460	(1,100)
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES		

Issuances of commercial paper, maturities greater than 90 days	613	1,986
Repayments of commercial paper, maturities greater than 90 days	(710)	(2,072)
Net issuances of other short-term borrowings	396	236
Long-term debt proceeds	3,606	3,032
Long-term debt repaid	(4,543)	(2,524)
Repurchase of Common Stock	(3,003)	(1,020)
Dividends paid	(736)	(713)
Other	107	163
Net cash used in financing activities	(4,270)	(912)
Effect of exchange rate changes on cash and cash equivalents	(194)	(140)
Cash and cash equivalents:		
Increase / (decrease)	408	(1,003)
Balance at beginning of period	1,631	2,622
Balance at end of period	$ 2,039	$ 1,619

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

The condensed consolidated financial statements include Mondelēz International, Inc. as well as our wholly owned and majority owned subsidiaries.

Our interim condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in 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 financial position and operating results. Net revenues and net earnings for any interim period are not necessarily indicative of future or annual results.

We derived the condensed consolidated balance sheet data as of December 31, 2014 from audited financial statements, but we do not include all disclosures required by U.S. GAAP. You should read these statements in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2014.

Equity Method Investments:

We account for investments in which we exercise significant influence (20%-50% ownership interest) under the equity method of accounting. On July 2, 2015, we contributed our global coffee businesses to a new company, Jacobs Douwe Egberts (JDE), in which we now hold a 43.5% equity interest (collectively, the coffee business transactions). Historically, our coffee businesses and the income from primarily coffee-related and smaller equity method investments were recorded within our operating income as these businesses operated as direct extensions of our base business. Following the coffee business transactions, while we retain an ongoing interest in coffee through significant equity method investments, and we have significant influence with JDE and other equity method investments, we do not have control over these operations directly. As such, beginning in the third quarter, we began to recognize the investment earnings in after-tax equity method investment earnings outside of operating income and segment income. For periods prior to the July 2, 2015 closing, the coffee and other equity method investment earnings were included within our operating income and segment income. Please see Note 2, *Divestitures and Acquisitions Coffee Business Transactions*, and Note 15, *Segment Reporting*, for more information on these transactions.

Accounting Calendar Change:

In connection with moving toward a common consolidation date across the Company, in the first quarter of 2015, we changed the consolidation date for our North America segment from the last Saturday of each period to the last calendar day of each period. The change had a favorable impact of $19 million on net revenues and $8 million on operating income in the three months and $58 million on net revenues and $27 million on operating income in the nine months ended September 30, 2015.

As a result of this change, each of our operating subsidiaries now reports results as of the last calendar day of the period. We believe the change will improve business planning and financial reporting by better matching the close dates of the operating subsidiaries and bringing the reporting dates to the period-end date. As the effect to prior-period results was not material, we have not revised prior-period results.

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 (except for highly inflationary currencies such as in Venezuela) and realized exchange gains and losses on transactions in earnings.

Venezuela. As prescribed by U.S. GAAP for highly inflationary economies, we have been accounting for the results of our Venezuelan subsidiaries using the U.S. dollar as the functional currency since January 1, 2010.

On February 8, 2013, the Venezuelan government announced the devaluation of the official Venezuelan bolivar exchange rate from 4.30 bolivars to 6.30 bolivars to the U.S. dollar. The official rate of 6.30 is the rate applied to import food and other essential items, and we purchase a material portion of our imported raw materials using U.S. dollars secured at this rate.

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On January 24, 2014, the Venezuelan government announced the expansion of a new auction-based currency transaction program, which became known as SICAD I, and new profit margin controls. The application of the SICAD I rate was extended to include foreign investments and significant operating activities, including contracts for leasing and services, use and exploitation of patents and trademarks, payments of royalties and contracts for technology import and technical assistance. On March 24, 2014, the Venezuelan government launched a new market-based currency exchange market, SICAD II, and at that time indicated that it may be used voluntarily to exchange bolivars into U.S. dollars.

As of March 31, 2014, we began to apply the SICAD I exchange rate to remeasure our bolivar-denominated net monetary assets, and we began translating our Venezuelan operating results at the SICAD I rate in the second quarter of 2014. On March 31, 2014, we recognized a $142 million currency remeasurement loss within selling, general and administrative expenses of our Latin America segment as a result of revaluing our bolivar-denominated net monetary assets from the official exchange rate of 6.30 bolivars to the U.S. dollar to the then-prevailing SICAD I exchange rate of 10.70 bolivars to the U.S. dollar. Through September 30, 2014, we recognized $19 million of additional remeasurement charges related primarily to changes in the SICAD I rate.

On February 10, 2015, the Venezuelan government combined the SICAD I and SICAD II (SICAD) exchange rate mechanisms and in addition created a new market-based SIMADI rate, while retaining the 6.30 official rate for food and other essentials. The Venezuelan government also announced an opening SICAD auction rate of 12.00 bolivars to the U.S. dollar, which as of September 30, 2015 is the prevailing SICAD rate until our specific industry group auctions make U.S. dollars available at another offered SICAD rate. The SIMADI rate was designed as a free market exchange rate that makes U.S. dollars available for any transactions based on the available supply of U.S. dollars at the offered rate. As of September 30, 2015, the SIMADI exchange rate was 199.42 bolivars to the U.S. dollar.

Our Venezuelan operations produce a range of biscuit, cheese & grocery, confectionery and beverage products. Based on the currency exchange developments this year, we reviewed our domestic and international sourcing of goods and services and the exchange rates we believe will be applicable. The large majority of imports continue to be sourced at the 6.30 official rate. Availability of U.S. dollars at the SICAD rate has been limited, and while we were able to secure U.S. dollars at the SICAD rate in the first six months of the year, we were not able to secure any U.S. dollars at this rate during the third quarter. Availability of U.S. dollars at the SIMADI rate has also been limited and to date we have not sourced U.S. dollars at this rate.

Based on our current sourcing of goods and services, we believe the SICAD rate continues to be the most economically representative rate for us to use to value our net monetary assets and translate our operating results in Venezuela. In light of the ongoing difficult macroeconomic environment in Venezuela, we continue to monitor and actively manage our investment and exposures in Venezuela. We plan to continue to do business in the country as long as we can successfully operate our business there. We strive to locally source and produce a significant amount of the products we sell in Venezuela. We have taken other protective measures against currency devaluation, such as converting monetary assets into non-monetary assets that we can use in our business. However, suitable protective measures have become less available and more expensive and may not offset further currency devaluation that could occur. We will also continue to monitor liquidity and availability of U.S. dollars at different rates as this situation may change in the future.

In the first quarter of 2015, we recognized an $11 million remeasurement loss, reflecting an increase in the SICAD exchange rate from 11.50 to 12.00 bolivars to the U.S. dollar.

The following table sets forth net revenues for our Venezuelan operations for the three and nine months ended September 30, 2015 (measured at the SICAD rate), and cash, net monetary assets and net assets of our Venezuelan subsidiaries as of September 30, 2015 (translated at a SICAD rate of 12.00 bolivars to the U.S. dollar):

Venezuela operations	**Three Months Ended September 30, 2015**
Net revenues	$315 million or 4.6% of consolidated net revenues
	Nine Months Ended September 30, 2015
Net revenues	$834 million or 3.7% of consolidated net revenues
	As of September 30, 2015
Cash	$401 million
Net monetary assets	$352 million
Net assets	$617 million

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Unlike the official rate that is fixed at 6.30 bolivars to the U.S. dollar, the SICAD rate can vary over time. If any of the three-tier currency exchange rates, or the application of the rates to our business, were to change, we would recognize additional currency losses or gains, which could be significant.

Argentina. On January 23, 2014, the Central Bank of Argentina adjusted its currency policy, removed its currency stabilization measures and allowed the Argentine peso exchange rate to float relative to other currencies. On that day, the value of the Argentine peso relative to the U.S. dollar fell by 15%. In July 2014, Argentina had a technical default on its debt as the government was blocked from making payments on its restructured debt by certain creditors who did not participate in a debt restructuring in 2001. Further volatility in the exchange rate is expected. Since December 31, 2014 and through September 30, 2015, the value of the peso relative to the U.S. dollar declined 11%. While the business operating environment remains challenging, we continue to monitor and actively manage our investment and exposures in Argentina. We continue refining our product portfolio to improve our product offerings, mix and profitability. We also continue to implement additional cost initiatives to protect the business. Further currency declines, economic controls or other business restrictions could have an adverse impact on our ongoing results of operations. Our Argentinian operations contributed approximately $205 million, or 3.0% of consolidated net revenues for the three months and $565 million, or 2.5% of consolidated net revenues for the nine months ended September 30, 2015. As of September 30, 2015, the net monetary liabilities of our Argentina operations were not material. Argentina is not designated as a highly-inflationary economy for accounting purposes, so we record currency translation adjustments within equity and realized exchange gains and losses on transactions in earnings.

Russia. During the fourth quarter of 2014, the value of the Russian ruble relative to the U.S. dollar declined 50%. Since December 31, 2014 and through September 30, 2015, the value of the ruble relative to the U.S. dollar decreased 11%. Due to the significant currency movements, we continue to take actions to protect our near-term operating results, financial condition and cash flow. Our operations in Russia contributed approximately $145 million, or 2.1% of consolidated net revenues for the three months and $525 million, or 2.4% of consolidated net revenues for the nine months ended September 30, 2015. As of September 30, 2015, the net monetary assets of our Russia operations were not material. Russia is not designated as a highly-inflationary economy for accounting purposes, so we record currency translation adjustments within equity and realized exchange gains and losses on transactions in earnings.

Other Countries. Since we have operations in over 80 countries and sell in approximately 165 countries, we regularly 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 had significant economic uncertainty recently. These include Brazil, Ukraine, Turkey and Nigeria, most of which have had either currency devaluation or volatility. We continue to monitor operations, currencies and net monetary exposures in these countries. At this time, we do not have material net monetary asset exposures or risk to our operating results from changing to highly inflationary accounting in these countries.

New Accounting Pronouncements:

In September 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under the new guidance, measurement-period adjustments should be accounted for during the period in which the entity determines the amount of the adjustment. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted, and should be applied prospectively to open measurement periods after the effective date, regardless of the acquisition date. We plan to early adopt and to apply the standard in our accounting for the acquisitions that we closed this quarter. See Note 2, *Divestitures and Acquisitions*, for more information.

In July 2015, the FASB issued an ASU that simplifies the guidance on the subsequent measurement of inventory. U.S. GAAP currently requires an entity to measure inventory at the lower of cost or market. Previously, market could be replacement cost, net realizable value or net realizable value less an approximate normal profit margin. Under the new standard, inventory should be valued at the lower of cost or net realizable value. The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We are currently assessing the impact of the ASU across our operations and on our consolidated financial statements.

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In May 2015, the FASB issued an ASU that applies to reporting entities that elect to measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) practical expedient. This ASU removes the requirement to include investments measured using the practical expedient within fair value hierarchy disclosures. Also, practical expedient disclosures previously required for all eligible investments are now only required for investments for which the practical expedient has been elected. The update is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. As we measure certain defined benefit plan assets using the NAV practical expedient, we plan to adopt the new standard on or by the January 1, 2016 effective date. The new standard will impact our disclosures as discussed above but is not otherwise expected to have an impact on our consolidated financial statements.

In April 2015, the FASB issued an ASU that provides guidance on evaluating whether a cloud computing arrangement includes a software license. If there is a software license component, software licensing accounting should be applied; otherwise, service contract accounting should be applied. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We are currently assessing the impact on our consolidated financial statements.

In April 2015, the FASB issued an ASU that simplifies the presentation of debt issuance costs. The standard requires debt issuance costs related to a recognized debt obligation to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt instead of being presented as an asset, similar to the presentation of debt discounts. In August 2015, the FASB issued an update clarifying that for line-of-credit arrangements, entities may continue to defer debt issuance costs as an asset. The ASU represents a change in accounting principle and requires retrospective application. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We plan to adopt the new standard as of December 31, 2015.

In February 2015, the FASB issued an ASU that amends current consolidation guidance related to the evaluation of whether certain legal entities should be consolidated. The standard modifies both the variable interest entity (VIE) model and the voting interest model, including analyses of whether limited partnerships are VIEs and the impact of service fees and related party interests in determining if an entity is a VIE to the reporting entity. The guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We plan to adopt the new standard on January 1, 2016 and are currently assessing the impact across our operations and on our consolidated financial statements.

In May 2014, the FASB issued an ASU on revenue recognition from contracts with customers. The new 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 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 May 2015, the FASB proposed changes to the new guidance in the areas of licenses and identifying performance obligations. In August 2015, the FASB issued an ASU that defers the effective date by one year to annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date which was for 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 continue to assess the impact of the new standard across our operations and on our consolidated financial statements.

Reclassifications:

Certain amounts previously reported have been reclassified to conform to current-year presentation. We reclassified equity method investments on the condensed consolidated balance sheets to conform with the current-year presentation. We also reclassified cash flows related to our historical equity method investees on the condensed consolidated statements of cash flows. Refer to the *Equity Method Investments* section in this Note for additional discussion of the presentation of our equity method investment earnings.

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Note 2. Divestitures and Acquisitions

Coffee Business Transactions:

On July 2, 2015, we completed transactions to combine our wholly owned coffee businesses (including our coffee portfolio in France) with those of D.E Master Blenders 1753 B.V. (DEMB) to create a new company, Jacobs Douwe Egberts or JDE. We now hold a 43.5% equity interest in JDE and Acorn Holdings B.V., owner of DEMB, holds a 56.5% share. In connection with the transaction, we recorded a preliminary pre-tax gain of $7.1 billion (or $6.9 billion after-taxes) on the contribution of our global coffee businesses during the three months ended September 30, 2015. In addition, we recorded approximately $1 billion of net gains on currency exchange forward contracts related to the hedging of proceeds for the transaction as described further below in this Note. The consideration we received to date for our coffee businesses consists of 3.8 billion of cash ($4.2 billion U.S. dollars as of July 2, 2015), a 43.5 percent equity interest in JDE and $1.1 billion in receivables related to estimated sales price adjustments and tax formation cost payments expected to be paid in 2016. During the third quarter, we also recorded $283 million of cash and receivables related to the reimbursement of costs from JDE which we incurred related to separating our coffee businesses. The cash and equity consideration we received reflects an adjustment for retaining our interest in a Korea-based joint venture, Dongsuh Foods Corporation, which was part of the original transaction and valuation. During the second quarter of 2015, we also completed the sale of our interest in a Japanese coffee joint venture, Ajinomoto General Foods, Inc. (AGF), which had also been considered in the original transaction and valuation. In lieu of contributing our interest in the AGF joint venture to JDE, we contributed the net cash proceeds from the sale, and the transaction did not change the consideration received for our global coffee businesses. Please see discussion of the divestiture of AGF below under *Other Divestiture and Acquisitions*.

During the third quarter we completed a preliminary valuation of our investment in JDE as of the closing date and recorded a $4.5 billion estimated investment in JDE within equity method investments on the condensed consolidated balance sheet. We and JDE are currently in the process of finalizing the value of JDE and our investment in JDE as of the closing date. The value of our investment in JDE is also affected by the estimated sales price adjustment that will be settled in 2016. As such, the contribution proceeds we recorded, including the values for our investment in JDE and the sales price adjustment, are estimated and subject to further adjustment as we work with Acorn Holdings B.V. and JDE to address the remaining terms of the agreement. As a result, the final amount of consideration we receive and the gain we recognize on the transactions may change materially until we conclude these matters.

As a result of the transaction, our snacks product categories, consisting of biscuits, chocolate, gum and candy, make up the majority of our business portfolio, contributing approximately 84% of our 2015 year to date and 85% of our 2014 net revenues after excluding coffee net revenues. By retaining a significant stake in JDE, the coffee category will continue to be significant to our results. As such, we have reflected our historical coffee results and equity earnings from JDE in results from continuing operations reflecting the fact that results from the coffee category continue to be a significant part of our net earnings and strategy going forward.

Additionally, we recorded currency-related net gains of $29 million in the three months and $436 million in the nine months ended September 30, 2015 and $420 million in the three months and $413 million in the nine months ended September 30, 2014 due to currency exchange forward contracts related to the receipt of the coffee business transaction proceeds and the subsequent transfers of these funds to our subsidiaries, as detailed below. To lock in an expected pre-tax U.S. dollar value of approximately $5 billion related to the estimated 4 billion cash receipt upon closing, we entered into currency exchange forward contracts beginning in May 2014, when the transaction was announced. We recognized a $19 million gain on the final settlement of the forward contracts during the three months ended September 30, 2015 and a net gain of $405 million on these contracts during 2015. In 2014, we recognized $420 million of gains in the three months and $413 million in the nine months ended September 30, 2014. The currency hedge gains and losses were recorded in interest and other expense / (income). Cumulatively over 2014 and through the final settlement of the forward contracts on July 6, 2015, we realized aggregate net gains and received cash of approximately $1.0 billion on these currency exchange forward contracts. In addition to the receipt of $4.2 billion of cash consideration to date, we received $1 billion of cash from realized hedges for a total of $5.2 billion of cash received to date related to the coffee business transactions.

During the second quarter of 2015, we entered into currency exchange forward contracts to hedge a portion of the cash payments to be made to our subsidiaries in multiple countries where coffee net assets and shares were deconsolidated. During July 2015, we settled these forward contracts with a notional value of 1.6 billion and realized a net loss of $4 million in the three months ended and a net gain of $17 million in the nine months ended September 30, 2015. In connection with transferring the funds to our subsidiaries that deconsolidated net assets and shares, we incurred additional currency gains of $14 million in the third quarter. These currency-related gains and losses were recorded within interest and other expense / (income).

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Our coffee business results are reflected in our consolidated financial statements for all periods prior to the July 2, 2015 closing date. The pre-tax earnings of the coffee businesses were:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Earnings before income taxes	$	$ 184	$ 342	$ 494

We also incurred incremental expenses related to readying our global coffee businesses for the transactions that totaled $54 million in the three months and $239 million in the nine months ended September 30, 2015 and $10 million in the three months and $15 million in the nine months ended September 30, 2014. These expenses were recorded within asset impairment and exit costs and selling, general and administrative expenses of primarily our Europe and Eastern Europe, Middle East and Africa (EEMEA) segments and within general corporate expenses.

Prior to the July 2, 2015 closing, we received conditional approval for the transaction from the European Commission following their antitrust evaluation and made significant progress on our consultations with Work Councils and employee representations. The European Commission s ruling was conditioned upon JDE s divestiture of the majority of the EU-based *Carte Noire* business and DEMB s *Merrild* business, primarily in France and Denmark. Those businesses have been transferred to JDE. JDE will complete the sale of these businesses in line with the European Commission agreements. As these businesses were recorded at their fair value as of July 2, 2015 reflecting the then pending sales values, we did not and will not record any gain or loss on the sale of these businesses in our share of JDE s earnings.

On July 2, 2015, we deconsolidated the following assets and liabilities:

	As of July 2, 2015 (in millions)
Assets	
Cash and cash equivalents	$ 488
Trade receivables	468
Other receivables	24
Inventories, net	469
Deferred income taxes	6
Other current assets	44
Current assets	1,499
Property, plant and equipment, net	751
Goodwill	1,664
Intangible assets, net	
Other assets	35

Noncurrent assets		2,450
Total assets	$	3,949
Liabilities		
Accounts payable	$	438
Accrued marketing		290
Accrued employment costs		29
Other current liabilities		63
Current liabilities		820
Deferred income taxes		63
Accrued pension costs		146
Other liabilities		4
Noncurrent liabilities		213
Total liabilities	$	1,033
Net assets deconsolidated	$	2,916

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Additionally, we recorded pension settlement losses of $49 million related to our historical coffee businesses within accumulated other comprehensive losses.

Other Divestiture and Acquisitions:

On July 15, 2015, we acquired an 80% interest in a biscuit operation in Vietnam, which is now a subsidiary within our Asia Pacific segment. Total cash paid to date for the biscuit operation, intellectual property, non-compete and consulting agreements was 11,843 billion Vietnamese dong ($543 million U.S. dollars as of July 15, 2015). We have made or expect to make the following cash payments in connection with the acquisition:

- On November 10, 2014, we deposited $46 million in escrow upon signing the purchase agreement.
- On July 15, 2015, we made a 9,122 billion Vietnamese dong ($418 million U.S. dollars as of July 15, 2015) payment for the biscuit operation, a $44 million additional escrow deposit and a 759 billion Vietnamese dong ($35 million U.S. dollars as of July 15, 2015) partial payment for the non-compete and continued consulting agreements.
- Subject to the satisfaction of final conditions, including the resolution of warranty or other claims or purchase price adjustments, we expect to release previously escrowed funds of $90 million for the remaining 20% interest in the biscuit operation and to make a final payment of 759 billion Vietnamese dong ($35 million U.S. dollars as of July 15, 2015) for the non-compete and consulting agreements. We anticipate resolution of these conditions by the end of the third quarter of 2016.

We are in the process of completing the valuation work for the acquired net assets. We have recorded a preliminary allocation of the consideration paid including $10 million to inventory, $35 million to property, plant and equipment, $17 million to other net liabilities and $480 million of estimated goodwill. We recorded the non-compete and consulting agreements as prepaid contracts within other current and non-current assets and they will be amortized into net earnings over the remaining contract terms. The acquisition added $70 million in incremental net revenues and $16 million in incremental operating income for the quarter. Additionally, we recorded acquisition costs of $6 million for the three months and $7 million for the nine months ended September 30, 2015 and integration costs of $4 million for the three months and $5 million for the nine months ended September 30, 3015 within selling, general and administrative expenses.

On April 23, 2015, we completed the divestiture of our 50 percent interest in AGF, our Japanese coffee joint venture, to our joint venture partner, which generated cash proceeds of 27 billion Japanese yen ($225 million U.S. dollars as of April 23, 2015) and a pre-tax gain of $13 million (after-tax loss of $9 million). Upon closing, we divested our $99 million investment in the joint venture, $65 million of goodwill and $41 million of accumulated other comprehensive losses. We also incurred approximately $7 million of transaction costs.

On February 16, 2015, we acquired a U.S. snacking company, Enjoy Life Foods, within our North America segment. We paid cash and settled debt totaling $81 million in connection with the acquisition. Upon finalizing the valuation of the acquired net assets during the second quarter, as of June 30, 2015, we had recorded an $81 million purchase price allocation of $58 million in identifiable intangible assets, $20 million of goodwill and $3 million of other net assets. The acquisition-related costs and operating results of the acquisition were not material to our condensed consolidated financial statements as of and for the three and nine months ended September 30, 2015.

Note 3. Inventories

Inventories consisted of the following:

	As of September 30, 2015	As of December 31, 2014
	(in millions)	
Raw materials	$ 967	$ 1,122
Finished product	2,062	2,358
Inventories, net	$ 3,029	$ 3,480

On July 2, 2015, we deconsolidated $469 million of net inventory with the coffee business transactions. See Note 2, *Divestitures and Acquisitions*, for additional information.

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Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	As of September 30, 2015	As of December 31, 2014
	(in millions)	
Land and land improvements	$ 502	$ 574
Buildings and building improvements	2,731	3,117
Machinery and equipment	9,983	11,737
Construction in progress	1,572	1,484
	14,788	16,912
Accumulated depreciation	(6,224)	(7,085)
Property, plant and equipment, net	$ 8,564	$ 9,827

On July 2, 2015, we deconsolidated $751 million of net property, plant and equipment with the coffee business transactions. See Note 2, *Divestitures and Acquisitions*, for additional information.

In connection with our 2012-2014 Restructuring Program and 2014-2018 Restructuring Program, we recorded non-cash asset write-downs (including accelerated depreciation and asset impairments) of $56 million in the three months and $191 million in the nine months ended September 30, 2015 and $48 million in the three months and $74 million in the nine months ended September 30, 2014 (see Note 6, *Restructuring Programs*).

These charges were recorded in the consolidated statements of earnings within asset impairment and exit costs as follows:

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(in millions)			
Latin America	$ 6	$	$ 40	$
Asia Pacific	18	18	46	18
EEMEA	2	4	4	5

Europe		14		13		51		14
North America		16		13		50		37
Total non-cash asset write-downs	$	56	$	48	$	191	$	74

Note 5. Goodwill and Intangible Assets

Goodwill by reportable segment was:

		As of September 30, 2015		As of December 31, 2014
		(in millions)		
Latin America	$	865	$	1,127
Asia Pacific		2,517		2,395
EEMEA		1,373		1,942
Europe		7,316		8,952
North America		8,892		8,973
Goodwill	$	20,963	$	23,389

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Intangible assets consisted of the following:

	As of September 30, 2015		As of December 31, 2014	
	(in millions)			
Non-amortizable intangible assets	$	17,812	$	18,810
Amortizable intangible assets		2,351		2,525
		20,163		21,335
Accumulated amortization		(1,048)		(1,000)
Intangible assets, net	$	19,115	$	20,335

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 September 30, 2015, the weighted-average life of our amortizable intangible assets was 13.6 years.

Amortization expense for intangible assets was $45 million in the three months and $137 million in the nine months ended September 30, 2015 and $48 million in the three months and $157 million in the nine months ended September 30, 2014. We currently estimate annual amortization expense for each of the next five years to be approximately $184 million, estimated using September 30, 2015 exchange rates.

During our 2014 review of non-amortizable intangible assets, we recorded an impairment charge of $57 million within asset impairment and exit costs for the impairment of intangible assets in Asia Pacific and Europe. We also noted three brands with $341 million of aggregate book value as of December 31, 2014 that each had a fair value in excess of book value of 10% or less. While these intangible assets passed our annual impairment testing and we believe our current plans for each of these brands will allow them to continue to not be impaired, if 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.

Changes in goodwill and intangible assets consisted of:

	Goodwill		Intangible Assets, at Cost	
	(in millions)			
Balance at January 1, 2015	$	23,389	$	21,335
Changes due to:				
Currency		(1,196)		(1,229)

Deconsolidation and divestiture		(1,729)		
Acquisitions		500		58
Other		(1)		(1)
Balance at September 30, 2015	$	20,963	$	20,163

Changes to goodwill and intangibles were:

Deconsolidation and divestiture On July 2, 2015, we deconsolidated $1,664 million of goodwill and less than $1 million of intangible assets in connection with the coffee business transactions. On April 23, 2015, we completed the divestiture of our 50 percent interest in AGF, which resulted in divesting $65 million of goodwill.

Acquisitions On July 15, 2015, we acquired an 80% interest in a biscuit operation in Vietnam and recorded a preliminary allocation of $480 million of goodwill as we complete the final valuation work for the acquisition. On February 16, 2015, we acquired Enjoy Life Foods and recorded $20 million of goodwill and $58 million in identifiable intangible assets.

For more information on these transactions, refer to Note 2, *Divestitures and Acquisitions*.

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Note 6. Restructuring Programs

2014-2018 Restructuring Program

On May 6, 2014, our Board of Directors approved a $3.5 billion restructuring program, comprised of approximately $2.5 billion in cash costs and $1 billion in non-cash costs (the 2014-2018 Restructuring Program), and up to $2.2 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. We expect to incur the majority of the program s charges in 2015 and 2016 and to complete the program by year-end 2018. Since inception, we have incurred total restructuring and related implementation charges of $1.0 billion related to the 2014-2018 Restructuring Program.

Restructuring Costs:

We recorded restructuring charges of $146 million in the three months and $442 million in the nine months ended September 30, 2015 and $25 million in the three months and $26 million in the nine months ended September 30, 2014 within asset impairment and exit costs. The activity for the 2014-2018 Restructuring Program liability for the nine months ended September 30, 2015 was:

	Severance and Related Costs	Asset Write-downs (in millions)	Total
Liability balance, January 1, 2015	$ 224	$	$ 224
Charges	252	190	442
Cash spent	(156)		(156)
Non-cash settlements / adjustments	(6)	(190)	(196)
Currency	(15)		(15)
Liability balance, September 30, 2015	$ 299	$	$ 299

We spent $51 million in the three months and $156 million in the nine months ended September 30, 2015 and $25 million in the three months and $26 million in the nine months ended September 30, 2014 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 $56 million in the three months and $196 million in the nine months ended September 30, 2015. At September 30, 2015, $267 million of our net restructuring liability was recorded within other current liabilities and $32 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 $75 million in the three months and $185 million in the nine months ended September 30, 2015 and $42 million in the three months and $51 million in the nine months ended September 30, 2014. 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 2015 and 2014, we recorded restructuring and implementation costs related to the 2014-2018 Restructuring Program within operating income as follows:

	Latin America	Asia Pacific	EEMEA	Europe (in millions)	North America	Corporate (1)	Total
For the Three Months Ended September 30, 2015							
Restructuring Costs	$ 30	$ 33	$ 7	$ 35	$ 39	$ 2	$ 146
Implementation Costs	6	3	1	19	19	27	75
Total	$ 36	$ 36	$ 8	$ 54	$ 58	$ 29	$ 221
For the Nine Months Ended September 30, 2015							
Restructuring Costs	$ 79	$ 78	$ 21	$ 190	$ 70	$ 4	$ 442
Implementation Costs	27	12	7	47	40	52	185
Total	$ 106	$ 90	$ 28	$ 237	$ 110	$ 56	$ 627
For the Three Months Ended September 30, 2014							
Restructuring Costs	$ 25	$	$	$	$	$	$ 25
Implementation Costs	7	4	3	14	1	13	42
Total	$ 32	$ 4	$ 3	$ 14	$ 1	$ 13	$ 67
For the Nine Months Ended September 30, 2014							
Restructuring Costs	$ 26	$	$	$	$	$	$ 26
Implementation Costs	8	4	3	14	1	21	51
Total	$ 34	$ 4	$ 3	$ 14	$ 1	$ 21	$ 77
Total Project 2014-2015 (2)							
Restructuring Costs	$ 158	$ 94	$ 40	$ 283	$ 124	$ 18	$ 717
Implementation Costs	45	21	11	82	48	84	291
Total	$ 203	$ 115	$ 51	$ 365	$ 172	$ 102	$ 1,008

(1) Includes adjustment for rounding.
(2) Includes all charges recorded since program inception on May 6, 2014 through September 30, 2015.

2012-2014 Restructuring Program

On October 1, 2012, we completed the Spin-Off of our North American grocery business, Kraft Foods Group, Inc. (Kraft Foods Group), to our shareholders (the Spin-Off). Prior to this transaction, in 2012, our Board of Directors approved $1.5 billion of related restructuring and implementation costs (the 2012-2014 Restructuring Program) reflecting primarily severance, asset disposals and other manufacturing-related one-time costs. The primary objective of the 2012-2014 Restructuring Program was to ensure that Mondelēz International and Kraft Foods Group were each set up to operate efficiently and execute on our respective business strategies upon separation and in the future.

Of the $1.5 billion of 2012-2014 Restructuring Program costs, we retained approximately $925 million and Kraft Foods Group retained the balance of the program. Through the end of 2014, we incurred total restructuring and related implementation charges of $899 million and completed incurring planned charges on the 2012-2014 Restructuring Program.

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Restructuring Costs:

We recorded reversals to the restructuring charges of $3 million in the nine months ended September 30, 2015 related to accruals no longer required. We recorded restructuring charges of $163 million in the three months and $259 million in the nine months ended September 30, 2014 within asset impairment and exit costs. The activity for the 2012-2014 Restructuring Program liability for the nine months ended September 30, 2015 was:

	Severance and Related Costs	Asset Write-downs (in millions)	Total
Liability balance, January 1, 2015	$ 128	$	$ 128
Charges	(3)		(3)
Cash spent	(57)		(57)
Non-cash settlements / adjustments			
Currency	(6)		(6)
Liability balance, September 30, 2015	$ 62	$	$ 62

We spent $14 million in the three months and $57 million in the nine months ended September 30, 2015 and $44 million in the three months and $110 million in the nine months ended September 30, 2014 in cash severance and related costs. We also recognized non-cash pension plan settlement losses (See Note 9, *Benefit Plans*), non-cash asset write-downs (including accelerated depreciation and asset impairments) and other non-cash adjustments totaling $53 million in the three months and $77 million in the nine months ended September 30, 2014. At September 30, 2015, $47 million of our net restructuring liability was recorded within other current liabilities and $15 million was recorded within other long-term liabilities.

Implementation Costs:

Implementation costs related to our 2012-2014 Restructuring Program primarily relate to activities in connection with the Spin-Off such as reorganizing our operations and facilities, the discontinuance of certain product lines and incremental expenses related to the closure of facilities, replicating our information systems infrastructure and reorganizing our sales function. Within our continuing results of operations, we recorded implementation costs of $23 million in the three months and $66 million in the nine months ended September 30, 2014. We recorded these costs within cost of sales and selling, general and administrative expenses.

Restructuring and Implementation Costs in Operating Income:

During the three and nine months ended September 30, 2014 and since inception of the 2012-2014 Restructuring Program, we recorded restructuring and implementation costs within operating income as follows:

	EEMEA	Europe	Corporate [(1)]	Total

	Latin America	Asia Pacific			North America		
				(in millions)			
For the Three Months Ended September 30, 2014							
Restructuring Costs	$ 3	$ 27	$ 14	$ 85	$ 34	$	$ 163
Implementation Costs		1		14	7	1	23
Total	$ 3	$ 28	$ 14	$ 99	$ 41	$ 1	$ 186
For the Nine Months Ended September 30, 2014							
Restructuring Costs	$ 7	$ 28	$ 26	$ 128	$ 70	$	$ 259
Implementation Costs	1	1	2	42	20		66
Total	$ 8	$ 29	$ 28	$ 170	$ 90	$	$ 325
Total Project 2012-2014 (2)							
Restructuring Costs	$ 36	$ 36	$ 69	$ 249	$ 337	$ 2	$ 729
Implementation Costs	3	6	4	88	65	4	170
Total	$ 39	$ 42	$ 73	$ 337	$ 402	$ 6	$ 899

(1) Includes adjustment for rounding.
(2) Includes all charges recorded since program inception in 2012 through conclusion on December 31, 2014.

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Note 7. Debt

Short-Term Borrowings:

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

	As of September 30, 2015		As of December 31, 2014	
	Amount Outstanding (in millions)	Weighted-Average Rate	Amount Outstanding (in millions)	Weighted-Average Rate
Commercial paper	$ 1,279	0.5%	$ 1,101	0.4%
Bank loans	292	9.0%	204	8.8%
Total short-term borrowings	$ 1,571		$ 1,305	

As of September 30, 2015, the commercial paper issued and outstanding had between 1 and 55 days remaining to maturity. Bank loans include borrowings on primarily uncommitted credit lines maintained by some of our international subsidiaries to meet short-term working capital needs.

Borrowing Arrangements:

We maintain a revolving credit facility for general corporate purposes, including for working capital purposes and to support our commercial paper program. Our $4.5 billion multi-year senior unsecured revolving credit facility expires on October 11, 2018. 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 September 30, 2015, we complied with the covenant as our shareholders equity as defined by the covenant was $39.5 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 September 30, 2015, no amounts were drawn on the facility.

Some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $1.9 billion at September 30, 2015 and $2.1 billion at December 31, 2014. Borrowings on these lines amounted to $292 million at September 30, 2015 and $204 million at December 31, 2014.

Long-Term Debt:

On September 21, 2015, we priced an offering of *fr*.400 million of Swiss franc-denominated notes, or approximately $414 million in U.S. dollars as of the October 6, 2015 settlement date, consisting of:

fr.135 million (or $140 million) of 0.625% fixed rate notes that mature on October 6, 2020
fr.265 million (or $274 million) of 1.125% fixed rate notes that mature on December 21, 2023

On October 6, 2015, we received net proceeds of $410 million that were used for general corporate purposes and to fund upcoming debt maturities. On this date, we recorded the *fr*.400 million of Swiss franc-denominated notes and less than $1 million of premiums and deferred financing costs, which will be amortized into interest expense over the life of the notes.

On June 11, 2015, 400 million of our floating rate euro-denominated notes matured. The notes and accrued interest to date were paid with cash on hand and the issuance of commercial paper.

On March 30, 2015, we issued *fr*.675 million of Swiss franc-denominated notes, or approximately $694 million in U.S. dollars as of March 31, 2015, consisting of:

- *fr*.175 million (or $180 million) of 0.000% fixed rate notes that mature on March 30, 2017
- *fr*.300 million (or $308 million) of 0.625% fixed rate notes that mature on December 30, 2021
- *fr*.200 million (or $206 million) of 1.125% fixed rate notes that mature on December 30, 2025

We received net proceeds of $675 million that were used for general corporate purposes. We recorded approximately $2 million of premiums and deferred financing costs, which will be amortized into interest expense over the life of the notes.

On March 20, 2015, 850 million of our 6.250% euro-denominated notes matured. The notes and accrued interest to date were paid with the issuance of commercial paper and cash on hand.

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On March 20, 2015, we completed a cash tender offer and retired $2.5 billion of our long-term U.S. dollar debt consisting of:

$102 million of our 6.500% Notes due in August 2017
$115 million of our 6.125% Notes due in February 2018
$80 million of our 6.125% Notes due in August 2018
$691 million of our 5.375% Notes due in February 2020
$201 million of our 6.500% Notes due in November 2031
$26 million of our 7.000% Notes due in August 2037
$71 million of our 6.875% Notes due in February 2038
$69 million of our 6.875% Notes due in January 2039
$1,143 million of our 6.500% Notes due in February 2040

We financed the repurchase of these notes, including the payment of accrued interest and other costs incurred, from net proceeds received from the $2.8 billion notes issuance on March 6, 2015 described below and the issuance of commercial paper. In connection with retiring this debt, during the first three months of 2015, we recorded a $708 million loss on extinguishment of debt within interest expense related to the amount we paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts and deferred financing costs in earnings at the time of the debt extinguishment. The loss on extinguishment is included in long-term debt repayments in the condensed consolidated statement of cash flows for the nine months ended September 30, 2015. We also recognized $5 million of charges within interest expense from hedging instruments related to the retired debt. Upon extinguishing the debt, the deferred cash flow hedge amounts were recorded in earnings.

On March 6, 2015, we issued 2.0 billion of euro-denominated notes and £450 million of British pound sterling-denominated notes, or approximately $2.8 billion in U.S. dollars as of March 31, 2015, consisting of:

500 million (or $537 million) of 1.000% fixed rate notes that mature on March 7, 2022
750 million (or $805 million) of 1.625% fixed rate notes that mature on March 8, 2027
750 million (or $805 million) of 2.375% fixed rate notes that mature on March 6, 2035
£450 million (or $667 million) of 3.875% fixed rate notes that mature on March 6, 2045

We received net proceeds of $2,890 million that were used to fund the March 2015 tender offer and for other general corporate purposes. We recorded approximately $29 million of discounts and deferred financing costs, which will be amortized into interest expense over the life of the notes.

Our weighted-average interest rate on our total debt was 3.5% as of September 30, 2015, following the completion of our tender offer and debt issuances in the first quarter. Our weighted-average interest rate on our total debt as of December 31, 2014 was 4.3%, down from 4.8% as of December 31, 2013.

Fair Value of Our Debt:

The fair value of our short-term borrowings at September 30, 2015 and December 31, 2014 reflects current market interest rates and approximates the amounts we have recorded on our consolidated balance sheet. 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 September 30, 2015, the aggregate fair value of our total debt was $16,874 million and its carrying value was $16,359 million. At December 31, 2014, the aggregate fair value of our total debt was $18,463 million and its carrying value was $16,700 million.

Interest and Other Expense / (Income):

Interest and other expense / (income) within our results of continuing operations consisted of:

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(in millions)			
Interest expense, debt	$ 139	$ 188	$ 461	$ 582
Loss on debt extinguishment and related expenses			713	495
Coffee business transactions currency-related net gains	(29)	(420)	(436)	(413)
Loss related to interest rate swaps			34	
Other expense, net	4	5	42	53
Interest and other expense / (income)	$ 114	$ (227)	$ 814	$ 717

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See Note 2, *Divestitures and Acquisitions,* and Note 8, *Financial Instruments,* for information on the currency exchange forward contracts associated with the coffee business transactions. Also 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 2015.

Note 8. Financial Instruments

Fair Value of Derivative Instruments:

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

	As of September 30, 2015		As of December 31, 2014	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
	(in millions)			
Derivatives designated as accounting hedges:				
Currency exchange contracts	$ 23	$ 4	$ 69	$ 17
Commodity contracts	12	25	12	33
Interest rate contracts	22	69	13	42
	$ 57	$ 98	$ 94	$ 92
Derivatives not designated as accounting hedges:				
Currency exchange contracts	$ 61	$ 23	$ 735	$ 24
Commodity contracts	80	98	90	194
Interest rate contracts	44	29	59	39
	$ 185	$ 150	$ 884	$ 257
Total fair value	$ 242	$ 248	$ 978	$ 349

We record derivative assets and liabilities on a gross basis in our condensed consolidated balance sheet. 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. See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2014 for additional information on our risk management strategies and use of derivatives and related accounting.

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

	As of September 30, 2015			
	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	$ 57	$	$ 57	$
Commodity contracts	(31)	(7)	(24)	
Interest rate contracts	(32)		(32)	
Total derivatives	$ (6)	$ (7)	$ 1	$

	As of December 31, 2014			
	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	$ 763	$	$ 763	$
Commodity contracts	(125)	(49)	(76)	
Interest rate contracts	(9)		(9)	
Total derivatives	$ 629	$ (49)	$ 678	$

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 $40 million as of September 30, 2015 and $84 million as of December 31, 2014 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 liability position, we would owe $3 million as of December 31, 2014, and for derivatives we have in a net asset position, our counterparties would owe us a total of $32 million as of September 30, 2015 and $38 million as of December 31, 2014.

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 $117 million as of September 30, 2015 and $156 million as of December 31, 2014, and for derivatives we have in a net asset position, our counterparties would owe us a total of $66 million as of September 30, 2015 and $72 million as of December 31, 2014. 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.

Derivative Volume:

The net notional values of our derivative instruments were:

	Notional Amount (in millions)	
	As of September 30, 2015	**As of December 31, 2014**
Currency exchange contracts:		
Intercompany loans and forecasted interest payments	$ 3,657	$ 3,640
Forecasted transactions	1,660	6,681
Commodity contracts	617	1,569
Interest rate contracts	3,051	3,970

Net investment hedge	euro notes	4,471	3,932
Net investment hedge	pound sterling notes	1,210	545
Net investment hedge	Swiss franc notes	694	

Cash Flow Hedges:

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
	(in millions)			
Accumulated gain / (loss) at beginning of period	$ (53)	$ 44	$ (2)	$ 117
Transfer of realized losses / (gains) in fair value to earnings	60	(17)	6	(20)
Unrealized gain / (loss) in fair value	(69)	47	(66)	(23)
Accumulated gain / (loss) at end of period	$ (62)	$ 74	$ (62)	$ 74

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

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(in millions)			
Currency exchange contracts forecasted transactions	$ (11)	$ 12	$ 73	$ 8
Commodity contracts	(49)	5	(53)	14
Interest rate contracts			(26)	(2)
Total	$ (60)	$ 17	$ (6)	$ 20

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

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(in millions)			
Currency exchange contracts forecasted transactions	$ 8	$ 58	$ 33	$ 65
Commodity contracts	(38)	7	(61)	10
Interest rate contracts	(39)	(18)	(38)	(98)
Total	$ (69)	$ 47	$ (66)	$ (23)

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

Pre-tax gains / (losses) on amounts excluded from effectiveness testing recognized in net earnings from continuing operations included a pre-tax loss of $34 million recognized in the three months ended March 31, 2015 within interest and other expense / (income) related to certain U.S. dollar interest rate swaps that we no longer designate as accounting cash flow hedges due to a change in financing and hedging plans. In the first quarter, our plans to issue U.S. dollar debt changed and we issued euro, British pound sterling and Swiss franc-denominated notes due to lower overall cost and our decision to hedge a greater portion of our net investments in operations that use these currencies as their functional currencies. In the second and third quarters of 2015 and the prior-year periods, amounts excluded from effectiveness testing were not material.

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 / (income) for interest rate contracts and currency exchange contracts related to intercompany loans.

Based on current market conditions, we would expect to transfer unrealized losses of $28 million (net of taxes) for commodity cash flow hedges, unrealized gains of $10 million (net of taxes) for currency cash flow hedges and unrealized losses of $2 million (net of taxes) for interest rate cash flow hedges to earnings during the next 12 months.

Hedge Coverage:

As of September 30, 2015, we hedged transactions forecasted to impact cash flows over the following periods:

- commodity transactions for periods not exceeding the next 15 months;
- interest rate transactions for periods not exceeding the next 30 years and 5 months; and
- currency exchange transactions for periods not exceeding the next 15 months.

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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 / (income):

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(in millions)			
Derivatives	$ 4	$ (13)	$ 8	$ 1
Borrowings	(4)	13	(8)	(1)

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 September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014	Location of Gain / (Loss) Recognized in Earnings
	(in millions)				
Currency exchange contracts:					
Intercompany loans and forecasted interest payments	$ 8	$ 4	$ 22	$ 5	Interest and other expense / (income)
Forecasted transactions	43	29	33	(11)	Cost of sales
Forecasted transactions	36	419	437	405	Interest and other expense / (income)
Forecasted transactions	5	(4)	(11)	(7)	Selling, general and administrative expenses
Interest rate contracts		(1)			Interest and other expense / (income)
Commodity contracts	(99)	(36)	(158)	(4)	Cost of sales

Total	$ (7)	$ 411	$ 323	$ 388

In connection with the coffee business transactions, we entered into euro to U.S. dollar currency exchange forward contracts to hedge an expected cash receipt of approximately 4 billion upon closing. The mark-to-market gains and losses on the derivatives were recorded in earnings. We recorded net gains of $19 million for the three months and $405 million for the nine months ended September 30, 2015 and $420 million for the three months and $413 million for the nine months ended September 30, 2014 within interest and other expense / (income) in connection with the forward contracts. We also entered into currency exchange forward contracts to hedge a portion of the cash proceeds distributed to our subsidiaries in multiple countries where coffee net assets and shares were deconsolidated. The hedges with a notional value of 1.6 billion generated net losses of $4 million in the three months and net gains of $17 million in the nine months ended September 30, 2015. The currency hedge gains and losses were recorded within interest and other expense / (income). See Note 2, *Divestitures and Acquisitions Coffee Business Transactions*, for additional information on our currency exchange forward contracts transactions in the first nine months of 2015.

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 September 30,		**For the Nine Months Ended September 30,**		**Location of Gain / (Loss) Recognized in AOCI**
	2015	**2014**	**2015**	**2014**	
	(in millions)				
Euro notes	$ (8)	$ 219	$ 188	$ 219	Currency
Pound sterling notes	30	37	17	14	Translation
Swiss franc notes	18		(13)		Adjustment

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Note 9. Benefit Plans

Pension Plans

Prior to the July 2, 2015 closing of the coffee business transactions, certain active employees who transitioned to JDE participated in our Non-U.S. pension plans. Following the transactions, benefits began to be provided directly by JDE to participants continuing with JDE. JDE assumed certain pension plan obligations and received the related plan assets. As of July 2, 2015, we reduced our net benefit plan liabilities by $146 million and the related deferred tax assets by $25 million. Refer to Note 2, *Divestitures and Acquisitions Coffee Business Transactions*, for more information. For all remaining participants, we retained the plan obligations and related plan assets.

Components of Net Periodic Pension Cost:

Net periodic pension cost consisted of the following:

	U.S. Plans		Non-U.S. Plans	
	For the Three Months Ended September 30,		For the Three Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			